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Northern Ireland Audit Office

The Future Impact of Borrowing and Private Finance Commitments

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
14 January 2014

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K J Donnelly

Comptroller and Auditor General

Northern Ireland Audit Office

14 January 2014

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Abbreviations

BRG	Budget Review Group
C&AG	Comptroller and Auditor General
DEL	Departmental Expenditure Limit
DFP	Department of Finance and Personnel
FM	Facilities Management
ISNI	Investment Strategy for Northern Ireland
NI	Northern Ireland
NIAO	Northern Ireland Audit Office
OBR	Office for Budget Responsibility
OFMDFM	Office of the First Minister and Deputy First Minister
PAC	Public Accounts Committee
PFI	Private Finance Initiative
PF2	Private Finance 2
PPP	Public Private Partnership
PMS	Presbyterian Mutual Society
PWLB	Public Works Loan Board
RRI	Reinvestment and Reform Initiative
SIB	Strategic Investment Board
UK	United Kingdom
WGA	Whole of Government Accounts

Glossary of Terms

Benchmarking

In PFI contract terms, Benchmarking is the process by which the project company contractor compares either its own costs or the costs of its subcontractors against the market price of equivalent services. If the costs are higher than market prices, a reduction in the price charged to the public sector should be made on an agreed cost-sharing basis to reflect the differential. If costs are lower than market prices, the project company must justify any price increase.

Budget Review Group

In July 2010, it was agreed that a ministerial sub-group – the Budget Review Group (BRG) – would be established to consider a range of strategic issues relevant to the formulation of Budget 2010. BRG represents each Executive Party and includes the First Minister, deputy First Minister, Finance Minister, Employment and Learning Minister, Environment Minister and the Regional Development Minister. BRG commissioned the Secretary to the Executive (Head of the NI Civil Service) to cover a number of key issues including: public sector pay constraints; capital investment plans; additional revenue raising options; and the impact of savings. After the Budget it was agreed that the BRG would continue to meet and examine further issues in relation to Budget matters.

Capital Budget

A capital budget covers income and expenditure on capital items e.g. land, buildings, equipment.

Departmental Expenditure Limit

The Departmental Expenditure Limit (DEL) is split into: Resource DEL (also known as current expenditure) which reflects the ongoing cost of providing services; and Capital DEL which reflects investment in assets which will provide, or underpin, services in the longer term.

Market Testing

Market Testing means the re-tendering by the project company of the relevant "soft" service e.g. facilities management, so that the authority can test the value for money of that service in the market. Any increase or decrease in the cost of such a service following market testing should be reflected by an adjustment in the price charged to the authority.

Glossary of Terms (continued)

Private Finance Initiative	Private Finance Initiative (PFI) projects are a type of Public Private Partnership (PPP) used to fund major capital investments. PPPs refer to a wide range of different types of collaboration between public and private bodies. They cover a range of business structures and partnership arrangements, including joint ventures, the sale of equity stakes in state-owned businesses and outsourcing where private sector operators use existing public sector assets, as well as PFI itself. PFI contracts transfer risk from the public sector to the private sector, relating to the design, construction, maintenance and/or operation of assets. In return, the Government pays an annual unitary charge over the lifetime of the contract, which is typically 25-30 years.
Private Finance 2	Private Finance 2 (PF2) is a new approach to public private partnerships. Following a Treasury assessment of PFI "A new approach to public private partnerships" was published in December 2012, which set out the UK Government's approach to involving private finance in the delivery of public infrastructure and services through a long-term contractual arrangement.
Public Works Loan Board	The Public Works Loan Board (PWLB) is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Resource Budget	A resource budget covers current expenditure e.g. staffing costs, and everyday operational service costs.
Facilities Management (FM)	Soft FM services are those services which are required for the operation of the building or facility. They include services such as cleaning, catering, porters, security and reception. Hard FM services are those services responsible for the maintenance of the building or facility.
Unitary Charge	The amount that the public body contracts to pay each month for the service being delivered. It will cover all costs associated with financing, construction, operations, lifecycle and maintenance costs, on a whole life basis. There are three key elements: the service element to run the project (which could include cleaning, catering, maintenance and security), repayment of the capital asset built and interest on the capital.

Executive Summary

Executive Summary

Introduction

1. The provision of public service assets or the purchase of services often give rise to associated issues and risks for future budgets. For example, there are significant contractual commitments with the private sector for the provision of public service assets or the purchase of services, such as the Shared Services projects[1]. Similarly, public sector liabilities also raise issues for future public sector budgets. Creditors and other long-term liabilities, such as borrowings and pension scheme deficits, create calls on future revenue streams. For example, clinical negligence provisions in 2012-13 exceeded £28 million[2]. Understanding the nature of existing assets and liabilities is an important part of the decision making process and is critical to the scrutiny of future public sector budgets.

2. The Northern Ireland Executive (the Executive) supplements its funding of capital investment from the Block grant with private sector funding using Private Finance Initiative (PFI) contracts and borrowing under the Reinvestment and Reform Initiative (RRI)[3]. Use of these two types of capital funding commits the government to substantial annual payments which can extend for up to 30 years into the future. RRI cash borrowing to date is almost £2 billion, with the 2012-13 annual cost repayment being in excess of £100 million. Total estimated PFI committed payments relating to the 39 PFI contracts in Northern Ireland is £7.2 billion, with the current cost of PFI contract payments approximately £250 million per annum.

3. These committed payments are "ringfenced" within budget areas and whilst this provides more budgetary certainty around the value of what commitments have to be met, there is also reduced flexibility as it also limits choice as to the amount or timing of the funds to be spent. Therefore greater flexibility is required in other "non-ringfenced" budget areas.

4. The Office of the First Minister and Deputy First Minister (OFMDFM), and the Department of Finance and Personnel (DFP) have an important role and responsibility for guidance and policy on, and implementation of, Public Private Partnership (PPP[4]) arrangements in relation to major infrastructure projects (including PFI) in Northern Ireland. During the course of our work, DFP and OFMDFM updated and agreed a summary of their respective roles and responsibilities in respect of PPP/PFI arrangements **(see Appendix 1)**. In particular OFMDFM's Strategic Investment Unit, supported by the Strategic Investment Board (SIB)[5],

1 Northern Ireland Audit Office Report: *Shared Services for Efficiency – A Progress Report*: 24th July 2008. The report identified annual costs of approximately £75 million. Shared service centres provide corporate services to a number of organisations (or across different parts of a large organisation). These can include functions such as payroll, human resources, IT and payment processing.

2 *Health and Social Care Board Annual Accounts for the year ended 31 March 2013.*

3 In 2002 OFMDFM announced the Reinvestment and Reform Initiative (RRI). This included an agreement to regularly access a borrowing facility intended to support Northern Ireland's substantial infrastructure investment programme.

4 PPPs refer to a wide range of different types of collaboration between public and private bodies. Private Finance Initiative (PFI) projects are a type of public-private partnership (PPP), used to fund major capital investments.

5 Strategic Investment Board (SIB) works with departments to develop strategically important PPP projects, assisted by the Strategic Investment Unit within OFMDFM.

Executive Summary

provides policy advice on the availability and pros and cons of various PPP vehicles to the Executive, the First Minister and deputy First Minister, and the Budget Review Group[6], and provides expertise to NI departments on PPP implementation and evaluation. DFP is responsible for: advising the Executive on the financial implications of PPP policy and affordability of any proposed revenue funded programme; assessing the financial costs and benefits of different types of PPP arrangement; and, as part of the business case approval process, for advising on individual proposed arrangements. Specific responsibilities in relation to individual contracts rest with the departments and their Arm's-Length Bodies that own the contracts.

Scope of this report

5. This report examines the medium to long term implications of the affordability of Private Finance contractual commitments and Reinvestment and Reform Initiative (RRI) borrowings[7] and the impact that they may have on:

- the ability to maintain existing services;
- the ability to develop new services; and
- infrastructure investment in the context of significant public spending cuts.

However, the findings and recommendations can be applied equally to all long term commitments entered into by government. The issue is the degree to which the Executive and the Assembly has sight of, and understands, the implications of all investments with associated long-term spending commitments, for example, on revenue budgets.

6. This report also stresses the importance of central government departments and public bodies, continuing to identify and maximise operational efficiencies and savings in the existing 39 PFI contracts. It does not examine the value for money of these contracts. The methodology for the report is set out in **Appendix 2**.

Key findings

7. Currently there is no central collection of PFI costs and commitments or dissemination directly to the NI Assembly. OFMDFM arranges for PFI statistics to be returned to HM Treasury, which are published on the Treasury website. DFP also prepares and submits returns that feed into the overall consolidation and publication of a UK wide Whole of Government Accounts[8] (WGA). However there is no overall assessment of, or commentary on, the assets and liabilities of the Northern Ireland public sector as a whole. While WGA identifies the total assets and liabilities of government in the UK, there

6 In July 2010 it was agreed that a ministerial sub-group would be established to consider a range of strategic issues relevant to the formulation of Budget 2010 – the Budget Review Group (BRG) – further detail contained in the glossary of this report.

7 Local Government borrowing is not within the scope of our report.

8 The Whole of Government Accounts (WGA) are the consolidated financial statements for the whole of the UK public sector, showing what the UK Government spends and receives, and what it owns and owes.

is no similar set of accounts covering NI public bodies.

8. The Public Accounts Committee (PAC) in Westminster[9] and HM Treasury both acknowledge the potential of WGA to help manage public finances more effectively. They consider that WGA would be more useful if they contained sufficient information to enable a detailed analysis by region or by category of spend, but they recognise that more needs to be done to improve transparency and make the accounts clearer and easier to understand. In the longer term, the publication of a consolidated WGA for Northern Ireland may provide an opportunity to: improve transparency; increase accountability; and provide complementary and complete information for the public sector. This may help inform spending decisions including those that involve long term liabilities, such as the costs of PFI.

9. England and Scotland have published details of both the potential for PFI contract savings as well as realised savings[10]. In Northern Ireland there is no strategic programme coordinating the review of operational PFI contracts across central government. Some central government departments have identified efficiency savings from their operational PFI contracts but, in our view, there is scope for further efficiencies. To maximise the potential benefits of benchmarking and the re-competition of services through market testing, it is important that PFI project teams and their respective departments have access to benchmarking and market testing information.

10. We understand that the Finance Minister and ministerial Budget Review Group (BRG)[11] are kept informed of high level strategic investment information such as RRI borrowings by senior officials. However, it is not clear how such information is disseminated or made available to the wider Assembly, including Statutory Committees. It is important that the impact of capital investments and borrowings upon revenue budgets is known and remains within affordable and sustainable limits.

11. The estimated costs of RRI borrowing continue to increase and will peak at just over £140 million a year from 2016 to 2022. The Executive does not have a published and transparent borrowing strategy, which sets out to ensure that total capital investment remains within affordable and sustainable limits. It is important that the affordability of the long-term spending implications of RRI borrowing is taken into account by the Executive and made visible to the Assembly. In our view, both the Budget and Investment Strategy for Northern Ireland (ISNI) documents should be underpinned with a borrowing strategy that is transparent to the Assembly.

9 37th PAC Report 2012-2013: *HM Treasury: Whole of Government Accounts 2010-11*

10 Wales has not traditionally relied on PFI projects as much as the other UK regions.

11 The Executive agreed on 6 July 2010 to establish a Budget Review Group to *"oversee the development of the Executive's response to significant budgetary issues being faced"* (Committee for Finance and Personnel Report on the Executive's Draft Budget 2011-15).

Executive Summary

Summary of recommendations

Recommendation 1

In line with our previous recommendation in 2006, **we recommend that DFP regularly provides the Executive, the Assembly, and its Statutory Committees with more transparent, robust and comprehensive analysis of current and future RRI borrowings and PPP/PFI and Revenue Funding commitments.**

Recommendation 2

Understanding the nature of existing assets and liabilities is an important part of the decision making process and is critical to the scrutiny of future public sector budgets. The public sector has significant long term future commitments and liabilities which give rise to associated issues and risks for future budgets. **We recommend that departments regularly provide the Assembly and its Statutory Committees with more transparent, robust and comprehensive analysis of all long-term commitments and liabilities and their impact on departmental budgets.**

Recommendation 3

Currently there is no coordinated efficiency review programme of operational PFI contracts. In order to assess the scope for efficiencies and savings from operational PFI contracts and to maximise the opportunities to realise value for money savings, **we recommend that each department initiates an efficiency review programme of its operational PFI projects, including those in their Arm's-Length Bodies, within a common approach to be developed by OFMDFM through the SIB. The outcomes and savings achieved should be regularly reported to the Assembly.**

Recommendation 4

We recommend that the Procurement Board[12] identifies the best mechanism for producing suitable cost data and developing and maintaining a central database of benchmarking and market testing information. This information should then be used by departments to: benchmark and compare the cost and quality of facilities services under PFI with conventional outsourcing experience; where possible align market testing dates to maximise collaborative procurement opportunities; and identify a range of alternative methods for delivering facilities services.

Recommendation 5

It is important that PFI project teams are familiar with guidance and best practice on making savings in operational PFI contracts and their experiences and lessons learned in areas such as contract management, benchmarking and value testing are developed and promulgated. **We recommend that the Procurement Board considers how best to foster collaboration between PFI/PPP operational contract managers to facilitate the sharing of knowledge, skills, experience, best practice and lessons learned, whether through existing groups or a new forum.**

12 The Procurement Board has responsibility for the development, dissemination and co-ordination of public procurement policy and practice for the Northern Ireland public sector. The Board is responsible to the Executive and accountable to the Northern Ireland Assembly.

Recommendation 6

One of the barriers to realising and maximising savings is the need for greater transparency in PFI contracts. Departments with PFI contracts should engage with PFI investors, subcontractors and lenders to seek their agreement to improving transparency in older contracts through a voluntary code of conduct. In June 2013 the Westminster Government published its 'Code of Conduct for Public Private Partnerships', which seeks to *"reduce costs on operational PFIs and is part of an ongoing programme of reforms to boost contract efficiency under the Operational Savings scheme"*. A number of private sector firms have signed up to the code, including some working in Northern Ireland. **We recommend that OFMDFM should consider the applicability of this Code of Conduct and promote the voluntary use of this or a similar code by departments and the private sector companies involved in PFI.**

Recommendation 7

It is important that the affordability of the long-term spending implications of RRI borrowing is taken into account by the Executive and made visible to the Assembly. The Budget sets the context and capital expenditure provision for ISNI. In our view the Budget and ISNI documents should be underpinned with a borrowing strategy that is transparent to the Assembly. **We recommend that the Budget and ISNI documents should set out clearly an analysis of the affordability of future borrowings and anticipated RRI commitments.**

Part One:
Background

Part One: Background

The financial investment required to improve and maintain Northern Ireland's public infrastructure is significant and will require a mix of funding solutions, including borrowing and private finance

1.1 The Reinvestment and Reform Initiative (RRI) was a major step towards putting in place a coordinated and sustainable approach to improving Northern Ireland's public infrastructure and addressing a backlog of investment. An integral part of this initiative was the Investment Strategy for Northern Ireland (ISNI), published in December 2005, which set out a 10 year potential investment programme of up to £16 billion over the period 2005-2015. The update of ISNI by the Northern Ireland Executive (the Executive) in 2008 and 2011 provided an update on progress and set out the necessary realignment of ISNI to reflect ongoing significant cuts to public spending. Despite these cuts, the funding required to sustain ISNI's prioritised programme of capital investment is significant, with £6.5 billion invested in projects from 2008 to 2012 and a further £11.8 billion planned by 2021[13].

1.2 The 2005 ISNI expected most of the capital investment to be met through conventional government funding and proceeds from asset sales. However, it also envisaged that the Executive would make use of borrowing facilities to access additional capital funding of up to £200 million each year[14] through borrowing from the UK's National Loans Fund. ISNI also saw the Private Finance Initiative[15] (PFI) as potentially meeting up to one quarter of the investment.

1.3 While PFI funding is more complex and reduces the need to provide upfront mainstream public funding, it results in a long-term stream of contractually committed payments (of up to 30 years). Going forward, the Executive is investigating alternative funding options to support the current and future programmes of work. The 2011 ISNI does not provide details of such funding arrangements at a project level, as they will depend on the outcome of investment appraisals that have yet to be completed. However, it anticipates that it will fund almost £1.1 billion of the programme and it is likely that this will be made up of private sector investment.

1.4 Access to borrowing and alternative funding such as PFI are important drivers for the delivery of ISNI, allowing flexibility and the potential for improved value for money. However, agreeing to such a long-term financial commitment depends upon the ability to demonstrate value for money and affordability, a matter decided by the department or public body procuring the asset and, where appropriate, approved by the Department of Finance and Personnel (DFP).

13 ISNI beyond the current budget period is indicative only. Whether ISNI indicative plans can be delivered will depend on affordability etc. The Strategic Investment Board (SIB) estimates that around 10 per cent of this investment is likely to be financed by the private sector.

14 RRI borrowing must be spent on capital infrastructure projects and programmes. These loans are generally repaid over a period of 25 years, with interest rates applied on the principal sums at standard rates set by HM Treasury. Interest rates are outlined on the Public Works Loans Board website.

15 PFI is an arrangement whereby a consortium of private sector partners come together to provide an asset based public service under contract to a public body using private sector funding.

Figure 1: Northern Ireland 2011-15 Spending Review Allocation from HM Treasury

	2010-11 £ m	2011-12 £ m	2012-13 £ m	2013-14 £ m	2014-15 £ m
Current DEL (NI Spending Review Settlement)	9,887	9,837	9,859	9,927	9,985
Real terms % decrease on 2010-11		-2.4%	-4.3%	-6.1%	-8.0%
Capital DEL (NI Spending Review Settlement)	1,223	903	859	781	804
Real terms % decrease on 2010-11		-27.5%	-32.6%	-40.3%	-40.1%

Notes:

- *Figures above do not equate to NI departmental spend i.e. excludes rates, borrowing etc.*
- *Includes Policing and Justice.*
- *Real terms figures are based on GDP deflators at the time of the Spending Review.*

Source: NI Executive Budget 2011-2015

1.5 The Executive's Budget 2011-15, published in March 2011, presented a real terms reduction in Capital investment resource available of 40 per cent[16] over the spending review period **(Figure 1)**. This, combined with a real terms reduction in Resource (revenue) budgets of 8 per cent, means that difficult decisions will need to be made as to how future investment targets can be met. The latest ISNI anticipates that, in relation to the financing of future infrastructure investment, *"All funding options will be considered in a manner that protects the public interest, protects frontline services to users, facilitates greater efficiency and offers genuine long-term value for money."*[17] It is likely that this will include RRI borrowing and proceeds from asset sales, as well as private sector investment.

Reporting of long-term borrowing and PFI commitments and their potential impact on future budgets needs to be transparent to the Assembly

1.6 It is important that the Executive and the Assembly has sight of, and understands, the implications of all investments with associated long-term spending commitments, including PFI unitary payments and RRI borrowing commitments. The affordability of the long-term spending implications of commitments must be taken into account by the Executive and made visible to the Assembly. Currently HM Treasury is the main reporting route for PFI costs. In NI there is no central collection of PFI costs and commitments or dissemination directly to the Assembly. However, departments disclose PFI in their individual Resource Accounts.

16 2014-15 Capital DEL (Departmental Expenditure Limit) is 27 per cent higher than outlined in the original Budget (2011-15).

17 *Investment Strategy for Northern Ireland 2011-21 – building a better future* (published October 2012)

Part One: Background

1.7 A 2004 report by the Comptroller and Auditor General (C&AG)[18] highlighted the action being taken by HM Treasury to increase transparency in relation to PFI in England and encouraged the adoption of a similar approach in Northern Ireland. The report recorded estimated payments in the region of £666 million on signed PFI contracts in Northern Ireland over the 25 year period to 2027-28 and noted that this figure was likely to increase as Northern Ireland's £2 billion strategic investment programme rolled out. The current estimated payments on signed PFI contracts in Northern Ireland over the next 25 year period to 2038-39 will be in the region of £5.7 billion.

1.8 A 2006 report by the C&AG[19] highlighted the scope for improving the information provided to the Assembly on the Reinvestment and Reform Initiative, particularly in relation to borrowings and use of PFI. The report recommended that PFI and borrowing commitments should be reported together and presented at both departmental and summary level. It also stated that consideration should be given to reproducing this information in the Priorities and Budget document, Estimates Volume and as part of an annual report on progress in implementing ISNI.

1.9 In 2008 the Public Accounts Committee (PAC) noted that progress in implementing the recommendations from the C&AG's 2006 report (paragraph 1.8) had been limited and requested that the C&AG should continue to monitor progress and, if necessary, produce a further update report. Many of the recommendations relating to the transparency of RRI borrowing and PFI commitments, and the potential impacts on future budgets to the Assembly, remain outstanding. In light of recent and ongoing public spending cuts[20], accountability and transparency is now more important than ever to inform strategic decision making and to enable the Assembly to perform its scrutiny function. Additional accountability and transparency will, among other things, highlight the need for government to identify operational efficiencies to enable it to extract as much value for money as possible from operational PFI contracts as it is faced with a shrinking budget.

DFP prepares and submits returns to HM Treasury for consolidation as part of the process for publication of a UK wide Whole of Government Accounts. A separate Northern Ireland WGA is not produced and presented to the Assembly.

1.10 The Whole of Government Accounts (WGA) is a consolidated set of financial statements prepared by HM Treasury for the UK public sector, covering around 1,500 bodies, including central government departments, local authorities, devolved administrations, the health service, and public corporations. Information includes what the UK Government spends and receives, and

18 NIAO report: *Financial Audit and Reporting 2002-2003: General Report by the Comptroller and Auditor General for Northern Ireland*, (June 2004) NIA 41/03 and HC 673 of Session 2003-2004

19 NIAO report: *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure*, (December 2006) HC79

20 The latest Office for Budget Responsibility forecasts suggest that UK Resource DEL (Departmental Expenditure Limit) will contract in real terms in 2015-16 and 2016-17.

what it owns and owes. WGA can help Parliament hold HM Treasury, as the government ministry with overall responsibility for public spending, to account. It also gives Parliament and the public additional information, all in one place, on the Government's overall financial position, including PFI liabilities. This complements the PFI statistics published on HM Treasury's website.

1.11 In April 2013 the PAC in Westminster reported on Whole of Government Accounts 2010-11[21]. They noted that the publication of WGA is, in part about improving transparency, but that more needed to be done to make the accounts clearer and easier to understand. PAC and HM Treasury acknowledged the potential of WGA to help manage public finances more effectively. PAC recommended that HM Treasury should, in consultation with key stakeholders such as Parliament and the National Audit Office, carry out an immediate stocktake of the opportunities the WGA presents to improve financial management, and formulate a clear plan for how it will use WGA to assist its management of public finances, and that it would be more useful if it contained sufficient information to enable a detailed analysis by region or by category of spend.

1.12 Currently DFP prepares three sub-consolidations[22] for Northern Ireland, which then feed into HM Treasury's overall consolidation as part of the publication of a UK wide WGA. However, a separate Northern Ireland WGA is currently not published or submitted to the Assembly. We consider that in the longer term the publication of a consolidated "whole of government accounts" for Northern Ireland may provide an opportunity to improve transparency; increase accountability; provide more complete data for the public sector; encourage use of comparable data; provide complementary and complete information to support strategic decision making; and help inform spending decisions, including those that involve long term liabilities, such as the costs of PFI.

1.13 The Office for Budget Responsibility (OBR) provides analysis of the UK's public finances. One of its roles is to produce, once a year, a *'Fiscal Sustainability Report'* which considers the fiscal consequences of past government activity and the potential fiscal consequences of future government activity. The latest OBR *'Fiscal Sustainability Report'*, published in July 2013, considered the impact of PFI on sustainability alongside other long term liabilities. The UK Government has consented to a PFI control measure being brought in that limits UK payments for PFI to £70 billion over five years. In July 2013 an Audit Scotland report[23] also highlighted the need to further develop public financial reporting and said that *"while the audited accounts of public*

21 37th PAC Report 2012-2013: *HM Treasury: Whole of Government Accounts 2010-11*

22 Three sub-consolidations of accounts for the NI Executive Departments, Local Councils, and Health Bodies that met the threshold for producing and submitting a set of WGA accounts are forwarded to HM Treasury.

23 *Developing financial reporting in Scotland:* Audit Scotland, July 2013

Part One: Background

bodies across Scotland provide a sound base for financial reporting and scrutiny, there is currently no single complete picture of the devolved public sector's finances, and particularly its assets and liabilities". Areas of particular consideration included the long-term consequences of funding assets from borrowing or public-private partnerships.

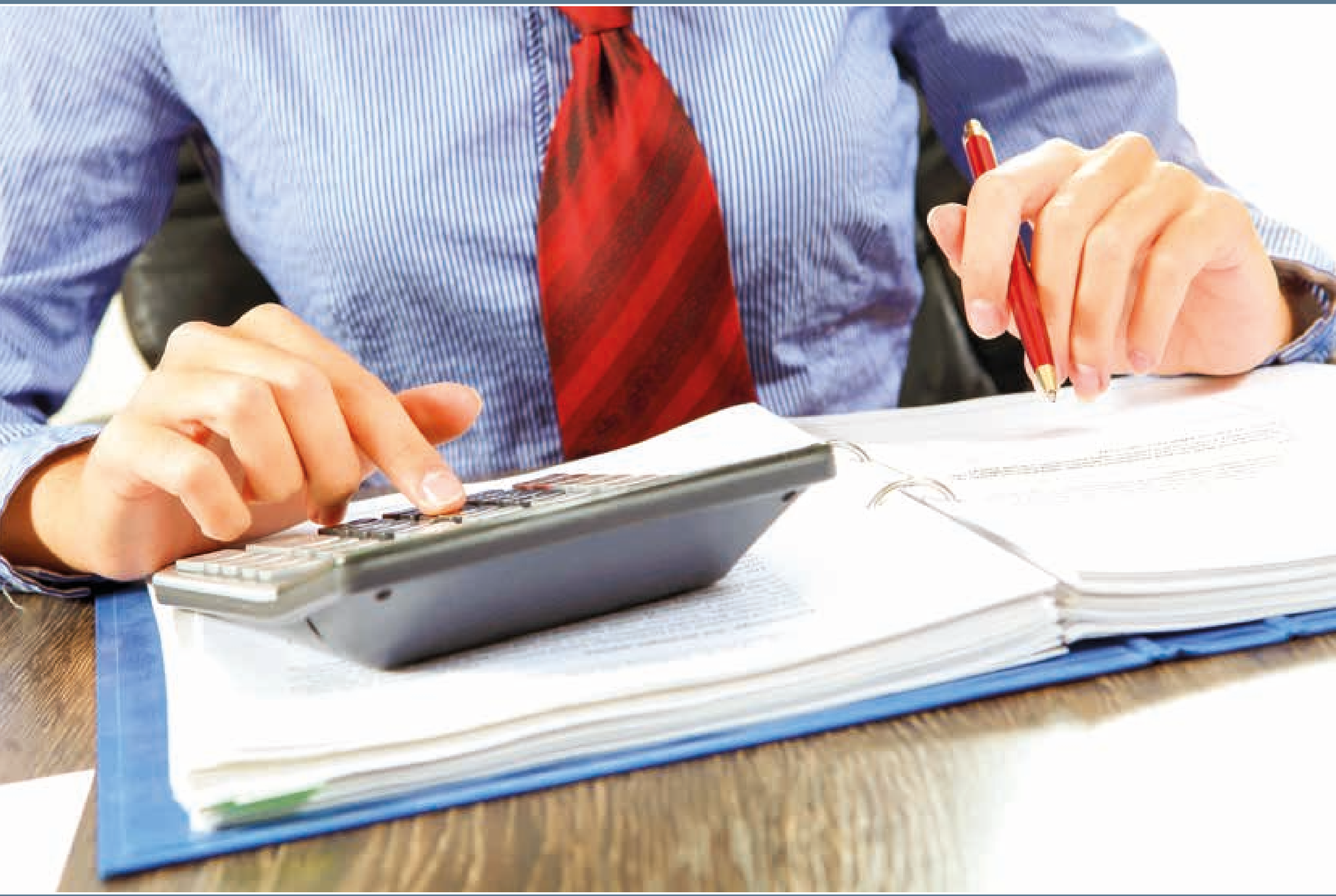
Recommendation 1

In line with our previous recommendation in 2006, **we recommend that DFP regularly provides the Executive, the Assembly, and its Statutory Committees with more transparent, robust and comprehensive analysis of current and future RRI borrowings and PPP/PFI and Revenue Funding commitments.**

Recommendation 2

Understanding the nature of existing assets and liabilities is an important part of the decision making process and is critical to the scrutiny of future public sector budgets. The public sector has significant long term future commitments and liabilities which give rise to associated issues and risks for future budgets. **We recommend that departments regularly provide the Assembly and its Statutory Committees with more transparent, robust and comprehensive analysis of all long-term commitments and liabilities and their impact on departmental budgets.**

Part Two:
Financial commitments relating to the Private Finance Initiative exceed £7 billion



Part Two:
Financial commitments relating to the Private Finance Initiative exceed £7 billion

Key Facts*	
39	The number of operational PFI projects in Northern Ireland
£7.3 billion	The total amount that will be paid to the private sector over the full life of the individual contracts for construction, operations, lifecycle and maintenance costs, on a whole life basis
£253 million	The current annual cost of PFI contracts in payments to the private sector
£2.5 billion	PFI contracted payments to be paid over the next 10 years

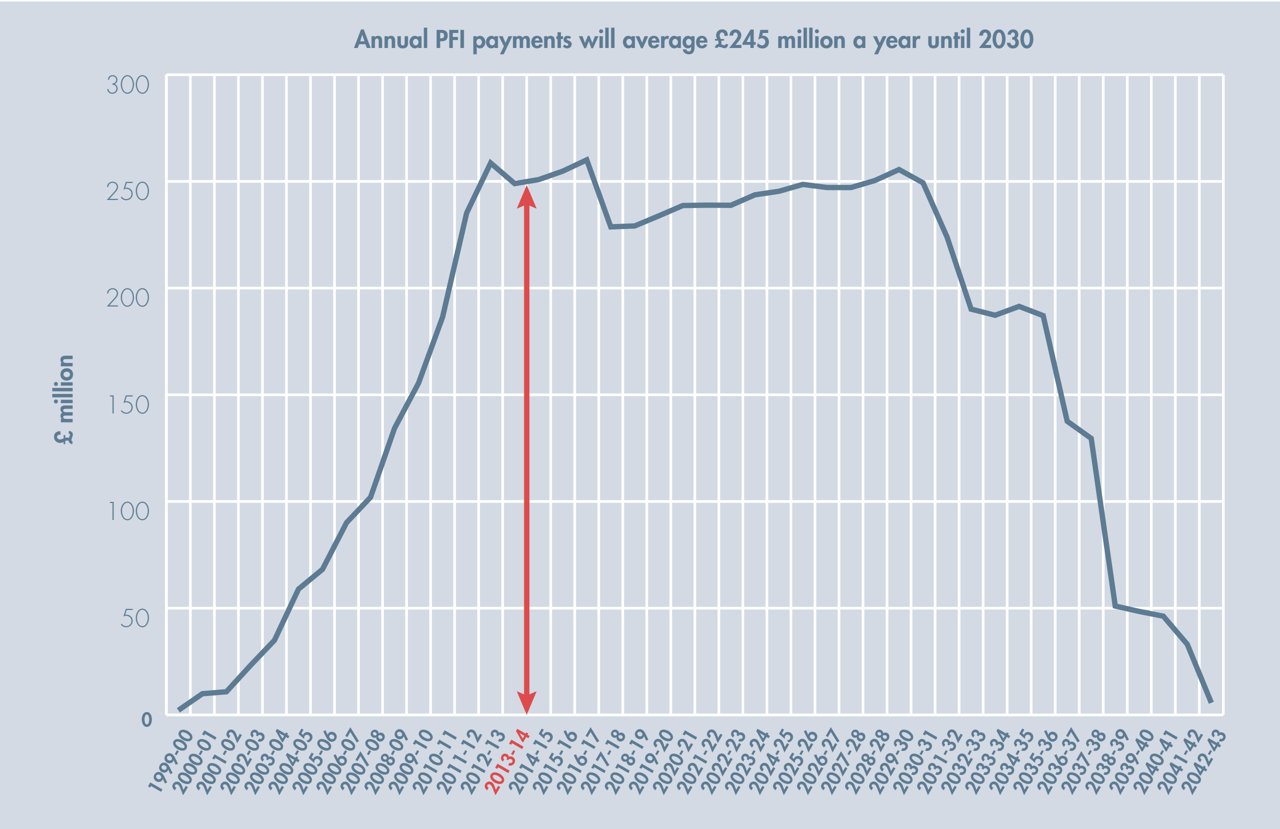
* (at the end of 2012)

A key risk is that departments make capital investment decisions without a full and robust consideration of long-term resource budgetary implications

2.1 Following its launch in 1992, PFI became one of the main methods by which Government delivered its capital infrastructure programme. In conventional public sector projects, Government provides the finance, builds or purchases physical assets, retains ownership and uses public sector employees or a private contractor to deliver the required service. With PFIs, the private sector is responsible for raising the necessary finance, and typically for designing and building the asset, and perhaps then also for operating the public facilities.

2.2 As highlighted in **Figure 2**, PFI arrangements build up significant commitments against future years' resource budgets, estimated at over £7 billion and averaging £245 million a year until 2030. The risk undertaken in all long term commitments entered into by Government is that they affect a period significantly longer than a set budget period. In relation to PFI specifically, the contract may affect a period of up to 30 years but departments' budgets are set over a fixed term of up to four years (paragraph 2.4). This gives rise to potential budget issues and risks, including the risk of not being able to maintain existing service levels due to the need to meet the annual cost of indexed PFI repayments during a period where budgets are being reduced. The robustness of any affordability analysis, the consideration of available budgets, and the "affordability envelope", now and in the future, are therefore important.

Figure 2: Overview of current committed PFI payments in Northern Ireland



Source: HM Treasury's PFI Project data reporting system, December 2012

2.3 Up to 2007-08, unitary payments due under most PFI deals were not included within departmental capital budgets, but instead included in resource budgets. However, a change in the accounting regulations meant, for 'on-balance sheet' projects, charging the capital element of the project (i.e. the physical asset such as a road, hospital or school) to the capital budget upfront, whilst interest charges and services costs are charged to the resource budget over the length of the contract. In most circumstances the capital charges and depreciation payments are notional and have no impact on department's spending powers. However, whilst not impacting on the value of payments made under the individual PFI agreements, the change meant a substantial increase in capital charges and depreciation payments. In addition, spending on assets, previously accounted for as revenue,was reclassified as capital [24].

2.4 Regardless of whether PFI costs are revenue or capital, in the long term, PFI arrangements have built up substantial commitments against future years' resource budgets. Generally the

24 If a PFI deal is classed as "on-balance sheet" all the relevant capital spending scores as Capital DEL (Departmental Expenditure Limit). However, when a deal is classed as "off-balance sheet" none of the capital spending scores as Capital DEL.

Part Two:
Financial commitments relating to the Private Finance Initiative exceed £7 billion

budget period for central government departments and other public bodies reflects the latest budget review period and is therefore no more than four years. Departments can, however, within prudent estimates of their future budgets, try to plan further in advance as capital projects have a long lead in. This has implications in considering the affordability of PFI payments some 20 or 30 years in the future. For example, the latest budget published in March 2011 set departmental budgets for the period up to and including 2014–15. From a budgetary perspective, over this period, a PFI deal may, in isolation, often seem affordable. DFP's view is that the PFI specific risk is minimal in the context of the overall Resource Departmental Expenditure Limit (DEL) budget (which it estimates will peak at less than five per cent). However, PFI commitments are not currently managed centrally, but delegated to each department. It is therefore at departmental budget level that potential risks and budget pressures may be significant.

For the 39 PFI projects signed to date, over £7 billion will be paid to the private sector for the use of the assets and their associated services

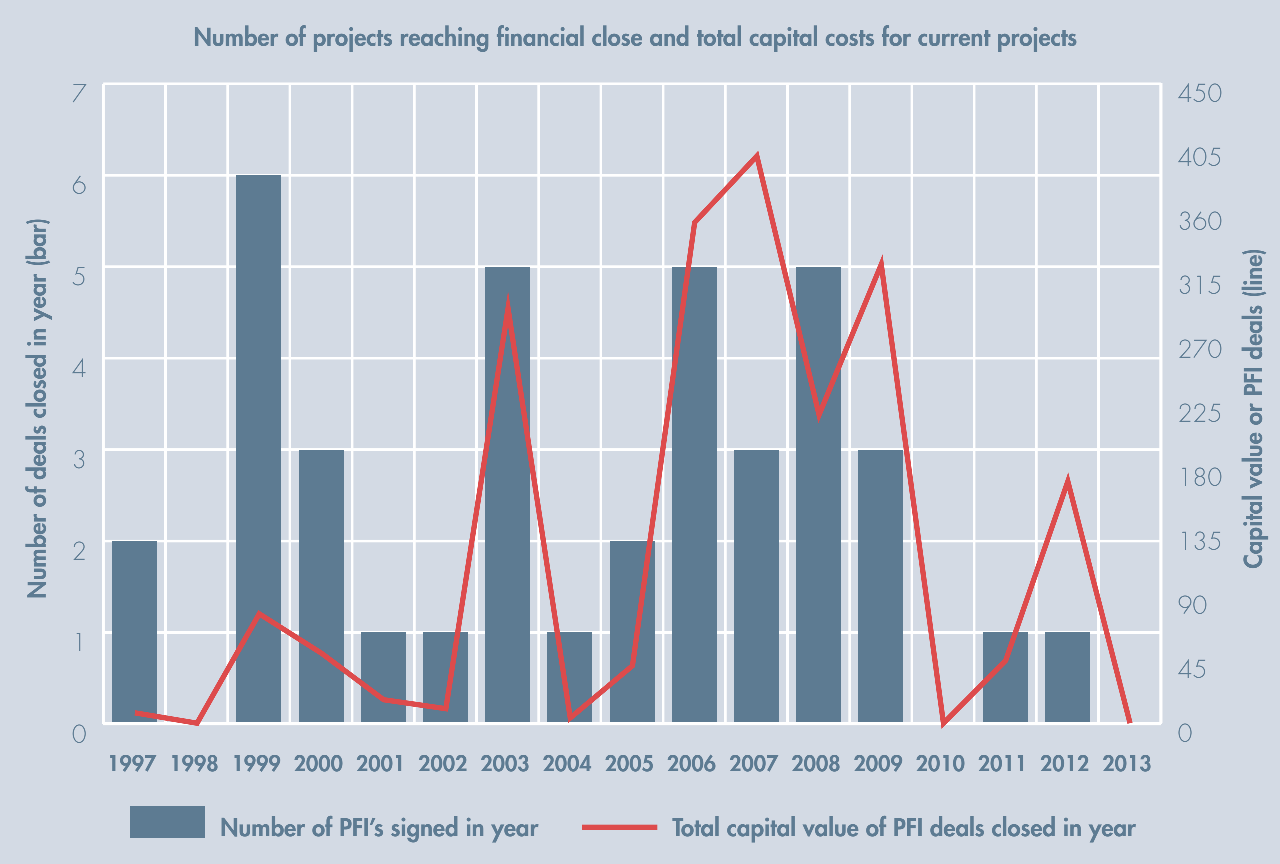
2.5 **Appendix 3** presents an analysis of the portfolio of PFI projects in Northern Ireland by department. Northern Ireland has relied less on PFI than both Scotland and England **(Appendix 4)**. Nevertheless, as at the end of 2012, 39 PFI projects with a total capital value of approximately £2 billion have already been procured through PFI in Northern Ireland. Departments estimate that the total amount to be paid to the private sector over the full life of the individual contracts, in return for providing the services agreed under PFI contracts, is £7.2 billion. This equates to £4,000 per head of population in Northern Ireland. The annual cost of PFI payments is around £138 per head of population[25]. Of the total figure, £6.1 billion is still due to be paid, with £2.5 billion being paid for service delivery over the next 10 years.

2.6 **Figure 3** analyses the 39 PFI projects awarded since 1997. Whilst in earlier years departments committed to a higher number of low value PFI contracts, lessons learned and policy changes led to a focus on PFI being used for high value projects only. A number of these high value projects were signed during 2006 to 2009, including health, education, transport and water projects that have increased the level of financial commitment. However, in recent years the use of PFI to assist in the delivery of the Investment Strategy for Northern Ireland (ISNI)[26] has significantly reduced, due in part to the economic downturn and the availability and cost of private finance to fund projects. The cost of private finance has risen dramatically relative to conventional public finance. Consequently it is currently very difficult for PFI and other forms of Private Public Partnership (PPP) to demonstrate value for money when compared with conventional public finance.

25 To provide context, the annual cost of running the public sector estate is equivalent to £555 per head of population.

26 Investment Strategy for Northern Ireland 2011–21 was published in October 2012. ISNI identifies priority areas for infrastructure investment in the years ahead and helps stakeholders in public, private and voluntary sector partners plan for the challenge of delivering the infrastructure programme.

Figure 3: Timeline overview of Northern Ireland's PFI portfolio showing projects signed and capital value



Source: HM Treasury's PFI Project data reporting system, December 2012

Annual unitary payments for current PFI projects will average £245 million until 2030

2.7 Unitary payments relating to existing signed PFI contracts will continue until 2042 (**Figure 2**, paragraph 2.2). The combined annual cost of these payments will average £245 million a year until 2030, peaking in 2017 at £260 million. These existing liabilities amount to 2.8 per cent of the total Resource Budget in 2014-15. Whilst these costs do not reflect any indexation adjustments provided for in the respective contracts, they highlight that the Executive is committed to a significant amount of annual expenditure over the next 30 years. Any future contracts using private finance, including Revenue Funded Investments[27], may extend this timeline and will increase the annual level of committed payments.

27 ISNI outlines significant capital expenditure over the next 10 years across a range of sectors. As part of ISNI there is approximately £1.5 billion worth of projects that will utilise alternative finance, including developing a pipeline of Revenue Funded Investment. This includes schemes such as such as Third Party Development (3PD) which is a method through which a facility is built and maintained by a private sector company which provides the up-front capital. The facility is then leased on a long term arrangement to the user.

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There is no central collection of PFI costs and commitments or dissemination directly to the Assembly

2.8 Currently the main reporting route for Northern Ireland's PFI commitments is through HM Treasury, which provides information to Parliament covering the whole of the UK[28]. This exercise is carried out in order to fulfil government transparency commitments, rather than as a legislative requirement to do so. In the past, DFP and OFMDFM facilitated the annual collection and forwarding of data to HM Treasury. More recently, departments submitted data directly until 2013, when OFMDFM will again be co-ordinating the collection and collation of NI departmental returns. This is due to a change in the HM Treasury process for recording the information.

2.9 As well as legislative powers, powers of scrutiny, policy development and consultation, Statutory Committees of the Assembly have a role in respect of financial scrutiny of each department. This includes consideration and advice on departmental budgets and annual plans in the context of the overall budget allocation. However, there is currently no central collection of PFI costs and commitments or dissemination directly to the Assembly or its Committees (see paragraph 1.7). This is despite our previous recommendation that this information should be provided[29].

2.10 We understand that the ministerial Budget Review Group (BRG)[30] is kept informed of high level strategic investment information by senior officials. However, it is not clear whether such information is disseminated or made available to the wider Assembly. In our view, the absence of high-level transparency of long term commitments, including PFI commitments, may prevent the Assembly and it's Committees carrying out fully inclusive financial scrutiny of departments, their Arm's-Length Bodies and Government Owned Companies (including NI Water).

2.11 The need for the Assembly to scrutinise and strategically oversee the overall impact that these commitments have on Northern Ireland's overall budget has taken on a greater significance. Shrinking budgets and an ongoing reliance on more expensive private sector funding means that a greater proportion of available funding is required to pay for these commitments, leaving less money to spend on operational services. However, it is also a long-term inescapable commitment which may limit a department's flexibility to handle future budgetary pressures. This may also be true at a macro level where the cumulative impact of PFI payments and other deals such as Third Party Development (3PDs)[31] could be a constraint on the funds available for allocation to budgets.

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28 HM Treasury collect summary data on PFI projects every Spring. The information is provided by departments and Devolved Administrations that procured or sponsored the projects, and is not audited by HM Treasury. The last data collection exercise was carried out between January and March 2012 and produced data for projects as at 31 March 2012.

29 NIAO report: *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure*, 7 December 2006, HC79

30 The Executive agreed on 6 July 2010 to establish a Budget Review Group to "*oversee the development of the Executive's response to significant budgetary issues being faced*" (Committee for Finance and Personnel Report on the Executive's Draft Budget 2011-15).

31 Third Party Development (3PD) is a method through which a facility is built and maintained by a private sector company which provides the up-front capital. The facility is then leased on a long term arrangement to the user.

The Westminster Government has identified £1.5 billion of savings in operational PFI contracts and is progressing a further £1 billion

2.12 In July 2011 HM Treasury issued draft best practice guidance on making savings in operational PFI contracts[32] which identified potential areas for achieving savings including:

- effective management of existing contract terms, for example, changes to scope of projects including bringing services or elements of services in- house or stopping them altogether if they are not needed;
- optimising the use of asset capacity, for example: using better technology to reduce cost; higher occupation of buildings reducing cost per head by up to 40 per cent; and making use of spare space or equipment for alternative use or to generate third party revenue;
- reviewing the specification of soft services so that the public sector does not buy more than it needs, for example, changing the level, frequency or cost base of services including cleaning, security and window cleaning; and
- savings in management, administration and risk transfer costs, including: simpler and cheaper change control; sharing insurance premium savings; and reducing inflationary price rises where they do not reflect actual cost changes and taking back controllable risk such as energy usage for a reduced price.

In Northern Ireland, DFP has responsibility for issuing guidance on PPP/PFI (**Appendix 1**). Whilst DFP did not circulate the HM Treasury guidance, their web-based economic appraisal guidance makes reference to it.

2.13 Work on pilot contracts in England identified the potential for five per cent annual savings on unitary payments. It concluded that all Authorities (in England) with operational PPP/PFI contracts should instigate a contract savings review if a comprehensive savings review had not already been undertaken. Following the government's commitment to save £1.5 billion from operational PFI projects, HM Treasury created a programme team to coordinate activity across the public sector through central government departments. The programme was to bring information on all savings plans and initiatives together and provide a comprehensive list of opportunities that all contracting authorities could use to explore and realise savings in PPP/PFI projects. However, this exercise applies to England only and it is up to devolved administrations how they go about this. Since then, with the assistance of Infrastructure UK[33], departments in England have identified over £1.5 billion of efficiencies and savings[34]

32 HM Treasury: *Making savings in operational PFI contracts*, July 2011

33 Infrastructure UK is a unit within HM Treasury, that works on the UK's long-term infrastructure priorities and secures private sector investment.

34 The focus is essentially about the facilities management rather than the capital costs and the interest charges.

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from operational PFI contracts (approximately 0.72 per cent of total future unitary payments) and is currently progressing another £1 billion[35].

2.14 **Appendix 4** sets out a regional overview of UK PFI projects. During 2010, the Scottish Futures Trust carried out a review of operational contracts for the Scottish Government to assess whether any value for money savings could be realised. A key conclusion of the review was that significant savings in excess of £5.5 million a year could be achieved by more effective contract management. Scottish Futures Trust told us that a pilot project was about to commence and that savings identified and lessons learned would be shared across the Scottish Government.

We found that some public bodies in Northern Ireland have identified efficiency savings from their operational PFI contracts but there is significant scope for driving further efficiencies

2.15 It is inevitable over the course of 25 to 30 years of operation that changes will be needed to the services and assets provided. An essential element of any PFI contract therefore, especially in the current financial climate, is ensuring the ongoing delivery of value for money through contract management and the identification and realisation of operational savings.

2.16 Across the 39 PFI projects in Northern Ireland there is a wealth of experience in relation to PFI operational contract management which we hoped to tap into. We were particularly interested in identifying, sharing and disseminating any lessons learned, best practice, or operational savings achieved. Recognising this, in February 2013, we issued a short questionnaire (**Appendix 5**) to the contract managers of each of the 39 PFI projects in Northern Ireland – spread across eight departments and Northern Ireland Water. The objective of the questionnaire was to establish whether:

- any PFI/PPP project contract reviews aimed at identifying operational savings had been undertaken;
- any other review or revision to the management of existing contract terms since project signature had been completed;
- there were any significant changes to the services or assets provided since the PFI/PPP project signature; and
- there were any concerns in relation to the future affordability of PFI contracts or the impact that these commitments may have on future service delivery or capital projects.

2.17 We received responses from all but one Department[36] which gave us a high level of assurance on our findings. **Appendix 6** sets out the results of our analysis of the responses to our questionnaire. The key findings are:

35 *A New Approach to Public Private Partnerships:* HM Treasury, December 2012

36 Where a number of PFI contracts were under one department then a joint response across a number of individual projects under a department may have been received rather than separate responses on each individual contract. In total 12 responses were received covering all but one operational PFI contract.

a) a number of PFI/PPP project contract reviews were reported as having been undertaken. However, the nature of the processes and frequency of reviews varied;

b) most reviews identified as being undertaken were not full contract reviews carried out in line with HM Treasury's best practice guidance[37];

c) whilst many respondents reported that savings had been identified they were not always quantified;

d) a number of mechanisms were available within contracts to facilitate continuing value for money;

e) there have been little or no significant changes to the services or assets provided since contract signature;

f) there was interest in learning from other organisations in relation to service review initiatives; and

g) the current exposure to PFI liabilities may potentially impact on future capital planning and service delivery.

2.18 Responses to the questionnaire have also identified: areas for potential efficiencies and savings; potential barriers to achieving them; and lessons learned and best practice. These have been included at **Appendix 6**.

An essential element of any PFI contract is ensuring the ongoing delivery of value for money through contract management and the identification and realisation of operational savings

2.19 As described in paragraphs 2.12 to 2.14 other administrations have instigated programmes to assess the scope for value for money savings from PFI contracts. However, although some individual bodies have undertaken contract reviews in Northern Ireland, there is no strategic programme to review PFI contracts to assess the scope for efficiencies and savings and to maximise the opportunities to realise value for money savings.

2.20 With all 39 PFI projects in Northern Ireland now in the operational phase most, if not all, should have provisions in their contracts that require the value of certain services, such as catering and cleaning, to be periodically benchmarked or market tested at intervals, typically every five to seven years. The services that are subject to value testing[38] are often a significant part of the total cost of a PFI contract and so this process is an important aspect in seeking to achieve value for money from a PFI contract which may run for 25 years or more. It provides an opportunity to make improvements to the contract and can be as beneficial to the provider as to the public sector.

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37 HM Treasury: *Making savings in operational PFI contracts*, July 2011

38 Value testing is the process used to test the cost and quality of services being provided in a PFI contract. The means by which this process can be achieved includes benchmarking and market testing. Value testing may involve comparing information about the current service provider's provision with comparable sources [benchmarking] or alternatively, inviting other suppliers to compete with the incumbent in an open competition [market testing].

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2.21 It is important that public officials test the cost and quality of facilities services to get value for money during the life of a PFI contract. **Case Study 1** demonstrates a successful benchmarking exercise undertaken by Invest NI which identified and realised significant savings.

Case Study 1: Value testing of the soft facilities management service elements of Invest NI's Headquarters Accommodation PFI project and lessons learned

The Invest NI Headquarters Accommodation PFI project for the Invest NI building in Bedford Street, Belfast, provides a single headquarters office building to house up to 579 Invest NI staff over approximately 9,500 m^2. The project achieved financial close in October 2004 with the office accommodation being made available from November 2005. The Contractor is responsible for all maintenance and facilities management related issues over the life of the PFI contract to 2030. The soft facilities management service elements of the project comprise approximately £0.9 million (20 per cent) of the annual unitary charge of £4.6 million in the year to March 2013. The project contract states that every five years the Contractor shall, at its own cost, carry out a Benchmarking exercise of soft services provided at or around the fifth anniversary of the Full Service Availability Date – the first one being 2010. The contract also allowed that if agreement on the new cost of the services cannot be agreed, it may be necessary to market test some or all of the services.

Ahead of this date, Invest NI's Contract Management team engaged with its PPP contractor in a process aiming to achieve annual value for money savings through benchmarking and (if necessary) market testing of soft services – valued at around £950,000. Independent advisers were also appointed through a competitive tender process to assist in the exercise.

Due to a lack of relevant benchmark information in the PPP/PFI Accommodation sector in Northern Ireland, it was agreed with the Contactor that they would adopt a hybrid approach, in which they would:

- effectively market test those services not performed directly by their FM sub-contractor; and
- using an open-book principle, share all costs of the FM sub-contractor for the services they perform directly.

The Contractor's initial benchmarking proposal in December 2010 put forward an increase, equating to five per cent in the price of services, which would have seen the cost of the Unitary Charge increase by over £250,000 when indexed each year until the next opportunity to benchmark the price of the soft services in 2015.

Invest NI's Contract Management team robustly challenged the Contractor's assertions that it had been unable to identify tangible efficiencies. With the support of their advisers Invest NI undertook their own "shadow" process which was shared, raised objections and identified those aspects which were unacceptable. The proposed uplift was rejected as it did not demonstrate best value for money and Invest NI engaged in further dialogue and negotiations with the Contractor to reach a more favourable settlement. Throughout this process the option of market testing, with the contractor absorbing the cost, remained under consideration.

However in June 2011 an acceptable benchmarking outcome was agreed representing a total saving of three per cent (£28,500) in the annual cost of delivering the relevant services. Over the five year period to 2015, this offers a saving of over £142,000 on current costs. The services will be re-benchmarked in 2015.

The following lessons were identified from the process:

- it is important that Contract Management teams act in the capacity of an intelligent client, that is, knowledgeable on the contract and the process being undertaken and with the necessary skills to seek a value for money outcome, while being able to challenge their private sector partners where necessary;
- the effective role that advisors can play in the process;
- the significant benefits from early engagement with the PPP/PFI contractor;
- an effectively designed and agreed process with realistic timescales is needed;
- the importance of access to good comparable benchmarking information;
- promoting vigorous competition when value testing;
- having a full understanding of whether and how the private sector's price and service proposals offer value for money;
- there are advantages to an authority in having both a benchmarking and market test option in the contract since it can then choose the best process for their particular circumstances. Benchmarking is an alternative to market testing if there is not the prospect of strong competition between suppliers. It can also be completed to a quicker timescale and be cheaper than a market test. In those situations where an authority chooses, on expected value for money grounds, to start with a benchmarking exercise the incumbent supplier may be more likely to engage positively where there is the fallback of being asked to compete in a market test.

Source: Invest NI

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2.22 In November 2012 Invest NI were informed by its Headquarters Accommodation PFI partner of the intention to place the entire share capital of Bedford Street Developments Limited (BSDL) on the open market by its current owners. BSDL controlled the PFI agreement for the Invest NI Headquarters building and the freehold interest of the entire building. Together with the Strategic Investment Board (SIB), Invest NI carried out detailed analysis and identified that considerable financial savings could be realised for Government by acquiring BSDL. As a result, in February 2013, as part of a competitive market bid process, Invest NI submitted a non-binding bid to acquire the share capital of BSDL. Having subsequently been appointed preferred bidder, Invest NI engaged specialist advisors to carry out a detailed due diligence exercise. Having completed this and demonstrated that savings could be achieved, DFP approval was sought and granted for the acquisition of the entire share capital of BSDL for a total consideration of £39 million. The transaction was completed on 8th July 2013. Invest NI estimate that the transaction will result in savings to the NI Block of approximately £7 million compared against the original arrangements under which Invest NI occupied the building. The share purchase will also mean that the public sector will retain ownership of the building, whereas it would have reverted to the private sector under the previous arrangements.

2.23 In some cases, as happened with the Invest NI Headquarters contract, efficiencies can be gained by a fundamental review of contracts or through actions at review points which are written into individual contracts. Each department must carry out reviews at the specified times for its own contracts. In addition, efficiency can be achieved, on an ongoing basis, through the more informed and active management of the contract (paragraph 2.15).

2.24 OFMDFM, through its sponsored Arm's-Length Body, SIB, assists the Northern Ireland Executive in the production of the Investment Strategy for Northern Ireland 2011-2021 (ISNI). We understand that SIB has staff with existing skill sets that could, subject to other commitments, be a resource to assist Government in identifying the potential for operational savings from their PFI Projects. SIB have assisted one public body to date and is at the early stages of assisting a second. However, these two smaller capital value PFI projects represent approximately 2.5 per cent of the total capital value of all PFI projects.

2.25 OFMDFM, in conjunction with DFP, has responsibility for the development and co-ordination of PPP policy in the public sector in Northern Ireland and the evaluation of its implementation. At present we understand that no centralised initiative or set of targets to identify operational value for money efficiencies in PFI contracts exist. We recognise that the mix of PFI contracts across government sectors in Northern Ireland differs from that in England (e.g. no defence contracts) or Scotland.

2.26 In our view, a centralised initiative in Northern Ireland could realise long term operational savings over the life of existing operational PFI contracts. Savings realised could then be recycled back into frontline services by the contracting public bodies. To achieve a more centralised approach in line with other UK regions (paragraphs 2.12 to 2.14), both DFP and OFMDFM need to work more closely at a strategic level to promote an initiative aimed at driving long term efficiencies from operational PFI projects. For example: OFMDFM, through SIB, could provide some degree of central advice on good practice in reviewing PFI contracts and prioritisation of effort, based on the experience of reviews so far and knowledge of PFI contracts in general.

Recommendation 3

Currently there is no coordinated efficiency review programme of operational PFI contracts. In order to assess the scope for efficiencies and savings from operational PFI contracts and to maximise the opportunities to realise value for money savings, **we recommend that each department initiates an efficiency review programme of operational PFI projects, including those in their Arm's-Length Bodies, within a common approach to be developed by OFMDFM through the SIB.** The outcomes and savings achieved should be regularly reported to the Assembly.

Recommendation 4

We recommend that the Procurement Board[39] identifies the best mechanism for producing suitable cost data and developing and maintaining a central database of benchmarking and market testing information. This information should then be used by departments to: benchmark and compare the cost and quality of facilities services under PFI with conventional outsourcing experience; where possible align market testing dates to maximise collaborative procurement opportunities; and identify a range of alternative methods for delivering facilities services.

Recommendation 5

It is important that PFI project teams are familiar with guidance and best practice on making savings in operational PFI contracts and their experiences and lessons learned in areas such as contract management, benchmarking and value testing are developed and promulgated. **We recommend that the Procurement Board considers how best to foster collaboration between PFI/PPP operational contract managers to facilitate the sharing of knowledge, skills, experience, best practice and lessons learned, whether through existing groups or a new forum.**

Recommendation 6

One of the barriers to realising and maximising savings is the need for greater transparency in PFI contracts. Departments with PFI contracts should engage with PFI investors, subcontractors and lenders to seek their agreement to improving transparency in older contracts through a voluntary code of conduct.

39 The Procurement Board has responsibility for the development, dissemination and co-ordination of public procurement policy and practice for the Northern Ireland public sector. The Board is responsible to the Executive and accountable to the Northern Ireland Assembly.

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In June 2013 the Westminster Government published its 'Code of Conduct for Public Private Partnerships', which seeks to *"reduce costs on operational PFIs and is part of an ongoing programme of reforms to boost contract efficiency under the Operational Savings scheme"*. A number of private sector firms have signed up to the code, including some working in Northern Ireland. **We recommend that OFMDFM should consider the applicability of this Code of Conduct and promote the voluntary use of this or a similar code by departments and the private sector companies involved in PFI.**

Part Three:
Future financial commitments relating to Reinvestment and Reform Initiative borrowings

Part Three:
Future financial commitments relating to Reinvestment and Reform Initiative borrowings

Key Facts*	
£2.2 billion	Estimated total RRI cash borrowing up to March 2016
£103 million	2012-13 cost of RRI borrowing repayments (principal and interest)
£1.3 billion	Estimated interest costs of RRI cash borrowing

* (at the end of 2012)

The Reinvestment and Reform Initiative (RRI) provides the Executive with greater freedom and flexibility to deliver improvements in public services through access to additional funding of up to £200 million a year

3.1 In 2002, OFMDFM announced the Reinvestment and Reform Initiative (RRI). This included an agreement to regularly access a borrowing facility intended to support Northern Ireland's substantial infrastructure investment programme[40]. The facility operates under the standard terms for borrowing from the National Loans Fund as determined by HM Treasury. The facility is broadly equivalent to local authority prudential borrowing powers in the rest of the United Kingdom[41].

3.2 Access to this borrowing, up to £200 million a year, has given the Executive greater freedom and flexibility to deliver improvements in public services[42]. This borrowing is over and above the public expenditure controls determined by the Barnett Formula[43]. Legislation currently in place enables the Executive to access this borrowing exclusively for capital investment, up to a ceiling of £3 billion[44].

3.3 In addition, under sections 61 and 62 of the Northern Ireland Act 1998, the Secretary of State may lend the devolved administration sums required for meeting a temporary excess in expenditure over income or providing the devolved administration with a working balance. These funds are also issued out of the National Loans Fund under terms agreed by HM Treasury. The aggregate outstanding amount of principal loans made shall not exceed £250 million.

40 For more detailed background on the funding of RRI please refer to page 47–51 of *'Reinvestment and Reform: Funding Northern Irelands Infrastructure'* – NIAO December 2006.

41 Prudential borrowing is the set of rules governing local authority borrowing in the UK. Prudential borrowing is typically a loan from the Public Works Loan Board or commercial banks.

42 There is flexibility over the amounts that can be borrowed, to take into account the timing of funding required. Therefore, borrowings reported in a year may show less or more than £200 million. For example, the Finance Minister negotiated a deferment of up to £50 million RRI borrowing from 2012-13 to 2014-15 in relation to the funding for the A5 road scheme.

43 The Barnett Formula is used for convenience to refer to the mechanism for providing the Northern Ireland Executive's assigned budget. It is used by HM Treasury in the United Kingdom to adjust the public expenditure allocations to Northern Ireland, Scotland and Wales at the margins. It applies only to parts of public expenditure. It does not, for instance, apply to demand-led expenditure such as social security benefits which are funded on a need or claimant basis.

44 Borrowing for this initiative is covered by the Northern Ireland (Loans) Act 1975 and the Northern Ireland Miscellaneous Provisions Act 2006 - to provide extra resources to fund any expenditure which the Secretary of State deems to be of a capital nature. The 2006 act increased the total ceiling from £2 billion to £3 billion.

However, the Secretary of State, with the consent of the HM Treasury, can substitute these statutory limits by order.

Up to March 2013 a total of £2 billion of RRI borrowing has been accessed. However, £0.5 billion has been used to relieve capital budget pressures, brought on by a change in the accounting treatment of PFI deals.

3.4 RRI borrowing is a key mechanism of funding the ongoing ISNI programme of work. Over the last five years approximately 13 per cent of all capital infrastructure investment was funded through RRI borrowings. **Figure 4** sets out the profile of RRI borrowings up to 31 March 2013. To date £2.0 billion of RRI borrowing has been accessed from an available total of £2.1 billion. However, only £1.4 billion of actual cash borrowing was drawn down.

3.5 Of the £2.0 billion borrowing that has been accessed to date almost £0.6 billion was used to offset PFI borrowing pressures. In recent years, DFP has used a significant element of the RRI borrowing to relieve capital budget pressures, brought on by a change in the accounting treatment of PFI deals (paragraph 2.3). The capital cost of recent PFI deals had to be reflected in departmental resource accounts immediately[45]. DFP and HM Treasury agreed that these capital costs, (which were effectively private sector borrowings), could be offset against the annual RRI facility, thus easing the budget pressure.

3.6 This accounting requirement eroded the original infrastructure investment benefits that access to RRI borrowing had. For example: in the four year period from 2007 to 2011 only a third of the £800

Figure 4: Overview of RRI Borrowings up to 31 March 2013

Year	2003-04 £m	2004-05 £m	2005-06 £m	2006-07 £m	2007-08 £m	2008-09 £m	2009-10 £m	2010-11 £m	2011-12 £m	2012-13 £m	Total £m
Total RRI borrowing available	125	200	200	200	200	200	200	200	375	200	**2,100**
Actual cash borrowing	*79*	*169*	*163*	*214*	*98*	*17*	*113*	*37*	*375*	*151*	*1,416*
Non -cash borrowing as a result of PFI	*0*	*0*	*0*	*0*	*0*	*243*	*133*	*200*	*0*	*0*	*576*
Total RRI borrowing	79	169	163	214	98	260	246	237	375	151	**1,992**
Unused borrowings in-year	46	31	37	(14)	102	(60)	(46)	(37)	-	49	**108**

Source: DFP

45 Previously it was spread out over the term of the contract.

Part Three:
Future financial commitments relating to Reinvestment and Reform Initiative borrowings

million RRI loan available was able to be drawn down (£265 million). However, without access to the RRI borrowing facility, a number of recently signed PFI projects may have been delayed or other major capital investment projects may not have been delivered. Our review of SIB and DFP documentation indicates a high level of confidence that future deals will meet certain criteria which, if achieved, will mean that there will be no further requirement to offset this type of borrowing against RRI borrowings.

The estimated costs of RRI borrowing continue to increase and will peak at just over £140 million a year from 2016 to 2022

3.7 Over the next three years, up to March 2016, it is anticipated that a further £745 million RRI cash borrowing will be needed bringing the total RRI borrowing up to £2.2 billion[46]. Current legislation sets a £3 billion borrowing ceiling permissible for RRI loans. When this limit is reached depends on the rate at which the future levels of borrowing are accessed and the speed at which the principal of each term loan is repaid. Based on the overall value of loans committed to already, and assuming the Executive continue to access the full £200 million each year, then the current borrowing ceiling permissible in current legislation will be reached within the next 7 years by 2020-21. Any additional borrowings will require new legislative provision.

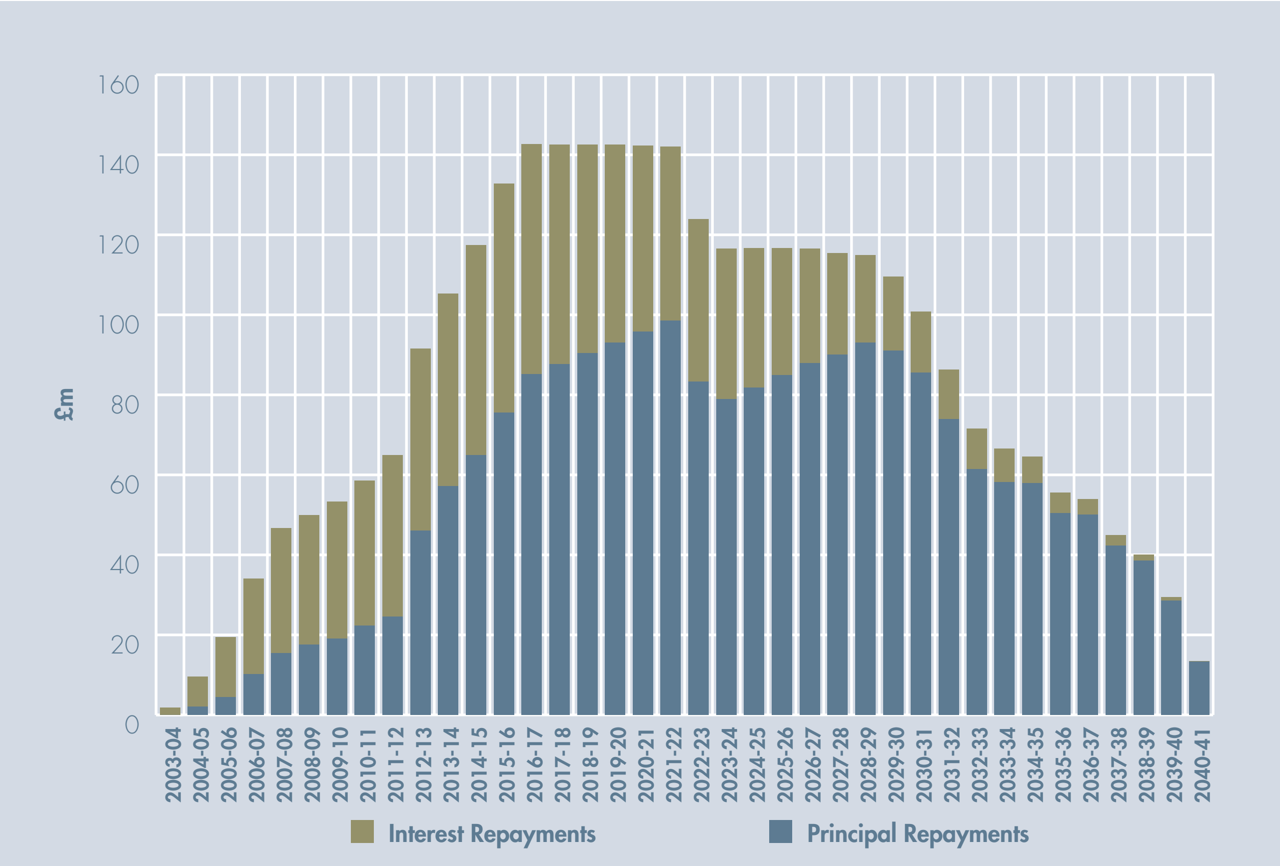
3.8 Drawn down loans relating to the RRI facility require a future stream of committed payments to clear the annual cost of borrowing - both the principal sum borrowed and interest. **Figure 5** sets out the annual cost of meeting these borrowing payments to date and forecast figures through to 2041. Over the past five years, annual repayments alone have doubled from almost £50m to over £100m in 2013 and will peak at £140 million a year from 2016-21. Figures for 2003-15 are included at **Appendix 7**. The total amount of interest charged depends on: the principal amount borrowed; the type of loan; the term of the loan; and interest rate charged. An analysis of the term loans up to 2012 is provided at **Appendix 8**.

3.9 The significant costs of borrowing will further increase depending on any decision to continue to access RRI beyond 2016. It is important that the affordability of the long-term spending implications of RRI borrowing is taken into account by the Executive and made visible to the Assembly. Both must have sight of, and understand, the implications of such borrowing and the associated long-term cost of borrowing commitments on revenue and capital budgets.

3.10 As stated in paragraph 1.4, access to borrowing and alternative funding such as PFI are important drivers for the delivery of ISNI, allowing flexibility and the potential for improved value for

46 Assumes that the Executive will access the full £200 million RRI loans in 2013-14, 2014-15 and 2015-16. The recent Economic Pact indicated that the Executive would be allowed additional £100 million borrowing power in 2014-15 and 2015-16 (£50 million per annum). Also includes the additional £50 million RRI that HM Treasury agreed could be carried forward as a result of the delay to the A5 dual carriageway scheme (see Chancellor's 2012 Autumn Statement paragraph 2.27).

Figure 5: Estimated annual costs of current RRI borrowing



Notes:

The figures provided are for planning purposes only and do not reflect Executive decisions on future borrowing levels. Full borrowing is assumed up to 2015-16. In addition interest rates for estimated future borrowing are picked at a point in time and will not fully reflect actual rates at the point of borrowing.

Source: DFP

money. We recognise that RRI borrowings normally represent the cheapest form of finance available, given the small spread to gilts and the fact that the UK Government can, generally, borrow more cheaply than any other agent in the economy. The Executive considers departmental funding through the budget process during each spending period. In our view, this process and the development of ISNI should be underpinned with a formal borrowing strategy, that is transparent to the Assembly. This will help to ensure that the costs and charges associated with borrowing are maintained at a level

Part Three:
Future financial commitments relating to Reinvestment and Reform Initiative borrowings

which is affordable for the foreseeable future.

Recent expenditure funded from RRI borrowings highlights the need for more clarity and transparency

3.11 The principal legislation[47] supporting the provision of loans made under the Reinvestment and Reform Initiative enables borrowings for the purposes of any expenditure which, in the opinion of the Secretary of State, is of a capital nature. Our review of the use made of RRI borrowing has identified instances where we have concerns whether approved RRI borrowings were indeed for expenditure of a capital nature. These are outlined in case example 1 and 2.

Case example 1:
Equal Pay awards

In the 2010-11 financial year £36.9 million was borrowed over a 25 -term period to assist with the payment of liabilities arising from Equal Pay awards. DFP told us that the Executive faced significant costs in relation to these awards. In public expenditure terms these costs were significant, exceptional and unavoidable, and would have an unacceptably adverse impact on service provision and ratepayers if attempted to be paid for within the financial year within existing budgets. As part of the solution, an agreement was secured from the Prime Minister and Chief Secretary to HM Treasury for some of those costs to be met via borrowing of up to £40 million from the RRI stream (a similar arrangement was made with local authorities in England). This was done as part of the financial package agreed in 2008. Whilst approval was received from the Secretary of State and HM Treasury who both deemed the expenditure capital in nature, in our view this expenditure was not of a capital nature, and overrides the original spirit of the RRI.

Source: NIAO

Case example 2:
Presbyterian Mutual Society

In a more complex arrangement, as part of the Spending Review in October 2010, the Chancellor of the Exchequer announced the UK Government's agreement to increase the existing RRI facility, allowing the Executive additional headroom elsewhere in its capital budget and thus facilitating a secured loan to the Presbyterian Mutual Society (PMS) of £175 million from within the Executive's budget. A significant capital funding pressure arising from the loan to PMS which could have impacted on the delivery of the ISNI's programme of work was therefore alleviated by this one off increase. We understand that the principal amount borrowed and the interest incurred will be met by the PMS and therefore has a nil cost to the taxpayer. The original payment to PMS was made by the Department of Enterprise Trade and Investment and this transaction, as well as subsequent repayments, is accounted for in its resource accounts.

Source: NIAO

47 The Northern Ireland (Loans) Act 1975 and the Northern Ireland Miscellaneous Provisions Act 2006.

3.12 At the time of the publication of our 2006 report on RRI (paragraph 1.8) the detailed working rules and mechanics of the borrowing regime had only been finalised and developed into a draft Concordat between DFP and HM Treasury. Our report recommended that the draft Concordat should be published quickly.

3.13 Since then, there have been significant changes in the mechanisms and criteria for determining the payment of RRI and other borrowings. The statement of funding policy for devolved governments published by HM Treasury in October 2007[48] provides a high level summary of how borrowing can be accessed. However, the case examples highlight the need to minimise the risk of potential misunderstandings arising and to enhance the accountability and transparency of the process to the NI Assembly.

Recommendation 7

It is important that the affordability of the long-term spending implications of RRI borrowing is taken into account by the Executive and made visible to the Assembly. The Budget sets the context and capital expenditure provision for ISNI. In our view the Budget and ISNI documents should be underpinned with a borrowing strategy that is transparent to the Assembly. **We recommend that the Budget and ISNI documents should set out clearly an analysis of the affordability of future borrowings and anticipated RRI commitments.**

48 *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy,* HM Treasury October 2007.

Appendices:

Appendix 1: (Paragraph 4)
PPP/PFI policy and management arrangements, roles and responsiblities of organisations

Policy on and implementation of Public Private Partnership (PPP) arrangements in relation to major infrastructure projects (including the Private Finance Initiative) is a cross-cutting issue involving the Office of the First Minister and Deputy First Minister, the Department of Finance and Personnel and those departments which enter into PPP agreements.

Office of the First Minister and Deputy First Minister (OFMDFM)

The **Strategic Investment Unit (SIU)** is a branch within OFMDFM's Strategic Investment, Regeneration and International Relations Division. SIU advises Ministers on the Investment Strategy for Northern Ireland, development and co-ordination of PPPs as part of the overall Investment Strategy (ISNI) and the oversight and monitoring of the Strategic Investment Board (SIB). The SIU also co-ordinates the provision of monitoring information to HM Treasury's database of UK PPP commitments. SIU acts as the sponsor branch for SIB and through that provides expertise to NI departments on PPP implementation and evaluation. The work of SIU complements that of the finance and procurement teams in the Department of Finance and Personnel.

The **Strategic Investment Board (SIB)** Limited is a professional advisory company owned by and accountable to OFMDFM working wholly in the public interest. The company was created by statute to provide a centre of excellence and expertise in project development, project management and procurement and provides guidance and support to NI departments on the appropriate use of PPP structures. SIB is responsible for developing the Executive's ISNI taking account of the availability of capital funding (as determined by DFP) and the potential for further investment in infrastructure funded through revenue budgets. The ISNI is developed in line with the Executive's priorities for investment as set out in the Programme for Government. SIB is responsible for the standard contract for PFI, ie Standardisation of PFI Contracts, Northern Ireland (SoPCNI). SIB works closely with the Central Finance Group in developing suitable PPP models that are capable of delivering value for money to the NI Executive.

Department of Finance and Personnel (DFP)

DFP is responsible for advising the Executive on the financial implications of PPP policy and the affordability of any proposed revenue funded programme in relation to the overall Northern Ireland budget, for assessing the financial costs and benefits of different types of PPP arrangement and, as part of the business case approval process, for advising on individual proposed arrangements. It also has responsibility for managing policy for the procurement of major infrastructure projects, including those procured through PPP type arrangements.

DFP Central Finance Group (CFG) has responsibility for advising the Executive on the budgetary implications of the ISNI and any revenue funded infrastructure initiatives within it. CFG advises in particular on the use of the borrowing power under the Reinvestment and Reform Initiative (RRI) and for public expenditure as a whole taking into account both RRI borrowing and the use of PPPs by departments. In addition, through DFP Supply, CFG assesses the economic appraisals of all PPP projects and projects funded through borrowing under the RRI. CFG works closely with the SIB and departments on identifying suitable PPP models and assessing their affordability.

DFP Central Procurement Directorate (CPD) has a general oversight role reporting to the Procurement Board in relation to all public procurement, including procurement of PPP type contracts and good practice in the management and assessment of contracts. CPD also operates a Gateway Review Process for all appropriate projects including PPPs, from inception to commissioning so as to ensure maximum viability of projects and compliance with best practice guidance. CPD may also undertake procurement of individual PPP contracts on behalf of the commissioning department if contracted to do so.

Departments entering into PFI agreements

Departments considering the use of PPPs to deliver major infrastructure projects are responsible for ensuring that the objectives of value for money, affordability and best practice can be met. Where a PPP project is being taken forward, the department should seek project support from the SIB and budgetary advice from DFP. The department is responsible for ensuring that it has Ministerial, Accounting Officer and DFP approval to proceed to procurement and that the agreement is procured in line with the business case. Each department is responsible for managing their long term contracts including any efficiency reviews and ensuring that the private sector partner delivers infrastructure and services to the standards contained in the contract. Departments must also ensure that any Arm's-Length Bodies procuring PPP contracts adhere to procurement requirements and manage contracts effectively. Departments and Arm's-Length Bodies entering into PFI/PPP agreements that do not use CPD as a Centre of Procurement Expertise (CoPE) must use one of the other CoPEs.

Source: DFP and OFMDFM

Appendix 2: Methodology for the Report (Paragraph 6)

Information was obtained from government departments. Given their central role we had several meetings and discussions with DFP and OFMDFM. In addition we reviewed departmental papers, circulars and guidance; HM Treasury guidance and other best practice guidance.

We also conducted a questionnaire (**Appendix 5**) to examine how PFI contracts were being managed and what attempts were being made to find operational efficiencies within PFI contracts.

Appendix 3: (Paragraph 2.5)
Summary by department and sector of the 39 operational PFI contracts

Department	Total capital costs £m	Unitary charge payment 1992 - 2012 £m	Unitary charge payment 2013 - 2018 £m	Unitary charge payment from 2018 £m	Total estimated unitary charge £m
Department Culture Arts and Leisure	14	39	2	7	**48**
Department of Enterprise, Trade and Investment - Invest NI	25	33	25	74	**132**
Department of Finance and Personnel - Land and Property Services	21	68	4	0	**72**
Department of the Environment - Driver and Vehicle Agency	16	34	20	0	**54**
Department of Justice	25	42	23	48	**113**
Department for Regional Development - Roads Service	343	130	234	1,233	**1,597**
Department of Education	824	485	391	1,093	**1,969**
Department for Employment and Learning - Further Education Colleges	150	196	153	669	**1,018**
Department of Health, Social Services and Public Safety - Health and Social Care Trusts	338	146	172	752	**1,070**
Northern Ireland Water Ltd	244	205	239	763	**1,207**
Total	**2,000**	**1,378**	**1,263**	**4,639**	**7,280**

Source: NIAO adapted from HM Treasury, March 2012

Appendix 4: (Paragraphs 2.5 and 2.14)
Overview of UK operational PFI portfolio at March 2012[49]

	Northern Ireland	Scotland	Wales	England	Total
Number of Projects	39	85	24	569	717
Capital cost (£billion)	1.9	5.7	0.5	46.5	54.6
Total estimated PFI payments (£billion)	7.2	30.8	2.8	260.6	301.4
Total estimated future PFI payments (£billion)	6.1	25.3	2.0	208.5	241.9
% of current commitments paid to date	15.2%	17.8%	27.9%	20%	
Total estimated committed cost per head[50]	4,000	5,811	903	4,917	
Total estimated future cost per head[49]	3,444	4,815	653	3,933	

Source: HM Treasury, March 2012 [51]

49 These figures include all signed PFI contracts to March 2012.

50 Based on Office of National Statistics population statistics 2010, reporting populations for Northern Ireland (1.8 million); England (52.2 million); Wales (3 million) and Scotland (5.2 million).

51 This data is unaudited and submitted to HM Treasury by individual departments. Future costs are estimated due to the fact that variances will arise due to changes in the service requirements agreed during the life of the contracts. They may also vary as a result of the early termination of a contract, through the failure of the supplier to meet the required performance targets, or variances in actual interest rates and interest rate assumptions.

Appendix 5: (Paragraph 2.16)

Questionnaire issued to the contract managers for the 39 operational PFI projects (February 2013)

	Question
1.	Have any PFI/PPP project contract reviews aimed at identifying operational savings been undertaken? If so can you please provide a copy
2.	**If no**, please outline any reasons why. If it has been considered but decided against then please provide the relevant documents.
3a.	**If yes**, please outline any outcomes resulting in and, including any potential savings identified and/or achieved to date, and the area in which they were identified or made. For example: contract terms; contract management; financing; operational service; or non-operational service.
3b.	**If yes**, please outline any examples of good practice and learning the review identified which could be shared.
3c.	**If yes**, please outline any specific barriers identified to achieving savings.
3d.	**If yes**, please outline whether any review has resulted in any formal negotiations with the PFI/PPP partner aimed at reducing unitary charges, the process undertaken, and the outcome/savings realised.
4.	Has there been any other review or revision to the management of existing contract terms since project signature? For example: changes to contract management arrangements including: the level of checking undertaken, reviews of invoicing or payment mechanism, the level of resources and/or the mix of skills and experience in the team available, assistance, guidance and training required and provided. If so please provide details and outcome.
5a.	Please outline any mechanism within the agreement which demonstrates continuing value for money. For example: benchmarking, reviews of service requirements and specifications, value testing points, market testing dates etc.
5b.	If any of the above has been carried out please outline the process and outcomes.
6.	Have there been any significant changes to the services and/or assets provided since the PFI/PPP project signature? If so please provide details.
7a.	Does your organisation have any concerns in relation to the future affordability of PFI contracts and/or the impact that these commitments may have on future service delivery or capital projects?
7b.	Has the (potential) impact of future PFI/PPP project commitments on capital investment or service delivery been assessed? If yes, please outline and provide any work done specifically to assess this.
8.	We would also welcome any other comments that you may have in relation to this area. We are particularly interested in identifying, sharing and disseminating any lessons learned or best practice you may wish to share.

Appendix 6: (Paragraphs 2.17 and 2.18)
Analysis to response to NIAO questionnaire issued to PFI contract managers (February 2013)

In February 2013 we issued a short questionnaire (**Appendix 5**) to the contract managers of each of the 39 operational PFI projects in Northern Ireland. Set out below are areas for potential efficiencies and savings; potential barriers to achieving them; and lessons learned and best practice identified by respondents.

Key findings from review of Questionnaire responses:

- PFI/PPP project contract reviews were reported as having been undertaken. However the nature of the processes and frequency of reviews varied;
- Only a small number of reviews were full contract reviews carried out in line with HM Treasury issued best practice guidance *(Making savings in operational PFI contract, 2011).* Reviews reported included: post project reviews; audit reviews; regular meetings with contractor; benchmarking; and contract management reviews;
- Whilst many respondents reported that savings had been identified they were not always quantified;
- A number of mechanisms were available within contracts to facilitate continuing value for money. Examples included; benchmarking; reviews of service requirements and specifications; value testing points; and market testing dates;
- There have been little or no significant changes to the services and/or assets provided since contract signature;
- There was interest in learning from other organisations in relation to service reviews initiatives;
- The current exposure to PFI liabilities potentially impacts on future capital planning and service delivery;
- One respondent expressed concerns that in the longer term, there is a potential risk that the overall funding envelope for other services could be reduced as an unavoidable cost and also given the potential impact of accounting and budget guidance;
- One respondent reported that changes to the PFI accounting arrangements in 2011 had a significant impact on reported results and solvency. Without sponsoring department support current commitments would impact very significantly on future service delivery and capital projects; and
- Increasing proportions of resource budgets contractually committed through PFI contracts renders other services more vulnerable in the event of 'top-sliced' budget reductions.

Areas for potential efficiencies and savings identified by respondents:

- Space utilisation reviews considering how areas were used;
- the use of spare capacity and scope for re-use by the organisation or by other statutory organisations;
- Utilities; energy costs; insurance costs;
- Value testing through benchmarking and market testing; and
- Monthly review of performance levels and deductions resulting in re-negotiated levels of service, deriving reductions in Unitary Charges.

Potential barriers to efficiencies and savings identified by respondents:

- Value testing may actually result in payment increases;
- Impact on quality of service provided or performance;
- Contract management team must have the specialist knowledge and experience to enable technical opportunities and cost reductions to be identified and assessed, and apply the correct change mechanisms and manage any value risk associated;
- The organisation may be left in a vulnerable position after contract signature if the knowledge and records about the contract within the organisation is not retained; especially given the use of advisers and if original members of the team responsible for the contract are no longer with the organisation;
- 'Steady state' expectations of the private sector. Contracts have been signed which guarantees the contractors a return which they are unlikely to voluntarily give up. Entering into negotiations with contractors after contract signing without any competitive pressures is unlikely to achieve value for money savings. Contractors may be further uninterested in change from steady state service provision due to the lack of future competitions in the market;
- Value for money needs to be considered when considering the cost-benefit analysis of implementing changes to the contract. However early PPP contracts have low levels of cost transparency which makes it difficult to obtain a full understanding of full costs of service; and
- Attempts to establish a PPP Operational Contract Managers Forum for NI PPP sector, with a view to sharing experiences and knowledge establishing best practice techniques have not been successful. Most Departments showed little commitment, and time/ information constraints prevented progressing the forum concept further.

Appendix 6: (continued) (Paragraphs 2.17 and 2.18)

Lessons learned and best practice identified by respondents:

- Available guidelines detailed in the 2011 HM Treasury best practice guidance *(Making savings in operational PFI contract)* provide a framework for full contract reviews;
- Project teams may benefit from an accessible central pool of specific technical legal and financial expertise;
- The use of an independent benchmarking feasibility review exercise may inform the scope and potential outcome ahead of undertaking value testing;
- There are significant potential benefits to be gained from involvement with other contract managers and best practice groups with a view to sharing experiences and knowledge, and establishing best practice techniques on approaches to securing and improving upon the procured value of PPP contracts;
- Ensure a dedicated and well resourced Contract Management Team with a clear understanding of the project agreement is in place to ensure key processes and systems are in place for effective contract management; including the specialist discipline experience relating to the core services to enable technical opportunities to be identified and assessed;
- The importance of retaining and transferring the knowledge and records about a contract within the organisation; and
- Need to cultivate a culture of improvement through change. Regular monitoring meetings with operator and reports to management focusing on key areas of change on an on-going basis such as:
  - Energy monitoring and auditing to reduce energy consumption;
  - Change in Service: Termination Full/Part; Service Standards and measurement frequency;
  - Strict enforcement of terms of project agreement including life cycle costs and maintenance and applying associated performance reductions levies; and
  - Refinancing.

Appendix 7: (Paragraph 3.8)

Cost of RRI loan borrowing repayments – principal and interest elements (based on actual borrowing to June 2013)

	Actual Repayments									Forecast		
	2003-04 £m	**2004-05 £m**	**2005-06 £m**	**2006-07 £m**	**2007-08 £m**	**2008-09 £m**	**2009-10 £m**	**2010-11 £m**	**2011-12 £m**	**2012-13 £m**	**2013-14 £m**	**2014-15 £m**
Principal	0	2.0	4.4	10.2	15.4	17.6	19.0	22.3	24.6	46.1	57.5	59.7
Interest	1.8	7.5	15.0	23.9	31.3	32.3	34.3	36.3	40.3	45.4	45.7	43.5
Total	**1.8**	**9.5**	**19.4**	**34.1**	**46.7**	**49.9**	**53.3**	**58.7**	**64.9**	**91.6**	**103.2**	**103.2**

Source: Department of Finance and Personnel

Appendix 8: (Paragraph 3.8)
Overview of RRI term loans

Term Years	2003-04 £m	2004-05 £m	2005-06 £m	2006-07 £m	2007-08 £m	2008-09 £m	2009-10 £m	2010-11 £m	2011-12 £m	2012-13 £m	Total £m
25	76.1	167.0	160.2	214.2	97.6	16.6	113.1	36.9	179.8	89.7	**1151.1**
15	1.0	1.0	2.3	0.5	0	0	0	0	20.2	0	**25.0**
10	0	0	0	0	0	0	0	0	175.0	61.2	**236.2**
7	2.3	0.7	0.5	0	0	0	0	0	0	0	**3.5**
Total	**79.4**	**168.7**	**162.9**	**214.6**	**97.6**	**260.0**	**246.0**	**236.9**	**375.0**	**150.9**	**1992.2**

Source: Department of Finance and Personnel

NIAO Reports 2013

Title	Date Published
2013	
Department for Regional Development: Review of an Investigation of a Whistleblower Complaint	12 February 2013
Improving Literacy and Numeracy Achievement in Schools	19 February 2013
General Report on the Health and Social Care Sector by the Comptroller and Auditor General for Northern Ireland	5 March 2013
Northern Ireland Water's Response to a Suspected Fraud	12 March 2013
Department of Culture, Arts and Leisure: Management of Major Capital Projects	22 March 2013
Sickness Absence in the Northern Ireland Public Sector	23 April 2013
Review of Continuous Improvement Arrangements in Policing	3 September 2013
The Agri-Food and Biosciences Institute (AFBI)	12 September 2013
Tackling Social Housing Tenancy Fraud in Northern Ireland	24 September 2013
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