



Northern Ireland
Assembly

**PUBLIC ACCOUNTS
COMMITTEE**

**OFFICIAL REPORT
(Hansard)**

‘Campsie Office Accommodation’

20 May 2010

NORTHERN IRELAND ASSEMBLY

PUBLIC ACCOUNTS COMMITTEE

‘Campsie Office Accommodation’

20 May 2010

Members present for all or part of the proceedings:

Mr Paul Maskey (Chairperson)
Mr Roy Beggs (Deputy Chairperson)
Lord Browne
Mr John Dallat
Mr David Hilditch
Mr Trevor Lunn
Mr Patsy McGlone
Mr Mitchel McLaughlin
Mr Jim Shannon

Witnesses:

Mr Mel Chittock) Invest Northern Ireland
Mr Alastair Hamilton)
Mr David Sterling) Department of Enterprise, Trade and Investment

Also in attendance:

Mr Kieran Donnelly) Comptroller and Auditor General
Ms Fiona Hamill) Treasury Officer of Accounts

The Chairperson (Mr P Maskey):

We will now move to the evidence session on the Audit Office report ‘Campsie Office Accommodation’. We are also addressing the report ‘Synergy e-Business Incubator (SeBI)’. I will address two specific items that relate to the 2008-09 audited accounts for Invest NI. Those are first, land and property that was held for investment purposes, and secondly, related party transactions. Does any member wish to express an interest at this stage?

Mr David Sterling, who is the accounting officer for the Department of Enterprise, Trade and Investment (DETI), is here to respond to the Committee today. You are very welcome. Will you introduce your colleagues, please?

Mr David Sterling (Department of Enterprise, Trade and Investment):

With me are Alastair Hamilton, who is the chief executive officer in Invest NI, and Mel Chittock, who is the acting managing director in charge of corporate services in Invest NI.

The Chairperson:

Thank you. We have a busy schedule today, so we will get started. The two projects have several common themes, one of which is the weakness of the Department's ongoing arrangements. That is also a feature of several other cases that have come to the Committee over the past number of years. What has your Department done to improve its arrangements so that the type of situation that is described in the report does not happen again?

Mr Sterling:

We take corporate governance and internal control very seriously. From a departmental point of view, a lot of what we do now was defined in Treasury guidance that the Department of Finance and Personnel (DFP) set out in 2005. That was a code of practice entitled 'Corporate Governance in Central Government Departments', which we have implemented ever since, and it provides the framework within which we operate. Within that framework, we have risk-management arrangements that are linked to our corporate and operating planning process and that inform the work of our internal audit unit. We also require that heads of divisions in the Department, Alastair, as chief executive and accounting officer for Invest NI, and the chief executive of the Tourist Board (NITB) provide me with quarterly assurance statements. Those statements are designed to provide me with assurance that proper internal control arrangements are in place. They are also required to draw my attention to any failings in internal control. As accounting officer, I also have sight of all internal audit service reports for the Department, Invest NI and NITB, and I draw any findings or failings that internal audit identified to the attention of the relevant chief executives or to any of my senior staff. We also have quarterly oversight and liaison meetings with the four non-departmental public bodies (NDPB) and with key business areas in the Department. At those meetings, we seek reports on corporate governance, and we seek assurances, which are tied in with the quarterly assurance statements, that people are

complying with the various requirements. That includes, for example, people completing post-project evaluations.

That is the framework within which we work. We have done a lot in the past number of years to address the shortcomings that were identified in the Campsie and Synergy reports, and, indeed in other reports that have been before the Committee in recent times.

The Chairperson:

How does Invest NI ensure that the recommendations of previous PAC reports are being progressed and adhered to? How does it monitor or keep an eye on that? I have said before that the same issues arise time and time again, so it is clear that lessons are not being learned in some cases. I hope that that will change. How have previous recommendations been taken forward?

Mr Sterling:

I wish to add that the risk-management committee in the Department monitors regularly the progress made against the implementation of recommendations that the Public Accounts Committee, the Audit Office and our internal audit service make. That is addressed at the departmental audit committee, and any significant issues are then brought to the departmental board's attention.

The Chairperson:

Mr Hamilton, the Committee is, and has been, about trying to establish value for money. Given the outcomes, which are that considerable money was spent on the two projects, very few jobs were created and few successful businesses were established. With the benefit of hindsight, can you tell us what value to the economy Invest NI puts on the projects?

Mr Alastair Hamilton (Invest Northern Ireland):

I am sorry; I missed the last part of that question.

The Chairperson:

If we think about the money that was spent on the two projects, what value to the overall economy does Invest NI put on them? We must also remember that the projects in question were based in the north-west and in west Belfast.

Mr A Hamilton:

The two projects did slightly different things. I know that we are trying to draw some parallel themes, and I think that that is worthwhile. The Campsie facility was a speculative build to try to provide an accommodation facility in advance of need in an area of deprivation. Although we may get into a debate about what happened with the project and what went wrong with it, the principle of what the former Industrial Development Board (IDB) was trying to achieve at the outset of the project was valid. As a matter of fact, although we in Invest Northern Ireland no longer carry out advance builds, there is still considerable desire across the community for us to be involved in such a process.

Many of the lessons that have been learned as a result of issues that arose in the Campsie case, beyond those that David outlined, have been baked into the organisation. For example, there are no option to break clauses in any of our current leases. By and large, we buy and develop land once the need and opportunity to do so arises with a client. A lot of those lessons have been learned across the process.

The two projects were slightly different in delivering value for money. You referred to job creation. The Committee is aware that Invest NI has two responsibilities in that regard. First, we have a responsibility to accelerate research and development, which is probably more appropriate to the Synergy e-business incubator facility. Secondly, we are responsible for straightforward employment creation. It is difficult to draw parallels between the two projects in those areas. Nevertheless, a lot of bigger lessons in delivering outcomes have been learned and put into place across those two processes.

The Chairperson:

Thank you; I appreciate that. What value, if any, have those two projects given to the local economy?

Mr A Hamilton:

Six of the companies that came out of the Synergy e-business incubator are still in operation today and there are still jobs in each of them. At the last count, all the jobs are above the private sector median, which is another target that we drive. Therefore, if we think about pure output, value for money was delivered through the Synergy e-business incubator. I agree with the comments in the Audit Office report that the project did not represent very good value for money.

However, it was a high-risk project in an area of deprivation. As regards the Campsie facility, it is clear that no companies availed themselves of that property. Therefore, we did not get value for money out of that project.

The Chairperson:

My questions set the overall scene, and other members may want to develop them. A few years ago, the Westminster PAC found serious conflicts of interests in the Emerging Business Trust. Invest NI sponsored that organisation, and, therefore, we would expect all departments in Invest NI to be totally on top of its board members' interests. The Comptroller and Auditor General's office was given information on members' interests through a reply to an Assembly question for written answer, and when he compared that with the information provided in the accounts of Invest NI, he found that it differed. I also tabled a question for written answer, AQW 400/10, and the answer to that question was also different. Could you tell the Committee what went wrong and why there was a difference?

Mr Sterling:

We regret that there were some inconsistencies, and the Comptroller and Auditor General's letter to you dated 15 February 2010 explains some of those inconsistencies. The main reason was that the Assembly question for written answer was asking a slightly different question to the information that the related party disclosures and the annual accounts could, and were seeking to, provide. Specifically, the Assembly question for written answer asked for all interests to be identified, and, for that reason, non-beneficial interests were identified in the Assembly question for written answer that were not included in the accounts. You should take some comfort from the Comptroller and Auditor General's comments in his note to the Chairperson that he has recognised that Invest NI is taking steps to improve controls in that area. Invest NI is going to do that in a different way when it comes to reporting the related party disclosures in the annual accounts.

However, it is worth emphasising that I do not think that there is any suggestion that any board member of Invest NI has failed to disclose a relevant transaction or interest. The Comptroller and Auditor General has noted that, over recent years, he has examined some payments to companies that are associated with board members, and none of those payments revealed any breach of approval procedures. It is unfortunate — indeed, regrettable — that there were those inconsistencies. Invest NI is putting in place controls to ensure that that type of thing

does not happen again. I emphasise again that we take the situation seriously, and I am happy to talk more about the controls that we have in place to deal with conflicts of interests and so forth.

The Chairperson:

That is useful to know. I know that another member wants to be included in the round of questions on that. Thank you for setting the scene.

Mr Hilditch:

It is clear from paragraph 4 of the report 'Campise Office Accommodation' that, although the agreements for those units were signed in late 1991 and early 1992, they have never subsequently been occupied and client interest has been virtually non-existent. That is amazing. What was the rationale for the project?

Mr Sterling:

We must remember that the project was conceived in the late 1980s or the early 1990s. It is worth recognising that in the Derry City Council area at that time, unemployment was 15.1%, and, in Northern Ireland as a whole, it was 10.9%. That compares with the unemployment rate in the Derry City Council area now of 7.2% and the rate in Northern Ireland of 5.1%. Although things are bad now, they were very bad in those days. There was a desire to do innovative and different things to try to stimulate economic development. At that stage, there was a strong feeling that we should market ourselves as a location for back-office business processing-type organisations. At that stage, two developers came forward with proposals to work in conjunction with the public sector to provide those two units. That industrial property development scheme, as it was known, was a unique venture, and, indeed, the former IDB or Invest NI has operated no similar scheme since.

I would have to accept that the expenditure on the project has not delivered value for money, primarily because a break clause in the lease in the fourth year was missed. I cannot explain why that break option was missed, nor, indeed, can I excuse it. It should not have happened, and I greatly regret it.

Mr Hilditch:

I am sure that people will be thankful that there has not been such a scheme since. On the back of that rationale, it is clear from paragraphs 10 and 12 that the former Valuation and Lands Office

(VLO) raised considerable reservations about aspects of the project, such as location and demand, before the leases were signed. That appears to have been largely disregarded. Why was the decision made to proceed with the project in the face of such pessimistic professional advice?

Mr Sterling:

That is a good question, and we have looked into it. Land and Property Services, or VLO as it then was, provided advice on property matters, but, ultimately, the IDB, having taken account of VLO's advice, took the decision on economic development grounds. With hindsight, that was clearly the wrong decision, but it is clear that the former Industrial Development Board at that time had to take into account a range of competing interests and factors, and it was clearly seeking to stimulate economic development in the north-west. The VLO's views were taken into account, and the ultimate nature and shape of the project was scaled down on the basis of VLO's advice. However, we acknowledge that that advice was not fully taken on board.

It is worth recognising that Land and Property Services wrote to the Comptroller and Auditor General and said that it operates on a:

“clear understanding that we advise on property matters and property market related risks, but that the economic decisions on investment or subsidy rest with IDB/INI.”

The letter notes that:

“The dynamic is challenging and robust at times but this is its strength. Perhaps features of the relationship, such as the close involvement of dedicated staff could have been highlighted in the report as good practice.”

Therefore, those comments suggest that this will always be a relationship wherein advice is taken but may not be acted upon in full. With hindsight, it should have been.

Mr Hilditch:

You mentioned that the reason was because there was a range of competing interests. Do you have any examples of those interests?

Mr Sterling:

When I spoke about competing interests, I was referring to the IDB, as it then was. The IDB's primary goal was to stimulate economic development, particularly in the north-west, where there were severe economic problems. That would have been its overriding consideration in deciding to go ahead with the project.

Mr Hilditch:

Those were lean years, and I had just entered politics at that stage. In my constituency, we lost Rothmans, ICI, Courthaulds and various similar firms. Subsequently, land banks were amassed in those areas, and they still lie to this day. However, I knew from some of the more experienced people in politics that there was a certain amount of pressure, for want of a better word. Was there political pressure to proceed with the project?

Mr Sterling:

I do not know. This took place 19 years ago. We acknowledge that file records are not as good as they perhaps might be. However, I have no knowledge of the extent to which there was political pressure or involvement. I am not sure whether my colleagues in Invest NI can comment on that.

Mr Hilditch:

We have been getting that answer for two weeks — no one knows.

Paragraph 17 tells us that the IDB failed to exercise the options to break from the leases in September 1996. When was IDB first aware that it had missed those deadlines?

Mr Sterling:

It was relatively soon afterwards. My colleagues may know the exact date.

Mr Mel Chittock (Invest Northern Ireland):

It was 1997. Correspondence came in from one of the property developers, and that alerted the staff to the knowledge that the break clause had been missed at that point.

Mr Hilditch:

When in 1997 was that?

Mr Chittock:

It was —

Mr A Hamilton:

I can give you the exact date. The break clause was discussed at an internal meeting on 5 December 1995. Those clauses should have been exercised on 30 July 1996 and 14 September 1996, and they were discussed in advance of those dates on 5 December 1995. As David said, the records are not as fulsome as they could be. The next record that we have is dated November 1997, and it is a paper setting out the case and the options. Our understanding is that that came to light when an invoice for rent was received following the failure to break.

Mr Hilditch:

I am aware that other members wish to develop that point, so I will stop there.

Lord Browne:

I would like to further pursue the failure to break from those leases, because that has proved to be a significant and costly error. Paragraph 22 tells us that there is no evidence of any internal inquiry into the matter. Mr Sterling, do you not think that a situation that cost the public purse almost £1.8 million merited an investigation? Should the results not have been fully documented and made available to senior management and retained for the public record?

Mr Sterling:

I agree. As I said, I cannot explain why the break was missed. I cannot excuse it. I cannot explain why there is no record of an investigation — there should have been one. Although we do not have any similar schemes in place, if such an incident happened now, there would be an investigation.

Lord Browne:

Do you agree that the monitoring of contracts and leases should have been a priority for the former IDB? Has Invest NI taken any steps or have any processes been put in place to ensure that contracts and leases are continually monitored to make sure that that kind of oversight could not possibly happen again?

Mr Sterling:

Yes. My colleagues will describe the process in detail, but, essentially, the Department and Invest NI has a set of governance and control arrangements in place that are designed to prevent that happening. There are also arrangements whereby if there is failure to comply, sanctions can

be exacted. That has happened. In particular, we now have quite sophisticated electronic document record-management systems and other similar systems that are designed to make sure that key dates and milestones are not missed. My colleagues will further discuss and describe that.

Mr Chittock:

To support what David said, I should say that we now have a rigorous monitoring regime in place. Given that we deliver a large number of projects each year, there are very clear project ownership and project-management rules for any property development elements that we get involved in. We run a monthly project board as part of our control procedures, and that reviews all development cases in hand. We carry out a full annual review of all property cases and interests that we are involved in to ensure that we do not miss any break clauses or any such conditions that have similar consequences.

If such failure of action were evidenced today, we would carry out an investigation. We have done so on monitoring conditions before. In as recently as 2007, we carried out a review of all monitoring practices in the organisation and made some changes as a result of an internal audit report.

Lord Browne:

You did not conduct an investigation into why this happened, but it appears from the NIAO report that, between the time that the oversight was noticed and the time that Invest Northern Ireland successfully negotiated the surrender of the contracts, no fewer than three reviews were carried out on the position relating to those contracts. Those reports all concluded that negotiating surrender was the best course of action. It is noted that the developers did not appear interested in those negotiations. Why did the IDB and, latterly, Invest Northern Ireland not pursue those negotiations and bring greater pressure on the developers sooner by withholding rent and so on? You finally did that, and it brought about the developer's agreement to the surrender offer. Should the tactics of withholding rent and demanding that the developers bring the properties up to standard not have been employed earlier, given that the properties were in a state of considerable disrepair from the late 1990s onwards?

Mr Sterling:

I agree. When a more robust approach was taken after 2005 and when, perhaps, more obvious energy was employed, we saw a resolution to the problem. I do not seek to excuse what looks

like a lack of energy before then.

Mr A Hamilton:

I will give some more background information, but not as an excuse. You make a fair point about the apparent distinction between the aggression that was shown post 2005 to resolve the matter and the approach that was taken before then. The key point is that Invest NI did not have the legal right to withhold rent: that was not in its lease. Therefore, it took a commercial decision to do something that it did not have legal grounding to do to get to the result that you have just outlined — finally getting the companies to negotiate a point. The advice that we were given prior to that was that we did not have a legal position to withhold rent either with regard to getting people to negotiate with us for closure or to get the maintenance of the buildings brought back up to scratch. The Audit Office reflected that in its report by stating that a different, more commercial, approach was taken post 2005 to force the issue onto the table and to reach the point where we are at today, which is that both leases have been surrendered early.

Lord Browne:

You said that you wanted to bring the buildings up to scratch but that Invest Northern Ireland was liable to pay a fee of £250,000 to make the buildings suitable for a tenant, if ever one was found, since it was the developers who were responsible for the construction and maintenance of the properties. Is that normal practice for Invest NI; is it a good use of public money? Would it have been wiser to make that the developers' responsibility?

Mr A Hamilton:

I will address both those points. There was an element to the deal whereby a certain amount of the development grant would be held back until a prospective client had been agreed, and then it would be used to fit out the property to the client's requirements. However, that is not how we operate today. As David said, the scheme is not relevant today and, therefore, that element of it would not be in operation today. We only get involved through land acquisition and development and then by supporting companies that say that they will set up here or develop locally; we then support them through property support or selective financial assistance.

With regard to the maintenance side, I agree with Lord Browne: the lease was poorly drafted; there was lack of clarity on who was responsible for the maintenance of the properties. We would not have a lease today in which it was not clearly defined who was responsible for

maintenance. I assure you that that is clearly defined today in all our properties where we lease for our own purposes.

Lord Browne:

Why did the IDB and, later, Invest Northern Ireland continue to spend money on marketing those sites when there was no demand for them. How much money was wasted on advertising those properties? The report states that marketing was to have increased once the developer had declined to negotiate to surrender the first time. Therefore, the money spent on advertising increased.

Finally, can you assure the Committee that there was absolutely no misconduct from the IDB regarding the failure to break from those leases?

Mr Sterling:

In the absence of an investigation, I do not know what happened at that time; therefore, I cannot give any such assurance.

Lord Browne:

You cannot give an assurance that there was no misconduct?

Mr Sterling:

I would love to be able to give such an assurance, but I cannot. It happened 14 years ago, and we simply do not know why.

Mr A Hamilton:

May I answer the question about advertising? We make assumptions based on lack of information. I can only assume that it was visible that the break clause had been missed and that, therefore, there were 21 years in front with no legal option to force the companies to the table. You are right: there were three reviews in which all possible routes were taken to try to address the problem; it was about getting the companies to the table to negotiate a surrender of the lease. However, the original objective was to get companies in and create economic development; that was aggressively pursued at the same time. People were pursuing every option either to get out of the liability or to pursue economic benefit.

The Chairperson:

If the same were to happen today, would there be an investigation?

Mr Sterling:

Absolutely.

The Chairperson:

Who was in charge at that stage?

Mr Sterling:

At what level?

The Chairperson:

At your level and at that of the head of IDB and the permanent secretary.

Mr Sterling:

I am not sure. May I get back to you in writing on that?

The Chairperson:

OK. I appreciate that.

Mr Dallat:

Paragraphs 28 and 29 tell us that an agent was not appointed to market the units until almost two and a half years after the control period had expired and that, during that time, the units had fallen into disrepair. Why were those delays allowed to happen?

Mr Sterling:

Efforts were being made in the background to market the units, particularly in North America. Perhaps my colleagues can pick up on that.

Mr Chittock:

The appointment of an agent was considered in 1997 following the discovery of a missing break clause, but it was delayed until much later because of a US-driven initiative with Derry City Council, which, it was decided, would be allowed to run first, after which the agent was to be

appointed.

Mr Dallat:

I am at a loss to understand how so many things were missed. The Assembly was aware of the vacant units at Campsie: I tabled a question for oral answer on 18 June 2001 to the then Minister for Enterprise, Trade and Investment, Sir Reg Empey, from which I will quote. I asked the Minister to identify premises rented for industrial job creation. He told me that IDB was paying £90,000 a year for the two units at Campsie. In his answer to my supplementary question, Sir Reg Empey told me that:

“Estate agents have been appointed to market the sites — IDB came to the same conclusion as the Member. They have been attempting to find possible tenants and have also put the sites on the market. Negotiations are ongoing at present with a potential occupant.” — [*Official Report, Bound Volume 11, p174, col 1*].

Public money amounting to £1.8 million was squandered afterwards and those units are still empty. Was there a breakdown in communication? What was going on?

Mr Sterling:

We have already acknowledged that failure to exercise the break clause in 1996 was crucial; it meant that IDB, and, subsequently, INI, became liable to rental payments of £1.89 million. That was unacceptable. Fortunately, we have managed to reduce that commitment by some £640,000 because of the commercial approach that was taken and the pressure that was put on the developers. Had the break clause been exercised, IDB and INI would have had no liability for rental payments beyond 1996.

Mr Dallat:

We are nine years on from when the question was first put to Sir Reg Empey. Why was no solution found to a problem that has cost £1.8 million? Was anyone dealing with the issue?

Mr Sterling:

Efforts were made to market the sites, including the employment of agents. Potential inward investors were taken to visit the sites, and efforts continued in the background throughout to reach agreement with the developers and the owners of the properties. However, as Alastair said, the flawed nature of the leases meant that IDB and Invest NI were negotiating from a weak

standpoint. We acknowledge that entirely.

Mr Dallat:

The Minister gave a solid assurance to the Assembly that everything possible was being done to find a solution. I hate to repeat myself, but that was nine years ago. Ironically, the private secretary of the IDB then was Bruce Robinson, who is now head of the Civil Service. The problem was not forgotten; it must have been to the forefront of your schedule. Given that Derry had unemployment rates of more than 15%, why were alarm bells not ringing, and why did you just sign the cheques every month until you ran up a bill of £1.8 million?

Mr Sterling:

As I explained, efforts were being made to market the sites and to get people into them. Efforts were also being made to break from the leases, but, again, we were negotiating from a weak standpoint. It was only when Invest NI took more aggressive action and played hardball with the developers and contravened the lease by withholding rent that we got out of the leases. The leases have now been surrendered. The loss to the taxpayer, which is still substantial and unacceptable, has nonetheless been reduced by about £640,000.

Mr A Hamilton:

Lack of communication was a critical issue at the start of the case. Only two of the projects were ever conducted in that way; there were no systems in place. I am not trying to justify what happened; I am trying to explain how it happened. No system was put around the management of those projects, so it depended purely on internal communication without systems. That is what let it down. The team that negotiated the original project was dissolved shortly afterwards because only two projects were put in place; they were not in the same positions four years later when the breaks should have been exercised. They were purely dependent on internal communications, which failed. That is the background.

You asked what happened from 2001, which was the date of your letter. Records show that three separate attempts were made from that point on to break with the companies that were involved. I assure you that, from the information that we have in the records, it was visible at senior management level. I do not want to repeat what you said, but a different approach was taken from 2005, which resulted in where we are now.

Mr Dallat:

Interestingly, I took this quote from the web. The private secretary said that communication has been central to:

“reform strategy, which is rolling out under the ‘Changing for the Better’ banner.”

Is it not ironic that what is published on the website is the very thing that was not done — communication in order to avoid missing the break clause?

Mr A Hamilton:

What was the date of that letter?

Mr Dallat:

I asked the question on 28 June 2001.

Mr A Hamilton:

I am talking about 1996; that is when communication failed in the process.

Mr Dallat:

Totally.

Mr A Hamilton:

In response to the letter that you have just read from, a Government-wide process was introduced to ensure that systems are in place.

Mr Dallat:

The same person — Bruce Robinson — is saying it. Presumably his views have not changed over nine years.

Mr A Hamilton:

They are two completely different timelines. I am answering questions about a communications breakdown in 1996.

Mr Dallat:

Paragraph 29 states that it is clear that IDB was aware that the units were in a poor state of repair as far back as July 1998; but paragraph 37 tells us that decisive action to ensure that the developers maintained the building was not commenced until 2005, seven years later.

Why was there such an unacceptable delay in taking action? For how long was rent paid on buildings in such poor condition? Those are simple questions requiring simple answers.

Mr Sterling:

Rent was paid throughout the period, until July 2005. Mel will pick up on the issue of maintenance.

Mr Chittock:

The lease contracts were not clear about who was responsible for maintaining the buildings; that was a clear weakness. The legal advice that IDB took at the time from the Departmental Solicitor's Office was that it was unclear who was responsible. We took a much more aggressive stance, laid responsibility on the developers and started withholding rent to ensure that the developers maintained the buildings.

Mr Dallat:

Perhaps it is a good that the 15% unemployed in Derry did not know of the incompetence of the IDB and the Department at the time. It is shameful from beginning to end.

I have no more questions.

The Chairperson:

How many prospective businesses were shown the two units?

Mr Sterling:

We do not have exact numbers; the records from the time are inadequate.

The Chairperson:

Have you approximate numbers?

Mr Chittock:

No; records of site visits were not kept in the early days. We know that visits took place.

The Chairperson:

How many site visits have been made in recent years?

Mr Chittock:

I am afraid that I do not have that information.

The Chairperson:

Do you have any relevant information?

Mr Chittock:

Invest NI maintains a complete list of all site visits undertaken for every property that we show to prospective investors or to companies looking to expand. Those records have been kept since 2004-05.

The Chairperson:

Have you that information with you?

Mr Chittock:

No.

The Chairperson:

Please forward us that information so that we know how many site visits have taken place. If you have information from the start of the period, it would also be useful.

Mr McLaughlin:

I want to return to the line of questioning that John Dallat pursued. Let me set the context for my interest in this. The Barnett review recommended urgent examination to determine the requirements for the purchase of large amounts of industrial land. I understand that that review is in progress and is due to report this year.

Mr Hamilton, I understand that, while that review is ongoing, Invest NI continues to acquire land and property. Is that correct?

Mr A Hamilton:

We have a commitment under the Programme for Government, which is now in its third year, to acquire 200 acres of land in areas of disadvantage; we have acquired land in Strabane, Newry and Armagh. There was a proposal to acquire land in Omagh, but that has been delayed because of budgetary constraints. The Programme for Government stipulated that we should acquire 200 acres of land in areas that had suffered deprivation due to market failure; and that 75% of that land should be acquired in areas of deprivation. We are pursuing that.

You are absolutely right: the independent review recommended a review to determine whether there is still market failure in land. That review is under way, but we continue to drive towards the Programme for Government targets.

Mr McLaughlin:

Invest NI's 2008-09 accounts, page 65, note 12, tells us that Invest spent £7.5 million buying land and property in that period. Can you give us more detail and tell us how much Invest NI has spent buying land and property in the year 2009-2010?

The Chairperson:

Someone's mobile phone or electronic device is interfering with the sound recording system. Hansard has a hard enough job listening to us without that. Will whoever is responsible please switch it off?

Mr A Hamilton:

Whereabouts in the accounts is that figure?

Mr McLaughlin:

It is on page 65, note 12, "Tangible Fixed Assets".

Mr A Hamilton:

I can give you the timeline for the four areas that I have just outlined: the cost of acquiring in Armagh in 2008-09 was £2 million; the cost of acquiring in Newry in 2009-2010 was £11 million; and the cost of acquiring in Strabane in 2009-2010 was £3 million. The cost for Omagh may be about £4 million, but that process has been delayed.

Mr Chittock:

I suspect that it is an element of Dungannon, Armagh and Strabane, with regard to land acquisition in recent times.

Mr McLaughlin:

Could you determine some precise information and write to the Committee?

Mr A Hamilton:

I am happy to write to the Committee. With regard to the table and the accounts, that is the accounting treatment: it is not necessarily what we paid for it. That is the value of what we bought. However, I will write to the Committee with the exact details.

Mr McLaughlin:

I want to come back to the accounting treatment. Page 60 shows that unoccupied land and property was valued at almost £29m. Can you give us a figure for the financial year just finished, 2009-2010? There does not appear to be any great clamour by investors looking for the sites. Can you rationalise continuing that policy in those circumstances?

Mr A Hamilton:

I cannot give you an answer to the first question, as our accounts for the year are not yet complete. However, I will be more than happy to write to you with the details as soon as the accounts are finalised.

In 2008, unoccupied land was valued at £28 million and £47 million in the previous year; that is a considerable reduction in unoccupied land. However, to go back to your question about the clamour — or lack of it — I acknowledge that in the current economic downturn the requirements for land have reduced considerably. Companies have not only depressed their investment opportunities and plans but, equally, their desire to buy land has also been depressed.

Mr McLaughlin:

I realise that you will have to take time to answer that question. However, will you come back to the Committee in writing with an analysis? I am interested in how long the land and property in your possession has been unoccupied. Will you tell us when it was acquired and how long it had

been unoccupied in your possession?

Mr A Hamilton:

Do you want the information site by site?

Mr McLaughlin:

Yes; a macro analysis would be helpful.

Mr A Hamilton:

It would need to be site by site to give you the details of when it was acquired. Yes, we will write to you with the answer.

Mr McLaughlin:

To come back to the Campsie office accommodation, we had a catalogue of inexplicable contradictions. Valuation and Lands Agency issues were set aside. I assume that they were considered, but they were not acted on. Break points were missed. Properties were not fitted out: they were, in effect, shells without ceilings or floors, facilities or services. According to the DSO, the developers were in breach of their maintenance obligations. The premises were never occupied. An agent to market the property was not appointed until 2001.

I was a councillor for almost four terms in Derry where there is a long-held view that IDB and, subsequently, Invest NI have not addressed the historic regional imbalances in development and prioritising the eradication of those problems. Those are historical realities; I am not blaming those two agencies. Nevertheless, the question arises whether land holdings — and this exercise in particular — was more about politics than business; it was a response to the demand that something should be done, and the result was two expensive white elephants. The exercise made no contribution to addressing long-term unemployment or the underdevelopment of the economy of the north-west. I am worried that the same political approach is being adopted now with regard to our extensive portfolio of property. I understand the reference in the Programme for Government obligations, but perhaps we need to shake our heads. I would like an assurance that the £1.8 million is not reported in your accounts as evidence of your commitment to the north-west.

You were paying for two units that were never occupied and were not even fitted out to be

suitable for lease to anyone, and you can produce no evidence that investors were brought to see those properties. It is clear that there was a market failure from the very beginning. The Valuation and Lands Agency (VLA) had told you that it was not going to solve that problem. The question arises whether the accommodation at Campsie was a political defence against accusations that the north-west was being ill served by the industrial development agencies of the state. What would you say to that accusation? Given the Department's extensive landholdings in areas of high deprivation, has there been any change in that pattern since the early 90s?

Mr Sterling:

We are not trying to defend the decision to procure those two buildings, nor are we trying to defend the way in which the project was managed, certainly until recently. The kindest construction that one can put on it is that the original decision was a genuine effort to stimulate economic development in the area. However, our records show that much of the motivation at the time was not clearly recorded. Nonetheless, that project should not cloud what is being done elsewhere. Invest NI has promoted significant economic development opportunities in the north-west and in the Derry City Council area. There are some significant successes — Springtown being just one. Other areas have obtained successful economic development support, and companies that have been supported have prospered. I would not want to suggest that the failings in this project are indicative of anything wider.

Mr McLaughlin:

What about the accounting treatment? I do not have to elaborate on the value-for-money aspect of this project. Are they accounted for as evidence of a commitment to a particular sub-region?

Mr Sterling:

No; they are not.

Mr McLaughlin:

However, they are accounted as —

Mr Sterling:

What would have appeared in the accounts would have been £90,000 a year of rental to the two landowners from 1996 onwards; however, that expenditure does not score towards any particular target. The important targets in the Programme for Government are, as Alastair pointed out,

those relating to the requirement that 75% of land acquisition be in areas of disadvantage. There is also a target that 70% of new foreign direct investment projects should be located within 10 miles of an area of disadvantage. We are working towards targets that have been agreed by the Executive and the Assembly and which are designed to tackle disadvantage. Progress towards those targets is pretty good.

Mr A Hamilton:

The cost of land acquisition is not broken down by sub-region and attributed on that basis to our investment numbers. Land does not become a part of the numbers that we report, as we did a few days ago in relation to investment in certain areas. Those numbers are based purely on the support that we have given to indigenous companies to start up and grow or to foreign direct investors. The numbers are broken down by constituency. That figure will not appear as an inflated contribution towards economic development where it clearly did not deliver any such development.

Mr McLaughlin:

I look forward with interest to the analysis of the position in the first instance and the length of time that the buildings were unoccupied.

Mr Chittock:

I want to put Invest NI's landholdings in context. We hold 2,714 acres of land across Northern Ireland; all but some 750 acres are let to companies on long leases, typically for 999 years. So, we have only 750 acres, including regional acquisitions, for economic development purposes. Our strategy is very clear. We only buy land in areas in which there is a clear market failure and a clear need identified. The market failure is important because, in recent years, a lot of organisations have sold land for residential housing purposes, which means that industrial availability is very limited. If there is market failure, there is no private sector provision and so we have acquired land in those areas. Therefore, Newry, Dungannon and Strabane are key target areas where we believe there is industrial need but no private sector provision.

Mr McLaughlin:

A 10 mile radius of an area of deprivation could mean that there is a significant concentration of investment in that area, for example, in the centre of Belfast.

Mr Chittock:

We do not acquire land in the Belfast area. That is not a part of our strategy.

Mr McLaughlin:

What about land within 10 miles of Belfast?

Mr Chittock:

Not as far as I know. We have acquired no land within 10 miles of Belfast.

Mr McLaughlin:

Thank you very much for that. I look forward to the report.

Mr Lunn:

A 10 mile radius of Belfast surely includes Lisburn?

Mr A Hamilton:

I return to my previous point. Prior to the four cases that I specified, Invest NI has not acquired any land since 2001.

Mr McLaughlin:

In Belfast?

Mr A Hamilton:

Anywhere.

Mr McGlone:

Some of my questions are about contemporary events, and will not require the responses that we have heard so often, such as “it was before my time” or “we do not have the exact figures”.

I read the Comptroller and Auditor General’s report and realised that this issue has come before us previously. Some quite pathetic stuff has come to light. You said that you offered no defence for the decision or the way it was managed. I see from the report that up to two million quid of ratepayers’ and taxpayers’ money could have been retrieved but was not because of the lease oversight. We heard about some of the pathetic aspects of managing the lease. Someone

had drawn up a lease without including basic maintenance and repairs. That is pathetic and unprofessional. Anyone would know to insert that into a lease.

However, members will be interested to find out whether, by some quirk of the imagination or stretch of liberal licence, people were paid performance bonuses for this sort of work. Surely, you have access to that level of detail. I do not expect you to have it with you today, but it is important that we look at these mistakes and at when they occurred. If people were awarding bonuses to themselves and their senior buddies for this type of behaviour, that would be quite pathetic. Was the money blown further exasperated by money blown on people who were blowing the money?

Anyway, I will park that issue. I know that you do not have that information to hand today. We will move to the questions. I have read the 2008-09 accounts. It follows on from your detail on Invest NI's portfolio of properties. At note 12 on page 65 you had a write-off of over £50 million from the land and property portfolio, due to falling market values. Have you done any reconciliation or anticipated any decline in the value of those properties for 2009-2010?

Mr Chittock:

The accounts are still being prepared. The diminution in value is about £21 million for the same time period, but I will need to confirm that.

Mr McGlone:

Is that for this year?

Mr Chittock:

Yes; but I will need to confirm that. The accounts have not been finalised yet.

Mr McGlone:

Did I hear correctly that Invest NI had not acquired any further property?

Mr A Hamilton:

I said that the three sites that we have acquired are in Strabane, Armagh and Newry. One further site in Omagh was part of that programme to meet the 200 acre target, but purchase of that has been delayed.

Mr McGlone:

How much of the land that has been acquired over the past couple of years was bought at the height of the property bubble and during the period of high inflation? You may not have that level of detail with you, but I would appreciate knowing that.

Mr A Hamilton:

It is probably worth bearing in mind that it is industrial land, so it would not carry the same premium as people would associate with the property boom.

Mr McGlone:

I appreciate that, but it still has a comparable knock-on inflation-type level. I am sure that you know better than me that land can now be obtained, not at a knock-down price, but at a reduced level from what it would have been two or three years ago. I am interested in knowing that.

In note 18 on page 73 of the 2008-09 accounts there is a comment that has been described as “cryptic”. It states that:

“provisions have been made for estimated future expenditure in respect of a number of vacant properties.”

What we have heard about vacant properties and leases and all the previous shabbiness has been quite disturbing to us as public representatives. Can you indicate what those properties are and how much any vacancies would have cost the taxpayers over the years?

Mr A Hamilton:

Details are in the public domain of two other properties being leased by Invest NI that are either part occupied or unoccupied. The first is Galwally House, which is the old local enterprise development unit (LEDU) building. The decision to bring LEDU, IDB and the industrial research and technology unit (IRTU) together into one building meant that that building is no longer occupied and is currently on the market for lease.

The second is part of one floor of the Waterfront Plaza. That area was previously held by DFP for decant purposes during the ongoing refurbishment of Government property. An inward investor came to us at short notice wanting to set up in Northern Ireland and needing

accommodation, and DFP transferred the lease for the ground floor of that building to Invest NI to allow that company to set up. The company took part of the ground floor and asked for an option for future expansion on the rest of it. It has not expanded beyond that, so we currently hold part of that ground floor. That is partly what that note refers to.

Mr McGlone:

Are those the only properties being held in your portfolio?

Mr A Hamilton:

Those are the only vacant leased properties.

Mr McGlone:

Are there other properties?

Mr A Hamilton:

As one would expect with a property holding as large as ours, tenants come and go in the same way that they would in private property.

Mr McGlone:

I appreciate that, but will you clarify that there are vacancies and vacant leased properties?

Mr A Hamilton:

Yes.

Mr McGlone:

As regards the estimated, or anticipated, costs of those: I do not expect you to know off the top of your head, but —

Mr A Hamilton:

I can tell you the cost of those two properties. The Waterfront Plaza costs £162,000 per annum, and Galwally House costs £125,000 per annum.

Mr McGlone:

Are there any respective costs for the other vacant properties?

Mr Chittock:

We own 18 buildings across Northern Ireland. Three of those properties are vacant, as tenants have left recently. The only cost is the ongoing maintenance of those buildings. There are no lease payments, because we own the buildings.

Mr McGlone:

Will you provide details of any associated maintenance costs?

Mr Chittock:

Yes.

Mr McGlone:

You said that some investors wanted to move out of the plaza.

Mr A Hamilton:

Part of the Waterfront Plaza was transferred to us from DFP to meet the requirements of an inward investor who set up business and took part of one floor.

Mr McGlone:

With regard to the properties that you have identified as being vacant or have a vacancy element, including the Plaza, are you close to any form of further settlement on those properties with external investors or other firms?

You indicated that a firm came in and that DFP either rescinded or gave up its lease to facilitate that interest. That was probably a good move, but the firm concerned was unable to expand. Has any further interest been shown in those properties that would cut the cost to the public purse?

Mr Chittock:

There has been quite a lot of interest in the Waterfront Plaza building recently. We showed a number of prospective investors around the building, but there is no firm indication that anyone will take it yet. We are in detailed negotiations with the landlord of Galwally House to try to release the building and with a prospective tenant who would like to sublet it. We know that part

of the discussion involves the acquisition of the building from the landlord.

We have two vacant factories. We have received two strong expressions of interest in a factory in Downpatrick, and we are in detailed negotiations with a company to sublet a factory in the Ballygomartin area.

Mr McGlone:

That is all I want to ask about for the moment. Thank you.

The Chairperson:

I am about to call for the last question in this session. Mr Shannon needs to take his seat quickly. Before we move on, however, Mr Shannon is accompanied by Mr David Coffey, who is 100 years old today. You are welcome, Mr Coffey. *[Applause.]*

Ms Alexis Coffey:

Thank you very much.

Mr Shannon:

Mr Coffey has a great interest in politics, even at 100 years old. He was telling people today how they used to do politics years ago. David, do you want to tell them what you told me earlier on? It was not like it is today, with TVs and everything else. It was carried out at the street corner and on a soapbox. That was the way it was years ago; am I correct?

Mr David Coffey:

That is correct.

Mr Shannon:

That is the way they did politics away back then. Mr Coffee is learning about the new politics today.

The Chairperson:

You are very welcome.

Ms Coffey:

Thank you very much for your time.

Mr McCarthy:

We are waiting for Paul to strike up 'Happy Birthday'. *[Laughter.]*

The Chairperson:

That is why I am sitting here and not on 'X Factor'.

Do members have any other questions?

Mr Beggs:

I am astounded — if I have picked it up right — that there was a lack of clarity in relation to the leases of the Campsie properties. A person renting a house or a corner shop would have clarity in their lease as to whether they were responsible for the maintenance of the property. Why on earth would a body advising businesses not have basic issues like that sorted out? Is there any explanation?

Mr A Hamilton:

The only explanation that I can give is that the people who set it up at the time — and there is no excuse for it — did not expect that we would be in a situation beyond the four-year point. There was a clear expectation that the leases of the properties would be transferred to other owners before the four-year point was arrived at.

Mr Beggs:

That leads me to my second brief point. I could understand that explanation if the four-year break point had been enacted. If that had happened in a private company, someone would have been watching out for it and would have flagged it up very carefully on a calendar. If it had not been worked on, someone would have been held accountable for over £1 million in additional costs to that company and would probably lose their job. Why has no one ever been held accountable for that failure?

Mr Sterling:

I addressed some of those points earlier. We do not know why an investigation was not

conducted at the time. It happened 14 years ago, and most of those who were involved at the time have long since retired. I emphasise again that, if there were to be such a significant control failing nowadays, there would be an investigation, and sanctions would be taken if anyone were to be found guilty of misconduct.

Mr Beggs:

Is this a case of quietly pushing the matter under the table until time has passed, avoiding any uncomfortable observations or public utterances on the matter?

Mr Sterling:

As I say, this happened 14 years ago and we simply do not know.

Mr Lunn:

I wanted to make almost the same point about the leases. Who drew up the leases? Was it the Departmental Solicitor's Office?

Mr Chittock:

I think that those leases were drawn up by the developers, but DSO and VLA would have been involved in the negotiations.

Mr Lunn:

So, they were drawn up by the developers?

Mr Chittock:

I assume so.

Mr McGlone:

Someone is a good negotiator.

Mr Lunn:

It astounds me how often government and its agencies get their eyes wiped over leases and contracts. It is amazing.

Mr Sterling:

Again, I make the point that, had the break point option been exercised, we would have been released from the leases. The rental during two of the first four years was £1 per year.

Mr Lunn:

At the end of the day, the developers drew up a lease that was accepted by the DSO or yourselves, and it does not contain a clear reference to who was responsible for repairs.

Mr Sterling:

From a government perspective, they were clearly poor leases.

Mr McLaughlin:

Was the rent not £33,000 per year?

Mr Sterling:

There was a different rent for each of the first four years.

Mr McLaughlin:

Did it not cost £33,000 per year and then rose to £44,000 after four years?

Mr Sterling:

I am sorry; I may have been wrong there.

Mr A Hamilton:

We need to get the exact detail. It escalated over the four-year period, and then it took a massive step to £44,000.

Mr McLaughlin:

With respect, it is misleading to say £1 per year.

Mr Sterling:

I thought it was £1 for the first two years, but I may be wrong. For at least one of the first four years, it was £1.

Mr McLaughlin:

Please come back to the Committee with the precise information.

Mr Dallat:

I have no doubt that the person who acted on behalf of the developer became a millionaire. It would be interesting to know who was responsible for missing the break point and why no investigation was initiated. It would be interesting to know whether that person is still in the Civil Service, was promoted or qualified for bonuses. I do not want a witch-hunt, but this is only 14 years ago. It is not ancient history; it is not that long ago. I want to know who the accounting officer was and who missed those two critical aspects: the break point in the lease and the need for an investigation. You assured us at the beginning that, as far as you knew, there was no funny business going on. However, it would be nice to have on record reassurance that this was just total incompetence.

Mr Sterling:

I said that I did not know whether there was misconduct: in the absence of an investigation, we have no evidence as to what happened. I have agreed with the Chairperson to write to the Committee, setting out the names of the key people at the time.

Mr Dallat:

That is good. Thank you.

Mr McGlone:

Let me summarise what I have established today. There was a developer-led lease, in which it is left unclear as to who was responsible for the maintenance of the building. Maintenance would become significant over a short period. In the middle of it all, costs went up significantly to forty-five grand. No one tweaked that there was a break point. Is that a fair summary of what has been said? I find that level of incompetence astounding, almost incredible.

Mr Shannon:

I thank the Chairperson and Committee for the opportunity earlier. I am sorry that I was not here before now, but I felt that the birthday of a one-hundred-year-old man was one that ought to be recorded for posterity. We have to read books to get history, whereas that man has lived it.

I return to the subject matter before us. In paragraph 43, it is stated that an agreement “in principle” had been reached with the developer of the second unit to surrender the lease for five years rent, a sum of £225,000, which is a significant sum. Has a deal been agreed? The situation is not clear.

Mr A Hamilton:

I confirm that the second unit has been agreed for £225,000, and it was concluded on 7 April 2010.

With regard to what David was talking about earlier, that piece of work brought a saving of £237,000 on what would have been expected from that lease to its conclusion. That, together with £402,000 from unit B, brings costs that have been avoided to £640,000.

Mr Shannon:

If we had not had the report, then we might not have had such a successful conclusion, and we might not have had all that money in the bank. Maybe that is a difficult question to ask you to answer.

Mr A Hamilton:

The record shows that the more aggressive position was taken from 2005 onwards. Obviously, there are lessons for us as an organisation to learn from the information in the report and the conclusions reached. Quite a few of the lessons have been put in place already with regard to the evidence we have given today. However, we look forward to the publication of the final report to see whether there is anything more that we can learn.

Mr Shannon:

It is good news that it has been concluded. Ultimately, no matter what we do in this world, it is always about solutions and conclusions that are satisfactory, and that is a satisfactory conclusion. Thank you.

Paragraph 51 outlines Invest Northern Ireland’s current arrangements for property solutions that involve it working directly with client companies to identify and meet their needs. Why was this more pragmatic approach not used previously?

Mr A Hamilton:

It would be foolish of me to say that the reason why we do what we do now is because of the difficulties that have been created by cases such as this. We avoid the situation in which we are a leaseholder, holding the liability with Invest NI, and waiting for a company to come along and take up that lease. We do this for all the other reasons that have gone around the room that have highlighted the issues that have been created, albeit in a few isolated cases. Nevertheless, the issues have been created. We take our current approach because of those cost consequences, which, as you have outlined rightly, is that we acquire land in areas of deprivation where there is a market failure, which we have gone through, and we only engage with companies at the point where they are ready to invest in Northern Ireland and where we can help and support them through our property interventions.

The Chairperson:

There are no further questions on the Campsie Office Accommodation report. Thank you.

Mr McLaughlin:

Before we move off the subject, I would like to ask Mr Hamilton about the rents. I have referenced the part of the report that caught my attention. To be accurate on my part and to correct any misunderstandings that I may have contributed to, total rent payments of £33,750 for each unit for the four-year control period is on page 6. How do I interpret that? Was that a sliding scale of rental due for each unit?

Mr A Hamilton:

Yes, it was a sliding scale. I do not have the information in front of me, and I will not try to second-guess. However, from memory, it was £1 for the first year, if not for the first couple of years, and then it escalated. Nevertheless, we will write to the Committee and clarify what it was year by year.

Mr McLaughlin:

Thank you.