

**Department of  
Finance and Personnel  
Memorandum on the Twenty Fifth  
Report from the  
Public Accounts Committee  
Mandate 2011-2016**

**The Future Impact of Borrowing and Private Finance  
Commitments and Belfast Metropolitan College's Titanic  
Quarter PPP Project**

**Presented to the Northern Ireland Assembly  
by the Minister of Finance and Personnel**

**13 February 2015**

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# Glossary of Abbreviations

<b>CPO</b>	Conventional Procurement Option
<b>DEL</b>	Department for Employment and Learning
<b>DFP</b>	Department of Finance and Personnel
<b>NI</b>	Northern Ireland
<b>NIGEAE</b>	Northern Ireland Guide to Expenditure Appraisal and Evaluation
<b>OFMDFM</b>	Office of the First Minister and deputy First Minister
<b>PFI</b>	Private Finance Initiative
<b>PPP</b>	Public Private Partnership
<b>PPR</b>	Post Project Review
<b>SIB</b>	Strategic Investment Board

## Twenty Fifth Report

### Department of Finance and Personnel Office of the First Minister and deputy First Minister Department for Employment and Learning

#### The Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project

##### *PAC Recommendation 1*

**The Committee recommends that the transparency of long term PFI commitments improves. The publication of PFI commitments information on the OFMDFM website and proposed inclusion of up-to-date PFI information in the annual report on the Executive's Investment Strategy will provide greater clarity. However, it is important that the information provided is up-to-date and presents a full picture of committed projects and projects in the pipeline.**

The Office of the First Minister and deputy First Minister (OFMDFM) is implementing this recommendation.

OFMDFM is considering options for ensuring transparency by providing information in the Northern Ireland Assembly through Ministerial Statements and/or provision of information in the Assembly Library.

OFMDFM will provide a link from its website to the Treasury publication of UK-wide Private Finance Initiative (PFI) information. In addition, OFMDFM will publish the Northern Ireland (NI) information on its website, extracted from the HM Treasury annual report. OFMDFM will also include information on PFI commitments, including projects in the pipeline, in its report on the Investment Strategy and will seek to ensure that information provided is up-to-date.

OFMDFM will continue to work with departments to improve transparency and accessibility in the reporting of PFI projects and will continue to liaise closely with HM Treasury to ensure accuracy and completeness in terms of the information they publish in respect of NI.

##### *PAC Recommendation 2*

**The Committee recommends that the Strategic Investment Board is tasked with developing a strategic programme to promote an initiative aimed at driving long term efficiencies from operational PFI projects and maximising value for money savings.**

OFMDFM accepts this recommendation.

OFMDFM and the Strategic Investment Board (SIB) are giving consideration to how a programme to review operational PFI contracts can be arranged and funded so as to identify opportunities for departments to deliver long term efficiencies and maximise savings.

This programme would supplement, but not replace, the current activities of individual departments and their Arms Length Bodies in relation to ongoing contract management and review of processes as set out in individual PFI contracts.

##### *PAC Recommendation 3*

**The Committee recommends that OFMDFM, in conjunction with SIB, examines the scope for extending the use of the voluntary code of conduct for operational PFI/PPP contracts. The Committee considers that all departments involved in PFI contracts should be signed up to the voluntary code and be actively encouraging their private sector partners to do likewise.**

OFMDFM accepts this recommendation.

OFMDFM and SIB will encourage all departments involved in ongoing PFI/Public Private Partnership (PPP) contracts to sign up to the voluntary code of conduct and will urge departments to encourage those private sector partners not already signed up to do so. Furthermore, when SIB is advising organisations on new PFI procurements, it will draw attention to the code of conduct and the benefits to both the department and its private sector partners of being signed up to it.

OFMDFM will also encourage departments to make full use of the opportunities set out in the code of conduct to work with their private sector partners to identify opportunities for savings and efficiencies.

#### ***On Belfast Metropolitan College's Titanic Quarter PPP Project***

##### *PAC Recommendation 4*

**The Committee recommends that, ahead of appointing a preferred bidder, public bodies must fully test the deliverability of bids and limit the extent of unresolved issues within the bid. This will help protect the public sector's interests by ensuring that any subsequent negotiations are kept to a minimum.**

The Department of Finance and Personnel (DFP)/OFMDFM accept this recommendation.

DFP/OFMDFM agree that, ahead of appointing a preferred bidder for PPP projects, public bodies should test the deliverability of bids and limit the extent of unresolved issues within the bid as far as practicably possible. This should help protect the public sector's interests by ensuring that any subsequent negotiations are kept to a minimum.

The introduction of the Competitive Dialogue procurement procedure in 2006 (as opposed to the Negotiated Procedure used for the Belfast Metropolitan College PPP) is beneficial in this regard since it means that more issues are now resolved in a competitive environment. It will not always be possible however, to resolve every issue prior to awarding preferred bidder status, for example conditions attached to any planning approval may impact on the deliverability of a project.

To take this recommendation forward, where SIB is providing advice and assistance to departments or other organisations on procuring a PPP project, it will encourage them, as far as is reasonable within the required timeframe, to have a tested and realistic view on the deliverability of bids and to ensure that as far as possible all relevant issues are addressed prior to appointment of a preferred bidder.

DFP will bring this recommendation to the attention of departmental Accounting Officers.

##### *PAC Recommendation 5*

**The Committee recommends that, ahead of a procurement process for design and build projects, public bodies must develop a credible alternative solution or "exit strategy" which they must be willing to implement.**

DFP has implemented this recommendation.

DFP's Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) contains relevant guidance on exit strategies. It states that departments should have the flexibility to pursue an alternative procurement route without undue delay if at any stage it emerges that a PPP solution has become unaffordable or does not offer the best value for money. Accordingly, there remains a general requirement to develop a fully detailed conventional procurement option (CPO). The CPO should provide the same output as the private sector bids and should be updated regularly throughout the procurement process.

DFP will bring this recommendation to the attention of departmental Accounting Officers.

##### *PAC Recommendation 6*

**The Committee recommends that, in addition to the overall economic assessment of bids, detailed costings should be assessed for reasonableness and negotiated down where necessary.**

DFP has implemented this recommendation.

The Competitive Dialogue procurement procedure as set out in the Public Contracts Regulations is now used to procure contracts for PFI projects. This procedure is designed to identify and define the means best suited to satisfying a department's requirements through an iterative dialogue with bidders prior to inviting final tenders with associated prices. This procedure allows key components and costings to be appropriately assessed for reasonableness and maintains competitive tension in the negotiation process for longer. It therefore minimises the need for significant clarification or fine-tuning after the receipt of tenders and before contract award.

*PAC Recommendation 7*

**The Committee is encouraged by the Department's recent steps to improve its estate strategies. The Committee recommends that, as part of its asset management strategy, it should develop space utilisation benchmarks and targets for the further education sector in Northern Ireland to ensure that the most effective and efficient use is made of its estate.**

The Department for Employment and Learning (DEL) accepts this recommendation.

DEL is working to develop efficiencies around accommodation and standards in the Further Education sector and will develop space utilisation benchmarks and targets as appropriate to ensure the most effective and efficient use of the estate. DEL will also involve the Education and Training Inspectorate from the Department of Education in this work. They are responsible for developing the schedule of accommodation which sets the standards for the delivery of the curriculum.

*PAC Recommendation 8*

**The Committee recommends that, as part of the post project review process, public sector bodies must include all costs of delivering the project. This should include a consideration of any opportunity costs arising from investment decisions taken, such as the Department's agreement to underwrite losses resulting from asset sales.**

DFP accepts this recommendation.

DFP expects a post project review (PPR) to cover all relevant costs. DFP guidance contained in NIGEAE indicates that a PPR should compare planned costs and benefits with actual costs and benefits to allow an assessment of the project's overall value for money to be made. A PPR should include comment on whether the costing assumptions made at the project's inception proved realistic.

DFP agrees that all investment decisions must consider opportunity costs. DFP remains of the view that selling surplus assets on the open market at the point at which they become surplus remains the most transparent position (as reflected in Land and Property Service guidance), and assets must be sold at prevailing market values. DFP recognises that it is inherently difficult to predict these values in advance with certainty, although the risk of normal fluctuations in the property market has not typically been a high or unmanageable issue for the public sector over the longer term. DFP fully agrees that any decision to underwrite shortfalls in funding arising from asset disposals should only be made after careful consideration.

DFP will bring this recommendation to the attention of departmental Accounting Officers.

*PAC Recommendation 9*

**The Committee recommends that the Department and the College now finalise all post project reviews and evaluations on the Titanic Quarter project to ensure a timely dissemination of the lessons learned.**

DEL accepts this recommendation.

The Post Project Evaluation for the Titanic Quarter project has been completed and shared with DFP. Belfast Metropolitan College has also been in contact with Central Procurement Directorate to make arrangements to complete the Gateway Review process and it is planned that this will be completed in the next few months. The lessons learned from this project will be disseminated within the department and colleges as appropriate.









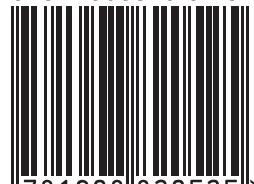


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