Northern Ireland Audit Office

Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 79 , Session 2006-07, 7 December 2006

Cover Photograph: Construction on the M1/Westlink, Belfast (Private Finance Initiative Project) 2006

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Northern Ireland Audit Office

Report by the Comptroller and Auditor General
for Northern Ireland

Ordered by the House of Commons
to be printed 5 December 2006

Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure

HC 79 London: The Stationery Office £18.00

This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the House of Commons in accordance with Article 11 of that Order.

J M Dowdall CB
Comptroller and Auditor General

Northern Ireland Audit Office
5 December 2006

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Abbreviations

DBFO	Design, Build Finance and Operate
DHSSPS	Department of Health, Social Services and Public Safety
DEL	Departmental Expenditure Limits
DFP	Department of Finance and Personnel
EU	European Union
ICT	Information and Communications Technology
NIAO	Northern Ireland Audit Office
NAO	National Audit Office
NDPBs	Non-Departmental Public Bodies
NLF	National Loans Fund
OFMDFM	Office of the First and Deputy First Ministers
OGC	Office of Government Commerce
PSA	Public Service Agreement
PFI	Private Finance Initiative
PPP	Public Private Partnership
RRI	Reinvestment and Reform Initiative
SIB	Strategic Investment Board Ltd

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Executive Summary

M1/Broadway Roundabout, Belfast

Executive Summary

1. The Reinvestment and Reform Initiative is a major step towards putting in place a co-ordinated and sustainable approach to improving Northern Ireland's public infrastructure and addressing a backlog of investment. The Investment Strategy for Northern Ireland, published in December 2005, is an integral part of the Reinvestment and Reform Initiative and sets out a 10 year potential investment programme of up to £16 billion over the period 2005-2015. It is intended that this investment will be met largely through conventional government funding. However, it is envisaged that the Department of Finance and Personnel will also make use of new borrowing facilities which give access to potential borrowings of up to £2 billion to fund part of the investment. In addition, the Private Finance Initiative (PFI) could meet up to one quarter of the investment.

2. The publication of the Investment Strategy has raised expectations and it is important that these are met, particularly given the strong link between investment and increases in the Northern Ireland Regional Rate and forthcoming introduction of water and sewerage charges. A factor in the success of the Strategy will be the need for close co-operation between the public sector and the business community. It will also depend on the development of the capability and capacity of the public sector and the construction industry working alongside partners and professionals both here, in Great Britain, the Republic of Ireland and further afield.

3. Although implementation of the Investment Strategy is at an early stage, because of its significance, both in terms of reforming public services and value, we felt that it was appropriate to produce an informative report which:

- sets out the background to the Reinvestment and Reform Initiative and the role of the Strategic Investment Board Limited (SIB) in its implementation;
- examines the relationship and importance of sound investment planning in the development of the Investment Strategy;
- looks at the steps being taken to identify and address the risks and obstacles to delivering the Investment Strategy;
- outlines how the Strategy will be funded, in particular how long-term commitments arising from borrowings and the use of PFI impact on future affordability and are being reported to Parliament/Northern Ireland Assembly; and
- how delivery of the strategy will be monitored and reported.

4. Our report does not consider the effectiveness of the Strategic Investment Board or examine the value for money of the individual projects that make up the Investment Strategy. However, given the significance of the Strategic Investment Board's role and material value of the Investment Strategy, it is our intention to monitor delivery and report on progress as necessary.

5. Our review has been based on meetings and discussions with senior officials in the Departments of Finance and Personnel, the Office of the First Minister and Deputy First Minister and the Chief Executive of the Strategic Investment Board and review of relevant publications and Departmental and Strategic Investment Board papers. We are also grateful to the Construction Employers Federation for their comments and for the constructive advice and comments provided by John Simpson, economist and commentator, who acted as our reference partner on this report.

Main Findings and Recommendations

6. The Reinvestment and Reform Initiative, in particular, the access to a new borrowing facility, is a unique approach to tackling the long-standing infrastructure problems in Northern Ireland. The Strategic Investment Board is adding a professional dimension to planning and delivering government capital programmes and the Investment Strategy, with its focus on outputs, is a good initial approach in trying to secure long-term value for money. This report, while primarily informative, has a number of recommendations which we believe will improve delivery and secure increased transparency through full public awareness as to the application of the available funding.

On the Reinvestment and Reform Initiative and role of the Strategic Investment Board (Part 1)

7. Ultimately, responsibility for the delivery of capital investment programmes and projects rests with the relevant Departmental Accounting Officers. However, the Strategic Investment Board has a significant role and responsibility in delivering the Reinvestment and Reform Initiative and advising on, the investment programme. The Board set itself a number of challenging objectives and milestones for specific projects supported by it. It has also made significant progress in developing its relationship with departments, getting projects to market and in publishing the Investment Strategy. Nevertheless, it needs to develop, in liaison with its sponsor the Office of the First Minister and Deputy First Minister, more objective-related performance management systems to enhance accountability and performance management.

On Departmental Investment Plans (Part 2)

8. The Investment Strategy represents a ten-year strategic view of public infrastructure investment. It is based on Departmental Investment Proposals produced, with assistance from the Strategic Investment Board, by Northern Ireland departments for the first time in 2004. We examined a number of these and found variances in the quality and quantity of the information contained in them. The better proposals, such as that produced by the Department of Health, Social Services and Public Safety, were well articulated, took a long-term view and linked decisions on funding investment to policy objectives and targets. In contrast, proposals for a number of departments were lacking in content and did not, in our opinion, fully consider long-term infrastructure planning or clearly outline a coherent strategy for the management of existing departmental assets.

9. The guidance issued by SIB to departments envisaged that each department would produce a final investment plan on agreement of the Investment Strategy. Our understanding is that not all plans were finalised. The planned review of the current Investment Strategy in 2007 offers an opportunity to strengthen infrastructure investment planning and delivery processes across government. It is important that, going forward, investment plans are developed for each sector to show, as part of the justification for an investment, a clear link between a programme or project and the anticipated contribution to delivery of priority outputs and outcomes in Public Service Agreements and other strategic documents. This, we believe, is best achieved through their publication and through their incorporation into the respective departmental business plans, thereby increasing clarity and accountability for the delivery of public services.

On delivering the Investment Strategy (Part 3)

10. Delivering the Investment Strategy is dependent on developing capability, increasing competition and improving long-term capacity planning. A capacity study of the construction industry, commissioned jointly by the Strategic Investment Board and the Office of the First Minister and Deputy First Minister, highlighted concerns about the public sector’s capacity and ability to implement the Strategy within the required timescale, particularly at the same time as it was experiencing major structural reform, and the constraints associated with the planning process. The study also highlighted that the Investment Strategy is a major challenge for the local construction industry. Challenges include the availability of an adequate and appropriately skilled workforce, qualified supply of construction professionals, the availability of skilled and experienced managers to deliver complex projects and financial resources (balance sheet strength) to fund the programme. An internal review of the skills base and capacity within the public sector is currently underway.

11. In addressing the private sector’s concerns, the development and publication of the Investment Strategy, complemented by more detailed investment plans for each sector would, in our opinion, help create more certainty in the market, with longer term funding and programme planning. This should be supported by a coherent strategy and mechanisms for communicating with key stakeholders over the lifetime of the Investment Strategy.

12. Current UK practice is a three-year capital budget horizon. However, on major construction programmes, three-year planning horizons are rarely sufficient. Five-year programmes represent good practice; this is the approach used in the Republic of Ireland where departments have five-year capital funding envelopes.

13. The capacity study acknowledges that mechanisms will be required to track progress against identified actions and monitor the achievement of targets (see paragraph 3.20). Given the importance of developing and maintaining interest in a programme as ambitious as the Investment Strategy, we consider that the process should also be subject to periodic independent review.

14. User involvement in design will also be key to the success of many of the Investment Strategy projects. This applies to both PFI and traditional procurement. We note that, in relation to PFI, HM Treasury is keen to drive down design costs and to ensure that projects are analysed for affordability before procurement. This requires a clear idea of design specification, which HM Treasury believes can be achieved through clients taking more of a lead in design. The Royal Institute of British Architects has suggested the use of Exemplar Design in PFI schemes. This has been successfully piloted in the £63 million Belfast City Hospital Cancer Centre, which was funded through a mix of PFI and traditional procurement.

On funding the Investment Strategy (Part 4)

15. To minimize the cost to taxpayers it is important that the use of borrowing is carefully considered and monitored. Our review found that, despite a history of significant departmental capital under spending, the Department of Finance and Personnel (DFP) has borrowed £411 million up to the end of 2005-06. This suggests to us that, if more effective Departmental Investment Plans and systems for managing and planning capital investment programmes had been in place, a significant proportion of this borrowing could have been avoided. Should DFP access the full amount of borrowing available to Northern Ireland, repayments are likely to peak at approximately £137 million a year between years ten and twenty five. Based on a current Northern Ireland population of 1.7 million, this equates to potentially £80 a year per head of population. PFI/PPP agreements signed to date commit Northern Ireland to meeting £1.5 billion by way of unitary payments.

16. Our review has highlighted scope for improving the information on the Reinvestment and Reform Initiative provided to Parliament/Northern Ireland Assembly. For example, to present both Parliament and taxpayer with a clear picture of all future commitments, we recommend that PFI and Reinvestment and Reform Initiative borrowing commitments are reported together. This should be presented at both departmental and summary level. Consideration should also be given to re-producing this information in the Priorities and Budget document, Estimates volume and as part of an annual report on progress in implementing the Investment Strategy.

17. We also found that unused borrowings and "banked qualifying revenue" (i.e. rate income in excess of that required in any given year to access the maximum £200 million borrowing) can be rolled forward for use in subsequent years. These are currently not reported or disclosed to Parliament. We recommend that undrawn borrowings (currently £114 million) and "banked" qualifying revenue (currently £77 million) should be reported annually to Parliament/Northern Ireland Assembly, through the Public Income and Expenditure Account.

Summary of Recommendations

On the role of the Strategic Investment Board Limited

1. HM Treasury guidance should form the basis on which SIB, in liaison with the Office of the First Minister and Deputy First Minister, develop its performance information systems.

On Departmental Investment Plans

2. Investment Plans for each sector should be produced to complement the Investment Strategy. These should show, as part of the justification for an investment, a clear link between a programme or project and its anticipated contribution to the delivery of priority outputs and outcomes in Public Service Agreements and other strategic documents.

3. Investment plans should contain a statement recognising that responsibility for delivery rests with the Departmental Investment Board chaired by the Permanent Secretary.

4. DFP should review the current GB Gateway guidance and amend thresholds to reflect the relative risks and values of projects in the Northern Ireland context.

5. Investment plans should contain an assurance, from the relevant Accounting Officer, that the Gateway Review process will continue to be applied to those projects for which funding is being sought.

6. Investment plans should include the outcome of Gateway reviews together with an indication of whether Department of Finance and Personnel approval for a programme or project has been obtained.

7. For those programmes and projects involving PFI, Investment Plans should confirm that HM Treasury guidance on the assessment of value for money has been applied.

8. Investment Plans (as in the rest of the United Kingdom) should be published.

On delivering the Investment Strategy

9. We concur with the Capacity Study recommendation that tracking progress against actions and the achievement of targets should be monitored on a six-monthly basis with a summary progress report presented as part of an annual Investment Strategy progress update.

10. Given the importance of developing and maintaining interest in a programme as ambitious as the Investment Strategy, the process of monitoring and reporting should also be subject to periodic independent review.

On funding the Investment Strategy

11. With regard to borrowings, the draft Concordat produced by DFP and HM Treasury should be published quickly to minimize the risk of potential misunderstandings arising and enhance the accountability and transparency of the process.

12. HM Treasury and DFP should review the methodology for calculating annual interest charges to satisfy themselves that future Resource Account disclosures will be fairly stated.

13. All Reinvestment and Reform Initiative borrowing commitments, receipts and repayments should be disclosed separately in the Public Income and Expenditure Account. Furthermore, in addition to reporting projects funded from borrowings, the Supporting Statements to Annual Departmental Estimates should provide a breakdown of all planned infrastructure programme expenditure i.e. those funded from mainstream, PFI/PPP and Reinvestment and Reform Initiative borrowings.

14. To improve transparency, undrawn borrowings, currently £114 million, and "banked" qualifying revenue, currently £71 million, should be reported annually to Parliament/Northern Ireland Assembly, in the Public Income and Expenditure Account.

15. To present both Parliament and taxpayer with a clear picture of all future PFI and Reinvestment and Reform Initiative borrowing commitments should be reported together through biannual reports to Parliament. Consideration should also be given to re-producing this information in the Estimates volume and as part of an annual report on progress in implementing the Investment Strategy.

Main Report

The £104 million M1/Westlink Project: Artist's Impression of the planned improvements to the Broadway Junction, Belfast (Courtesy of Roads Service NI)

Part 1

The Reinvestment and Reform Initiative aims to address a £6.8 billion backlog in infrastructure investment and improve peoples' lives

1.1 In May 2002, the Office of the First Minister and Deputy First Minister and Department of Finance and Personnel published a report, "Review of Opportunities for Public Private Partnerships in Northern Ireland"[1]. The report recognised that the provision of an effective and efficient level of public services is essential for both an economy and its citizens to function effectively, particularly in terms of those most disadvantaged in society. However it identified an investment deficit of £6.8billion[2] over the following decade in public service infrastructure and estate. If addressed, the report considered that this had the potential to provide a number of direct benefits such as improved water quality, better health outcomes and improved life expectancy, increased education levels, targeting of social need and physical infrastructure, as well as employment.

1.2 The report's publication coincided with the announcement in May 2002 of the Northern Ireland Reinvestment and Reform Initiative (RRI). The key features of the Initiative were;

- £200 million[3] for investment over the period 2002-03 and 2003-04. This comprised a temporary borrowing power of £125 million[4] and £75 million from end year flexibility and other under spending by Northern Ireland Executive Departments (excluding the Northern Ireland Office);
- from 2004-05, a new longer term borrowing facility, initially capped at £200 million a year, to give the Executive the option of using additional revenue sources to lever in low-cost borrowing (see Appendix 1);
- establishment of a strategic investment body (see paragraph 1.8) to deal with the new source of borrowing and help lever in new sources of private finance and as a focus for expertise and planning;
- a programme of Public Service reform to secure greater expertise and effectiveness; and
- the transfer to the Executive, from the Ministry of Defence and Northern Ireland Office, of a number of military bases and security sites, free of charge, for the economic and social regeneration of local areas. The initial sites identified were Ebrington Barracks in Londonderry, Crumlin Road Gaol, the Maze Prison and the adjacent Ministry of Defence site at Long Kesh, and security force bases at Magherafelt, and Malone Road, Belfast (see Appendix 2).

The Strategic Investment Programme set out plans for potential investment of around £2billion

1.3 The Strategic Investment Programme was launched, as part of the Budget[5] announcement in December 2002, as the next phase of the Reinvestment and Reform Initiative. It set out plans for potential investment of around £2 billion over the five year period to 2007-08. This included £725 million of Public Private Partnership projects and £400 million of borrowing from the longer term borrowing power under the Reinvestment and Reform Initiative.

1.4 Further details of the five year Programme, by category of project, were announced in February 2003 with the involvement of the Strategic Investment Board (SIB). Projects were set out in three categories, depending on the likely procurement approach;

- for Category 1 projects, value £800 million, SIB would advise on how best to proceed i.e. by conventional procurement or by public private partnership. The underlying assumption was that these projects could be fully covered within a five-year financial horizon. Projects in this category covered health, emergency services, water and sewerage, transport and roads;

1 Review of Opportunities for Public Private Partnerships in Northern Ireland - OFMDFM May 2002.

2 Based on Northern Ireland departmental capital baseline funding for 2001-02 and 2002-03, extrapolated for the subsequent eight years to give a ten-year baseline of £7billion (excluding executive programme funds) compared to overall forecast investment need for the same ten-year period (£13.8billion).

3 Increased to £270 million in July 2002 through the allocation of a further £70 million from the previously established Infrastructure/Capital Renewals Executive Programme Fund.

4 Re-payable from existing regional rate income.

5 "Building on Progress" - Priorities and Plans 2003-06.

- Category 2 projects, value £785 million, would proceed through a Public Private Partnership for which provisions for the service payments would be required. Projects in this category covered libraries, schools infrastructure, hospitals, community health services, accommodation projects, waste water treatment works, roads and pilot rapid transit scheme for greater Belfast; and
- Category 3 projects, which were already well advanced, value £550 million, would proceed by conventional procurement. These were primarily in the education field but also included water and sewerage, transport and roads and actions to alleviate fuel poverty and provide special accommodation to alleviate homelessness.

1.5 Resources amounting to some £583 million for the period up to 2005-06 were set aside in the Revised Budget presented in December 2002. Within this overall figure more than £180 million was to be met from the Departmental Expenditure Limits[6], and a further £400 million financed from borrowing under the Reinvestment and Reform Initiative supported by additional revenue from the rating of vacant property[7] and the beginning of the phasing out of industrial de-rating. This was expected to be sufficient to fund fully the vast majority of these projects over the years from 2003-04 to 2005-06. Provision for the years 2006-07 and 2007-08 was to be allocated in future budget rounds.

1.6 Access to borrowing was conditional on closing the gap between local revenue levels in Northern Ireland (District and Regional Rates) and England (Council Tax and the National Non-Domestic Rate)[8]. In addition to increases in the level of rates, the gap could also be closed by the additional revenue flowing from rating policy changes, such as the phasing out of industrial de-rating.

6 Departmental Expenditure Limits (DEL) - Fixed three year spending plans controlled directly by Departments
7 The original policy proposal was to rate all vacant property however, following a consultation exercise it was announced in April 2003, that this would be introduced from 1 April 2004 for non-domestic properties; a decision to extend it to domestic properties would be addressed through the wider reform of the domestic rating system.
8 Based on information provided by the Department of Finance and Personnel, for 2005-06 the average domestic rates bill in Northern Ireland is £668 compared to an average Council tax bill in England of £1,056.

1.7 The Strategic Investment Programme was subsequently subsumed within the longer term Investment Strategy for Northern Ireland. Work on the Investment Strategy was led by the Strategic Investment Board, with a draft published in December 2004 and a final version in December 2005.

The Strategic Investment Board was established to ensure that the Reinvestment and Reform Initiative is planned and delivered in a co-ordinated way

1.8 In its report into the use of Public Private Partnerships, published in July 2001, the Northern Ireland Assembly's Committee for Finance and Personnel recommended the establishment of a central investment board or procurement body to become a centre of excellence on investment and procurement. SIB operated in "shadow form" until April 2003 when it was established as a company limited by guarantee following the enactment of the Strategic Investment and Regeneration of Sites (Northern Ireland) Order 2003. It acts as an expert body advising the Northern Ireland Executive in relation to the formulation and implementation of its programme of major investment projects. In addition, it advises and assists bodies carrying out major investment projects including providing research, consultancy, advisory and other services and general assistance, and in some cases participating, by agreement with those bodies, in the carrying out of such projects. The legislation places a duty on these bodies to facilitate SIB in exercising its strategic investment functions, to co-operate with it and to have regard to its advice. Examples of the support provided to Departments by SIB are outlined in case studies 1 to 3.

The Strategic Investment Board set itself a number of challenging objectives

1.9 SIB produced its first Business Plan in 2003-04 which set a number of challenging objectives. These fell into three categories:

- the establishment of SIB with management policies appropriate to SIB's role; the transition from an organisation staffed largely by secondees with international experience of public private partnerships to one where the majority of its resources are provided by employees in future years. In terms of current staffing, SIB is actively engaged in a recruitment programme aimed at increasing its staffing from 17 to 27, including increases in the number of strategic advisers;
- the delivery of the SIB supported projects and the project milestones, the preparation of an interim Executive Investment Strategy by March 2004, which is consistent with the longer-term objectives for the strategic investment future for Northern Ireland and the budgetary processes within government; and
- to contribute to the Reinvestment and Reform Initiative – including the review of the business cases for investment projects and advice on the most appropriate procurement method; initiate development of a market for private investment in Northern Ireland; the stimulation of the local skills necessary for the supply and operation of the public infrastructure; a reduction in transaction costs through contract standardisation.

SIB recognises the importance of measuring its effectiveness

1.10 The SIB Business Plan for 2003-04 recognised the importance of including long term indicators of effectiveness to enable SIB's sponsor department, the Office of the First Minister and Deputy First Minister, and others to assess its contribution to the Reinvestment and Reform Initiative. The key indicators identified by SIB covered:

- **Quality** – better use of scarce public sector capital and the creation of a market for private sector investment. A more efficient allocation of risks within projects and well managed procurement resulting in lower transaction costs, and sufficient compliant bids for effective competition;
- **Scale** – the size and percentage of private sector investment as a proportion of total investment, better value for money from public spending, the number and value of SIB-supported projects; and,
- **Timing** – acceleration of investment and the reduction in the procurement timetable against comparable projects in the UK and past experience in Northern Ireland.

As a delivery body, SIB's focus is on outputs, primarily the delivery of supported projects. Its 2005-06 Annual Report provides a list of projects, combined value in excess of £4 billion, with which it has been involved (see Appendix 3). These cover priority areas such as health, education, roads and water, as well key government reform projects such as the Electronic Human Resource (eHR)[9] contract and the Northern Ireland Civil Service accommodation project (Workplace 2010).

1.11 Other outputs to date include the publication, in December 2004, of a draft Investment Strategy for Northern Ireland (see paragraph 1.7). Following an extensive period of consultation the final version was published in December 2005 alongside the Priorities and Budget. The results of our review of the development of the Investment Strategy are contained in Part 2 of this report.

1.12 While outputs are important, another key measure of effectiveness is the achievement of milestones set for individual projects on which SIB is advising departments. Appendix 4 sets out the project milestones included in SIB's 2003-04 Business Plan. The original timeframes estimated for the delivery of some key projects has slipped (for example the new South-West Acute hospital). Our review, however, suggests that the reasons for this were outside SIB's direct control. Nevertheless, we consider that, having agreed these targets with SIB, the Office of the First Minister and Deputy First Minister, as sponsor department, should have required SIB to report on this aspect of its performance in its Annual Reports.

9 The eHR project involves the creation of a shared service centre for Human Resource services and replacement of the existing payroll bureau service to a fully managed service; the creation of a new human resource management information system which will allow self service for information and transactions (eg sickness absence, personal data) by means of an intranet portal. The appointed strategic partner will also provide casework support (for example, discipline and grievance).

Case Studies 1 to 3: SIB Support of Projects

ALPHA PPP PROJECT – NORTHERN IRELAND WATER SERVICE

The Challenges

Northern Ireland's drinking water, although safe to drink, requires further quality improvements to make it compliant with EU standards. Water Service currently operates under Authorised Departures and as these may be renewed up until late 2009, failure to meet new standards is likely to result in infraction fines amounting to millions of euros per day. Further investment and upgrades are also required to meet EU compliance in the area of wastewater treatment and sludge management. Some infrastructure and technology used in water and wastewater treatment is also nearing the end of its useful life and requires urgent replacement. In addition to this programme of required change, Water Service is also implementing a process of reform which will change it from being an agency of government and a branch of the Civil Service, to a self financing organisation. Water charging and economic regulation will be introduced as part of this reform process.

Public Private Partnership (PPP) Programme - Preparation and Development

SIB was able to add value and contribute positively to Water Service's PPP Programme, almost from its inception. The Water Service's Engineering and Procurement Directorate manages the publicly funded infrastructure development programme. However, a similar specialist unit was required within Water Service to successfully deliver what would be a complex and challenging PPP Programme. SIB ensured that this critical point was understood by all stakeholders and was able to advise Water Service on the need for such a unit, and the skills and competencies required. The PPP Unit was formed with an SIB Adviser taking the role of Programme Director for a period of eight months until a full time Director was appointed.

Various individual projects were identified as being suitable for inclusion in the PPP Programme and various combinations of procurements were discussed. It was finally agreed that the optimum procurement strategy for the PPP Programme would put all drinking water projects into a single procurement vehicle 'Alpha' and all waste water projects into another 'Omega'. The PPP Programme, comprising Alpha and Omega, was estimated at around £260m. Early market sounding exercises were conducted to establish the global appetite for the projects, and the capability of companies to deliver such investments. There was also a perception that the Northern Ireland system may not have the capacity to deliver such a challenging and complex PPP Programme. Through SIB, considerable effort was made in opening dialogue with potential investors; this was achieved and interest secured.

Both PPP Projects were to be staggered, the Alpha Project being the first to begin. This reduced the pressure on the limited pool of potential bidders allowing Water Service to achieve strong competition. This approach proved highly successful. For Alpha, and later for Omega, this resulted in the receipt of expressions from six internationally recognised consortia. Bids were invited from four of these and four strong and compliant bids were received.

Programme Governance

From the beginning, Water Service and SIB recognised that a structured governance process needed to be established to ensure strong programme management, effective decision making and successful delivery against challenging timescales. Initially, a Supervisory Board was formed with responsibility for decision making prior to the establishment of a more streamlined process aligned with the specific needs of the PPP Programme. An Investment Decision Maker Panel was formed with responsibility for decision making and approval at key milestones. The Investment Decision Maker Panel includes the Chief Executive of Water Service as Senior Responsible Owner, Permanent Secretary of the Department for Regional Development, Permanent Secretary of Department of Finance and Personnel and the Chief Executive of the SIB. Ongoing decision making was the responsibility of the PPP Programme Board and the PPP Programme Director. The PPP Programme Board met on a 4-6 weekly basis (or more regularly if required) and was chaired by the Water Service Chief Executive. The Board comprised senior representatives from Department for Regional Development, Department of Finance and Personnel, Department of the Environment and SIB, as well as key stakeholders from the Water Service Board.

Alpha Project Procurement

Procurement of Alpha proceeded broadly to the original timetable and included key decisions about wider PPP issues such accounting treatment (Alpha Project will be "on-balance sheet") and value for money assessment. SIB played a key role in providing advice for these decisions and, together with the strength of the governance arrangements put in place, these issues were appropriately resolved. An Evaluation Committee was formed for assessment of bids at Prequalification and Invitation to Negotiate stages. The Committee included representatives from Water Service and SIB. Based on a comprehensive evaluation at Invitation to Negotiate stage, this Committee was innovative in recommending the removal of the 'Best and Final Offer Stage', providing benefits in terms of time to compliance (and reduced infraction risk) and costs/time for procurement.

Outcome

Following the outstanding response from the global PPP marketplace and consortia comprising all the major international players, the Dalriada Water consortium was appointed Preferred Bidder in September 2005. This consortium, which includes the Kelda Group and Farrans, provided significant value for money and affordability with savings of more than 25 per cent below the benchmark set by the Public Sector Comparator. Since the project will be classed as 'on balance sheet' for accounting purposes, the investment value of almost £50m less than that envisaged by the Public Sector Comparator means that an equivalent amount can be released for use elsewhere in the public sector. Contract Award / Financial Close for the Alpha Project, which is the first drinking water PPP project of its type in the UK, took place on 30 May 2006.

SIB continues to provide advice and guidance to Water Service and the Department for Regional Development about the Omega PPP Project which involves waste water treatment and sludge management. The Preferred Bidder for this complex project was appointed in January 2006. Contract Award / Financial Close is scheduled by the end of 2006.

Source: SIB

Case Studies 1 to 3: SIB Support of Projects contd.

INVEST NI BUILDING – BELFAST CITY CENTRE

The Challenge

Invest NI, the region's economic development agency, as a result of the merger of legacy organisations, was operating on three separate main sites across the greater Belfast and Lisburn areas. As an integral part of the business case for the merger Invest NI sought consolidation of all its activities into one location in the Belfast area. Invest NI, wishing to be a leader in reform and to continue its drive for efficiencies agreed to take this opportunity to introduce more modern, commercial ways of working (e.g. open plan, integrated telecommunications solutions, workspace flexibility, etc). Following completion of the initial dispersal review and scoping of the concepts behind the outline business case, the project was identified as an early PPP priority for SIB.

Project Preparation and Development

Within six weeks of formation of the InvestNI project team and with SIB involvement, an Official Journal of the European Union advertisement was issued at the end of April 2003 for delivery of the Invest NI HQ building with an estimated capital value of £30m, and estimated PPP unitary charge of between £3.5m-£4.5m a year to a "service provider"; this would cover all construction and operation/building maintenance/Facilities Management activity for around 100k sq ft of office space over the life of a 25 year contract. The project had twin objectives as defined by Invest NI and the Department; first, to encourage more efficient, cost effective ways of working within Invest NI (e.g. moving to predominantly open plan from traditional cellular office space) and thus providing a template for the planned, wider SIB Government accommodation estate initiative- Workplace 2010. Secondly, delivery of the first major PPP office accommodation project in Northern Ireland, recognising the project's status as a SIB "priority" under the Strategic Investment Plan.

Governance

An appropriately skilled Project team was formed within Invest NI and an advisory support team established (for which SIB advised on terms of reference, evaluation criteria and sat on selection panel). Significant SIB support (and, in particular, experience of negotiating PFI deals) was employed in the latter stages of the project procurement process, in Autumn 2004, when negotiations with the Preferred Bidder reached a critical stage. Specific face-to-face negotiation with the Preferred Bidder, involving both the Strategic Adviser and Chief Executive of the SIB, supported the Invest NI Project Team, enabled a deal to be struck and Contract Award in November 2004. SIB continued to sit on the Project Monitoring Board during the construction process, with Project Completion delivered to time and budget in October 2005.

Procurement

The completion of the procurement process within 18 months (of Official Journal of the European Union advertisement) is widely recognized as one of the fastest of its type yet seen in Northern Ireland and even in the United Kingdom. The PPP building is expected to deliver over £10m of direct savings over the lifetime of the contract in comparison to the public sector comparator.

Outcome

The new Invest NI HQ was formally opened in December 2005 and the project is now widely acknowledged by practitioners both from within Northern Ireland and further afield as a successful example of both PFI/PPP with perhaps the main prize being the embedding of new, modern and effective ways of working to meet Invest NI's project objectives. Representing its effective participation in the modernisation and reform agenda and taking advantage of the opportunity for change, Invest NI is now providing a more efficient service. As originally planned, the modern "open plan" specification adopted by Invest NI has helped to inform the template for "Workplace 2010", where the SIB is playing a central delivery role working in partnership with the Department of Finance and Personnel.

Source: SIB

Case Studies 1 to 3: SIB Support of Projects contd.

DBFO ROADS PACKAGE 1- BELFAST

The Challenge

One of the most congested parts of the Northern Ireland road network is the Westlink in central Belfast. Its widening to 3 lanes in each direction, with the removal of a number of junctions, was a priority scheme for Roads Service within its Regional Transport Strategy. This scheme was combined with a number of other widening schemes and provision of new slip roads on the M1 and M2 to give a combined construction requirement of around £120m.

Project Preparation and Development

It was identified as being suitable for procuring as a design, build, finance, and operate (DBFO) project within the Strategic Investment Programme. DBFO contracts integrate not only design and construction, but also long-term maintenance, and, by transferring the costs and risks of financing, provide an incentive for contractors to minimise whole life costs, to manage the design and construction process effectively, and to deliver good quality construction on time and to budget. In order to provide an economic unit for long term maintenance, adjoining lengths of motorway were included in the project scope.

Governance

The Project Owner is Roads Service with the Roads Service Board carrying out the role of the Investment Decision Maker and Project Board. A Project Steering Group was set up as an oversight group to provide guidance to Roads Service during the procurement of the Project. SIB was represented on the Project Steering Group, which also included officials from the Department for Regional Development, the Department of Finance and Personnel, Roads Service management, and representatives from its operational divisions. SIB advised on the procurement strategy and options for optimising value for money through the payment mechanism, and the contractual terms, specifically where these departed from guidance on the standardisation of PFI contracts. SIB jointly approved the business case with Department of Finance and Personnel, and discussed the "on-balance sheet" accounting treatment of the project with the Northern Ireland Audit Office.

Procurement

The procurement started in January 2004 and attracted international as well as local construction firms. Four consortia were invited to submit tenders, including outline designs for the construction schemes. Two of these consortia were invited to engage in further detailed negotiations before submitting Best and Final Offers in April 2005.

Highway Management, a consortium of Bilfinger Berger, Grahams, and Northstone (NI) Ltd was selected as Preferred Bidder and agreement was reached in February 2006. The investment will be financed in part by a loan from the European Investment Bank and in part by issuing a bond through the London capital markets. This will be the first use of bond finance for publicly owned infrastructure in Northern Ireland.

Outcome (to date)

It is estimated that the final contract will save some 25 per cent of the costs of conventional procurement of the improvements and maintenance of the project road over 30 years.

The Roads Service and SIB are now working together on the next DBFO Roads Package of some £250m which will be the largest single investment in upgrading Northern Ireland's principal roads network.

Source: SIB

1.13 Given SIB's significant role and profile in delivering the Reinvestment and Reform Initiative and advising on, and directing, the Strategic Investment Programme, it is essential that effective performance measurement systems are put in place to enhance accountability and performance management. In March 2001, HM Treasury issued guidance[10] which set out a framework and the principles behind producing high quality performance information that could be applied to both public and private sector bodies. In the course of our audit we recommended that this should form the basis on which SIB, in liaison with the Office of the First Minister and Deputy First Minister, should develop its performance information systems. In August 2006, the Office of the First Minister and Deputy First Minister advised us that it had been working closely with SIB and hoped to have a framework, as recommended, in place soon.

Military and Security Sites were transferred to the NI Executive

1.14 As part of the wider Reinvestment and Reform Initiative some strategic military and security sites were transferred to the Northern Ireland Executive free of charge for the economic and social regeneration of local areas. Details of these sites and their current development status are set out in Appendix 2.

10 Choosing the Right FABRIC - A Framework For Performance information - March 2001 It was put together jointly by the National Audit Office, Audit Commission, Cabinet Office, Office for National Statistics and HM Treasury, reflecting common thinking of these organisations.

Invest NI Headquarters, Belfast

Part 2

The goal set for the Investment Strategy is "to put in place the infrastructure that is needed to enable government to deliver public services throughout Northern Ireland that are fit for the 21st century"

2.1 Departments need clear long-term plans to get the best value out of new investment and to make best use of existing assets. Since the 2000 Spending Review, HM Treasury has required GB departments to produce Departmental Investment Strategies as part of the Spending Review process[11]. These Strategies set out how departments plan to deliver the scale and quality of capital stock needed to underpin the Government's proposed improvements in public services. As inputs to the Spending Review process, Departmental Investment Strategies inform decisions regarding capital allocations over the three-year Spending Review cycle by linking Government objectives, as expressed through Public Service Agreements[12], to the condition and utilisation of the existing asset base.

2.2 To ensure that capital is managed effectively and that investment decisions are taken against a coherent, long-term strategy, each Departmental Investment Strategy should cover the complete life-cycle of investment from option appraisal, through procurement and utilisation and disposal. This should include the strategic policy context, details of the existing asset base (including plans for enhanced utilisation and plans for disposal), any planned new investment whether through public capital or PFI and the systems and processes the department adopts to ensure it is maximising the use of the current asset base and delivers value for money in new investment.

2.3 While the production of such strategies was mandatory for GB departments, no similar requirement was placed on their Northern Ireland counterparts until recently. DFP told us that Northern Ireland Departmental Investment Strategies were not considered a priority at local level at that time because the 2000 Spending Review coincided with the first budget cycle of the newly devolved Executive, the complex issue of departmental restructuring and the (delayed) introduction of Resource Accounting and Budgeting. It further explained that, by the time of the next Spending Review (SR2002), action on this front was consolidated within the development of the Reinvestment and Reform Initiative, and subsequent development of an overall Northern Ireland Investment Strategy covering all eleven local departments.

2.4 The building of this long-term Investment Strategy for Northern Ireland was therefore one of the key roles identified for SIB under the Reinvestment and Reform Initiative. In December 2004, it published a draft consultation "Investment Strategy for Northern Ireland 2005 - 2015", setting out a potential £16 billion programme of infrastructure investment for the ten years to 2015[13] . A summary of the key investment allocations is provided in Figure 1. Specifically the Strategy aims to;

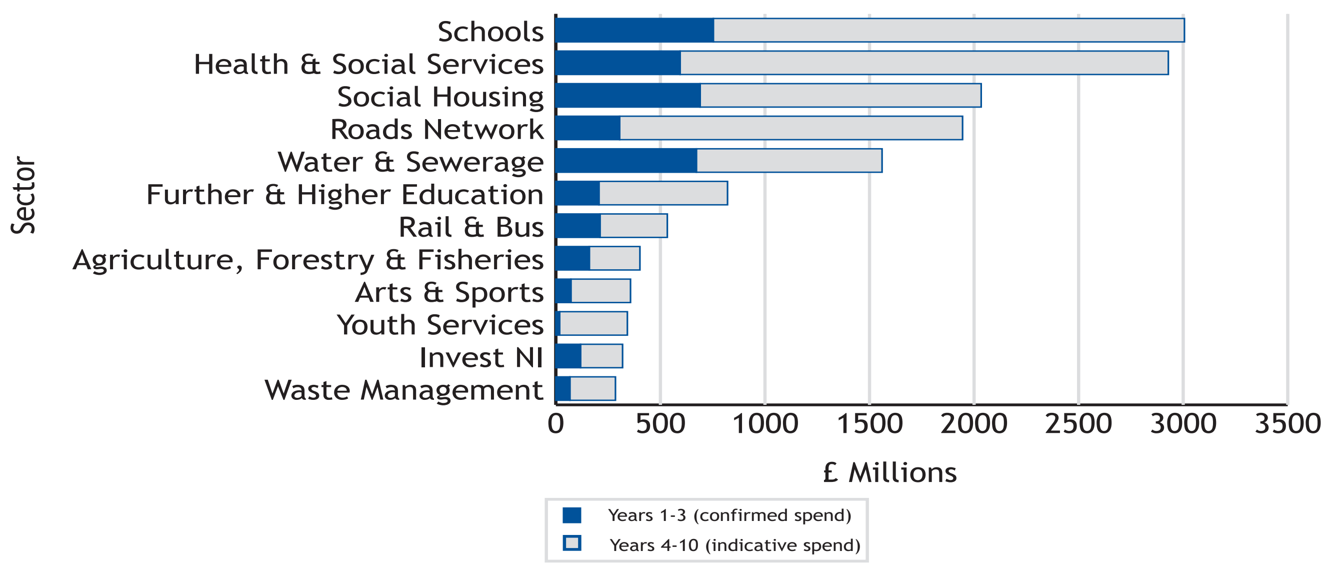
- address the backlog of maintenance of existing assets;
- ensure that facilities meet current and anticipated compliance requirements;
- invest in new facilities where they are needed to improve service delivery and to achieve higher efficiency levels;
- put in place key infrastructure that is essential to attract inward investment and stimulate economic development for all parts of Northern Ireland; and
- ensure that land and buildings are not retained which are not needed or do not represent the best use of public resources. That means that there should be a major programme of asset disposals, managed wisely with reference to all the effects of such action on the Northern Ireland economy.

11 Spending Reviews set firm and fixed three-year Departmental Expenditure Limits. Successive Spending Reviews have targeted resources at the Government's priorities, have matched these resources to reforms, and have set targets for improvements in key public services.

12 Public Service Agreements set out, for the citizen, the main objectives, outcomes, service delivery channels and targets that departments are working to deliver.

13 The Investment Strategy subsumed the Strategic Investment Programme (see paragraph 1.7)

Figure 1 | **Up to £16 Billion of Investment in Key Infrastructure is Planned by 2015**



Source: The Investment Strategy for Northern Ireland 2005-2015

The Investment Strategy is part of the strategic framework setting out what Government wants to achieve for Northern Ireland

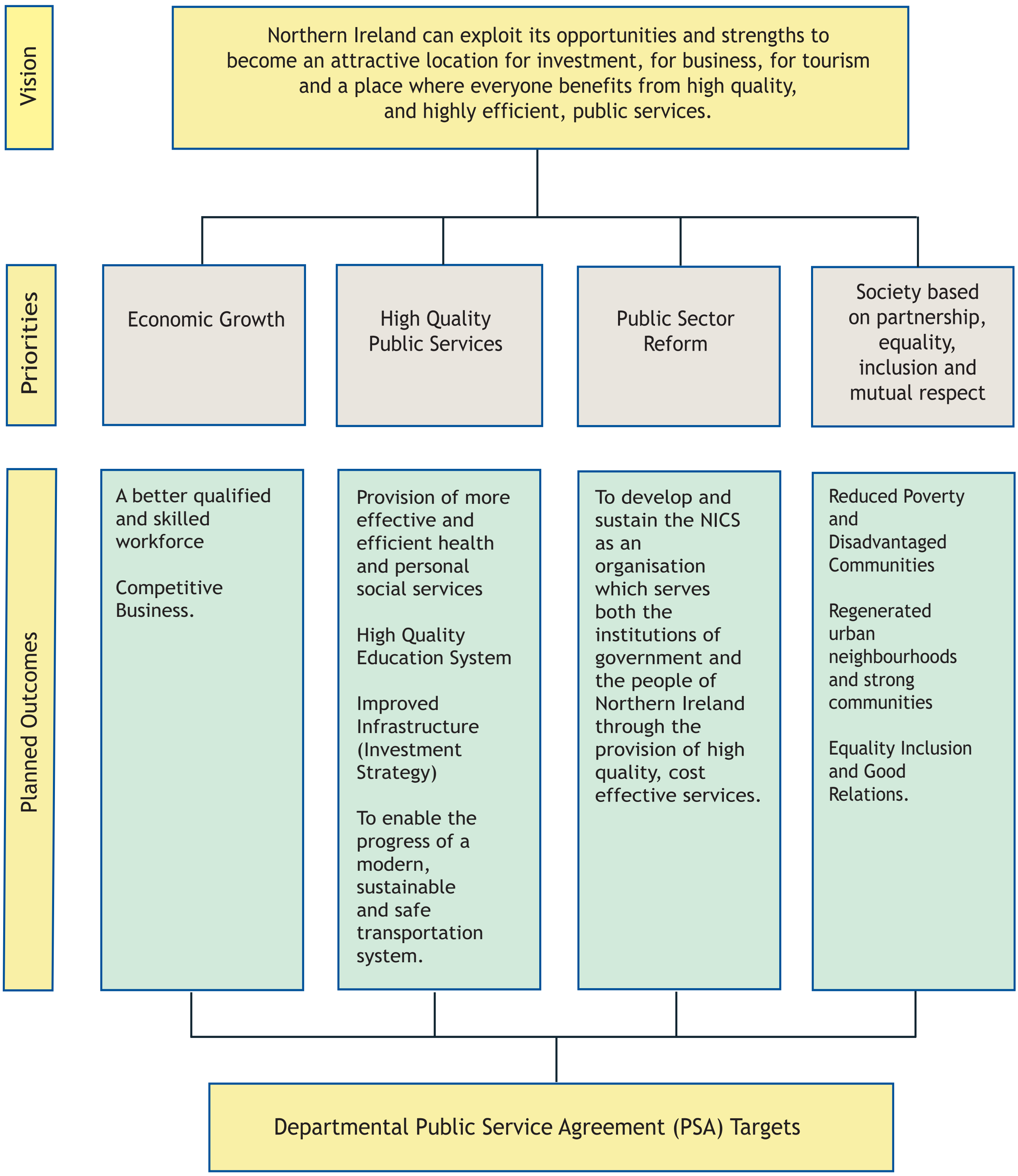
2.5 The need for a modern infrastructure is one of the key elements of the Reinvestment and Reform Initiative and the Investment Strategy. In addition, the Government, in partnership with business, trade unions, politicians and academia, produced its "Economic Vision for Northern Ireland" in February 2005. This provides a context in which future economic policy should be developed. The report indicated that a policy review would be undertaken to develop the supporting strategy for delivering the vision. This would draw, as appropriate, on existing strategies and set economic targets and delivery plans and policies for achieving these targets. Publication was initially planned in Autumn 2005. The Department of Finance and Personnel informed us that it is currently developing the Northern Ireland Strategy in collaboration with other Government departments, and taking on board the views of external stakeholders, in particular the Economic Development Forum. It added that the work has not followed what was a very ambitious timetable, primarily due to the detailed nature of the engagement with relevant partners.

2.6 The Investment Strategy for Northern Ireland 2005-2015 was published in December 2005, alongside the Northern Ireland Priorities and Budget 2006-08, which set out the Government's priorities and spending plans for that period. This integrated approach, which was adopted for the first time in Northern Ireland in 2004, aims to provide a high-level statement of what the Government wants to achieve and focuses on the key challenges and strategic choices to be addressed. The Priorities and Budget document aims to establish a strategic framework, through providing;

- a Vision statement setting out aspirations describing a desired future;
- Priorities defining the outcomes needed to bring about the desired future; and
- Objectives/Planned Outcomes setting out those things which need to be achieved in order to realise these outcomes.

2.7 Figure 2 provides an overview of these priorities and highlights the four key overarching and interlinking themes contained in the Priorities and Budget 2006-08. Economic growth; high quality public services; public sector reform; and a society based on partnership, equality, inclusion and mutual respect. The top priority

Figure 2 Strategic Framework - Northern Ireland’s Priorities



Source: Priorities and Budget - 2006-08, December 2005 outcomes within these themes are also reflected in departmental Public Service Agreements which set out the main objectives, outcomes, service delivery channels and targets for each department. Many of these outcomes are interdependent, for example, a high quality education system is also important to improving Northern Ireland's Economic Growth.

Departmental Investment Proposals were the foundation stones for the Investment Strategy

2.8 Each department was asked by SIB to produce the base material on which it would build a strategic picture of the future investment needs to deliver Northern Ireland's Priorities and Budgets. Guidance issued by SIB mirrors closely that provided to GB departments by HM Treasury (see paragraph 2.1). In Northern Ireland, however, the Departmental Investment Proposals produced were essentially "bidding documents" that represented the investment aspirations of each department. These aspirations were then used to inform decisions on priorities for investment over the 10-year period as subsequently described in the Investment Strategy 2005-2015. SIB asked departments to produce an Investment Proposal containing the information set out in Figure 3.

2.9 Independent teams were provided by SIB to each department to ensure consistency of data quality and to facilitate consideration of the potential for more beneficial cross-departmental projects. Appendix 5 provides an overview of the development process and the consolidation of Departmental Investment Proposals into an Investment Strategy for Northern Ireland.

2.10 The data contained in the Departmental Investment Proposals was collated by DFP and SIB. The process was also informed by a decision support model (developed by SIB) to capture and illustrate the broad financial implications of a number of identified scenarios over the 10 year investment strategy timeframe. The decision model prioritised the projects in terms of policy and compliance (see Figure 4).

Figure 3

Information requested from individual Departmental Investment Proposals

Strategic Context: Policy/ Service Delivery	All investment is to support service delivery and to meet Departmental policy targets in support of the overall Northern Ireland Strategic Programme.
Future Total Asset Demand	an assessment of total asset demand; Infrastructure and systems to meet future requirements.
Existing Asset Base	To provide visibility of the deployment of existing assets as background for future investment proposals.
Assets for Disposal	To provide a picture of the assets that are, or could be, freed for disposal or allocated for alternative usage.
The Asset Gap	The 'wish list' from which an affordable, deliverable, prioritised investment plan can be generated. The aim is to provide a high level picture of the total new asset requirement of what the department considers as essential to support the delivery strategy having taken into account existing assets.
Project/ Programme Costings	Preliminary but realistic costings quantifying the likely total cost of assets required for future service delivery.
Reform and Innovation	the incorporation of reform and innovation at the project level so as to improve value for money and/or improve speed of delivery.
Prioritisation	Prioritisation of asset demands within the proposed timetable of 10 years including priorities across Departments.
Procurement, Delivery and Resources	How the Department and its constituent Divisions and/or NDPBs are organising to ensure that the procurement and delivery of its investment programme is carried out effectively and resourced adequately.
Additional Programmes or Initiatives	Departments may have ideas for more radical approaches, larger programmes or other initiatives that they would like to be given consideration to alongside their Departmental Investment Plan.

Source: SIB

Figure 4

Strategic Investment Board Framework for Departmental Evaulation of Invesment Priorities

	Priority	
This investment is of paramount importance to the achievement of a key policy objective and/or achievement of crucial delivery deadlines	Very High - Policy	Without this investment a key policy objective/goal will not be achieved and/or will be critically delayed
This investment is very significant to the achievement of a key policy objective/goal and/ or meeting important delivery deadlines	High - Policy	Without this investment achievement of a key policy objective/goal will be at very significant risk and/or likely to be severely delayed
This investment has some impact on the achievement of a key policy objective/goal and/or meeting important delivery deadlines	Moderate - Policy	Without this investment achievement of a key policy objective/goal will be at some risk and/or delayed
This investment has little impact on the achievement of a key policy objective/goal and/or meeting important delivery deadlines	Low - Policy	Without this investment there will be little impact on achievement of a key policy objective/goal or delay
This investment is required for the department to achieve appropriate standards or guidelines	Moderate - Compliance	Without this investment the department will not achieve appropriate standards or guidelines
This investment is required for the department to be compliant with legislation and/or ensure safety for people	High - Compliance	Without this investment the department will be non compliant with legislation and/or put people at risk

Source: SIB

Our examination of Departmental Investment Proposals identified variances in the quality and quantity of the information included by Departments

2.11 We examined a number of the Departmental Investment Proposals. It was apparent that, whilst they were consistent with the framework suggested by SIB, there were variances in the quality and quantity of the information contained in them. The better proposals such as that prepared by the Department of Health, Social Services and Public Safety (DHSSPS), were well structured and articulated with references throughout to supporting policy developments and targets. They also took a long-term view, focusing on new investment in the three years ahead and beyond, and considered how existing asset bases could be fully utilized and the opportunities for public private partnerships. The DHSSPS proposal (see Case Study 4) sets out clearly the need to link decisions on funding investment to policy objectives; the Department's underlying principle was that "unless the projects can be shown to be beneficial to the achievement of policy goals the argument for investment is likely to fail".

2.12 The DHSSPS Proposal is also explicit in recognising that responsibility for delivery rests with the Departmental Board chaired by the Permanent Secretary. This is a welcome recognition of where accountability to Parliament and the taxpayer ultimately rests. We recommend that all Investment Plans from departments, in the context of preparing future investment strategies, contain such a statement.

2.13 In contrast Investment Proposals for a number of departments were lacking in content and did not, in our opinion, fully consider long-term infrastructure planning or clearly outline a coherent strategy for the management of the existing departmental asset bases. This is evident in the Investment Proposal prepared by the Department of Education. A key factor in considering the future level of schools provision is awareness of current enrolment levels and to have in place systems that accurately forecast these in the long-term (future demand). This is particularly important given that the Investment Strategy for Northern Ireland envisages potential infrastructure investment of around £3 billion in schools. The Department told us that the £3 billion Investment Strategy figure takes account of the need for estate rationalisation. However, while the Department's Proposal explains the need for rationalisation because school enrolments are falling, and have been for the past nine years, it does not clearly set out the specific implications for the level of future investment. The Department of Education told us that there are inevitably difficulties in anticipating the facilities which will be required in the coming years, not least because of the major policy reforms underway in education and in dealing with the complexities of the multi-sector education provision in Northern Ireland. It added that its Investment Proposals acknowledge that more comprehensive information would be needed for asset management planning as the investment programme is rolled out.

Case Study 4: Good Practice Example from Departmental Investment Proposal

Department of Health, Social Services and Public Safety

Programme monitoring arrangements

The Proposal recognises that the scale and complexity of the proposed investment requires robust implementation structures and that the Department, Health and Social Services Boards and Trusts all have important roles to play during the implementation process. At a regional level, the Department has established a Regional Steering Group with overall responsibility for the implementation of Developing Better Services (DBS). The Steering Group provides strategic direction and co-ordination to guide and support the implementation arrangements across all organisations, services and locations on a 'whole system' basis. The Steering Group's specific responsibilities are likely to evolve over time as the change programme is taken forward, but include:

- Approving the strategic contexts and associated high-level implementation plans developed by the four Health Boards, for Departmental Board and Ministerial consideration, ensuring consistency both with DBS and across Board areas;
- Developing a Regional Plan for the implementation of DBS for Departmental Board and Ministerial approval, ensuring appropriate phasing of developments and associated change processes;
- Approving the four Health Board areas' Programme Initiation Documents;
- Monitoring the implementation of the DBS Regional Plan across the four Health Board areas, informed by regular progress reports from each area;
- Subject to Departmental Board and Ministerial approval, setting the parameters on which business cases are prepared. This includes assumptions on issues such as the scope for future efficiency improvements, and on movements in activity from secondary to primary or community care settings;
- Bringing forward, for Departmental Board and Ministerial approval, proposals in relation to the prioritisation and timescales for the completion and roll-out of business cases;
- Promoting a 'whole system' approach across organisations, locations, services, professions and sectors;
- Approving and monitoring regional projects and developments designed to deliver the DBS service improvement agenda, for example, managed clinical networks, new approaches to service delivery, other improvement initiatives, etc.;
- Ensuring that all service developments and change proposals are sustainable, evidence-based, subjected to appropriate quality assurance, and in line with Departmental policy;
- Considering and contributing to making the case for the resource requirements necessary to support the change process, both locally and regionally;
- Identifying particular issues requiring policy decisions by the Department on a regional basis.

Source: DHSSPS Departmental Invesment Proposal

2.14 The Public Accounts Committee commented on the issue of falling school enrolments and the need for rationalisation in its 2005 report on Department of Education Local Management of Schools[14]. The Committee stressed that "the Department needs to do more to ensure that delegated resources are used as effectively as possible", noting that in 2005 there were 45,000 surplus places in Northern Ireland schools and, with falling pupil rolls, it is anticipated that this could rise to 75,000 by 2010 if action is not taken to tackle the problem. While it acknowledged that this can be a difficult task, it considered that "the Department needed to keep a close eye on surplus capacity in schools and take all the steps necessary to ensure that delegated funds are not spent on maintaining vacant places when they could be more usefully directed to supporting the education service"

2.15 The implications for this in terms of strategic planning and management of the current asset provision are well demonstrated in the case of Balmoral High School, which we highlighted in our report on the Education PFI Pathfinder projects[15]. The Department of Education has advised us that it is working with the Belfast Education and Library Board to identify options relating to the future use of Balmoral School. It explained that under new estate planning and delivery arrangements, much of the surplus capacity in schools would be removed thus reducing the risk of newly procured assets being under utilised. In view of our findings we recommended that, to ensure the most effective use of limited resources, a more strategic review of long term enrolments should be used to inform decision making. Subsequently the Department of Education and Strategic Investment Board appointed consultants to review the processes for procuring and delivering capital investment in the education sector. The report[16] fully supported our recommendation. It also estimated that adoption of such an approach had the potential to deliver savings of around five per cent

14 Committee of Public Accounts Eleventh Report of Session 2005-06 HC 565 Incorporating HC 418-i, Session 2004-05

15 Building for the Future - A Review of the PFI Education Pathfinder Projects NIA113/03, October 2004

16 New Procurement and Delivery Arrangements for the Schools' Estate, March 2005

of annual planned capital spend through less surplus capacity being built as a result of improved planning. Based on the projected capital spend on the education estate contained in the Investment Strategy for Northern Ireland (£3 billion over the next ten years) we estimate the potential saving to be in the region of £167 million at today's prices.

Case Study 5: The Importance of Sound Strategic Planning for New Investment Department of Education - Balmoral High School

The procurement process for schools includes an assessment of accommodation needs based on predicted student numbers i.e. long term enrolments. The Department of Education regards these predictions as critical factors in establishing the size of, as well as the need for, any proposed new school or extension. Proper assessment of long term enrolments is one of the most critical factors in determining future school provision whether through traditional procurement or PFI.

In January 1997 the Belfast Education and Library Board and the Department of Education agreed a long term enrolment of 500 pupils for Balmoral High School (to be achieved by 2003). This was re-examined and confirmed in May 1998. In January 1999 (a few weeks before the Department sought approval to the full business case from the Department of Finance and Personnel) the Belfast Board advised it that they remained satisfied that the long term enrolment for Balmoral would still be in the range 450 to 500 pupils. This was based on the continued popularity of the school and plans to cater for a small sixth form. The Board also confirmed that it had taken into consideration the impact of a recently opened (September 1997) integrated school in the area and surplus accommodation in other neighbouring schools.

Balmoral High School was opened in September 2001. By September 2003 the enrolment had declined to 289 pupils and currently stands at just over 200.The school has an approved Year 8 intake of 100 new pupils a year (first year pupils) but has been under subscribed every year since 1998. The reported Year 8 intake from September 2006 is ten pupils. The Belfast Board is currently considering a recommendation from the School's Board of Governors to close the school with effect from September 2007.

Source: NIAO

2.16 In March 2006, an independent strategic review of education was announced. The "Strategic Review of Education" will examine "the funding of the education system, in particular the strategic planning and organisation of the school estate, taking account of curriculum changes, including the wider vision for 14-19 year olds, and also demographic trends." The Report will examine financial issues, strategic planning of the schools' estate, and integrating education and improving collaboration. The Report is due to be produced shortly.

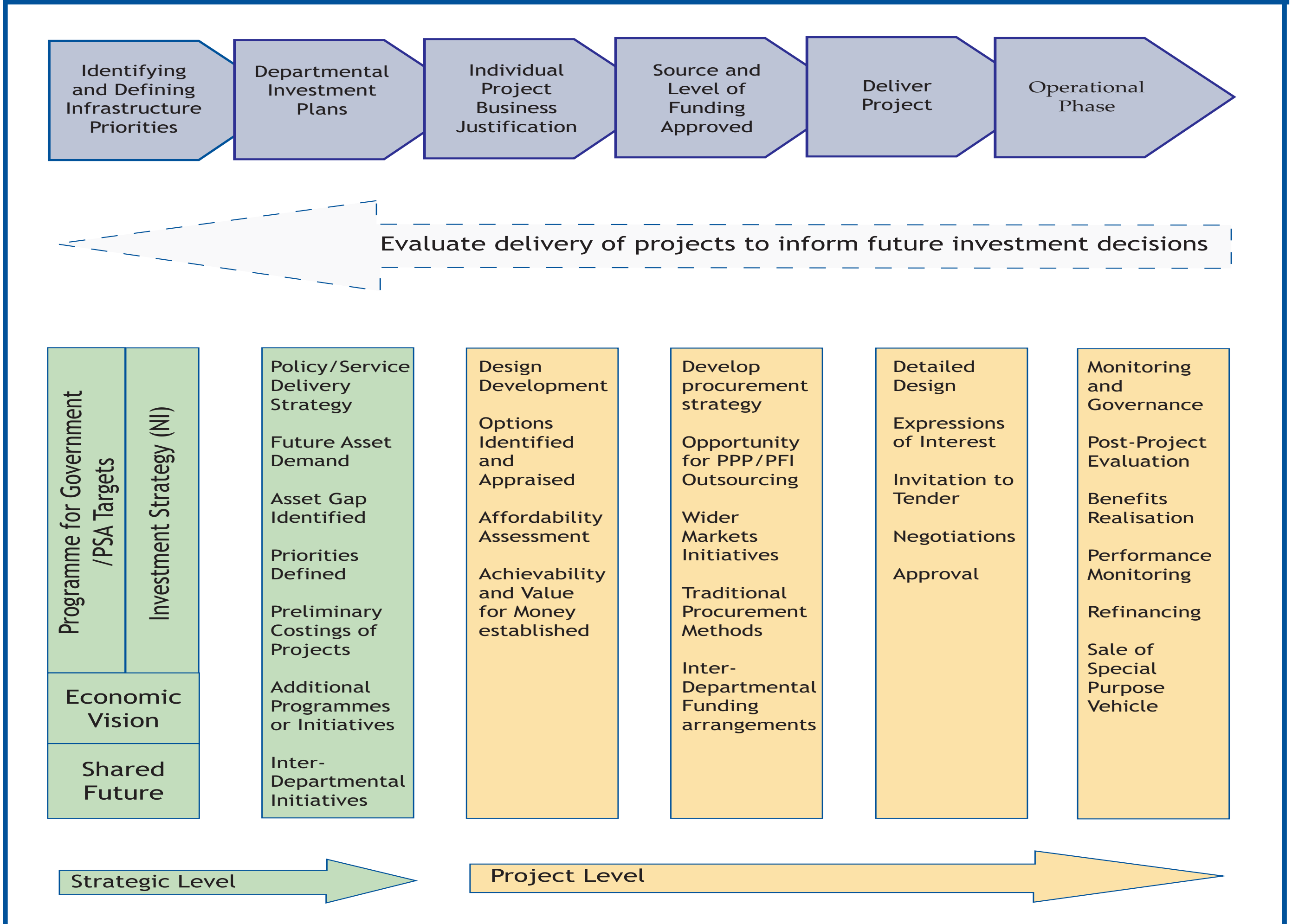
2.17 We consider it important that Investment Plans for each sector should be produced to complement the Investment Strategy. These should show, as part of the justification for an investment, a clear link between a programme or project and its anticipated contribution to the delivery of priority outputs and outcomes in Public Service Agreements and other strategic documents. In our opinion applying the Gateway Process[17] particularly Gate 0, "Strategic Assessment", and Gate 1, "Business Justification", will contribute to this. There is also some evidence that Gateway is not yet applied as extensively as it might have been. There is, we believe, a case for considering the GB guidance and amending the thresholds to reflect the relative risks and values of projects in the Northern Ireland context. We also recommend that Investment Plans should contain an assurance, from the relevant Accounting Officer, that Gateway will continue to be applied to those projects for which funding is being sought. The outcome of the reviews should be provided together with an indication of whether Department of Finance and Personnel approval for the project has been obtained. This will, in our opinion, help inform decision making, particularly over the Spending Review period, promote greater transparency and enhance accountability for delivery. In addition, for those programmes and projects involving PFI, Investment Plans should confirm that HM Treasury guidance[18] on the assessment of value for money has been applied.

2.18 The guidance issued by SIB to departments (see paragraph 2.8) envisaged that, each department would produce a final investment plan on agreement of the Investment Strategy. Our understanding is that not all were finalised. The planned review of the current Investment Strategy in 2007 offers Departments an opportunity to strengthen infrastructure investment planning

17 The Gateway process is a review of an acquisition programme or procurement project carried out at key decision points by a team of experienced people, independent of the project team. The process became mandatory in Northern Ireland for all acquisition based programmes and projects from February 2003

18 HM Treasury Value for Money Guidance was published in August 2004 and develops the themes of "PFI: Meeting the Investment Challenge" published July 2003. The guidance was promulgated in Northern Ireland by the Department of Finance and Personnel in November 2004 and applies to all projects that fall within a PFI programme

Figure 5 Infrastructure Planning and Delivery



Source: NIAO

and the delivery processes across government. It is important that, going forward, investment plans are developed for each sector to show, as part of the justification for investment, a clear link between a programme or project and the anticipated contribution to delivery of priority outputs and outcomes in Public Services Agreements and other strategic documents. Furthermore, we consider that publication of individual Investment Plans (as in the rest of the United Kingdom) would help underpin the Investment Strategy by demonstrating the strategic deployment of capital and showing how the investment meets the key objectives and priorities in the respective department's Public Service Agreements. This could be done through incorporating investment plans into the respective departmental business plans thereby increasing clarity and accountability in the delivery of public services. Figure 5 outlines a suggested framework that could be used in developing future infrastructure investment planning and delivery.

Belfast City Hospital, Cancer Centre

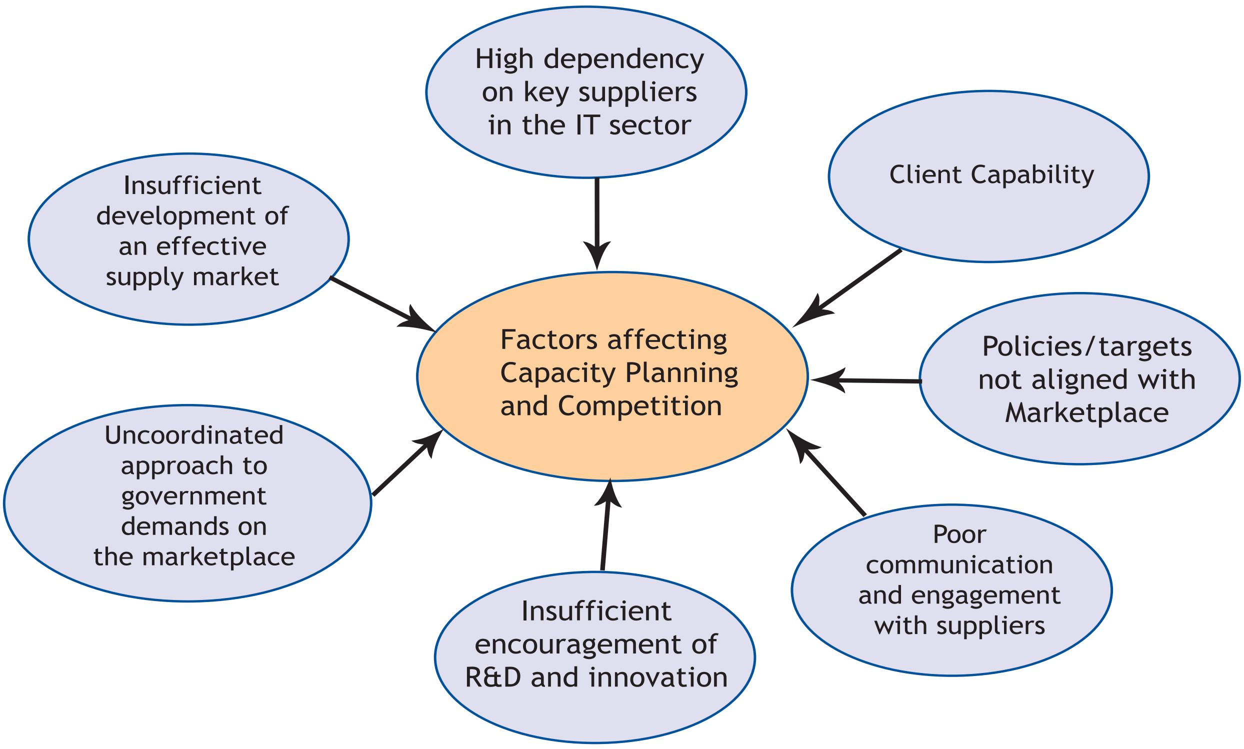
Part 3

Delivering the Investment Strategy is dependent on developing capability, increasing competition and improving long-term capacity planning

3.1 Successful delivery of the Investment Strategy is dependent on a number of factors. This includes the capacity and capability of the public sector and the construction industry working alongside partners and professionals both here, in the Republic of Ireland and further afield to deliver the potential £16 billion 10-year programme. If a properly trained workforce, products and services are not available in the right quality and quantity, the results are likely to include poor performance, inadequate innovation, higher prices, loss of business to other markets and ultimately failure to deliver on the commitments contained in the Investment Strategy.

3.2 In December 2003, following consultation with a wide range of stakeholders in industry and Government Departments, the Office of Government Commerce published a report[19] on increasing competition and improving long-term capacity planning. The report identified a number of key factors affecting capacity planning and competition in the Government marketplace (see Figure 6). We used this framework to inform our examination of how capacity planning and competition has been assessed in Northern Ireland. The report cites evidence from Gateway reviews, Cabinet Office work on the delivery of programmes, NAO reports and complaints from suppliers of persistent problems relating to client capability which may hinder effective

Figure 6 Factors affecting Capacity Planning and Competition



Source: Adapted from OGC Report to the Chancellor of the Exchequer on increasing competition and improving long-term capacity planning in the Government Market Place, December 2003

19 Office of Government Commerce Report to the Chancellor of the Exchequer on increasing competition and improving long-term capacity planning in the Government Market Place, December 2003.

competition. However, the report also identifies positive features of effective client capability (see Figure 7).

Figure 7 Positive Aspects of Effective Client Capability

- policy decisions which are properly informed by an understanding of how they will be implemented, with implementation plans based on an intelligent appreciation of what can be delivered both by the market and by the department itself;
- senior officials who set the tone and culture for successful delivery, pinning down stakeholders (including ministers), making trade-offs and resolving conflicting requirements, ensuring enough capability in the project team and so on;
- professional programme/project and commercial teams;
- organised processes, which can be used as a basis for continuing improvement in the light of experience, rather than ad hoc project teams re-inventing the wheel each time; and
- the discipline not to 'bite off' more projects or risks than the department can chew.

Source: Office of Government Commerce Report

The local Construction Industry has concerns about the public sector's capacity and ability to implement the Investment Strategy

3.3 During 2005, SIB and the Office of the First Minister and Deputy First Minister commissioned consultants to examine whether the Northern Ireland construction industry has the capacity to deliver the proposed investment strategy and to make recommendations to address potential constraints or shortfalls. The Capacity Study[20], published in February 2006, was based on an extensive survey of the local construction industry and consultation with a wide range of stakeholders. It noted "considerable scepticism" surrounding both the public sector's capacity and ability to implement the Investment Strategy. Over three quarters of the surveyed firms considered that the major constraint to the delivery of the Investment Strategy lies in the capacity of the public sector to manage the process within the required timescale. They also highlighted the significant challenge for the public sector in seeking to implement a major investment strategy while at the same time experiencing major structural reforms i.e. Review of Public Administration and initiatives such as the Gershon Review.

3.4 Particular concerns were raised about the constraints associated with the planning process and a need to explore ways of smoothing this for priority projects. SIB is working closely with the Planning Service to improve the position. The Planning Service told us that, following discussion with the Confederation of British Industry (NI), the Construction Employers Federation and others, it has reorganised its operations with a view to providing a sharper focus on major infrastructure projects known to be in the pipeline and to ensure that development proposals with significant economic and/or social benefits are closely monitored to prevent delays.

3.5 It also indicated to the SIB Limited that it was not aware of any particular problems from the planning perspective in delivering the Investment Strategy programme thus far. It highlighted a commendation from the Water Service for its processing of the planning applications for the Water Service's Water Treatment Project (Alpha) and Waste Water Treatment and Sludge Disposal Project (Omega). It considers that the protocols developed in these projects have informed further protocols which are being finalised for dealing with planning applications for other strategic projects. The Planning Service also believes that those strengthened arrangements have already paid dividends, for example in the processing of the recent application by Coca Cola for an all-island distribution plant just outside Lisburn.

3.6 However, the Construction Employers Federation told us that they have specific concerns regarding the efficiency of the planning system. While the Federation recognises that the Planning Service is reorganising its operations to provide a sharper focus on major investment infrastructure projects, it considers that the planning system generally remains slow and inefficient (see Appendix 6).

20 Construction Industry Capacity Study, February 2006

3.7 Concerns were expressed nationally regarding the availability of skills, staff, finance and the full implementation of "Achieving Excellence"[21]. These reflect similar concerns raised in our report, Modernising Construction Procurement in Northern Ireland[22], which noted a failure of traditional contracting arrangements and a need for Northern Ireland departments to improve their performance as construction clients. In particular our report expressed concern about the progress made by departments in implementing key initiatives such as Achieving Excellence and the Gateway Process. It also made recommendations for improving effectiveness, including improving the performance and progress monitoring within the Achieving Excellence Programme and ensuring the full participation by departments in the Gateway Process. An Action Plan has been developed to address our recommendations.

An internal review of the skills base and capacity within the Public Sector is underway

3.8 The Strategic Investment Board, in conjunction with DFP's Central Procurement Directorate, has commissioned an Internal Skills Base and Capacity Review examining staff resource and skills. The Review will examine and identify the programme of work that will arise from the Investment Strategy and other business - critical projects and programmes. In addition, it aims to identify and quantify the delivery resources that the public sector (including the Central Procurement Directorate) will require to deliver the full range of Investment Strategy projects and programmes, together with all potential problem issues and risks. This will include quantifying and specifying all existing delivery resources (staff by type) across the public sector (including the Central Procurement Directorate) and other Centres of Procurement Excellence.

3.9 The Review is also expected to identify the skills mix within the delivery services already in existence across the public sector; identify the types of skills: Senior Responsible Officer, investment decision making, programme management, project management, contract management, procurement, commercial, legal, technical, advisory, communication and relationship management and others. Based on this, identify any skills/resource gaps arising from the demands of delivering the Investment Strategy and other business-critical ICT projects and programmes and formulate options to address the identified skills resource gaps. The Review is scheduled to be completed in Autumn 2006.

The Investment Strategy is a major challenge for the local construction industry

3.10 Although the local construction industry has been growing steadily over the last ten to twelve years, it faces a major challenge with the implementation of the Investment Strategy. This includes the availability of an adequate and appropriately skilled workforce, qualified supply of construction professionals, the availability of skilled and experienced managers to deliver complex projects and the financial resources (balance sheet strength) to fund the programme. Nevertheless, interest by local industry is, in general, high. It is also confident with regard to its capacity to deliver projects. This is particularly so among the large main contractors and specialist subcontractors.

3.11 However, the Capacity Study also identified some concerns, including;

- **A relatively low level of awareness of the Investment Strategy in the local construction industry;**
- **A mismatch between the size of projects and financial capacity of local firms to take on such projects:** the average value of capital projects contained in the Investment Strategy is £36 million (current prices); more than 50 individual projects have a capital value over £50m. However, only nine local construction companies have an annual turnover in excess of £50 million and only seven have net assets in excess of £10 million;
- **More information is required from Government on specific projects**; this was seen as crucial if

21 "Achieving Excellence in Construction" was launched in March 1999, by the Chief Secretary to the Treasury, to improve the performance of central government departments, their executive agencies and non-departmental public bodies (NDPBs) as clients of the construction industry.

22 Modernising Construction Procurement in Northern Ireland, March 2005 (NIA 161/03).

the construction industry was to plan accordingly, invest and gear up with confidence. The Construction Employers Federation, have also stressed the importance of individual government departments publishing detailed timed and costed work programmes to enable the industry to 'gear up' (Appendix 6); and

- **The costs involved in PPP procurement are a major barrier to participating in major projects**; Some contractors have made a strategic decision not to pursue projects that are being procured through PPP. This view has been reiterated by the Construction Employers Federation (Appendix 6).

3.12 The development and publication of individual investment plans, as recommended in paragraph 2.17, would help underpin the Investment Strategy by providing transparency, with more detailed information to the market place regarding the nature, size and timing of projects. In addition, we consider that departments need to create more certainty in the market, with longer-term funding and programme planning. Current UK practice is a three-year capital budget horizon. However, on major construction programmes, three-year planning horizons are rarely sufficient. Five-year programmes represent good practice[23]. Such an approach is used in the Republic of Ireland where departments have five-year capital funding envelopes.

Labour Demand and Supply may be a major constraint on the ability of both the public and private sectors to deliver the Investment Strategy

3.13 In terms of labour demand and supply, the Capacity Study projects, based on current assumptions, a potential shortfall of 11,000 workers (or 2,800 a year) by the peak year of 2008. This could be reduced to 7,500 if the current high drop out rates from construction training courses was reduced; the report noted a high drop-out rate across the 'Jobskills' training programme at almost 50 per cent although we note the Department for Employment and Learning's efforts to address this by replacing the programme from April 2007[24]. However, the Study also indicates that appropriate action by SIB and DFP to smooth the profile of the Investment Strategy could significantly reduce these potential shortfalls to fewer than 700 a year. The Study also records:

- a current imbalance in the local supply of specific craft trades e.g. electricians, plasterers, compared with projected demand, suggesting a need for improved planning of training provision for the local construction industry;
- the Construction Industry Training Board estimates that an additional 1,000 construction industry professionals will be required over the next five to eight years. This is seen as a potentially more significant constraint on the ability of both the public and private sectors to deliver the Investment Strategy; and
- a potential shortfall in the supply of bid managers and project managers in the local market. This is seen as a crucial element in the delivery of the Strategy.

3.14 Although these shortfalls are regarded as broadly indicative, taken together they suggest that the local construction industry is likely to become increasingly reliant on labour from outside Northern Ireland. As the report notes, labour supply from other markets (generally EU accession states) is readily available and present in the market; it is currently estimated to provide between two per cent to five per cent of the labour supply.

3.15 The current profile of projects includes a sharp peak of expenditure in 2008-09 (see Figure 8). The Capacity Study recommended a more sustainable approach to meeting the labour demand requirements of the strategy and suggested an alternative profiling of projects where the Investment Strategy profile is

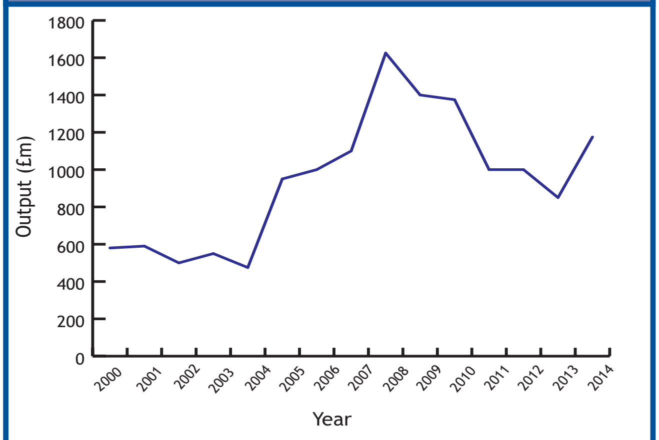
23 Improving Public Services through better construction, National Audit Office, March 2005 (HC 364-1 Session 2004-05).

24 Jobskills is a training programme, introduced in 1995, which aims to raise the skills levels of participants and, thereby, their employability. Focusing on people for whom an academic education is inappropriate, Jobskills provides an alternative route to qualifications, through the attainment of National Vocational Qualifications (NVQs). The Department of Finance and Personnel Memorandum (CM 6724) responding to a Public Accounts Committee report on 'Jobskills' (HC564) reported that the Department for Employment and Learning is working towards the closure of the 'Jobskills' Programme from the end of March 2007 and, following a consultation period, will be replacing it with a new programme from April 2007.

smoothed from 2008-09 onwards. This would result in a smaller more sustainable rise in employment to 2008-09 with construction output rising more slowly to peak at the end of the investment period (i.e. 2014-15).

3.16 SIB and DFP informed us that they are currently reviewing the profile of projects as more accurate forecasts become available. They also explained that a re-profiling of expenditure may also be necessary because the current profile suggests that, in certain years, expenditure may exceed anticipated budget allocations (with balancing offsets in other years) and for both affordability and labour market sustainability reasons they will regularly review the current profile and will take account of new information and developments.

Figure 8 Investment Strategy Expenditure is expected to peak in 2008



Source: Construction Industry Capacity Study, Feb 2006

3.17 Analysis included in the report indicates that, if properly managed, the delivery of the Strategy presents the Northern Ireland economy with development and job opportunities through encouraging the long term unemployed and economically inactive back into work; through entry into the construction industry by training the right people with the appropriate skills; and presenting an opportunity to partner with international companies and expand the local construction industry, possibly leading to export beyond Northern Ireland.

3.18 The Capacity Study includes an action plan for addressing the recommendations made within it (see Appendix 7). This includes assignment of ownership and responsibility for delivery, together with timescales and classed as Immediate (action now), Short-term (within one year) and Medium-term (within 1 to 3 years) and cover:

- Labour Supply and Skills;
- Performance, Competition and Efficiency;
- Industrial Capacity;
- Institutional Capacity;
- Procurement; and
- Marketing and Promotion of the Investment Strategy.

3.19 The Office of the First Minister and Deputy First Minister are co-ordinating and monitoring implementation of the Action Plan and will do this in conjunction with the lead Departments/stakeholder organisations, under each action, on a quarterly basis.

3.20 The Capacity Study has made a valuable contribution identifying a number of key risks to the effective delivery of the Investment Strategy and making a series of recommendations to address these. It rightly acknowledges that mechanisms will be required to track progress against the actions and monitor the achievement of targets. It also recommends that this should be monitored on a six-monthly basis with a summary progress report presented as part of the annual Investment Strategy publication. We concur with the Study's findings and recommend that, given the importance of developing and maintaining interest in a programme as ambitious as the Investment Strategy, the process should also be subject to periodic independent review.

SIB has the skills and flexibility to move quickly and effectively to drive infrastructure investment plans forward

3.21 SIB was established as a company limited by guarantee so that it could operate at arm's length from Government and have the skills and flexibility to move quickly and effectively to drive infrastructure-investment plans forward. To underpin this, SIB is staffed by people with the sector-specific experience and expertise, who are allocated to projects and not to individual departments. The investment and business opportunities generated as a result of the Investment Strategy will need to be marketed and the ability of the private sector market to deliver the extent of infrastructure development proposed needs to be enhanced. SIB is well placed to drive this requirement through its continuing sponsorship of and contribution to conferences, workshops and published articles in the UK and Ireland to ensure that competition in the markets are maximised.

3.22 SIB considers that it is making good progress on this front. Over the last twelve months it has provided speakers at major conferences, participating in high profile roundtable events and other fora. Consultation events on the Investment Strategy have been held throughout Northern Ireland and have involved the Northern Ireland Economic Forum, the Federation of Small Businesses and the Confederation of British Industry. Internationally, SIB has spoken at PFI/PPP conferences in Dublin, London and Copenhagen and has addressed the Scottish Executive Conference in Edinburgh (see Case Study 6) .

User involvement in design will be key to the success of many of the Investment Strategy projects

3.23 The Investment Strategy envisages over £6 billion being spent on infrastructure associated with education and health. In our view a key factor in the success of these projects will be the appropriate involvement of users in their design.

3.24 Our report on the Education Pathfinder projects highlighted a number of important lessons in terms of design and construction that apply to both PFI and traditional procurement. Discussions with the Education and Training Inspectorate also highlighted general concerns with design specification, improvements to which could enhance the running of schools and colleges and the effectiveness of tuition. To remedy these problems the Inspectorate suggested to us that there should be greater teacher input to design and specification. We agreed.

3.25 By way of illustration, two of the schools we visited during the Pathfinder review, both comparable

Case Study 6: Examples of SIB sponsorship of and contribution to conferencers and workshops in the UK and Ireland

Derry Roundtable, Derry, September 2005

This event was the first of what SIB hope will be an annual forum of some 30 key opinion formers. It attracted a very high level attendance with the four main local political parties, senior civil servants, academics, the business community, trade unionists, members of the Advisory Council on Infrastructure Investment, Construction Employers Federation, and the Voluntary and Community Sector. It also included three senior attendees from the Republic of Ireland.

SIB/DHSSPS Health Industry Conference, London, November 2005

This event is part of an-ongoing campaign to raise awareness of the major investment programme in Health with investment of almost £3bn forecast in the Investment Strategy. There was added impetus to holding such an event given the increasing difficulties seen in England resulting from the change in emphasis away from large hospitals and the concern of the private sector that the public sector is in a degree of disarray. It was also seen as important, given the experiences in Scotland, that on occasions they find that they have only one bidder which is clearly unsatisfactory.

The event attracted over 150 people where SIB and Department of Health, Social Services and Public Safety are confident that, based on this event as well as a considerable amount of canvassing, they will have a competitive market for the three/four projects that are due to come to the market in 2006. They recognise that there may be some repercussions in Northern Ireland as a result of the fall out in GB but contractors and investors have responded very positively to the campaign. SIB is keen to undertake other such events for departments.

SIB/National Development Finance Agency/InterTradeIreland Co- Sponsored All Island Infrastructure Investment Conference, Dundalk, February 2006

This event was conceived by the SIB to ensure that it captured the ground from the launch of the Investment Strategy by the Secretary of State in December 2005. Given the Secretary of State's increasing focus on all island economic issues, it was felt that an all island event sponsored by SIB, the National Development Finance Agency, the equivalent type body in the Republic of Ireland, and InterTradeIreland in their all island role, would be a very effective way of achieving this. This was the first of a number of all-island events that were programmed for the Spring. This event built on the launch of the Investment Strategy in December 2005. Jointly sponsored by SIB and the National Development Finance Agency (the equivalent body in the Republic of Ireland) and InterTrade Ireland it attracted 300 delegates with a high level of representation from both North and South. Feedback demonstrated that the private sector had found the opportunity to look at the investment programmes across the islands very helpful.

Source: Strategic Investment Board

in terms of pupil numbers, costs and dates constructed, highlight the importance of user involvement in terms of achieving a good design which offers functionality and flexibility. For example in terms of architectural design quality (see Appendix 8) Aquinas (Voluntary) Grammar School, Belfast scored 24.5 out of a maximum of 30, with only one of the six factors assessed scoring below Level 3, the minimum acceptable standard. In contrast, Wellington College, Belfast scored 12, with all factors falling below the minimum acceptable standard. Further investigation identified very different experiences in terms of staff input to the design of both schools. In the case of Aquinas, senior management and teaching staff worked closely with their architect and contractor to translate a vision of how a school should operate into a practical design. This has resulted in considerable operational benefits to the school such as enhanced flexibility, including scope to extend and/or reconfigure to meet changing demand and curricular developments. In contrast, there was limited consultation with staff in Wellington with the design being very much imposed. As a direct result the school experiences congestion in pupil traffic flow as corridors are too narrow; supervision is more demanding on staff time; it has limited storage capacity and is curtailed in terms of future flexibility.

3.26 We have noted that, in relation to PFI, HM Treasury is keen to drive down design costs in all sectors and to ensure that projects are analysed for affordability before procurement. This requires a clear idea of the design specification, which HM Treasury believes can be achieved through clients taking more of a lead in design, and the risk transfer. The Royal Institute of British Architects has suggested its "Smart PFI Scheme" as a possible solution. This has two models

- the "Exemplar Model": this involves the client appointing one of six short-listed design teams, which works closely with the client to develop an exemplar design for the PFI project. PFI bidders are then invited to bring innovation to the way the design is delivered, without reducing the quality of the design. The exemplar sketch design is then novated to the preferred bidder; and
- the "Single Design Model": this has two variants. In the first, bidders do not bring designers as part of the supply chain. Instead, the preferred bidder and client jointly select a design team and negotiate a contract. In the second variant, bidders include a full design team in the supply chain, but the selection process for design is based on the quality and track record of the team, rather than on a design for the project.

3.27 The Exemplar Model has been piloted in the Belfast City Hospital Cancer Centre, a mix of PFI and traditional procurement, which opened in March 2006. The project is viewed by those involved as a success, providing the client and users with the optimum solution. Case Study 7 provides details of the project.

Belfast Cancer Centre

Case Study 7: Belfast City Hospital Cancer Centre

Belfast City Hospital, Regional Cancer Centre

It is essential to the success of any project but particularly those concerned with a complex area such as design for health care that the client fully understands the need for the project, the required quality standards and functional content, the parameters which establish a successful solution and the affordability of the project. It is also critical that the specific site requirements and site constraints are fully tested at an early stage in the development process.

Health Estates have developed a process called the 'Exemplar Model' which ensures that, prior to interfacing with the supply side, the client undertakes a comprehensive study including the preparation of an exemplar design on the identified site by a design team appointed by the client. This design process allows for an iterative development and refinement process of the client's brief, sets down very clear qualitative and quantitative standards for subsequent bidders, produces a concept solution which becomes a quality threshold for bids to be measured against, and establishes a clear affordability envelope for the project.

This approach is a standard methodology used on all projects undertaken by Health Estates. An example of where it has been applied is the recently completed Regional Cancer Centre at the Belfast City Hospital. This highly complex project with a capital cost including treatment equipment of approx £63m will provide the full range of regional cancer services including radiotherapy for the people of Northern Ireland. Following the strategic decision to provide the regional centre at the Belfast City Hospital a design competition was held to select the design team to prepare the Exemplar Design.

The successful team was chosen on a combination of the quality of creativity shown in their early conceptual proposals and their understanding of the complex planning requirements for an Oncology Centre of this type. Essential to this process was the establishment of a strong in-house project team by the Trust supported by a specialist professional support and project management team from Health Estates. The first stage of the process was to interrogate fully the client's brief and with the client's in-house team to research and visit best examples of this type of facility elsewhere in the world.

Following a series of design iterations and a formal independent external critique, the final exemplar brief and design was agreed. These reviews are part of the Health Estates project review process which incorporates Gateway Review. At this point the client was assured as to:

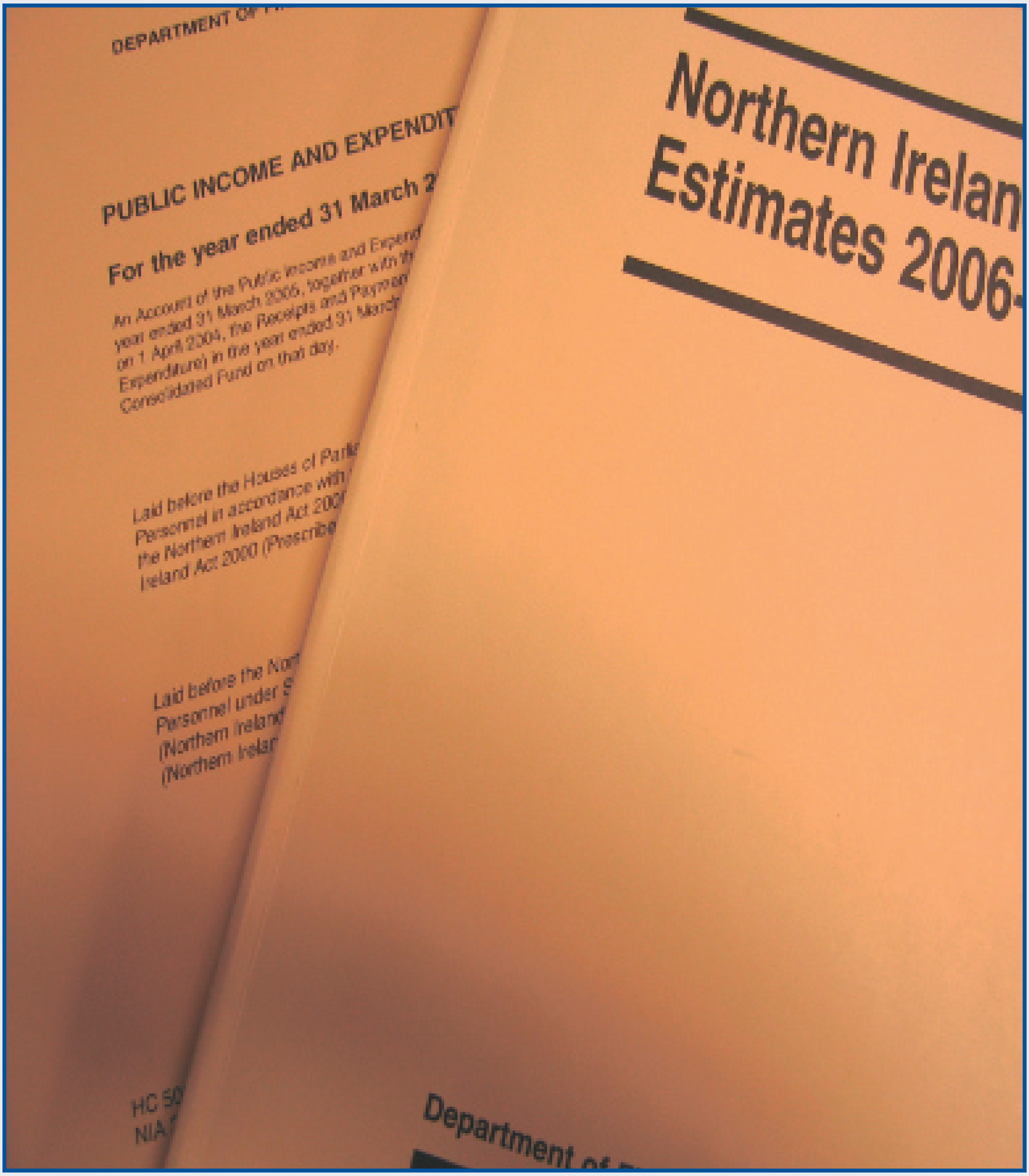
- The precise clinical requirements in terms of capacity, technology and models of care.
- The design quality standards required to create the appropriate patient environment and the detailed technical specification.
- The required functional relationships between key departments and individual elements of accommodation.
- The total equipment requirements.
- The total floor area required within the building including engineering plant.
- The fit of the footprint of the building on the proposed site and all related planning and infrastructure requirements.
- The affordability and value-for-money of the proposed scheme.

The exemplar design does not seek to define the specific detailed construction design for the project leaving these issues to form part of the bidders proposals. The exemplar information was provided to a final shortlist of three bidders. The feedback from each of the bidders to the exemplar process was highly positive as this made the specific requirements and quality objectives of the client totally clear and understandable. The bidders were advised that the Exemplar design represented a threshold that bids must equal or improve upon. The successful contracting team based their bid largely on the concept design provided but added considerable value to the process by some reengineering of elements of the design and by bringing a 'buildability' focus to the project.

The Health Estate's project manager supported by the exemplar design team worked in close collaboration with the chosen contracting team to ensure that the developed final design continued to meet all the client requirements set out in the exemplar. The completed project was handed over and commenced patient services precisely on time and was delivered within budget and to a very high standard of build quality. The project has subsequently been recognised with two design awards.

Key elements to the success of the project were the quality and the commitment of the key client and Health Estates representatives and the clarity of client need, quality objectives and affordability established through the 'Exemplar' process.

Source: DHSSPS - Health Estates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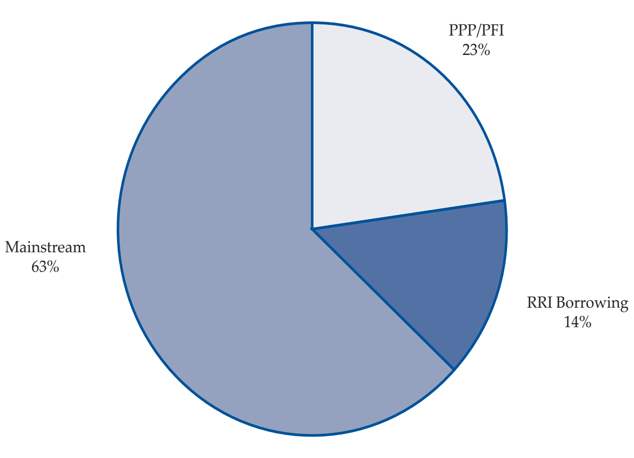
Part 4

The Investment Strategy will be funded from several sources including long-term borrowing

4.1 The infrastructure investment programme is being funded through a combination of mainstream public expenditure, borrowing and public-private partnerships. As set out in Part 1, the Northern Ireland Executive's Reinvestment and Reform Initiative (RRI) included a new borrowing power intended to support a significant infrastructure investment programme (see paragraph 1). Although borrowing is the smallest element of the three funding sources (Figure 9), it is still substantial, at an estimated £2 billion over the ten year period. However, like projects funded through PFI/PPP, there are longer term implications in terms of repaying commitments/borrowings and assessing the impact on the future affordability of capital investment programmes. Accordingly, our review mainly focuses on how the new borrowing powers are being used, the commitments arising from them and how these are being reported to Parliament/NI Assembly.

Figure 9 Potential Funding Sources for Capital Investment 2005-15



Source: Department of Finance and Personnel

4.2 The Reinvestment and Reform Initiative provides for access to additional expenditure funded by borrowing from the National Loans Fund. The mechanism for drawing down loans and subsequent repayment of principal and interest reflect the conditions applied by HM Treasury. The treatment of these items in Estimates and their disclosure in Resource Accounts has also been determined by HM Treasury, and issued in guidance from DFP to Northern Ireland departments.

4.3 The level of borrowing was set at:

- £125 million in 2003-04 serviced without any specific new increase in revenue – i.e. serviced from rates revenue that had been previously planned and assumed; and
- a longer term borrowing power provision (for 2004-05 and beyond) of up to £200 million a year. The extent of borrowings to be determined primarily by increases in local revenues in Northern Ireland which close the gap with Council Tax and National Non-Domestic Rate revenues in England and referred to as "qualifying revenue"[25].

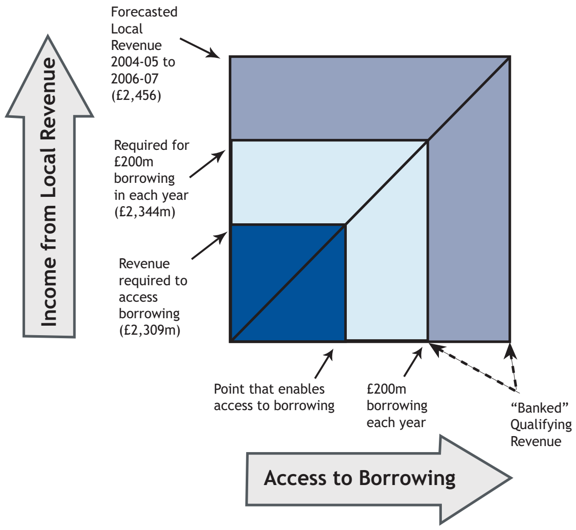
4.4 Figure 10 sets out the relationship between the income generated from local revenue and access to borrowing. For example, in the 2003 Priorities and Budget process, the level of planned borrowing, and associated qualifying revenue needs, were considered for the period 2004-05 to 2006-07. Across this three-year period, £2,309 million was required to be raised through local District and Regional Rates to gain access to the borrowing facility. To draw down the planned £600 million borrowing over the three years, a further £35m qualifying revenue had to be raised, giving a total of £2,344 million. The latest forecast for District and Regional rate revenue for the three year period[26] is £2,456 million. The bulk of the difference is due to District Council revenue being higher than originally anticipated, and a subsequent revision to the level of the domestic Regional rate increases. In the 2005 Priorities and Budget process, for reasons unconnected to RRI borrowing. A 19 per cent increase was implemented in 2006-07 (as opposed to the 9.1 per cent originally Planned in 2003).

25 Qualifying revenue is generated through increases in local revenues in Northern Ireland to reduce the gap between revenue raised per capita in Northern Ireland and revenue raised per capita in England. The amount of revenue over and above that needed to maintain the gap with England, at the previous year's level, is referred to as qualifying revenue, and may be used to access borrowing.

26 Actual District and Regional Rates revenue for 2004-05 and 2005-06 was £1,562m. The forecasted revenue for 2006-07 is £894m.

Figure 10

The level of income collected from local revenues directly affects access to borrowings (2004-05 to 2006-07)



Source: Northern Ireland Audit Office

4.5 The additional total revenue represents qualifying revenue over and above that needed to access planned borrowing, and may be used to access borrowing in future years (this is referred to as "banked qualifying revenue"). DFP told us that, in addition to providing an entitlement to borrow in subsequent years, any additional regional rate revenue above that planned is used to provide public services in the year it is raised. Should actual borrowing be less than the £200 million annual limit, the balance may also be carried forward for use in future years (see paragraph 4.10).

4.6 The Priorities and Budgets 2006-08[27] emphasises the strong link between the Regional Rate and access to borrowing under the terms of the Reinvestment and Reform Initiative, which contributes to the overall resources available for capital investment. Charges for water and sewerage services were to be introduced from April 2006 but have been delayed until April 2007 when they will be introduced in a phased basis over three years. However, the introduction of water and sewerage charges is expected to release £300 million a year from 2009-10 which could be invested in other areas.

27 Priorities and Budget 2006-08 December 2005.

Up to 2005-06, £411 million has been borrowed from the National Loans Fund

4.7 Up to the end of the last financial year (2005-06), £411 million, out of £525 million available has been borrowed (Figure 11). Un-drawn borrowings of £46 million in 2003-04, £31 million in 2004-05 and £37 million in 2005-06 have been carried forward for use in future years. The interest rates applied to borrowings from the National Loans Fund are the standard rates set by HM Treasury. To date these range from 3.8 per cent to 5.3 per cent. The borrowing arrangements, as determined by HM Treasury, require Northern Ireland to access the facility on a monthly basis, in advance of spend, based on accurate monthly profiling of capital spend at project level. Borrowing is distributed, through the Northern Ireland Consolidated Fund (NICF), to the relevant departments as part of the normal supply process[28].

Figure 11

£411 million has been borrowed to date

Department	2003-04 (£m)	2004-05 (£m)	2005-06 (£m)	Total (£m)
DARD	1.4	1.0	0.0	2.4
DE	0.2	2.0	3.8	6.0
DEL	0.1	1.2	2.0	3.3
DETI	4.9	11.1	2.4	18.4
DHSSPS	49.0	52.2	33.4	134.6
DRD	23.8	101.2	121.3	246.4
Total Borrowed	79.4	168.7	162.9	411.1
Total Available	125.0	200.0	200.0	525.0
Undrawn	45.6	31.3	37.1	113.9

Source: Department of Finance and Personnel

Draw-Down and Repayment of RRI Borrowings is managed by DFP

4.8 In the course of the relevant Budget process capital spending allocations for departments are determined (based on the overall resource availability, i.e. including planned borrowing). Following the conclusion of the Budget process, and the setting of aggregate capital allocations the Department of Finance and Personnel, working with departments, determines which projects are to be funded from borrowing. This is based on an analysis of specific capital projects

28 Resources voted by the Parliament in response to Estimates, for expenditure by government departments.

to be taken forward over the budget period. Prime consideration is given to the need to minimise the requirement for additional qualifying revenue, whilst maximising the funding available for capital investment. As the borrowing term is linked to the underlying asset life of a project, preference is given to projects with longer asset lives i.e. 25 years, followed by 15 years and then 7 years. Figure 12 provides details of the duration of these loans. Once a project has been identified as being suitable for funding through borrowing, DFP informed us that this will be the primary source of funding for the duration of that project.

Figure 12 Most loans to date have a 25 year term

Terms (yrs)	2003-04 (£m)	2004-05 (£m)	2005-06 (£m)	Total (£m)
25	76.1	167.0	160.2	403.3
15	1.0	1.0	2.2	4.3
7	2.3	0.7	0.5	3.5
Total	79.4	168.7	162.9	411.1

Source: Department of Finance and Personnel

4.9 Our examination of the monthly request for borrowing identified delays in draw downs of seven and ten months in 2004-05 and 2005-06 respectively. DFP told us that this was due to a combination of factors including clarification of the borrowing methodology; realignment exercises needed to consider the issue of capital slippage arising in departmental programmes; and the consideration of how to integrate the Investment Strategy and Budget process.

4.10 DFP has agreed with HM Treasury that the borrowing power is subject to automatic End Year Flexibility arrangements. This means that undrawn borrowing power, i.e. the extent to which actual borrowing is less than the £200 million annual limit can be carried forward for use in future years. Loans drawn down, but not used in-year, are carried forward to the next financial year and should be used before any further borrowing is drawn down.

4.11 The principal element of loans is repaid from the Capital account of the Consolidated Fund, whilst interest is repaid from the Revenue account. For the period 2003-04 to 2005-06, in accordance with HM Treasury guidance, the annual interest incurred was charged to departmental budgets and accounts based on the value of their loans as a percentage of the total Northern Ireland borrowings. This approach, although simple to administer, does not calculate an accurate interest repayment figure for disclosure in departmental resource accounts, although the overall amount (in terms of total Northern Ireland borrowings) will be included in the Public Income and Expenditure Account. For 2006-07 onwards, DFP and HM Treasury have amended the accounting and budgeting requirements so that interest on borrowings will no longer be charged to departmental budgets and accounts, recognising that departments do not determine the extent or amount of borrowing. Instead interest payments will fall as a central item, reflected in the Public Income and Expenditure Account.

4.12 The detailed working rules and mechanics of the borrowing regime have been evolved in a series of correspondence between DFP and HM Treasury, and have only recently been finalised. At a higher level, DFP and HM Treasury have produced a draft Concordat, which seeks to clarify the overview position, with a view to subsequent approval by respective Ministers and publication. We welcome the intention to publish. However, given that it is over four years since the Reinvestment and Reform Initiative was announced it is important that publication takes place quickly. This will minimize the risk of potential misunderstandings arising and enhance the accountability and transparency of the process.

4.13 With regard to the calculation of annual interest charges, as this is linked to individual projects, and the cost of borrowing under the Reinvestment and Reform Initiative exceeds the standard cost of capital charge[29], disclosures in individual departmental Resource Accounts may be understated. We recommend that HM Treasury and DFP reviews the methodology to satisfy themselves that future Resource Account disclosures will be fairly stated.

29 Currently, the standard cost of capital, as advised by HM Treasury, is 3.5 per cent.

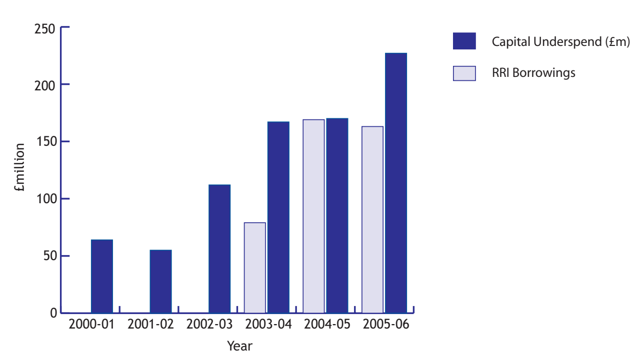
The new borrowing facility was activated, though capital allocations were significantly under-spent

4.14 As part of the budgetary management process, DFP wrote to departments in June 2004, indicating the need to review capital allocations from 2004-05 to 2006-07, due to *"continued capital under spending"*. DFP asked departments for a *"realistic"* and *"robust"* profile of existing allocations against actual planned spend in 2004-05 and beyond, as opposed to an *"aspirational statement of intent"*. A similar letter was issued in July 2005. Again DFP expressed concern over the potential for capital under spend in areas of automatic End Year Flexibility[30] and the need to align capital allocations to a robust assessment of likely spend.

4.15 Our comparison of planned capital spend against final outturn for Northern Ireland departments over the past five years shows a reported history of significant under spending. This has grown in monetary terms from £64 million in 2001-02 to £227 million in 2005-06. We asked DFP if the level of borrowing could have been reduced through the use of underspends (see Figure 13). DFP told us that, within the overall underspend, from 2003-04 (when borrowing commenced) an element would theoretically be available to reduce the level of borrowing. The relevant amounts would be the full departmental underspend, less any underspend in respect of projects financed by borrowing, and the level of planned overcommitment[31], i.e. £143 million in 2003-04, £73 million in 2004-05 and £126 million in 2005-06.

4.16 DFP also told us that the scale of investment is an important factor in considering performance. For example, actual capital spend in 2005-06 was £1,025 million, representing an increase in excess of 57 per cent, compared with the 2000-01 position; this has been

Figure 13 **Although there was a history of capital under-spend the RRI borrowing facility was activated**



Source: Northern Ireland Audit Office

Underspends in respect of borrowings were £9.9m in 2003-04, £14.7m in 2004-05 and £14.5m in 2005-06. Planned overcommitments were £13.7m in 2003-04, £82.8m in 2004-05 and £87.4m in 2005-06; and Conventional Capital DEL - £143.0m in 2003-04, £72.8m in 2004-05 and £125.6m in 2005-06

achieved largely as a result of the Reinvestment and Reform Initiative. Furthermore, any underspend within the financial year is not lost to Northern Ireland, but remains available for use in subsequent years. It added that decisions on financing the investment programme must take account of a number of factors, all of which, it considers, underpin the validity of the approach adopted:

- the need to match borrowing terms to the life of projects – given the relatively limited number of projects with a long term life the roll forward of significant undrawn borrowings could make utilisation of the full borrowing power, and hence delivery of the planned level of investment, difficult;
- the need to maintain some flexibility, particularly until later in each financial year;
- decisions to offset borrowings with underspends cannot be taken until relatively late in the financial year, by which time some borrowing will have taken place because of the need to comply with the HM Treasury determined mechanism for accessing National Loans Fund loans (see paragraph 4.7). Furthermore, given the scale of investment planned over the period covered

30 End Year Flexibility - Any unspent DEL is carried forward into the next financial year and is known as End Year Flexibility. This ensures than any underspend remains available to the NI Executive rather than being returned to the Treasury.

31 In response to the need to manage the implications of the rapid growth in public expenditure that has occurred in recent years and, in particular, to reduce levels of year-end underspend, an element of planned over-commitment has been included in recent Budget allocations. This approach, aimed at maximising spend by departments, and hence reducing the extent of year-end underspend in Northern Ireland, involves making a prudent estimate of likely year-end underspend, and effectively over allocating resources to departments by that amount.

by the Investment Strategy, if borrowing did not take place in a particular year, it would be needed in subsequent years, via the end year flexibility mechanism, to ensure delivery of the planned projects.

It is important that the cost to the local ratepayer of borrowings is minimised and affordability properly assessed

4.17 Access to borrowing is an important driver for the delivery of the Investment Strategy. However, the amount Northern Ireland could prudently borrow largely depends on the affordability of financing the loan charges within Northern Ireland's Departmental Expenditure Limits, what Northern Ireland ratepayers will accept and that the proposed level of borrowing is within overall national limits.

4.18 Most Reinvestment and Reform Initiative (RRI) loans to date (98 per cent) have a twenty-five year term (Figure 12). This is likely to remain the case given the nature of other proposed projects within the Investment Strategy. Assuming this to be the case and:

- the borrowing facility remaining at £200m a year for ten years with the full amount utilised each year; and
- an average interest rate of 4.7 per cent;

we calculate that repayments will be approximately £3.4 billion (£2 billion principal, £1.4 billion interest). This equates to an average commitment of £100 million a year over thirty-five years. Repayments are likely to peak at approximately £137 million a year between years ten and twenty five. Based on a current Northern Ireland population of 1.7 million, this equates to potentially £80 a year per head of population. In addition to these potential commitments, Northern Ireland is committed to meeting £1.5 billion through PFI/PPP project agreements already signed (Appendix 9). This figure will increase as and when more PFI/PPP agreements are entered into (see paragraph 4.1).

4.19 We asked DFP how it had assessed the long-term affordability of the Investment Strategy. DFP told us that the Investment Strategy has been developed in the context of a prudent view of the public expenditure position over the relevant period, and thus is considered affordable, within likely DEL and RRI borrowing limits. As regards the long term servicing of borrowing, DFP advised us that decisions on the level of new borrowing in any year are taken in the course of the normal Priorities and Budget process, in the context of overall resource availability and affordability. In parallel, the necessary funds for the servicing of such new borrowings are provided, and held as a ring-fenced item, which will automatically roll forward in baseline provision from one Budget to the next. Thus, at any point in time, sufficient cover for the servicing of all cumulative Reinvestment and Reform Initiative borrowing is held.

4.20 DFP's view is based on an assumption that the full £2billion of borrowing will be required for the delivery of the Investment Strategy. However, while funding is secured up to Year 3, amounts included beyond Year 3 are only indicative of the likely capital investment requirement. Priorities may change and delivery of individual capital projects included in the Investment Strategy can only progress when business cases are submitted and approved. It is therefore not certain that Northern Ireland will need to access the totality of the borrowing facility available to it. The publication of Departmental Investment Plans, coupled with improved management of finances and capital programmes should help inform the decision making process, enabling available resources to be redirected where required to minimise both underspends and borrowing. We note that HM Treasury rules do not preclude a mixed-funding approach. Had these been in place a significant proportion of the borrowing in the first three years could have been avoided. In addition, the impact of borrowing funds where there are also significant underspends, carries with it an opportunity cost as resources, which could be utilised elsewhere, are required to meet the cost of repaying borrowings made in advance of need.

Reporting of Long Term Borrowing Commitments on RRI and PFI/PPP Commitments to Parliament and NI Assembly need to be more transparent

Public Income and Expenditure Account Reports the Northern Ireland Borrowing Commitment

4.21 The Northern Ireland Consolidated Fund is the main Government bank account and is used to process receipts and payments both capital and revenue. Under the Exchequer and Financial Provisions Act (NI) 1950, DFP is required to prepare, for each financial year, a Public Income and Expenditure Account reflecting Northern Ireland Consolidated Fund receipts and payments. The value of the Reinvestment and Reform Initiative loans commitment is included in the assets and liabilities statement of this account.

4.22 Up to the year ended March 2005, the account showed a total National Loans Fund liability of £1,440 million. This includes £246 million in respect of Reinvestment and Reform Initiative loans. However, this was not separately disclosed in the 2004-05 account. Similarly the receipt of these loans (in Capital Receipts), repayments of principal (in Capital Issues) and the prior year comparators were also not separately disclosed. This means that the level of Reinvestment and Reform Initiative borrowings and principal repayments are not obvious to either the informed or lay users of these accounts. Following our recommendation those amounts have now been separately disclosed in the 2005-06 Account (Figure 14).

RRI commitments have not been clearly reported in Departmental Estimates and Resource Accounts

4.23 To enhance the budgetary information available to Parliament and the Northern Ireland Assembly, the Main and Supplementary Departmental Estimates are accompanied by, 'Supporting Statements, Tables and Notes'. The information reported in the Estimates on anticipated Reinvestment and Reform Initiative expenditure should be consistent across departments and from year to year. During 2003-04 and 2004-05, DFP instructed departments to report the *"provision"* allocated under the Reinvestment and Reform Initiative, in those Supporting Statements. We noted that the application of the guidance by departments was inconsistent and resulted in DFP clarifying its guidance in April 2005. This required departments to provide a breakdown of *"borrowing"* allocated under Reinvestment and Reform Initiative.

Figure 14 The Value of NLF loans outstanding are now reported anually in the Public Income and Expendtiure Account and RRI loans are now separately identified

2004-05	LIABILITIES		2005-06
£		£	£
	PUBLIC DEBT		
2,557,860	Ulster Savings Certificates	2,405,359	
12,239	Ulster Development Bonds	12,239	
1,194,359,722	National Loans Fund	1,098,812,682	
246,131,659	National Loans Fund iro RRI	404,678,394	
19,634,368	Internal Departmental Funds	7,718,693	
-	Advances for Temporary Investments	22,000,000	1,535,627,367
379,583,667	NET ASSETS available for debt Repayment		162,058,485
1,842,279,515			1,697,685,852

Source: Extract from the DFP Public Income and Expenditure Account for NI for the year ended March 2006

4.24 DFP has issued three Dear Accounting Officer (DAO)[32] letters since March 2004 on the accounting treatment of Strategic Investment Programme funding in Departmental Resource Accounts. The first was issued in March 2004 but withdrawn and superseded by further guidance in July 2004; a further clarification was issued in March 2005. This would indicate to us that the accounting treatment for the loans and related projects was problematic and not fully thought through prior to instigation of the Initiative. DFP told us that the accounting and budgeting treatment was unique and complex, and based on a long running and evolving dialogue with HM Treasury.

4.25 The latest guidance requires departments to disclose in their Departmental Resource Accounts the total additional funds drawn during the year which relates to borrowings under the Reinvestment and Reform Initiative. For the 2004-05 Resource Accounts, of the six departments affected three, complied with this disclosure requirement (the Departments of Education; Health, Social Services and Public Safety; and Regional Development), while the Departments of Agriculture; Employment and Learning; and Enterprise, Trade and Investment did not comply fully.

4.26 In our view, it is important that the financial information provided to Parliament/NI Assembly is sufficiently transparent and provides details of anticipated and actual expenditure financed by borrowing. In this respect, we recommend that all Reinvestment and Reform Initiative borrowing commitments, receipts and repayments should be disclosed separately in the Public Income and Expenditure Account. Furthermore, in addition to reporting projects funded from borrowings, the Supporting Statements to Annual Departmental Estimates should provide a breakdown of all planned infrastructure programme expenditure i.e. those funded from mainstream, PFI/PPP and Reinvestment and Reform Initiative borrowings.

4.27 The Public Income and Expenditure Account, Departmental Estimates and Resource Accounts are the formal mechanisms for reporting Reinvestment and Reform Initiative borrowing to Parliament. They are annual by nature and as such do not identify and report on long term borrowing commitments. In addition, as financial documents they may not be readily understood by the lay reader.

4.28 Given the significance of the proposed borrowing over the next ten years and ensuing commitments, which could extend over thirty five years, we recommend that arrangements are put in place to report on these. These could be similar to the arrangements currently in place for reporting on Private Finance Initiative financial commitments. This involves biannual reports to Parliament, providing at departmental level, the estimated capital spending by the Private Sector, estimated payments on signed deals and advance warning of significant forthcoming PFI commitments. Indeed, to present both Parliament and taxpayer with a clear picture of all future commitments, we recommend that PFI and Reinvestment and Reform Initiative borrowing commitments are reported together. This should be presented at both departmental and summary level. Consideration should also be given to re-producing this information in the Estimates volume (see paragraph 4.26) and as part of an annual report on progress in implementing the Investment Strategy. .

4.29 Unused qualifying revenue, (i.e. where the Department of Finance and Personnel has not accessed all borrowing in a given year), can be rolled forward for use in subsequent years. This "banked" qualifying revenue and the undrawn borrowings are currently not reported or disclosed to Parliament. To improve transparency, we recommend that the undrawn borrowings, (which currently stand at £114 million), and "banked" qualifying revenue, currently £71 million, should be reported annually to Parliament/NI Assembly, in the Public Income and Expenditure Account.

32 These supplement the guidance contained in Government Accounting and Northern Ireland Resource Accounting Manual.

Appendices

Appendix 1
(Paragraph 1.2)

Reinvestment and Reform Initiative - Borrowing Power

Calculation of Qualifying Revenue -
(Source Department of Finance and Personnel (DFP))

Qualifying Revenue - Definition

1. Qualifying revenue is generated when increases in local revenues in Northern Ireland reduce the gap between revenue raised per capita in Northern Ireland and revenue raised per capita in England. The amount of revenue over and above that needed to maintain the gap with England at the previous year's level is referred to as qualifying revenue, and may be used to finance borrowing, subject to the points set out below and subject to Treasury approval. While this formula is currently defined in terms of per capita rather than per household, this will be kept under review.

Qualifying Revenue – Definition of Amount

2. The extent of qualifying revenue will be determined by use of the following formula, which measures the relative levels of revenue per capita in Northern Ireland and England:

$$Q = \frac{R_{NI} \times P_E}{R_E \times P_{NI}}$$

R_{NI} = total rates revenue in Northern Ireland (District and Regional).

R_E = Council Tax and National Non Domestic Rate (NNDR) in England.

P_E and P_{NI} = Population numbers in England and Northern Ireland respectively.

3. For qualifying revenue to be generated in any year, the product of the formula for that year must be greater than the product for the previous year (i.e. Q_1 must be greater than Q_o). The extent of qualifying revenue for year 1 will be the amount by which actual revenue is planned to exceed the amount needed for $Q_1 = Q_o$.

4. It would be difficult for the Northern Ireland system to plan effectively if the process was dependent on decisions on Council Tax and NNDR which are sometimes finalised not long before the beginning of the financial year. Hence it has been agreed that a one-year lag will apply to the formula. Thus, to determine the point at which qualifying revenue for Year 2 starts, the English position for Year 0 and Year 1 will be considered alongside Northern Ireland data for Year 1 and Year 2.

5. Therefore, to determine the extent of qualifying revenue in year 2:

$$Q_1 = \frac{R_{NI(1)} \times P_{E(0)}}{R_{E(0)} \times P_{NI(1)}}$$

$$Q_2 = \frac{R_{NI\ (2)} \times P_{E\ (1)}}{R_{E\ (1)} \times P_{NI\ (2)}}$$

For $Q_2 = Q_1$ (point at which qualifying revenue can be generated), total revenue in Northern Ireland in Year 2 ($R_{NI\ (2)}$) is:

$$R_{NI(2)} = \frac{R_{NI(1)} \times P_{E\ (0)} \times R_{E\ (1)} \times P_{NI\ (2)}}{R_{E(0)} \times P_{NI(1)} \times P_{E(1)}}$$

For Year 2 any Northern Ireland revenue in excess of $R_{NI(2)}$ will count as qualifying revenue for the purposes of borrowing.

6. To calculate the amount of qualifying revenue in Year 2, DFP will need details of actual and forecast revenues (Council Tax and NNDR) for England in Years 0 and 1 and population numbers in England for Years 0 and 1.

7. DFP will plan on the basis of estimated total rates revenue (District and Regional). This leaves a degree of uncertainty in the planning process because the Northern Ireland District Councils do not finalise their rates until mid February before the beginning of the financial year. This aspect of the process may be affected in due course if the Review of Public Administration in Northern Ireland results in material changes in financial roles and responsibilities.

Appendix 2

(Paragraphs 1.2 and 1.14)

Transfer of Military and Security Sites to the NI Executive

Site	Area	Current Development Status
Crumlin Road Gaol	17 acres	The Crumlin Road Gaol was transferred to the Office of the First Minister and Deputy First Minister (OFMDFM) in August 2003 under the Reinvestment and Reform Initiative. Responsibility for the redevelopment of the Gaol was transferred to the North Belfast Community Action Unit, a Division of OFMDFM. In January 2004, the Government announced that the proceeds from the sale of the Malone Road Barracks would be used for the economic and social regeneration of the Gaol The Unit has been taken forward work on the redevelopment of the Gaol including clearing the site, demolishing non-listed buildings, commissioning structural surveys and an initial programme of repair and restoration. In February 2005 the Government announced the closure of the Girdwood Army base, and the purchase of the site by the Northern Ireland Administration. In September 2004, it was announced that the development of the Crumlin Road Gaol and the former Girdwood Army site would be taken forward on a masterplanning basis. The vision for the sites is to create a development project of international significance, which will bring maximum economic, social and environmental benefit to local communities. The development of the sites is being taken forward by the Unit following an administrative transfer to Department for Social Development which took effect in September 2005. The Unit is currently taking forward a master planning competition and has established a local Advisory Panel to make recommendations on the future development of the sites.
Ebrington Barracks	26 acres	It was decided to take the regeneration of the Ebrington site forward through the establishment of an Urban Regeneration Company (URC). Ilex URC was established under the Strategic Investment and Regeneration of Sites (NI) Order 2003 and was formally incorporated on 17 July 2003. The company has been set up by the Office of the First Minister and Deputy First Minister and the Department for Social Development to stimulate social and economic regeneration for the Derry City Council Area. The company recently launched a Regeneration Framework which will determine its future work for the coming years.

The Maze/Long Kesh Site	360 acres	The potential regeneration of the Maze/Long Kesh site is being taken forward by government in partnership with the SIB. A cross-party Consultation Panel was established to bring forward advice on the regeneration of the Maze/Long Kesh site. The Maze Consultation Panel published its final report on 25 February 2005. A number of development scenarios have been recommended which include, a Sports Zone, an International Centre for Conflict Transformation, a 'village' of office, hotel, entertainment and leisure facilities and appropriate transport infrastructure. An expert team of design, development and planning professionals were appointed to prepare a regeneration framework or "masterplan" for the site to explore the potential for turning the vision of the Panel into reality. A full plan was published at the end of May 2006.
Magherafelt Barracks	7 acres	The Magherafelt site has been offered to the North Eastern Education and Library Board to address a local education need. This project is being supported by the Department of Education.
Malone Road Barracks	2.5 acres	The Malone Road Barracks was sold on the open market, in January 2004, for around £3.8million. The proceeds from the sale were ring-fenced for use in the regeneration of the Crumlin Road Gaol.

Source: Office of the First Minister and Deputy First Minister

Appendix 3
(Paragraph 1.10)

The Strategic Investment Board Supports over £4 billion worth of Projects

STATUS	PROJECT NAME	VALUE £	SECTOR	SPONSOR DEPARTMENT	CONTRACTUAL* CLOSE	SERVICE* COMMENCEMENT
Closed	Invest NI Accommodation PFI Project	30m	Accommodation	INVEST NI	QTR 3 2004	QTR 3 2005
Closed	Lisburn City Library	7m	Education	DEL	QTR 2 2004	QTR 3 2005
Closed	Altnagelvin Pharmacy and Laboratory	25m	Healthcare	DHSSPS	QTR 1 2005	QTR 4 2006
Closed	Roads DBFO Package 1	100m	Roads	DRD	QTR 4 2005	QTR 2 2008
Closed	RGH Managed Equipment Services	30m	Healthcare	DHSSPS	QTR 3 2005	QTR 3 2005
Closed	Drinking Water Project (Alpha)	111m	Environment	DRD	QTR 1 2006	Phased from '06[1]
Closed	e-HR	37m	ICT	DFP	QTR 4 2005	N/A
Post ITN	NI Water Treatment Facilities (Omega)	122m	Environment	DRD	QTR 3 2006	Phased from '07[1]
Post ITN	Belfast Education and Library Board	135m	Education	DE	QTR 2 2007	QTR 2 2008
Post ITN	Roads DBFO Package 2	250m	Roads	DRD	QTR 4 2006	QTR 4 2009
Various	Education Legacy Projects (7)	168m	Education	DE/DEL	N/A	N/A
QJEU	BIFHE - New Building, Belfast	45m	Education	DEL	QTR 4 2006	QTR 4 2007
QJEU	Broadband Aggregation	N/A	ICT	DFP	QTR 4 2006	Phased
OBC	Multi Use Sports Stadium	87m	Leisure	DCAL	QTR 2 2008	QTR 1 2009
OBC	Workplace 2010 (1st phase)	250m	Accommodation	DFP	QTR 2 2007	Phased
OBC	Delivery of Schools Estate (3 stage)	N/A	Education	DE	Phased	Phased
Pre OBC	Enniskillen Acute Hospital	240m	Healthcare	DHSSPS	QTR 4 2007	QTR 3 2010
Pre OBC	Ulster Hospital Redevelopment	240m	Healthcare	DHSSPS	QTR 1 2008	QTR 2 2011
Pre OBC	Omagh Enhanced Local Hospital	95m	Healthcare	DHSSPS	QTR 1 2008	QTR 4 2010
Pre OBC	Women and Children's Hospital - RGH	320m	Healthcare	DHSSPS	QTR 3 2008	QTR 4 2010
Pre OBC	Antrim Area Batch	350m	Healthcare	DHSSPS	QTR 3 2008	QTR 4 2011
Pre OBC	Musgrave Park Hospital Redevelopment	220m	Healthcare	DHSSPS	QTR 2 2009	QTR 3 2012
Pre OBC	Craigavon Hospital Redevelopment	220m	Healthcare	DHSSPS	QTR 4 2008	QTR 4 2011
Pre OBC	Daisy Hill Hospital Redevelopment	90m	Healthcare	DHSSPS	QTR 4 2009	QTR 4 2012
Pre OBC	Mater Hospital Redevelopment	100m	Healthcare	DHSSPS	QTR 4 2009	QTR 4 2012
Pre OBC	Belfast City Hospital Redevelopment	150m	Healthcare	DHSSPS	QTR 2 2009	QTR 2 2012
Pre OBC	Altnagelvin Redevelopment	100m	Healthcare	DHSSPS	QTR 4 2010	QTR 4 2013
Pre OBC	RVH Redevelopment	N/A	Healthcare	DHSSPS	QTR 4 2010	QTR 4 2013
Pre OBC	Primary and Community Care	550m	Healthcare	DHSSPS	Phased	Phased
Pre OBC	Downshire Site Regeneration	N/A	Healthcare	DHSSPS	QTR 2 2007	N/A
Pre OBC	Knockbracken Hospital Site Redevelopment	N/A	Healthcare	DHSSPS	QTR 4 2007	N/A
Pre OBC	Belvoir Park Hospital Site Regeneration	N/A	Healthcare	DHSSPS	QTR 3 2007	N/A
Pre OBC	Health Estate Asset Management	N/A	Healthcare	DHSSPS	Phased	Phased
Pre OBC	City of Derry Airport	10m	Transport	DRD/ Derry City Council	N/A	N/A
Pre OBC	Waste Management	300m	Utility	DOE/Local Authorities	QTR 1 2008	Phased: 2010 - 13
Pre OBC	Water Reform	N/A	Environment	DRD	N/A	N/A
Pre OBC	Olympic Facilities	53m	Leisure	DCAL	Phased: 2008	Phased: 2010
Pre OBC	Emergency Services	N/A	Healthcare	DHSSPS	N/A	N/A

GLOSSARY:
ITN = Invitation to Negotiate
OBC = Outline Business Case
OJEU = Official Journal of the European Union
VALUE = Indicative capital value of the initial investment in the project
Contractual close and service commencement dates are reported in financial years.

* Best estimate at published date

[1] Project consists of individual facilities that will be phased in over time

Note: Project costs shown above represent the position in June 2006, and may differ from earlier published estimates. Milestone dates beyond June 2006 represent latest estimates.

Source: SIB Annual Report and Accounts 2005/06

Appendix 4
(Paragraph 1.12)

SIB Initial Project Milestones for Key PPP Projects

Project	Outline Business Case	Advisors Appointed	OJEU Project Published	Shortlist Bidding	Preferred Bidder Negotiation	Contract Agreement	Build/ Refurb	Service/ Operation
Invest NI				T:Q3 2003 A:Q4 2003	T: Q1 2004 A: Q2 2004	T: Q2 2004 A: Q3 2004	T: Q2 2005 A: Q4 2005	T: Q2 2005 A: Q4 2005
Water Service PPP Bundle 1		T: Q3 2003 A: Q4 2003	T: Q4 2004 A: Q2 2004			T: Q4 2005 A: Q1 2006		
Water Service PPP Bundle 2		T: Q3 2003 A: Q4 2003	T: Q4 2004 A: Q1 2005			T: Q2 2006 A: Not Yet Achieved		
M1/Westlink		T: Q2 2003 A: Q3 2003	T: Q4 2003 A: Q4 2003		T: Q1 2005 A: Q2 2005	T: Q2 2005 A: Q4 2005		T: Q4 2006 A: Not Yet Achieved
Rapid Transit	Study							
Belfast Schools		T: Q2 2003 A: Q4 2003	T: Q4 2003 A: Q1 2004					
Non-Accommodation Assets	T: Q4 2003 A: Project Suspended							
New Hospital in West	T: Q4 2003 A: Q1 2006							
e-HR		N/A	T: Q3 2003 A: Q2 2003				T: Q3 2006 A: Q1 2006	

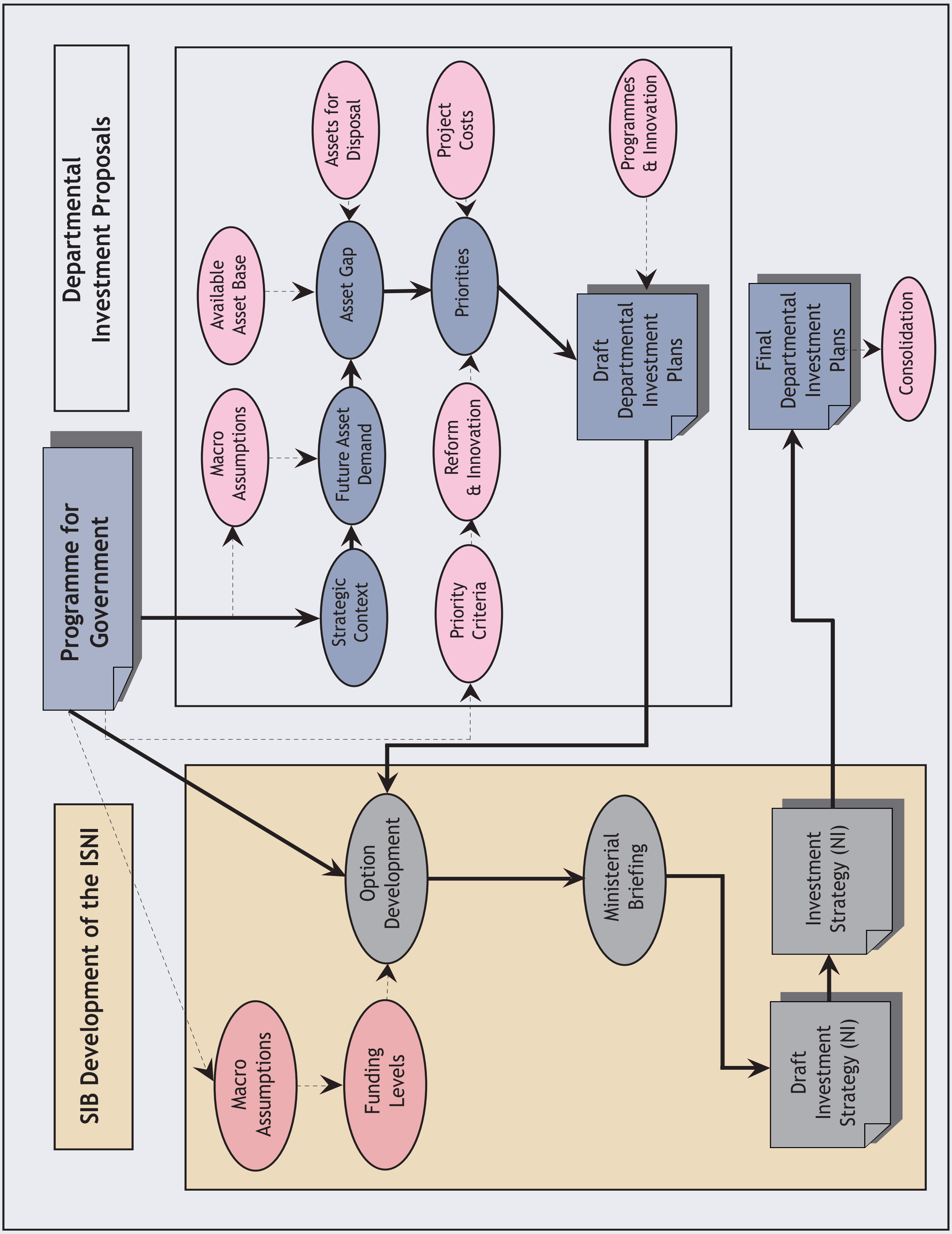
Source: SIB Business Plan 2003-04

T = Target Targets are milestone dates, taken from SIB Business Plan 2003-04

A = Actual These are the latest positions as at June 2006

Appendix 5
(Paragraph 2.9)

Development of the Investment Strategy
Source: SIB



Appendix 6
(Paragraph 3.6)

CEF

Construction Employers Federation

Ref [illegible]

143 Malone Road, Belfast BT9 6SU
Telephone: 028 9087 7143
Facsimile: 028 9087 7155
E-mail: mail@cefni.co.uk
Website: www.cefni.co.uk

Mr B McMaster
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

6th June 2006

Dear Brendan

Reinvestment and Reform – Improving Northern Ireland's Public Infrastructure

Thank you for your letter of 16th May 2006 inviting the Federation to provide comment on the extract from the draft report on the above subject which John Dowdall intends to publish and lay before Parliament.

I would make the following comments.

1. With regard to the local construction industry's capacity to meet the requirements of the Investment Strategy for Northern Ireland it is interesting to note that public sector capital investment has risen from some £600m per annum to approximately £1.3billion per annum. This is a level which is expected to be broadly maintained until 2008. Interestingly we have received no reports on the industry being "overstretched".

2. We do have ongoing concerns regarding the public sector's ability to deliver the investment strategy. Specifically we are concerned that:

   - Individual Departments must publish detailed timed and costed work programmes to enable the industry to 'gear up'. There is little point in questioning the industry's capacity if we are not clear exactly what is expected of us. We are therefore particularly supportive of Paragraph 3.11 which suggests the development and publication of transparent individual departmental investment plans.

     In this context, we also support the suggestion that a three year financial planning horizon is rarely sufficient and that a five year planning horizon such as that adopted in the Irish Republic would be more appropriate.

   - We have serious ongoing concerns regarding the efficiency of the planning system. Whilst we acknowledge the Planning Service is reorganising its operations to provide a sharper focus on major investment infrastructure projects, the planning system generally remains slow and inefficient and in our opinion is a constraint on economic development in the Province.

3. We accept fully that a proportion of the investment strategy (approximately 20%) will be delivered by way of PPP/PFI. In this regard, local construction companies have

already demonstrated that they can form appropriate partnerships to ensure they are short listed, secure the necessary finance and are able to absorb the bidding costs.

We firmly believe however that the Investment Strategy must ultimately be for the benefit of the Northern Ireland economy and for local companies of all sizes. We are concerned therefore that there appears to be pressure for a greater proportion of the Strategy to be delivered through PPP/PFI.

The Federation also has concerns regarding the costs and timescale involved in the PPP/PFI procurement process. This is undoubtedly creating a barrier to participation in these projects.

4. With regard to labour issues, the Federation is working actively through the Joint Council and with our colleagues in the CITB to develop appropriate training and apprenticeship arrangements for the construction industry.

   At the same time, there is no doubt that the industry will respond to market demand and the use of labour from outside Northern Ireland will continue to be an important input to the process.

I trust you will find these comments helpful.

Yours sincerely

John Armstrong
Managing Director

Appendix 7
(Paragraph 3.18)

Construction Industry Market Capacity Study
Recommendations and Action Plan - Recommendations by Timescale

RECOMMENDATION	IMMEDIATE	SHORT TERM	MEDIUM TERM
Labour Supply and Skills			
1. Review the allocation of projects under ISNI for the period 2008 onwards to ensure that there are no unnecessary peaks or troughs of activity	√		
2. Review the labour market assumptions made in the report on an annual basis.		√	
3. Review the projected skill demands from this analysis and produce a costed action plan.		√	
4. Establish a Construction Skills Taskforce Working Group to take this action plan forward.		√	
5. Investigate future supply and demand for professional skills.		√	
6. Discuss the possibility of developing a construction employment series that is accepted by the industry		√	
7. Discuss the possibility of developing labour conversion factors to enable more accurate planning and forecasts of labour demand.			√
8. Monitor employment by local firms of staff from outside Northern Ireland and impact on labour costs		√	
9. Give specific consideration to training initiatives which will benefit those not currently participating in the construction labour market.		√	
10. Work with DEL and CITB to promote the construction industry as a promising career option for school leavers, graduates and others.			√
Performance, Competition and Efficiency			
1. Work with InterTradeIreland to develop overall construction capacity on an all-Ireland basis.		√	
2. Establish and maintain a a database of construction knowledge on best practice in construction and innovation in building products/systems.		√	

RECOMMENDATION	IMMEDIATE	SHORT TERM	MEDIUM TERM
3. Build trust and develop teamwork within the industry between government and all sectors of the industry through the Construction Industry Forum.		√	
4. Review the potential for an all-Ireland Applied Construction Innovation Centre to encourage innovation and best practice.			√
Industrial Capacity			
1. Explore with major local contractors potential for increased use of partnerships with major international firms.		√	
2. Review availability of training for local firms in strategic planning and general business planning to facilitate bidding for ISNI contracts		√	
3. Review and develop role of Construction Industry Forum to deal with issues affecting the industry arising from this report		√	
4. Assist Invest NI client companies to maximise the opportunities provided by ISNI to build world class local construction companies.		√	
5. Encourage participation in the NI market by overseas firms to provide increased capacity, enhanced competition, promote innovation and upgrade capabilities in the domestic construction market.		√	
Institutional Capacity			
1. Undertake a review of the nature, skills and level of resources required and available across the public sector to deliver ISNI	√		
2. Review the current planning process and identify a series of reforms and improvements that will underpin the delivery of ISNI	√		
3. Use real projects as pilots/initiatives to build trust between public and private sectors.	√		

RECOMMENDATION	IMMEDIATE	SHORT TERM	MEDIUM TERM
4. Establish and agree with the Planning Service a list of priority infrastructure projects that may be accelerated through the planning process.		√	
5. Review with the Planning Service scope for extending permitted developments, including private sector delegation, to facilitate implementation of ISNI.		√	
6. Designation of multidisciplinary teams to deal with priority projects at headquarters level			√
7. Re-establish and review the role of Construction Excellence Northern Ireland Centre.			√
Procurement			
1. Identify and train Senior Responsible Owners for all major capital investment projects.	√		
2. Apply all aspects of the guidance on Achieving Excellence in Construction to the development and procurement of all major capital investment projects.	√		
3. Promote and enable the implementation of new approaches to the development and procurement of major capital investment projects, approaches such as strategic partnering, batching and bundling.	√		
4. Government to evaluate specific project risks through early gateway and set key timescales and plans to manage prior to projects going to market.	√		
5. Review existing procurement procedures and processes and establish a common approach to the procurement of major capital investment projects.		√	
6. Develop and establish a new bid evaluation framework for all major capital investment projects that places the emphasis on quality and value for money rather than on lowest cost.		√	

RECOMMENDATION	IMMEDIATE	SHORT TERM	MEDIUM TERM
7. Apply the Gateway Review Process established by the Office of Government Commerce to the development and procurement of all major capital investment projects.		√	
8. Develop a consistent approach to equality and employee related issues associated with Public Private Partnership projects.		√	
9. Review existing project management arrangements and implement recommendations for enhancing them.			√
10. Develop a programme aimed at ensuring that all officials involved in the development and procurement of major capital investment projects are appropriately trained.			√
Marketing and Promotion of the Investment Strategy.			
1. Establish and resource a dedicated communications and information resource responsible for managing all aspects of marketing and promotional activity related to ISNI.	√		
2. Develop an integrated Communications Strategy for the promotion of ISNI .	√		
3. Develop a detailed listing of the individual projects in the short term that make up the Investment Strategy for Northern Ireland and disclose through the internet portal.	√		
4. Work with stakeholders to address 'chill factor' and ways of encouraging greater external interest by outside firms in working in Northern Ireland.	√		
5. Establish a working group led by CPD to establish clear channels for communication and promotion of projects and other opportunities under ISNI.		√	

Appendix 8
(Paragraph 3.25)

Northern Ireland Audit Office Pathfinder Report: Architectural Design Quality Level 4 Definitions

Site Planning	• Functional separation / integration optimises use of site. • Good solar access. • Good vehicle access / parking / pedestrian access. • Parking level. • Adequate playing ground(s) and field. • Adequate space for future build extension.
Architectural Merit, External	• Design has obvious firmness, commodity and delight. • No features that are obvious architectural excesses. • Users like and respect the building. • Excellent materials selection and placement. • Adequate shelter from rain and sun.
Architectural Merit, Internal	• Design has obvious beauty and clarity of purpose. • Internal aspects of good scale and respect user's size. • Daylight quality and acoustics excellent. • Excellent use of colours, finishes and furniture. • Interior allows churn.
Space Planning	• Excellent utilisation of space meeting business need with good juxtaposition of key spaces. • Support spaces, storage and circulation all adequate. • No congested areas at any time. • Good social space.
Specification	• Component selection and placement obviously very carefully considered with adequate input from experienced users and maintenance staff. • Good provision for maintenance. • No obvious potential design defects at materials' junctions.
Sustainability	• Environmental impact minimised by proper consideration of environmental, economic and social factors. • Heating and lighting systems and components robust, reliable and competently optimised

Source: Extract from Bulding Research Partnership Limited 2004 - Design Quality Matrices

Appendix 9
(Paragraph 4.18)

£1.5 billion in Unitary Payments have already been committed under PFI/PPP signed agreements at March 2006

Year	Payment (£m)	Year	Payment (£m)
2006-07	98.845	2019-20	67.169
2007-08	110.814	2020-21	67.521
2008-09	113.382	2021-22	31.310
2009-10	115.831	2022-23	31.848
2010-11	117.898	2023-24	32.397
2011-12	67.988	2024-25	32.956
2012-13	65.867	2025-26	33.528
2013-14	67.430	2026-27	30.281
2014-15	63.445	2027-28	26.095
2015-16	65.017	2028-29	26.613
2016-17	66.614	2029-30	27.043
2017-18	68.155	2030-31	17.590
2018-19	65.541	2031-32	1.646
Total Commitment			£1,512.825m

Source: OFMDFM Return to HM Treasury
These figures reflect the total amount of unitary payments payable under signed PFI/PPP agreements

NIAO Reports 2005-06

Title	NIA/HC No.	Date Published
2005		
Modernising Construction Procurement in Northern Ireland	NIA 161/03	3 March 2005
Education and Health and Social Services Transport	NIA 178/03	9 June 2005
Decision Making and Disability Living Allowance	NIA 185/03	16 June 2005
Northern Ireland's Waste Management Strategy	HC 88	23 June 2005
Financial Auditing and Reporting: 2003-2004 General Report by the Comptroller and Auditor General for Northern Ireland	HC 96	7 July 2005
Departmental Responses to Recommendations in NIAO	HC 206	19 July 2005
The Private Finance Initiative: Electronic Libraries for Northern Ireland (ELFNI)	HC 523	10 November 2005
2006		
Insolvency and the Conduct of Directors	HC 816	2 February 2006
Governance Issues in the Department of Enterprise, Trade and Investment's Former Local Enterprise Development	HC 817	9 February 2006
Into the West (Tyrone & Fermanagh) Ltd: Use of Agents	HC 877	2 March 2006
Department for Social Development: Social Security Agency - Third Party Deductions from Benefit and The Funding of Fernhill House Museum	HC 901	9 March 2006
The PFI Contract for Northern Ireland's New Vehicle Testing Facilities	HC 952	21 March 2006
Improving Literacy and Numeracy in Schools	HC 953	29 March 2006
Private Practice in the Health Service	HC 1088	18 May 2006
Collections Management in the National Museums and Galleries of Northern Ireland	HC 1130	8 June 2006
Departmental Responses to Recommendations in NIAO	HC 1149	15 June 2006
Financial Auditing and Reporting: 2004-2005	HC 1199	21 June 2006
Collections Management in the Arts Council of Northern Ireland	HC 1541	31 August 2006
Sea Fisheries: Vessel Modernisation and Decommissioning Schemes	HC 1636	26 October 2006
Springvale Educational Village Project	HC 40	30 November 2006

Printed in the UK by the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
PC1846 C6 12/06

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ISBN 0-102-94121-1
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