Northern Ireland Assembly

Public Accounts Committee

OFFICIAL REPORT (Hansard)

NIAO Reports: ‘The Future Impact of Borrowing and Private Finance Commitments’ and ‘Belfast Metropolitan College’s Titanic Quarter PPP Project’: BMC, DEL, NIAO and SIB

17 September 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Michaela Boyle (Chairperson)
Mr John Dallat (Deputy Chairperson)
Mr Trevor Clarke
Mr Michael Copeland
Mr Alex Easton
Mr Paul Girvan
Mr Chris Hazzard
Mr Ross Hussey
Mr Daithí McKay
Mr Adrian McQuillan
Mr Seán Rogers

Witnesses:

Mr Mike Brennan	Acting Treasury Officer of Accounts
Ms Elaine Hartin	Belfast Metropolitan College
Ms Marie-Thérèse McGivern	Belfast Metropolitan College
Mr Kieran Donnelly	Comptroller and Auditor General
Mr Derek Baker	Department for Employment and Learning
Mr Tom Redmond	Department for Employment and Learning
Mr Pat O'Neill	Strategic Investment Board

The Chairperson: Do any members wish to declare an interest in this matter? No.

You are all very welcome, panel. We have with us Mr Derek Baker, who is the accounting officer for DEL; Ms Marie-Thérèse McGivern, the principal and chief executive of Belfast Metropolitan College (BMC); Ms Elaine Hartin, chief operating officer of BMC; Mr Tom Redmond, who is the head of further education estates branch; and Mr Pat O'Neill from the Strategic Investment Board (SIB). Thank you for joining us once again today. You are all very welcome to our Committee. I give my apologies to the panel because, at our last evidence session, I had to leave early. I thank the Deputy Chairperson for taking over that day.

Members, you will find biographies for all our witnesses in your electronic packs. Before we start our questioning, I draw your attention to correspondence at page 27 of your pack. It relates to the Committee's request for information on the breakdown of construction costs for the two bids and the shadow bid model. Are members content to note that correspondence and that members who will ask questions on that issue can probe it further during their questioning of the witnesses?

Members indicated assent.

The Chairperson: In your green confidential packs, you will find correspondence from Mr Baker dated 15 September in relation to the sale of College Square East. That follows the correspondence of 8 September that is also in your packs and relates to the commercial confidentiality of the details of the sale. Those members who have not done so can glance over it now. It is just to note it at this stage.

I will start the session by asking a number of questions in relation to the sale of the buildings at Brunswick Street and College Square East and the role of the Strategic Investment Board in the public-private partnership (PPP) project. I will then ask the Deputy Chairperson to come in with his questions, as he has indicated that he wishes to ask questions in relation to the role of the SIB.

Although the detail of the possible sales of those two properties is largely commercial in confidence, can you, Mr Baker, give any indication of whether the sales will make significant inroads towards recovering the £20 million of taxpayers' money spent on the project? Is the shortfall as significant as the Department had anticipated?

Mr Derek Baker (Department for Employment and Learning): Thank you, Chair. On your first point about the commercial confidentiality, I subsequently wrote to you, as Chair, to indicate that we had taken legal advice, and now that the sale has gone through, there will not be commercial confidentiality surrounding those who had made the sale or the amounts involved. That will be a matter of public record. I say that so that there is no misunderstanding about the commercial confidentiality. It is totally open knowledge now.

With regard to the income received, the members of the Committee will have seen that the income received from the sale amounts to £5·5 million, and, as you have indicated, that falls far short of the amount that would have been received had the properties been sold some time ago. So far as the Department's budget is concerned, the Department has long recognised that the receipts from the sale of those properties would not reach the valuation that was put on the properties quite some years ago before the property crash, and the Department has budgeted accordingly and made provision for that. So, that has not adversely affected any other capital projects that have been run by the Department. There is a big shortfall in terms of the difference between the receipt and the amount that was paid by way of capital payments on that project, but the Department has long recognised that that would be the case.

The Chairperson: Taking account of retaining the two buildings and the other associated costs, what do you assess as the overall cost to the Department of the college project?

Mr Baker: As we explained last time, a decision was taken in December 2006 to remove the disposal of the two surplus properties from the private finance initiative (PFI) deal. So, from that point in time, the assessment of the value for money of the PFI deal excluded consideration of those properties. The PFI deal value-for-money assessment did, however, fully factor in the increased capital payment that was associated with the deal initially — the £10 million — and then later the increase of that to £15 million. That was fully considered in the value-for-money assessment and the benchmarking of that assessment against the shadow bid model. That value-for-money assessment did show a positive economic advantage in pursuing the procurement route that was subsequently decided upon.

The Chairperson: Thank you, Mr Baker. I will come back with questions later. We will move on and give members the opportunity to ask questions of the witnesses. I will call Mr Ross Hussey and Mr Michael Copeland to cover the governance arrangements.

Mr Hussey: From what we can see here, BMC did not have a robust estates strategy in place. How can that be considered acceptable given the amount of money involved in the project? The audit trail was found to be lacking. Again, how can that be considered acceptable?

Mr Baker: I will take that initially, and I might ask Marie-Thérèse McGivern to comment from the college's perspective. The Audit Office report rightly found that the audit trail, particularly for the schedule of accommodation, was poor. The documentation was hard to follow. That said, it is not the case that there was not a huge amount of work vested in developing the schedule of accommodation. In fact, there were 42 files and folders of documentation. The difficulty for the auditors — I have every sympathy with them — is that they could not pick their way through that to find a clear audit trail. However, a very detailed schedule of accommodation was developed for the tender, outline business case and contract stages of the process. The great detail of that schedule of accommodation has permitted the college, through the contract management in the construction phase, to ensure that that was delivered exceptionally successfully and to control the costs and any changes. I fully accept that, at the audit, the paperwork was not in the shape that it should have been, but the work was done in great detail. Indeed, in terms of outcomes, the schedule of accommodation resulted in the specification of a building that has met requirements, has been operating at capacity and has attracted the number of students that was predicted.

Sorry, I have just lost sight of the other aspect of your question — it was the estate strategy.

Mr Hussey: Yes.

Mr Baker: Apologies. On that point, it is also not the case that the college ignored estate strategy. The audit report makes it very clear that, when the governing body was considering estate and whether to proceed with this project, it had before it an estate strategy, which covered all the main issues that should have been covered. I fully accept that the estate strategy in place in 2003, when they are looking at this, did not align entirely with the guidance on an estate strategy that the Department issued in 2004.

Indeed, if we row back to that timing, I suppose that the Department created difficulties because, in issuing its estate strategy guidance in 2004, the Department, at precisely the same time, issued the Executive strategy Further Education Means Business. That was a radical new strategy for the whole further education sector. An integral part of that new strategy was a very radical rationalisation of the whole further education sector, from 16 separate colleges right down to six, to be achieved within three years. So, all the focus of the colleges was really concentrated, at that time, at making good that rationalisation. You can imagine the upheaval. And the Department accepted that it would not have been realistic or appropriate to expect a number of colleges, which were going to disappear as separate entities, to invest time, effort and energy in developing a new estate strategy when that really would have been a matter for the new governing bodies of the new six colleges that were to come into being in August 2007. An analogy might be the rationalisation of local councils from 26 to 11. You could not really expect the 26 councils to develop community plans in advance of the 11 councils springing into action.

Mr Hussey: I want to come back on that briefly. You have accepted that the audit trail was not what would have been expected.

Mr Baker: I absolutely accept that.

Mr Hussey: Obviously, if you are someone who comes along to do an audit trail, you expect certain things to be in certain places. How could that have been allowed to happen? The Northern Ireland Audit Office really had a difficult job. How could you have overseen that? There may have been files for everything, but, clearly, you have the same level of expertise as the Audit Office. How was that allowed to happen?

Mr Baker: Let us reflect for a moment on what we are dealing with here. We are dealing with a schedule of accommodation for a further education college. That is an extremely complicated piece of work because, when you are dealing with further education, it is an awful lot different from dealing with a school. You are dealing with a schedule of accommodation for a facility that involves full-time students, part-time students, evening students, short courses, recreational courses, academic courses — so a huge amount of work goes into that. We did not have the fancy IT systems then to gather all of that up easily, so there was a huge amount of engagement between the college management staff and the individual lecturers and heads of department. That information was built up through an iterative process and recorded in various files, and that resulted in the schedule of accommodation. So, I accept that the building up of that documentation was not presented in a neat format, in which the auditors could go through it from A to Z and say, "Yes, that is exactly what happened when". However, the end product was a very detailed, effective and fit-for-purpose schedule of accommodation.

I know that I am hogging the discussion. I do not know whether anyone from the college wants comment.

The Chairperson: Mr Clarke wants in for a small supplementary question.

Mr Clarke: I do not know whether you can answer this, Derek, or maybe Elaine can. Would the IT have been in the schedule of accommodation?

Mr Baker: No. Sorry, I am making a guess by saying, "No". I will ask Elaine to comment on that.

Ms Elaine Hartin (Belfast Metropolitan College): The schedule of accommodation is effectively the room layout for the building. That is driven by standards set by the Education and Training Inspectorate (ETI), which allow certain amounts of space for full-time students and specialist areas. So, it is driven by the number and type of students we have and the type of facilities on offer. For example, the space that you would be allocated for catering areas would be significantly larger than those allocated for a standard classroom. The schedule of accommodation focused only on the building and the accommodation that was needed for the build. The IT requirements came outside of and after that.

Mr Clarke: Would you like to make any further comment on the IT provision?

Ms Hartin: The IT provision was outside the original business case for the PFI deal, in line with guidance from Treasury. That is because IT has a very short life and requires replacement, so it is not ideal to put it into a long-term contract such as a PFI one. The college developed the IT business case, which was submitted in May 2011 and set out all of the network infrastructure that was required, including the "first fix" — all the wires that would have gone into the wall — and all the hardware, including the PCs and software.

Mr Clarke: Was that part of the original business case?

Ms Hartin: No, it was a completely separate business case.

Mr Clarke: I can understand the point about the life expectancy of the equipment, but that would not apply to the cabling, so why would it have not been included in the original price?

Ms Hartin: IT was excluded. To be honest, Trevor, it is to do with Treasury guidance, and the way that the contract was set up the college provided the infrastructure that went in. Tom, you can correct me on this, but the contractor provided to a point on the wall.

Mr Tom Redmond (Department for Employment and Learning): All of the infrastructure was covered by the first business case. The loose fittings, the desktops and the things that plug in came separately in the IT business case. In the PPP project, the wiring, all of the plugs and all of the infrastructure was there.

Mr Clarke: It was there.

Mr Redmond: It was there.

Mr Baker: Mr Clarke, as Elaine said, Treasury guidance is very explicit that IT projects cannot be included in a PFI because of the difficulties with transferring the risk for the refreshing of equipment.

Ms Marie-Thérèse McGivern (Belfast Metropolitan College): There were capability issues, which are well documented in the college, in terms of being able to get that IT specification and business case together. So, there was a delay.

Mr Clarke: Sorry, there was a capability problem.

Ms McGivern: There was a capability problem.

Mr Clarke: What was it?

Ms McGivern: The capability problem that I identified when I went in, in November 2009, was that I had no accountancy help whatsoever. We did not employ a single qualified accountant in a business dealing with £60 million, which I found quite difficult to deal with. *[Interruption.]* The Department, as you know, instigated an efficiency review of the organisation, which said that there were significant capability issues in various parts of the organisation that we had to address through the development of a college improvement plan. We developed that plan, and it was approved by the Department in November 2010. Part of that was the restructuring, and it allowed us then —

Mr Clarke: Can I stop you there, Marie-Thérèse? In terms of the lack of accountancy within a multimillion-pound organisation, if an accountant had been in place, would they have been involved in the contract?

Ms McGivern: They certainly would have been involved in drawing up the business cases and doing a lot of the background work that is required in pulling through good contract practice —

Mr Clarke: Do you see it as a failure that they were not involved?

Ms McGivern: It was just part of the whole difficulty in the organisation. All of these things are in the public domain. The efficiency review was finally published in January 2010, but the Department had instigated it at the end of 2008. We were living with the trail of difficulties that came as a result of the merger as undercurrents.

Mr Clarke: If you were to identify someone who was responsible for that failure or should have made sure that that gap was filled, who would that be?

Ms McGivern: My mother always tells me that it takes two to tango.

Mr Clarke: Well, tell me two people; I do not mind.

Ms McGivern: It is not a "Name names" scenario. I think —

Mr Clarke: Positions will do, then.

Ms McGivern: — that things —

Mr Clarke: Positions will do.

Ms McGivern: Two organisations come together. They do not do, in my view, the correct due diligence. They do not get to know each other. They create a marriage that, at best, was —

Mr Clarke: A civil partnership.

Ms McGivern: Well, maybe a shotgun wedding. It just took a while to unravel the difficulties that emerged from that merger and get to the situation we are in today, which is much better than where we were.

Mr Clarke: So, you acknowledge that some of the problems could have led to the awarding of this contract and the criticisms the Audit Office has in relation to that?

Ms McGivern: No one was disagreeing with the efficiency review. We accept the difficulties that were in the college. That is documented.

Mr Clarke: I am focusing more on the procurement, how we arrived at this location and this contract, and how it was awarded and the problems around that.

Ms McGivern: If the suggestion is that one of the factors in the time that was taken to do the contract was capability issues in the governing body and staff of the organisation, yes —

Mr Clarke: You are acknowledging that.

Ms McGivern: I am absolutely acknowledging that. That is —

Mr Clarke: That is progress.

Ms McGivern: — one of the factors.

The Chairperson: Mr Hussey, are you finished?

Mr Hussey: No, I want to go back. I want to keep on the estate strategy. In appendix 3 on page 69 of the report, you have made various comments about the estate strategy. Do you agree that, unlike this project, the estate strategy should be fully documented and supported by an adequate audit trail? Can you confirm that they were in place for the projects listed in appendix 3?

Mr Baker: Sorry, do you mean all the projects for all the colleges?

Mr Hussey: Yes.

Mr Baker: I cannot confirm that today, Chair.

Mr Hussey: Can you confirm it to the Chair in due course?

Mr Baker: I will. I cannot comment on each of the other individual projects, some of which predated this one. We need to bear in mind that some of the projects predated even the issue of guidance on an estate strategy. The college had in place an estate strategy when decisions were taken about the Belfast Metropolitan Titanic Quarter campus. It did have an estate strategy.

Mr Hussey: Again, when we mention audit trails, we are asking, obviously, for adequate audit trails. Maybe you will comment on what you believe the audit trails to be because, clearly, in the first one, you accept that it was not the easiest of audit trails to follow.

Mr Baker: That is absolutely right. I do not know whether Elaine wants to comment on that. It is sort of her paperwork. I am commenting at third hand on the paper trail in the college.

Mr Hussey: Clearly, from what I have seen, you have a similar background to Audit Office officials. What was your opinion of the audit trail?

Ms Hartin: I think that the audit team will agree that, when I first became involved in responding to the auditors, I sat down with our team, and there was a lot of work going into generating —

Mr Hussey: I thought that you were going to say, "and cried".

Ms Hartin: — and providing the information.

Ms McGivern: She did, many times.

Ms Hartin: I do not need to disclose that. When we sat down with the team, I said, "Look, we're not disagreeing that we've ended up with the right product that's being used and is effective. What we're discussing here is the quality of the audit trail". We both concluded that that was the issue. It was difficult to follow its way through. The audit trail was not what I would expect, and it is not something that I would accept from my teams today.

Mr Baker: Chair, can Tom make a comment in response to Mr Hussey's question?

The Chairperson: Yes.

Mr Redmond: Mr Hussey asked about all the other projects in appendix 3. Some of them obviously predate the guidance to which we are referring, which was issued by the Department in relation to estate strategies in 2004-05. I assure the Committee that each of the projects had a schedule of accommodation; i.e. the amount of teaching space and other space that was specified in the project was appropriate to the number of students in the college at that time. Each of the schedules of accommodation, including the one for this current project, was signed off by the Education and

Training Inspectorate as being the right type and amount of accommodation commensurate with the student numbers being taught and trained across the different vocational areas.

Mr Hussey: My concern, from what I see, relates to audit trails and what one person might find acceptable. It should be clear and easily understood so that the Audit Office can go in and give a clean bill of health. That is my main concern. If somebody has to find 18 files to get the answer to one question, that is totally wrong. I am sure that it does not happen today. It should not have happened then. In my background in business, I would not have got away with it.

Mr Redmond: Adding to what I have already said — Derek referred to this earlier — our IT systems are much more sophisticated now in dealing with converting enrolments into full-time equivalent students. As Derek alluded to, students in FE colleges can be six hours a week for six weeks a year. Adding up and converting all those into full-time equivalents in a paper system was convoluted and obviously difficult to follow. However, we have refined our systems; we can now do it electronically. We have been supported with assistance from the Strategic Investment Board in upgrading and updating those systems to enable us to provide a clearer audit trail.

I also assure the Committee that, as Derek alluded to, the number of students we created the building for is the number of students currently using it. However we got there, it seems to have been the right number. I hope that the Committee can take some assurance from that.

Mr Hussey: And not an audit trail on a packet of cigarettes or something.

Ms Hartin: I want to give further assurance to the Committee. Marie-Thérèse and I had an audit committee meeting last night. We received our internal audit assurance for the college last night, and we received a substantial internal audit assurance reading. Four years ago, that reading was limited. That shows the journey and that these are the types of things that will not happen again in the college.

Mr Clarke: I was struck by your honesty, Elaine, which is unusual for me when witnesses defend something. You did not acknowledge that you cried, but I would not want to put you in that position. We are talking about the audit trail and the paperwork. You were honest when you said that it was not where you would have liked to see it. In your honest opinion, do you believe that, now that you have seen what you have, it demonstrates value for money against the other bid?

Ms Hartin: In terms of the numbers set out and the process that has been followed, all the business cases went through due process and demonstrated that the preferred bidder and the bid that we received was the preferred option in those business cases. I spent a lot of my life writing business cases and working through them. I understand the robustness of the process, including that which comes through from departmental and DFP economists as they challenge and go through. Given that all the business cases came out demonstrating that this was the project that gave the best value for money, yes.

Mr Clarke: I will put a caveat down: I will ask you a question towards the end of the process again today, given some of the questions that some other members want to ask, to see what your response is.

Mr Copeland: Derek, with your permission, I will address my questions to you, and you can field them as you deem to be appropriate. I draw your attention to footnote 39 on page 34 of the report, particularly the last sentence, which indicates:

> *"At the time, and currently, the Department has not specified targets for space utilisation."*

In your view, is that an omission? Was it something that should have been in the matters that we have just discussed? Assuming that that is correct — I have no reason to think that it is not — how did the Department satisfy itself that the college was making the most effective use of its buildings?

Mr Baker: Sorry, will you refer me to the paragraph again?

Mr Copeland: It is footnote 39 on page 34.

Mr Baker: Sorry, I missed you saying "footnote". That is correct: the Department had not specified that. I acknowledge that.

Mr Copeland: Should that have been part of an estate strategy, or is that a separate thing?

Mr Baker: The Department subsequently issued guidance on an estate strategy. It wants all these things to be covered in the estate strategy. You move on over time, and you improve your procedures and your guidance. What I would say — Tom alluded to this — is that much greater sophistication has been introduced to the public sector — I do not just mean the further education sector, but the public sector across the board — with the help of the Strategic Investment Board and asset management unit. We now have an asset management strategy for the whole public sector estate. An integral element of the new strategy is getting the best of space utilisation and creating benchmarks so that we can compare the usage of one building against another. We are actually in the process of refining space utilisation benchmarks for the further education sector.

Now, you kindly gave me the option, Mr Copeland, to hand off questions to people. Pat O'Neill from the Strategic Investment Board is here. With your permission, I will ask Pat to say a wee bit more about the work of the asset management unit in that regard.

Mr Copeland: No, no. I understand it and have no issue with that, Pat. What I am really asking is this: was there a reasonable expectation or requirement that specific targets for space utilisation should have been in existence, taken into account and actioned on, or is that applying the circumstances of today to something historical? In other words, should it have been done and, if it was not done, why was it not done? To round it off, is there comparative data for all the colleges in the FE sector and can that be provided to us?

Mr Baker: On your first point, as Tom said, when it comes to the accommodation for this project, and indeed every project in the further education sector, we were not shooting in the dark. The Education and Training Inspectorate inspected what was produced to make sure that it was reasonable and in line with the best guidance available at the time. That guidance has continually been updated and refined. So, there is some assurance —

Mr Copeland: Did the guidance at the time include space utilisation as a separate, stand-alone heading?

Mr Baker: I cannot answer that. What I can say is that it did include guidance on what the appropriate space should be for a given number of students, but there was no target for space utilisation. Tom, can you pick up on —

Mr Copeland: Should there have been?

Mr Redmond: Sorry, Mr Copeland, in the 'Schedule of Accommodation for Colleges of Further Education, 1996', which is mentioned in the first line of footnote 39, there are specified utilisation rates, which are target rates. Those would have been taken into consideration in the amount of accommodation that was awarded on the foot of the number of students studying in the different areas at that time to come to the conclusion of what was actually needed in those projects. The last line, which you are referring to, requires that we look at the number of students. However, in building the building, did we have ongoing specified targets for space utilisation? We did not at that time, but we have developed those. We have done that work with the SIB and, on an ongoing basis, look at the number of students accessing the facilities and compare square metres of teaching accommodation and other accommodation, such as large-space libraries etc, to the number of FTEs in each college. That would alert us, on an ongoing basis, to whether a college is perhaps too cramped or underutilised, or whether a campus could be made surplus to requirements.

Mr Copeland: So, that is really assessing the college against a predicted number of students as opposed to the actual number. Is that correct?

Mr Redmond: We build any new building based on the actual number of students plus any refinements we might have for areas specified for growth or population and demographic trends, etc. A new building is built based on the actual number of students, but, as you can imagine, a building will be there for 40 or 50 years. There were perhaps some deficiencies previously in measuring the utilisation on an ongoing basis, and we have been working to address that.

Mr Copeland: Are there buildings in the overall family of further education where the data would be available currently?

Mr Redmond: The data is available across all colleges and campuses.

Mr Copeland: Including Belfast Metropolitan.

Mr Redmond: Including Belfast Metropolitan.

Mr Copeland: Do you want to come in on that, Pat? You were sort of rodeoed.

Mr Pat O'Neill (Strategic Investment Board): Thank you, Michael. I just cover the work that SIB is doing in supporting the Department in relation to FE colleges. The basis for that is that we are trying to bring an evidence-based approach, using quite a lot of analytics, to predict more accurate numbers. If you are doing a business case now, one of the first sections in it is the need or demand section. The challenges facing colleges are that you have different types of students and different numbers of them. So, if you take a college in September, you need to determine how many students will be in a class, what the attrition rate will be or how many will fall off over the year, and what you should actually provide for. There are things like block courses, daily courses and courses undertaken within other environments. For instance, Translink undertakes its training within its own environment, but it is done by the colleges. So, what we aim to do, and we are doing it in conjunction with the maths department at Queens University, is build a model to plan and map out that need and demand, and put as much evidence underneath —

Mr Clarke: Chairperson, maybe I read the wrong report, but I think that we are going off on a tangent that is not really relevant to what we are trying to focus on, which is the contract. I say this with respect. I am not being rude to one of the witnesses, but this is not really relevant to what we are trying to drill down into. Can I bring this back to reality and back to what we are talking about?

The Chairperson: With respect, Mr O'Neill was responding to —

Mr Clarke: I think that Mr Baker tried to bring him in there to maybe send us off on one. I do not know what he is playing at.

Mr Baker: I am sorry. I was not deliberately trying to digress —

The Chairperson: I am sure that that is not the intention —

Mr Clarke: It felt like that.

Mr Baker: — and I think you know that.

Mr Clarke: Can I just ask, because —

The Chairperson: Michael, are you finished?

Mr Copeland: No. I have another two questions, but they are —

Mr Clarke: Keep them on track, Michael.

The Chairperson: We will just let Michael finish, Trevor, and then we will bring you in.

Mr Copeland: My questions were perfectly on track; the answers got rather convoluted.

Since 2003, public bodies have been required to include a benefits realisation plan in conjunction with and to support business cases. It seems that the college was slow to produce such a plan, with it only being finalised in 2011. How did the Department allow it to get to that situation and, in the absence of that, how can there be any objective assessment of projects when there are no baselines set at the outset?

Mr Baker: OK. There are two things there. The college actually had a benefits realisation plan, but the gateway reviews identified that it could be improved. The second gateway review, which I think was conducted in June 2005 and the third, in June 2008, also acknowledged that there was a benefits realisation plan. So, there was a benefits realisation process in place and there was a benefits realisation plan in place, but the gateway review did what the gateway review is supposed to do. It identified the need for improvements, and the college reached the point where, by the fourth gateway review, the benefits realisation plan was identified as an exemplar and it contained a raft of measures that could be used to assess the benefit of this project, both in quantitative and qualitative terms. Those measures allow the college to assess the benefits of this project benchmarked against what went before, across a number of dimensions that are relevant to the project objectives such as student satisfaction, student attainment, which is the ultimate outcome measure of this, staff satisfaction, engagement with business and other clients, and so forth. So, I think that the report acknowledges that the college currently has an exemplar benefits realisation plan. There were benefits realisation in place, but they were not as sophisticated as they should have been, and the gateway reviews identified the need to refine those further.

Mr Copeland: Lastly, would you, in the light of what you just said, disagree with the view of the Audit Office that a benefits realisation plan should have been in place? You said that it was in place. Can you give any indication as to how the Audit Office arrived at the view, perhaps, that it was not in place, and explain why it took so long to finalise the plan in the format in which the Audit Office was expecting it to be finalised, given its importance to the delivery of the project?

Mr Baker: First, I agree entirely with you that benefits realisation is very important. It is a point worth noting. I do not know whether the Treasury Officer of Accounts is here; he is. I think that the final guidance on wrapping a benefits realisation plan into a business case emerged in about 2009. It was as late as that. Bear in mind that the outline business case for this was done in 2004.

Mr Copeland: It was finalised in 2011. Is that correct?

Mr Baker: What I am saying is that the guidance that a benefits realisation plan should be included in a business case was not finalised until 2009. I take your point entirely: I fully accept the need for benefits realisation. I accept the fact that successive gateway reviews, gateway 2 and gateway 3, acknowledged that improvements could be made to the benefits realisation process. However, there was a process in place. The college refined it, and it ended up with a document and a plan that is exceptionally fit for purpose and that allows the college to monitor the benefits of this, benchmarked retrospectively against what went before. I think that that is a very important point.

There is another point. Look at the nature of the project. I accept that each project is different, but what was happening during the period 2009 to 2011? A building was being built. You cannot measure during that period the satisfaction of students, the satisfaction of staff, the satisfaction of business and the inclusivity of the college, judged on whether it is attracting people from all communities, from west Belfast and so forth. Those are amongst the benefits that are being measured as part of the benefits realisation plan. On a point of principle, I agree with you entirely. Benefits realisation is really important, and the sooner that it is done, the better.

The Chairperson: OK. Thank you, Mr Baker. Mr Mike Brennan is here on behalf of the Treasury Officer of Accounts, who is Mr Jack Layberry. Mike, do you want to make a comment on that?

Mr Mike Brennan (Acting Treasury Officer of Accounts): I can confirm that the point that Mr Baker made about the DFP guidance on benefit realisation plans is indeed correct. The definitive DFP guidance on what the benefits realisation plan should look like did not really issue until 2009. Up until that stage, the previous DFP guidance was the 2003 practical guide. It really just said that benefits realisation should be set out briefly as part of an option analysis. So, until 2009, there was no definitive DFP guidance on benefits realisation plans. After the guidance was issued, the significant improvement in this project's benefits realisation plan was reflected in the commentary on the gateway review report. The other point to make is that, in many ways, the benefits realisation plans are part of an ongoing process on PPPs. So, for example, over the cycle of the contract, it is not unrealistic to expect the Department and the college to revisit the benefits realisation just to quantify what the final outcome actually is.

The Chairperson: OK. Thank you, Mr Brennan. Thank you, Mr Copeland.

Mr Dallat: Marie-Thérèse, in your opening remarks, you made comparisons with a shotgun wedding. You will forgive me for raising that and for asking the obvious question. Who was providing marriage guidance?

Ms McGivern: Personally, in 2009, I wanted to come into the FE sector because I thought that it was a very vibrant and a very dynamic sector. I think that it is that because the Department set out in 2004 to completely change the face of what FE was and to develop the new policy platform, which is FE Means Business. Part of FE Means Business was the rationalisation from 16 down to six. You will know, Mr Dallat, that, in Northern Ireland, when we try to rationalise anything, people do not enter such marriages very freely. We tend to want to keep everything as it is. I think that there was guidance, and I think that the policy platform is there. If people were being rational, they could see that where we were going with FE would be a better place than where we were at that stage because there was a vision, not just about being more of a part of the Northern Ireland success story but about being more engaged with industry and with people on the ground, having better facilities and, in particular, better buildings. However, sometimes, even with all the guidance in the world, people still find it quite difficult to give their space up and say, "We will join together and share". In hindsight, I do not know how much more the Department could have done, because both had their own independent governing bodies, which were charged with the merger and its process. Again, from reading back over papers, I know that it was not always done in potentially the best way.

Mr Dallat: I will not carry that analogy any further.

I put my hands up: I am totally prejudiced in favour of further and higher education. That is where I got my education. Down through the Troubles and long before that, in times of deprivation, we looked to those colleges — including the ones that have been closed — for inspiration. So, whether it is BIFHE, the Met or wherever, I have the highest regard for those colleges.

I am trying to get my head round this. We have experts from the college, the Strategic Investment Board — a fairly lofty title that suggests strategies and all sorts of things — and the Department, which I will not crucify either. Could somebody tell me how you had these three groups working together and yet they got it so horribly wrong?

Mr Baker: I will take that in the first instance. I beg your indulgence, Chair, and ask Mr Dallat what exactly was got wrong.

Mr Dallat: I will give you an example. Did anyone see the potential conflict of interest? Did anyone see how this Ivywood Colleges crowd ran amok and were able to dictate their own terms?

Mr Baker: In what way?

Mr Dallat: The increase in the size of the car park upped the cost of the whole works.

Mr Baker: The report makes it very clear in paragraph 8 and paragraph 3.10 that neither the college nor the Department paid at all for the car park. They did not pay a penny for the car park. I do not quite know what you mean by "upped the cost". The only cost increase throughout the whole project was in respect of the site rising in cost from £3 million to £5 million. That was the only cost increase.

Mr Dallat: Yesterday, we got a gloomy report from the Minister for Employment and Learning. He told us that projects in the south-west are off the shelf, as they are in the north, the north-east and the north-west. So, £2 million would go a long road.

Mr Baker: I know that.

Mr Dallat: Unwittingly, you are telling us that there was a flippant attitude toward this and that every penny did not count.

Mr Baker: I am not saying that at all. In every decision taken in the contract negotiations on this project, there was one objective kept to the fore: to ensure that the project was delivered, and in doing so, to ensure that it was done in a manner that was affordable and represented value for money. That objective was achieved in every decision that was taken.

Mr Dallat: So, you are not the least bit embarrassed by what happened.

Mr Baker: I am not embarrassed by what happened. I am happy to explain each and every investment decision that was taken. There were process issues throughout the process, and Mr Hussey referred to those and the audit trail. I am quite happy to acknowledge that and put my hands up, and other things happened in the process. I do not recognise your description of Ivywood Colleges Limited running amok as part of this project.

Mr Dallat: I am not sure whether Mr Baker has read the report, but I presume that he has. It says that the documentation was poor and that there was a lack of accounting skills. As I alluded to earlier, Belfast Met does a superb job with its students and sends them all over the world with the highest skills, yet all of the basic skills seem to be missing in a multimillion pound project involving the Met itself.

Mr Baker: It was a project that delivered value for money when measured against the shadow bid model. It was delivered in an affordable manner and it met the project objectives.

Mr Dallat: As the report acknowledges, the project was saved only when the marriage guidance came in late in the day. That is not what we are talking about.

Mr Clarke: Can I supplement that point, John? Mr Baker, in answering one of your questions, was wrong. He said that their model versus the shadow bid was value for money. Mr Baker, explain then the lifecycle costs of £6·8 million in terms of your preferred bidder, the one you are championing today, as opposed to the £5·6 million bid in the shadow bid model. That is an ongoing cost. Let us see how you champion that one.

Mr Baker: OK. In a PPP project, you are dealing with the capital cost and the ongoing service cost, and you wrap them together in a single bid.

Mr Redmond: Sorry, can I just make a point in relation to that? Mr Clarke said that is an ongoing cost. In the letter that we sent to the Committee, we give the NPVs, the net present values, and the net present value is actually the stream of costs discounted back to its current value.

Mr Clarke: I stand corrected. So, just take the £6·8 million versus the £5·6 million.

Mr Baker: I was going to come to that point. You wrap them together and you come to a net present value of the total project costs, and the net present value of the bid from ICL was lower than the bid from the other competitor and, indeed, the shadow bid model. That is what I mean by value for money. The report makes it very clear, and I think that it is in the glossary of terms in the report. It describes a shadow bid model as the mechanism against which you assess the value for money and the affordability of a project, and that is exactly what we did in accordance with the guidance from DFP and, indeed, the Treasury on how you calculate the value of a PFI model.

Mr Dallat: I want to put my questions to Mr O'Neill.

The Chairperson: Mr O'Neill, do you want to come in on that?

Mr P O'Neill: PFI is basically a package design, build, finance, maintenance and operation in one package. You are absolutely right and proper to see that there was a difference in that one you picked out, but, when you look at the entire package, that is where we look at what was the best value option for the public purse. That is one that you have to pay.

Mr Clarke: That was based on the original tenders being an even playing field. That was before you removed the £10 million that you lost in terms of the two colleges, before you decided to enter into other agreements in terms of the car park and before the build cost of that college was more expensive given that you put an underground car park in it. You are absolutely right, Pat. So, there is a £500,000 difference, but none of those other bits were factored into the other tender.

Mr P O'Neill: In relation to the money that went into this project, at the invitation to tender time, we stated that the two buildings at College Square East and Brunswick Street were in the project. The guidance out there clearly states that, if buildings are integral to the project, they are left in it. After we received our tender from TQL, it was clear that it did not want to use any of those sites in its proposition. So, those buildings were exchanged for a valuation of £10 million. That £10 million valuation, raised in December 2006, was evaluated by LPS. So, it was a swap in exchange for.

Mr Clarke: That is OK. Let us look at that. Was the other bidder taking those out or was it using the existing buildings, based on the £10 million? The problem is that you cannot have your cake and eat it. You took the £10 million out. They were prepared to take the £10 million out. Is that what you just said?

Mr P O'Neill: I am saying that the buildings were exchanged for a figure of £10 million after the tenders came in. The tenders came in in March 2006. At the end of that year, those buildings were no longer integral to the project, so best value for money could be achieved by disposing of them in the open market. They were then valued by LPS and were exchanged. The buildings were taken out, and £10 million was put in.

Mr Clarke: In terms of these figures, were they taken out at this stage? Was this before or after?

Mr P O'Neill: These figures were from the bid stage, which was —

Mr Clarke: Sorry, just answer the question: were these figures before they were taken out or after they were taken out?

Mr P O'Neill: The bid one was in March 2006, so it was before.

Mr Clarke: It was before. These figures will have changed by £10 million.

Mr P O'Neill: No.

Mr Redmond: Can I answer that, Mr Clarke?

Mr Clarke: No, it is all right. I think Pat is doing a good job here. Go ahead, Pat. Pat nodded in agreement and was keeping you right last time, Tom. We have him at the front today, and we would rather hear from him.

Mr P O'Neill: At that stage, the buildings were not costed as buildings.

Mr Clarke: No, they were not costed as buildings but they were given as a swap. Then the £10 million was applied afterwards, which brings the value of what we have finished up with at £10 million more, less what we finished up getting for those buildings.

Mr P O'Neill: No. The valuation you can obtain for any asset is at the date on which you wish to sell it.

Mr Clarke: No, sorry, let us take you back to what you said earlier. What you said earlier was that, when you were offered at the bid stage, the preferred tender was taking those out. So it was included. That was what was included in terms of that. The £10 million was always coming afterwards, but the £10 million was never realised because the preferred bidder — the road you decided to go down — never took those buildings, which was agreed at the start. That £10 million has been taken out and there was a value applied at that particular time. I cannot remember what Mr Baker said in the ridiculous suggestion about the sensitivities around the valuation of those prices, but we did not raise £10 million, so the difference between the £10 million and what was actually raised should be added to those figures in terms of cost. No?

Mr P O'Neill: No, the project will cost what the project costs. They put in a tender to deliver that project according to the full cost of the project.

Mr Clarke: Yes, with those buildings moved out and you realising £10 million at a later date.

Mr P O'Neill: The buildings were moved out and they were exchanged for £10 million, yes.

Mr Clarke: Yes, and you did not get £10 million.

Mr P O'Neill: No, we did not.

Mr Clarke: So that alters the cost of the total project, and that has to be added in terms of value for money.

Mr P O'Neill: The emerging guidance at the time and subsequent guidance in 2007 was to remove buildings that were not integral to the project. We saw the emerging guidance, and the buildings were removed in line with that guidance.

The Chairperson: Mr Baker, did you want to come in? I know that Mr Redmond wanted to come in earlier on that point.

Mr Baker: Thank you, Chair. I will let Tom comment first.

Mr Redmond: At all times, Mr Clarke, the two bids were evaluated on a like-for-like basis. They were evaluated with a price for the properties in, and they were evaluated again —

Mr Clarke: Do you know what would be useful, Mr Redmond? If we actually got a copy of that as opposed to what you have supplied us, because —

Mr Redmond: Sorry; I supplied what I was asked for, or as close to what I was asked for as I could get.

Mr Clarke: Then I will pose you a different question. Can you supply us with all of the relevant information, with the buildings in and the buildings out in relation to both tenders?

Mr Redmond: It can be supplied. It is a huge volume of paper, but it can be supplied.

Mr Clarke: I am sure I can trust that you will get something pulled together. If you want to put it down into a wee table like this so that we can understand it, that is fine. It might be difficult.

Mr Redmond: I will just take a few seconds to explain. What you have on that bit of paper is as close as I could get to the information that I was asked for in terms of construction and build costs. I have given you construction and related costs, life-cycle costs and facilities management costs. I have given you the net present costs of those and the comparison across the two bids and the shadow bid. As you can see, the net present cost of the ICL bid was the lower of the three figures. That is part of the financial evaluation. There was also a services, a legal and a technical and quality evaluation. So the whole evaluation process was much larger than what I have put on that bit of paper for you, because that was all that I was asked to provide. So, yes, it can be provided, but it was the overall cost that was evaluated between both projects and the shadow bid model. It was evaluated on a like-for-like basis at all times, with land in, land out or whatever.

Mr Clarke: I look forward to seeing the rest of the information.

Mr Dallat: Pat, can you clarify what your role in the Strategic Investment Board was in terms of the bid process? Up to what stage were you advising the college and the Department?

Mr P O'Neill: As the Committee knows, SIB was created in 2003. Its role is to act as an interface between the public and the private sectors and to bring the skills to assist public sectors in the procurement of those projects and other projects. Predominantly, we are to provide advice to the Executive in regard to programmes and projects and in relation to bodies such as DEL carrying out major investment projects. With their agreement, SIB advises those bodies. In this project, I advised DEL. So I brought my experience and expertise, which is in PFI, to the table.

Mr Dallat: Further to that, what was your role in promoting the wider Titanic Quarter development plan?

Mr P O'Neill: None whatsoever.

Mr Dallat: So you did not perceive any conflict of interest whatsoever?

Mr P O'Neill: I had no interest whatsoever in the Titanic Quarter.

Mr Hazzard: Thanks so far.

Ms McGivern, can I take you to paragraph 4.13 in the Audit Office report? It states that the college's internal team has been credited with achieving a "significant turnaround" in the project. Why do you think that was the case?

Ms McGivern: I think that there are a number of reasons. I will go back to the unhappy marriage. The Department —

Mr Dallat: I am sorry that I started this.

Ms McGivern: It is all right. It does work.

Mr Dallat: It was you who started it.

Ms McGivern: It was me who started it.

The Department already, by 2008, knew that the marriage was not necessarily working. It instituted the efficiency review. The first draft of the efficiency review was in April 2009, and the final publication was in January 2010. It was in November 2009 that I came in. I have to say that the efficiency review was a very good starting point for beginning to really get to the nub of what the difficulties were and how we might set about fixing them. Of course, part of the process of an efficiency review is that, when the efficiency review is delivered, any organisation, in this case the FE college, has to produce a corporate improvement plan setting out how quickly it will fix those things and whatever. So I was faced with a draft, which I was given in November even though it was publicly published in January, saying that there was a root-and-branch requirement to take the college apart and put it back together again.

There were 72 recommendations, so I had my framework for starting out. I had some assistance in then beginning to take forward a plan to change where we were going, which, at that time, looked very bleak and difficult to turn around. That was root-and-branch work, and it was very difficult work. Had you asked me when I took the job whether I was going to have to make the kinds of choices I subsequently did have to make — obviously in partnership with the governing body — I would have said that the enormity of the challenge we faced and the very difficult decisions that we had to take were very daunting. However, we rolled our sleeves up. We got the college to acknowledge that, up until then, the marriage had not been good, that we needed to rethink where we were going and that we could be the ambitious college that I think we are now. Luckily, we were able to bring most of the staff with us on that, because they too wanted to work in an organisation where they would be proud to come in every morning.

It was root-and-branch work, and it started with restructuring. We had systems and processes to put into every section. I have already alluded to the absence of things like basic financial abilities and capabilities in the organisation. That was mirrored across the planning side and in the way we did management information. Our IT systems were poor. So, a very long plan was set out in the corporate improvement plan. We were given three years to deliver it, and I am pleased to say that we came out of special measures within three years. We had a letter from the Department last October telling us that, and that was a significant milestone for the organisation. An equal milestone came last night, when we got the first overall substantial audit report. That is the first one we have had since we started in 2007, so we have come a long, long way. We still have lots more to do, and there are lots more challenges. However, it has been a good journey.

Mr Hazzard: You talked about root-and-branch reform and having to take the college apart and put it back together again. It sounds like there has to have been some fundamental lessons learned. What do you think these are? Have they been disseminated to other bodies?

Ms McGivern: We have drafted lessons learned. You have a copy of the ones that we have learned about contract management and taking on the building of buildings. Those have been very important to us because, when we finished Titanic Quarter, we built a second building at E3. I think that we can say at this point that the build of E3 was very smoothly done. We learned a huge amount from what had gone slower and did not necessarily work in the first contract.

Our colleagues in FE are now embarking on their building journeys. We know that the two colleges are hopefully going to do that. No later than Monday afternoon, we had a workshop with Southern

Regional College to give it the benefit of our learning from both our PFI and our E3 build. That is being disseminated. I have to say that, if I were charging for the number of people who come from English, Scottish and other colleges to learn how we turned the college round — the lessons are being disseminated. We are very free with our information, advice and help, because we always want to be supportive of other organisations that are having the same difficulties as we had. It is possible to improve, but it takes a lot of energy and stamina — and a lot of support from the Department, which we got.

Mr Baker: Just to add to the point on lessons learned, the period after the merger of the two colleges was really difficult for the college. It was just a bad time for the college. The Department learned a lot from it too about governance of the further education sector. We commissioned the efficiency review, which was a very useful exercise because it shone a light on all the things that needed to be done. From the Department's perspective — and this may sound a bit sycophantic because she is sitting beside me — Marie-Thérèse McGivern and her team did a superb job in taking that efficiency review, which was pretty brutal for the college, translating it into a college improvement plan and delivering that within the set timescale.

Now, there was a lot of grief along the way. We sat with the college on a monthly basis to oversee the implementation of that. We have learnt a lot about governance of the further education sector and keeping close to the further education sector. Marie-Thérèse McGivern would not say it, but she and her team deserve a huge amount of credit for what they have done, because it was very difficult. They have turned the college and the finances around in the middle of implementing a couple of very big capital projects.

Mr Hazzard: One thing that had not been done, as alluded to in paragraph 4.16 — it may have been done now, and I want you to clear that up — is an evaluation of the procurement stage. Has that been done to date?

Ms Hartin: We did an evaluation of the procurement stage in the post-project evaluation (PPE) report. There are lessons that come through in that. We shared a draft version with the Northern Ireland Audit Office when it was working through the finalisation of this report. Figure 8 of the report, which is on page 59, summarises some of the key lessons coming out of that, which are really in and around the need for strong and effective project management and governance; careful management of project advisors in working on that, the issues related to which have been well documented; the importance of creating a project team with the right skills and experience, which is one of the keys that we were able to apply to the construction phase and the turnaround in the project; the financial and operational benefits around the deductions model and how we work a design in on that; and retaining a project team with continuity from contract, through construction and through operating fees, because those are the individuals who know all the detail in that contract and are best placed to manage it.

Mr Hazzard: Has that been approved and signed off by the Department?

Ms Hartin: It has gone to the Department.

Mr Redmond: To add to what Elaine has said about lessons learned, we also look at the developments that have happened within PPP procurement. In PPP procurement at that time, we had to follow what was called the negotiated procedure. There are European-wide regulations that must be followed. Beyond that, those regulations have now developed what is called competitive dialogue. Obviously, procurement and procurement regulations have been updated. Anybody going into a project at this point in time will also have to look at the type of procurement route chosen within the PPP procurement.

We also perhaps need to look at whether planning risk should be transferred. Transferring planning risk creates a window of opportunity for things like global property crashes and banking crashes to happen, as occurred during our procurement. We also have to look at whether you might wish to split up the design and build and the financing and operating disciplines, as the negotiations are significantly complicated by the safeguards that each of those organisations will require to protect their own interests, not only towards the authority but between themselves. That led to a lot of the complexity and a lot of the prolongation in the procurement phase.

We have looked at all those things. We have prepared our post-project evaluation, which we are now in the process of finalising. The properties have only recently been disposed of, and the PPE has been updated to take account of that. We recently received another draft that we have also shared with DFP. Hopefully, in the next couple of weeks or whatever, we will be able to finalise that, sign it off and make it available for other people and organisations that might wish to share the pain or the lessons.

Mr Hazzard: It is a matter of weeks rather than months that we are looking here then, is it?

Mr Redmond: It is a matter of weeks, yes.

Mr Hazzard: OK, no problem. Moving on to paragraph 4.17, Ms McGivern, we are looking at the completion of the gateway 5 review. Has this been completed?

Ms McGivern: No, gateway 5 is not completed yet. We intend to complete it in this academic year. There is still some outstanding information that we will have to gather.   We want the PPE, for example, cleared and out of the way before we embark on gateway 5. However, we are in absolute preparation for it. We are confident that we will achieve at least another green/amber, as we did in gateway 4, which was a triumph for us.

Mr Hazzard: Has the financial model been re-run? Again, in paragraph 4.17, we read that you were awaiting the final re-run of the financial model. What effect would that have on the unitary charge?

Ms McGivern: I am going to ask Elaine to take that, because there will be technicalities in it. It has not been re-run yet, but I will pass this over.

Ms Hartin: I will attempt to answer it. If I get into jargon, stop me immediately because there is a risk of that. The financial model is the model that the bidder uses. It is owned by the bidder in order to determine the unitary charge that comes in with the bids. When the contract is complete, there will have been changes through the construction phase. For example, there may have been a change to certain types of light fittings or things. In our case, it would be things like floor covering. One of the examples was in the hair and beauty area, where we changed the floor coverings because what was specified would not have coped with bleaches falling on it as well as what we ended up with. So, there are pluses and minuses as you go through the construction phase that are monitored through a process. Those are all signed off at the point of the building transferring over.

When those transferred over, there were small elements where the project had come in under cost. Life cycle cost, which is over the 25 years, came in under budget by £150,000, and facilities management came in under by — I am going to sound so anal now — £3,619, again over the 25 years. The re-run of the financial model is updating the model with those new costs to do a reassessment of the unitary charge. That has not yet happened. The report refers to some difficulties that we have been having in contract management, and this is one of them.

Given the quantum of those numbers, when you run them through, our belief is that they will have an immaterial impact on the value of the unitary charge. We have been working with the contractor through the first stage of dispute resolution and asking to get the financial model re-run, and we have been unsuccessful to date. We are preparing to move to the second stage on dispute resolution to move that forward. Our belief is that the numbers within that will be immaterial. However, we are managing to the project agreement. We will, and we are determined to, protect the public sector interest as we go forward, and there are no time-out clauses in the project agreement, so anything that we are due, we will get.

Mr Hazzard: OK. The timeline, then, for gateway 5 and the likes of that? Are we looking at a couple of months or are we looking at a couple —

Ms McGivern: We would like to be doing the gateway after Christmas. I would not do it before Christmas because it is about a three-month application process. We would like to be in a position to make that application this side of Christmas so that we would do it in the spring. We are scheduled to do the E3 gateway at the same time. It is difficult to do two gateways at the same time because you have a lot of work, so it will come in the spring or early summer next year.

Mr Hazzard: No problem.

Mr Rogers: You are very welcome. Elaine mentioned contract management, and you know that there were issues with the audit trail and so on, and there are issues with the procurement. For example, on page 61, we are talking not only about procurement but about "timely procurement". If the IT aspect of the project was critical to its whole delivery, and it was marked as critical on the risk register, why was that not picked up? Why was a business plan put in just four months before the college opened? I know that it says that there were

> *"deficiencies in management and leadership within the College"*

but it is very hard to comprehend this.

Ms McGivern: I absolutely share Mr Rogers's view. When I went in, there were a few surprises with things that were not done which you might have expected to have been a bit further on down the road. When we went in, we were faced with the immediate thing that we had to do, which was to create and produce a corporate improvement plan. In itself, that took the first 10 months. We were happy at that stage, because the actual building had been started and was well in place. Our view at that time, given the amount of things that we had to do, was not necessarily that we could park it, but that it was not a priority. We absolutely required, in my view, a much stronger finance side, and, at that point, I very much had to rely on consultancy for that financial work. I wanted to be in a stronger position where that financial advice was available to me internally in the organisation. So it was a risk, and it was in the risk register as a risk. I think we put our minds to it when we appointed our first accountant, who became a member of staff in February 2011. We put our minds to it and produced the business case as I hoped and was confident that we would.

It was a short turnaround, but it went through relatively easily in the end, and, of course, Elaine was in charge of it because she is the person I was talking about when I mentioned the appointment in February 2011. She had previously been part of the consultancy team that came to us in 2010. She loved us so much that she decided to join us. So I had already worked with her for that year, and I was confident that Elaine and the team that she had built around herself could deliver it. It was a risk, but I would say that it was a calculated risk on our part, and we did deliver. If you ask me whether that was best practice, the answer is no. It was not best practice, and it would not be the way that we would do things now. It was not how we proceeded with E3. We learnt lots of lessons, and we delivered.

Mr Rogers: There is certainly an acknowledgement that that is not the way to do business today. Having things on a risk register is one thing, but if it is a critical thing on a risk register, it needs to be dealt with at the time.

Mr Baker, paragraph 4.25, still on page 61, says:

> *"Although the Department did consult DFP in May 2011, DFP's advice was not acted upon and its approval was not sought."*

When the Northern Ireland Audit Office began this investigation, there was retrospective approval. Why was DFP's advice not acted on?

Mr Baker: At the time of the preparation of the business case for the IT for the college, there was engagement between the Department and DFP over whether approval was needed. DFP said to the Department, "You, as a Department, need to assure yourselves that, if you need approval, you obtain it." The Department took the view, incorrectly as it turned out, that it did not need DFP approval because the Department assumed that the cost of the IT element of the project was within the acceptable tolerances of a project of this nature and that DFP approval was therefore not needed. The Audit Office subsequently came along and said, "No, you have got that wrong, Department. You needed approval for that."

So we went to DFP to try to obtain what is called retrospective approval, and DFP granted it. It is not the right way to do business, but it was granted retrospectively on two grounds. The first was that an appropriate business case had been carried out. By "appropriate business case", I mean that we had established the need, we had established the best option for procurement and that option established value for money. The second ground on which DFP approved the business case was that it had been carried out at the right time. We made a wrong judgement: we took the judgement that we did not need DFP approval, and we got that judgement wrong. The Audit Office subsequently corrected us.

Mr Rogers: So there is an acknowledgement of the Department's oversight. Is there an assurance that that cannot happen again?

Mr Baker: Yes, there is an assurance to an extent. Mr Brennan will know better than I do, but DFP has very detailed delegations granted to Departments, so there is a very long list of items — I think that there are almost 70 items — where Departments need to go to DFP to get written approval for various things. There are all kinds of things in there, like redundancies, write-offs, loans and things. However, one item on that long list relates to expenditure on IT systems of over £1 million. That is very clear now. Departments comply with DFP's delegated limits, and we will comply, but that is not to say that human error will not occur. However, it should not.

Mr Rogers: Can I refer you to paragraphs 4.29 to 4.31? It is set out that the college experienced difficulties agreeing unitary payments. The Titanic Quarter campus is in its third year of operation. In practical terms, are escalation procedures in the contract sufficiently robust to ensure that contract performance issues are dealt with quickly and effectively?

Mr Baker: I will make a few comments on that, if I may, and then I will hand over to Elaine and Marie-Thérèse, as they are actually managing the contract.

The contract provides procedures to deal with non-provision of service, and there are penalties that can be applied. The college is rigorously and robustly applying and managing that contract, so, if any issues arise, the contract provides an opportunity to deal with and escalate them. Elaine made the very important point that, even in the midst of a dispute, if penalties are racking up, they will be recoverable whatever that date is, because there is no time limit on the recovery of penalties. We acknowledge that there are issues there that need to be addressed and that may need to be escalated. If you take it to its end conclusion, that could take you into the legal sphere. I am not saying that we are at that point yet, but those opportunities exist. As to the day-to-day engagement with the contractor and the management of the contract, I will pass you over to Elaine, as that is her task.

Ms Hartin: You asked whether the escalation procedures in the contract were sufficiently robust.

Mr Rogers: Yes.

Ms Hartin: There are robust escalation procedures in the contract, and we are currently using the dispute resolution procedure, which initially has an informal process before moving into much more formal mechanisms. We believe that we are at the point where we are preparing to move to the next stage if we do not get some movement. We are meeting again next week. When it comes to the day-to-day operation of the building and the campus, we are effectively getting most of what we are requesting from the campus. We would not be achieving satisfaction levels of 92%, 93% or 94% plus from our students and 100% from our staff if we were not.

We are experiencing difficulties in some areas that were snags when we took over the building. We have been working with the contractor to get those resolved, and we had a plan for the resolution of those in April and May 2012. Unfortunately, the building contractor went into administration, which meant it got caught up in that administrative process. The time period we are in has been quite long, and longer than we would have liked, but the reasons for us working through the process is that, every time we go to move, there has been some work in progress. We have had further work in some of the areas over the summer months.

I will give an example of the types of areas that we have been dealing with. One of the areas that was not completed to specification is the sound booth, which is a two-metre square soundproofed room. It was completed over the summer this year, and we have made deductions of £10,000 for that not being available. While we have been experiencing difficulties, we have still been making deductions as we go through the process.

There are some final ratchets and mechanisms around that where we are moving into more formal procedures if we cannot get things agreed.

Mr Rogers: So, has it been particularly in the last year that you have been invoking these penalties?

Ms Hartin: No. We have been issuing penalties from the very first day. Where anything was unavailable, our contract management is very robust. The Audit Office report highlights the robustness of the management during the construction phase. That same team is a dedicated contract team that will remain in place and will continue to monitor performance on a monthly basis. We have monthly client liaison meetings, we record any non-performance and we make deductions.

We are refining and completely concretising the values in those, and that is what we have not been able to do. Does that answer your question?

Mr Rogers: Yes. While we are still talking about unitary charges and costs, what do the charges at appendix 3 on page 69 mean for the Department and the college's budget?

Mr Baker: I will start on that one. The unitary charge is split between the Department and the college, as is probably explained there in the footnote. The Department pays that element of it which would have been attributable to the capital cost. Normally, the Department would fund the capital cost of a new college. Out of its resources, the college funds the resource costs — the revenue costs, if you like.

What does that mean for the Department's budget? We pay it every month, and it is affordable. It has been factored into our budget, so it is not placing any pressure on us. The proof of the pudding from the college's perspective is that during the life cycle of this project, right up to the contract signing and post-signing, the construction and now the implementation, the college, as Marie-Thérèse McGivern has explained, has managed to turn its finances around from a pretty serious deficit position to a break-even position, which was quite a turnaround. The project is eminently affordable from the college's perspective and the Department's perspective.

Mr Rogers: How does the Department make information about the unitary charges available to the Assembly and, in particular, to DEL?

Mr Baker: The Department does not make anything available directly to the Assembly. Ministers report to the Assembly, but the Department reports regularly to the Employment and Learning Committee on the disposition of its budget. We provide details, for example, of what we allocate to the further education sector. For example, we are going through the process of October monitoring, and we are engaging with the Employment and Learning Committee in great detail on what our budget is for further education and what, if any, cuts might have to be made to that budget. That is a different story altogether.

We do not tend to break down the individual elements of that budget. We do not say that we are giving them this much for students and that much for earmarked projects or for the unitary charge in respect of this particular PPP, in the same way that we do not break it down for the money that we give to other colleges in relation to a PFI deal. We could do; that information is readily available, and there is no reason why we should not do it. If the Committee was interested in it, we would be more than happy to give that information to the Committee.

Mr Rogers: But it is broken down, college by college, no?

Mr Baker: When we provide information to the Committee about the Department's budget, we do not break down the individual amounts that we give to the individual colleges, but we could do that; and, within the amounts that we give to the individual colleges, we could break down the individual amounts that we give to colleges in respect of the Department's share of any unitary charge in respect of a PFI project. That is eminently doable, because we record that and we have to account for it. So, if that Committee or this Committee or any Member of the Assembly is interested, we can provide that. However, it is not part of our normal day-to-day reporting to the Committee to break down our budget into such small units, but it is doable, if anybody is interested.

Mr Rogers: I just think it would be useful.

Mr Baker: OK.

Mr Clarke: Going back to your response, Mr Baker, to question 11, with respect to the costs, I am still struggling with the car park. Let us go back to the initial expressions of interest in the tender process, and that is where these bids come in: the total of £55·37 million for ICL, £56·21 million and £56·18 million in the shadow bid. So, that is where our starting point is, and that is where you based your business case. Then we are going from a position where we want 12 car parking spaces to a 40-year contract for additional car parking spaces that will come in sometime after that. Is that right?

Mr Baker: OK. Continue.

Mr Clarke: But is what I am saying right? I do not want to say something wrong here.

Mr Baker: OK. We do not have a contract, in the sense that we are not paying for any car parking spaces.

Mr Clarke: Have we a lease?

Mr Baker: Yes. The Belfast Metropolitan College has let a sublease to Ivywood Car Parks Limited to operate a sub-basement car park for 40 years, that is correct.

Mr Clarke: How many car parking spaces does the college have access to in that car park?

Mr Baker: It does not have any —

Mr Clarke: I am just trying to clear this up.

Mr Baker: Car parking spaces are not earmarked for the college.

Mr Clarke: Right. So there is no arrangement, no availability or use of that for anyone from the college, and there is no charge for anything? And there is no —

Ms Hartin: There are 12 surface car parking spaces.

Mr Baker: Sorry. There is no charge —

Mr Clarke: In terms of the car parking?

Mr Baker: It is a pay car park.

Mr Clarke: That is fine.

Mr Baker: It is a pay-for-use car park, so anybody can go into that car park and use it, but they have to pay. There is a barrier.

Mr Clarke: How long is the contract and the lease for the college itself?

Mr Baker: The lease is for 250 years. The PPP contract is for 25 years.

Mr Clarke: OK. What is the tie-in with the car park, then?

Mr Baker: Sorry?

Ms Hartin: It is 40 years.

Mr Baker: That is right. I did not think that that was in question. The car park, the sublease to Ivywood Car Parks Limited is for 40 years.

Mr Clarke: And there is no-tie in to the Met in relation to the car park whatsoever?

Mr Baker: Well, the arrangement between Ivywood and the Met is that the Belfast Met permits Ivywood to operate the car park. It offered it the sublease.

Mr Clarke: Can we hear some sums, there?

Mr Baker: Yes. The college does not pay any money for that, obviously. Ivywood pays £10,000 per annum, index-linked at 5%, to Belfast Met.

Mr Clarke: OK.

Mr Baker: There is a profit-share arrangement between Belfast Met and Ivywood. There is open-book accounting. So Ivywood makes its annual accounts available to Belfast Met, and if Ivywood makes a profit — there is a point at which that profit-share is triggered, above a certain amount after tax — then Belfast Met gets a share in the profits. I have to say that Ivywood is not at the point of making a profit on this car park because, obviously, it had to borrow to build the car park. Then, at the end of 40 years, the car park reverts to the ownership of Belfast Met.

Mr Clarke: So, that is a golden egg; can we call it that?

Mr Baker: I do not know whether that is a technical term, Mr Clarke, but that is the arrangement; it reverts to the ownership of Belfast Met.

Mr Clarke: So, you are going to have this after 40 years.

Mr Baker: Yes.

Mr Clarke: How many years has it been running now?

Mr Baker: Three years.

Mr Clarke: And it is making no profit.

Mr Baker: It has not made a profit to date because they had to borrow.

Mr Clarke: Maybe this is more for Elaine. At what stage do you see that being profitable? This is maybe slightly off the report, but I am asking this because you are tied in to ownership after 40 years, and there will be a maintenance cost. I see you nodding your head, Pat.

Mr P O'Neill: It is not our car park.

Mr Clarke: After 40 years?

Mr P O'Neill: It is not our car park now. It belongs to Ivywood Car Parks Ltd, which is a totally independent company.

Mr Clarke: What happens to it after 40 years, Pat?

Mr P O'Neill: After 40 years, it comes into the ownership of BMC.

Mr Clarke: Yes. That is the point that I am trying to make.

Mr P O'Neill: Apologies.

Mr Clarke: So, after 40 years, it comes into your ownership. So, what has been factored in to determine whether it will operate at a profit or a loss?

Ms Hartin: In 37 years' time.

Mr Clarke: Yes.

Ms Hartin: I have to admit that I have not looked at our accounts or forecasts for 37 years' time.

Mr Clarke: I am sure that you have not. I am not an accountant, Elaine. I am just a used car salesman. After 40 years, I am sure that a car park will need additional money spent on it, and, after three years, I can appreciate that it is not making any money. We have a £500,000 difference between the preferred bidder and the actual bidder. But we have not factored in taking on a liability, because it is a liability if it is not going to make money.

Mr Baker: No, I said that it has not started to make a profit yet.

Mr Clarke: You do not know if it will ever make a profit, Mr Baker.

Mr Baker: The reason that it is making a loss is that Ivywood had to borrow money from its banker to build the car park. So, it has not repaid that money. Ivywood calculated —

Mr Clarke: I will take Elaine on this one, Mr Baker, as she is from an accountancy background. As Elaine said, she has not looked at its profitability or otherwise.

Ms Hartin: Can I step in? The net present value that we have looked at — we are talking about the £500,000 that you referred to — was over a 25-year period. The car park is still outside our ownership. We have our lease and our £10,000 index-linked income coming through on that, but, at the expiration of the PPP deal, there is still a period of 15 years to run on the car park, and, at the end of the PPP lease, the building reverts back to us.

Mr Clarke: And there is nothing to say whether it will make a profit or whether it will cost you money.

Ms Hartin: So, there is still a 15-year gap between the car park profitability in 37 years' time and the PPP period, and I do not think that you would pull into account any potential profitability outside the NPV period.

Mr Clarke: Mr Redmond, you provided a table to Mr Baker about these costs, and I think that you have answered the question about the difficulty in giving the construction costs to us in our preferred way.

Mr Redmond: We did not have that information.

Mr Clarke: I take that on board. How was that calculated for the shadow bid?

Mr Redmond: How were the construction and life cycle and facilities —

Mr Clarke: Yes.

Mr Redmond: The college engages its legal, financial and technical experts and advisers. Those people draw together the costs that they expect to see in a PPP project and put it together in a shadow bid model. That is then submitted to the Department, and the Department submits that to Central Procurement Directorate for its scrutiny and sign-off.

Mr Clarke: The bit I am struggling with, Mr Baker, is that there are so many different names around this car park and college. They entered into a process of making a bid, and the car park came late in the day. How are you satisfied that ICL did not include any element of the costs to the Belfast Met in terms of the building of the car park? Maybe I should frame it differently. Do you not find it strange that a preferred bid comes forward with a proposal to do something and then comes in with something that is obviously going to have a huge cost and with which it will be a long time before they get that money back? Why would they have changed that?

Mr Baker: First of all, there was a planning requirement on the bidder, not on the Department or the college —

Mr Clarke: When was the Department first aware of the planning condition?

Mr Baker: The Department was always aware of the planning condition, but the risk of planning is transferred to the bidder under a PPP. So, to some extent, that is over to you, the bidder, and you have to conform with any planning requirements, and how you do it is up to you, and how you pay for it is up to you. The bid proposal that came in was for a surface car park for several hundred spaces. In addition to that, they were going to try to get a reduction on the price of some of the car parking spaces in front of the Odyssey building. The college and the Department were entirely satisfied with that, but, in a sense, it was immaterial, because we were never going to assess the bid on car parking.

ICL changed its mind, and we can speculate on why it changed its mind. I think that one of the reasons was that it did not want to build a surface car park because it felt that it might have difficulty getting a change of use some time down the line, and so that would not have been a particularly valuable use of a piece of land of that nature. It probably felt that it could have done better. But the Department's measure of control in all this was that the bid that was submitted by ICL to provide the spec that we wanted, not just for the building but for the services over 25 years, was the most competitively advantageous bid. It beat the other bid and beat the shadow bid model. It is like saying that there are little green men on Mars and that, until you can disprove there are, there will be little green men on Mars. Did they inflate the bid to include the cost of a sub-basement car park in that? If they did and still managed to come in below the price of the other bidder and the shadow bid model, it was quite some trick to do so. The fact that we are required to select the most advantageous bid based on cost and quality provides the control for us, because that is what we did.

Mr Clarke: But would it have been some trick? If the car park had not been there, surely the cost would have been somewhat less? Then it would have been some trick for BMC.

Mr Baker: It may well have been. By the same token, we can speculate what the other bidder would have put in. Would they have put in a helipad?

Mr Clarke: The wee men on Mars could be orange and not green. We could speculate on all things.

Mr Baker: So be it, but the bids were examined in considerable detail by the financial advisers and the legal advisers. They trawled through them. I do not think that anybody found anything untoward by way of the bids being inflated to cover the cost of a car park and so forth.

Mr Redmond: Can I add one thing, Mr Clarke? When we finished our evaluation process of the two bids, we notified one company that it had won the bid and notified the other company that it lost the bid, and we gave them a full breakdown of how and where they had lost the bid. Given that current estimates are that they would have probably lost the guts of £1 million in progressing their bid to the losing point, if they had thought that there was anything dodgy about how we had carried out our evaluation, I have no doubt whatsoever that they would have challenged that. So, the Committee can be assured the losing bidder looked at how they lost their money in bringing forward that bid and did not make a challenge. To some extent, that has to provide some assurance that they thought that they lost the battle fair and square.

Mr Clarke: For the record, Mr Redmond, you used the word "dodgy", not me.

Mr Redmond: Sorry, I did not mean to imply that you had suggested that it was dodgy.

Mr Clarke: You quite freely said that it may have looked dodgy, but I did not.

Mr Redmond: That is fair enough. I acknowledge that entirely.

Mr Easton: Hi. My questions are on the preferred bidders letter, which is the copy that you sent to the Committee on 11 July. I do not know which one of you sent it, but somebody did. It highlights a significant number of unresolved issues. Given their significance, was it not premature to issue that letter, conveying as it did the college's intention to appoint ICL as the preferred bidder?

Mr Redmond: It was only an intention at that stage, and a number of things were set out that were still to be negotiated. In PPP procurement using the negotiated procedure, in all likelihood, whatever bid is considered to be appointed as the preferred bidder will have a number of clarifications or issues that are highlighted that we wish to perhaps pursue a little bit further before absolutely and definitively conferring preferred bidder status.

Mr Easton: OK. What were the unresolved issues?

Mr Redmond: One of the things was that we wanted a parental company guarantee. We wanted to be sure that the entity we were engaging with at that stage would have the wherewithal to deliver the project. In these cases, you are looking at a special purpose vehicle, which may not have significant worth, to deliver the project. We like contracting with special purpose vehicles because it means that no other activities of the company can impinge or negatively impact on the delivery of the project that we wish to deliver. However, we still do not want to go down the road with a company that does not have the wherewithal to deliver the campus. We look for, in some cases, a parental company guarantee.

Mr Easton: OK. We are talking about issues. How many unresolved issues were there?

Mr Redmond: The preferred bidder letter that I sent you listed 12. That may not be the conclusive list because other things may come onto the agenda. For example, the bank, at a later stage, decided that it wished to vary its terms.

Mr Easton: Do you not find it a bit strange that somebody becomes a preferred bidder and yet there are so many issues?

Mr Redmond: All I can say in response is that that letter was dated July. It was not becoming a preferred bidder at that stage.

Mr Easton: OK. Do you accept, particularly given ICL's privileged development position, that you, by not resolving issues ahead of its appointment as the preferred bidder, put ICL in a position where it could dictate the pace and outcome of the negotiations?

Mr Redmond: The principle in all these tendering processes is to ensure that you do not put the losing bidders, in particular, to a huge amount of expense because, obviously, they have no recourse to recoup that expense. It is always a judgement call between how many things you can clarify before putting someone down as a preferred bidder while keeping everyone on board and expending money and then moving to the preferred bidder stage, where, obviously, you have a great deal more chance of getting all the interested parties to the table. Most of those guys, including the banks, Belfast Harbour Commission and all these folk, will be bringing expensive advisers. You get better and more-meaningful engagement when there is a prospect of a potential return. Up until that, it is hard to know what the level of commitment is. It is swings and roundabouts, to some extent, Mr Easton.

Mr Easton: Remind me: how many bidders were there?

Mr Redmond: Two.

Mr Easton: So, there were 12 issues that we know of with the one that you accepted. Did the other bidder have the same 12 issues, or did it have more or fewer?

Mr Redmond: It would have had issues, but they were not quantified and analysed in the same way as ICL's. We looked at ICL's in more detail after the evaluation process concluded.

Mr Easton: OK. With reference to the tipping points that Mr Baker referred to in his previous evidence session, will you provide me with more information on what particular points the Department and the college considered in relation to one of the many options available to it, including opting out, going back to the reserve bidder and going out to market again? Why did you not consider any of those options, or did you?

Mr Redmond: I know that you have addressed the question to Mr Baker, but I think that it was me who used the term "tipping point", so I am happy to elaborate on that, if you are happy enough, Derek.

Mr Baker: Yes, you go ahead.

Mr Redmond: One of the tipping points was when it came looking for an increase in the value of the land from £3 million to £7·7 million. If it had stuck to its guns on that, that would have been a tipping point. The other point that I can talk to is when it came to us looking to fund the car park. I reiterate that it was pain for ICL to have to fund this car park. It did not fund the car park willingly. It would have been a tipping point for this project if it had said that it was not funding the car park. So, those were, if you like, the tipping points. Unless ICL compromised, fully in the case of the car park, and on the land, it was, "Bye-bye" and we were away. That would have had happened if ICL had stuck to its ground on those tipping points.

Mr Easton: Were there any other tipping points?

Mr Baker: There was another critical point in the project late on when the bidder's banker was threatening to walk away from the project altogether or not to lend. That was entirely to do with the credit crunch, and, as you know, the banks were facing serious liquidity problems. They were not lending money, and their appetite for this project was fading fast. ICL, with some help from the Department, tried to identify alternative financial backers and could not do so, so, at that point, the Department had to take a decision on whether to save the project or walk away.

Mr Easton: So, we have identified three tipping points.

Ms Hartin: I have more of an overarching point. From the paper trail that I have been able to work my way through, at every point through the project, assessments were being made of affordability and value for money against the requirements of the business case, which is, effectively, the main decision-making document and a summary of that. At no point throughout the project did it show that the business case requirements were not being met. In other words, this preferred bidder, with all of the nuances going through it, was not showing that the measures set out in the business case, both monetary and non-monetary, were not able to be achieved.

Mr Easton: You have got your achievements and stuff, but are there any more tipping points that I need to know about? I will not stop until you —

Mr Baker: I know. That is OK. I have run out of tipping points, Mr Easton. I had forgotten that I used that term, but there were critical points during the course of this project where we had to take decisions, and I think that we have identified the three big ones.

Mr Easton: Those are the three main ones. OK.

Mr Clarke: The difficulty with having two evidence sessions so far apart is that it is difficult to recall what was said the last time. Tom, in response to Alex, you talked about £3 million and £7·7 million. What was that in relation to?

Mr Redmond: The increase in the land price.

Mr Baker: The site where we built the college.

Mr Clarke: What did you finish up settling at?

Mr Redmond: It was £5 million.

Mr Clarke: So, why, Mr Baker, was that not a tipping point? Why did that not tip it? The bidding process is altered now by a few million pounds.

Mr Baker: Originally, the site on which to build the college was to be included in the PFI deal, so it would have been costed to the college through the unitary charge. The original price was £3 million in the bid.

Mr Clarke: That was in the bid.

Mr Baker: It was in the bid. During the process, the owners of the land — Belfast Harbour Commissioners and Titanic Quarter Ltd — wanted to increase the cost of the land to £7·7 million because land prices were rising. That caused us a real difficulty.

Mr Clarke: Why did it cause you a difficulty?

Mr Baker: It caused us a difficulty because the college would have had to pay for that increased site price through the unitary charge.

Mr Clarke: Surely — maybe I am wrong here — someone worked up the bid and put in a figure of £3 million for the land, which brought them to £55·37 million. *[Interruption.]* I am sorry, let me finish my train of thought here, Tom. The bid was at £55·37 million, but then, when you go to draw that up and they go to acquire that piece of land, it goes from £3 million to £7·7 million. So the £3 million has been built into the £55·37 million and is changed to £5 million, no?

Mr Redmond: No.

Mr Clarke: Mr Baker —

Mr Redmond: I am sorry; as I explained earlier, the letter I gave you that set out those costs was only a small part. It was not the complete financial evaluation. I gave the comparable information to the information that was requested.

Mr Clarke: I do not have in front of me. Let me draw on this again. Mr Baker said in response that that was included in the bid, because the land acquisition was down to the person who made the bid — £3 million. OK?

Mr Redmond: Yes.

Mr Clarke: But, by the time we got to the stage of drawing it up and getting approval, the person who actually owns the land, who is not the bidder, wanted £7·7 million. So, they came scratching their heads to the public purse and said that they wanted to move it from £3 million included in the bid to £7·7 million, and, rightly so, you sent them packing.

Mr Redmond: Well, we agreed £5 million.

Mr Clarke: So, you gave them £2 million more than you initially evaluated the contract at.

Mr Redmond: We re-evaluated. First, neither the £3 million, £5 million or £7·7 million is included in the information that I provided to the Committee. The information I provided was around construction costs, because that is what I was asked for. The £3 million or £5 million is not included in that information, but the £3 million was included in the overall evaluation of all of the financial inputs.

Mr Clarke: Yes, the £3 million was included.

Mr Redmond: The £3 million was included, and when we came to the point at which we agreed the £5 million, we reran the evaluation process to ensure for ourselves that ICL remained the most competitive bid, which it did.

Mr Clarke: That is very useful.

Mr Baker: That was the point I did not get to, Mr Clarke.

Mr Clarke: Sorry. OK, thank you.

Mr Easton: I am directing this to the college, not the Department. Did you ever consider walking away and did you ever seek advice from the Department about that?

Ms McGivern: Personally? No. Since I came in, we have never reached the point where we have said to the Department, "That is it. We're throwing in the towel".

Mr Easton: Did anyone do so before you were there?

Ms McGivern: There is evidence of the governing body sending threatening letters to ICL saying that things were taking too long and were being delayed, and I think that the Department was aware of that. I think that there were points at which the governing body made its dissatisfaction known with what was happening, but I have not seen any evidence that at any stage that there was what I would have described as a tipping point. The tenor of the letters is more of complaining and dissatisfaction. They are not threatening, in that sense. I have no evidence of them doing the same with the Department.

Mr Redmond: I will just add that the contract was actually signed, I think, before you came on board, Marie-Thérèse.

Ms McGivern: Oh yes, it was signed in April 2009.

Mr Redmond: I had various meetings with the governing body at various times when there were discussions —

Mr Easton: About walking away?

Mr Redmond: Yes, I suppose walking away would have been on the agenda, but it was wider than that. It was trying to find the most economical way of addressing the problems that existed at College Square East and Brunswick Street. Although the ICL proposal had its difficulties, we continued to work with it while it remained a potential solution. But, yes, walking away would have been on the agenda.

Mr Easton: So, you have had sight of letters that were sent to ICL before your time, suggesting that you might walk away.

Ms McGivern: I would not go so far as to say that. Certainly not the walking away bit. There were letters of dissatisfaction at the pace at which things were happening and which asked questions of ICL. Those are the letters that I am party to.

Mr Easton: Would there have been anything worded, not in such a way as to suggest walking away, but to suggest to ICL that you might have to review the situation — that you might have to review the relationship?

Ms McGivern: You have caught me off guard because —

Mr Easton: That is good.

Ms McGivern: Simply because I do not have the evidence in front of me, so it is really a long time since I read those letters.

Mr Easton: Would we be allowed to see those letters?

Mr Redmond: I am not sure whether letters of that nature exist. However, of what I do know, it was made abundantly clear to ICL on a number of occasions that, for example, if they did not pay for the car park, they would have no project. That was made abundantly clear to ICL.

Mr Easton: We are not talking about the Department. There are letters from the college.

Ms McGivern: Certainly there are the governing body minutes, and I have seen at least one letter, which was, you know, businesslike. They were not threatening that they were going to walk away from the project. They were just concerned about how long it was taking.

Mr Easton: Can we see that letter?

Ms McGivern: I will try to find it. As I said, it is a while since I last saw it, Mr Easton, but I will endeavour to find a copy of that letter for you.

Mr Easton: Back to the Department now. Did the Department ever advise against or discourage the college from walking away from the project? Bear in mind that you have already suggested that there were discussions about walking away.

Mr Redmond: There were discussions with the governing body, and there would have been a discussion about the implications of walking away at particular times. There were times when it would have been easy to walk away. There were other times when, perhaps, there would have been implications from walking away. There is no doubt that, yes, all of that was discussed.

Mr Easton: Were any of these discussions documented?

Mr Redmond: Some of them were documented.

Mr Easton: There are minutes?

Mr Redmond: There will be minutes. I can remember one particular minute that records some of the implications of walking away when, for example, a deal had been agreed that was value for money. If we had agreed to pay £5 million for the site — when I say "we", I mean the college and the Department — and we had concluded and negotiated a deal that was value for money, there would have been implications. If you had walked away at that stage, without a clear reason for doing so, the bidder would have wished to know why. Under FOI, they would have looked to see whether it was for value-for-money reasons, and, if there was a value-for-money deal on the table from that bidder, I am sure that they would have looked to redress the expenditure they had incurred during a very expensive bidding process.

Mr Easton: Can we have sight of those?

Mr Redmond: Yes.

Mr Clarke: Just on that, Tom. I am picking up that you seem to have been more reluctant than anyone else to end that contract. Did you ever advise the college not to end the contract?

Mr Redmond: No. It was not for me to advise the college. At all times, it was for the college to progress its business case and to submit it to the Department for approval.

Mr Clarke: At no time did you discourage the college?

Mr Redmond: It depends what you mean by discourage. If, for example —

Mr Clarke: If you want me to explain what I mean, I can do that.

Mr Redmond: No. Well, OK. If, for example, you mean explaining —

Mr Clarke: Maybe I should explain —

Mr Redmond: Sorry, let me finish —

The Chairperson: Let Mr Redmond —

Mr Clarke: Chair, I think he is having difficulty understanding what I am asking him, so I will ask him in a different way.

Mr Redmond: I have a form of words in my head, which —

Mr Clarke: At any stage, did the college suggest in stronger terms ending the contact, at which stage you may have tried to discourage them?

Mr Redmond: If you are asking whether I explained the implications of walking away, yes I did.

Mr Clarke: Would you have tried to discourage them then?

Mr Redmond: It was not discouragement.

Mr Clarke: Thank you. That is clear.

Mr Redmond: I want to make it absolutely clear.

The Chairperson: Mr Baker, we talked about tipping points and the lost appetite in terms of the car park. At that tipping point, the Department stepped in. What action was taken by the Department and you at that time?

Mr Baker: When I talked about loss of appetite, I was referring to the Ulster Bank and the lending to the bidder: it was not to do with the car park. It was towards the end of 2008. Is that what you are asking about?

The Chairperson: Yes, I just wanted clarification on that.

Mr Baker: In late 2008, the bank came along and said, "Look, we're losing our appetite here. We're not going to lend." That threatened the whole project. The college and the Department had to take a decision on what to do: let the project collapse or see what we could do to save it, but always in a way that preserved the value for money.

There is a wee bit of shade and light here, and I think I mentioned this at the last session, and it is relevant. Bear in mind that my Department had been in receipt of pretty stinging criticism from this Committee for throwing in the towel on the Springvale educational village project. The Committee effectively said, and I am using the vernacular although I am paraphrasing, that when the going got tough the Department walked away. The recommendation to the Department was very, very clear: when the Department is faced with serious operational difficulties with an important project, this Committee, the PAC, expects us to take every reasonable means possible to deliver the project objectives, and not doing so is not acceptable. That is what this Committee said to the Department.

So, the Department had a choice: walk away because of the impact of the credit crunch or look at how to save it. The Department had £5 million capital available to it in its budget. The Department usually has a capital budget of £35 million to £40 million every year, which is used pretty exclusively for investment in further education or higher education. It decided that, to reduce the borrowing requirement of the bidder, the Department would put up capital of £5 million. That had the effect of reducing the unitary charge, which is a bit like a mortgage: you either pay a big deposit and have a lower mortgage repayment or pay a smaller deposit and have a higher mortgage repayment.

So, the Department decided to offer a £5 million increased bullet payment, bringing its bullet payment from £10 million to £15 million. However, in doing so, the Department bore in mind the objective that I described earlier: to deliver the project — as this would do — in a way that preserved affordability and value for money. It reran the value-for-money assessment, which came out as positive as a consequence of the re-financing deal. So, it achieved all the objectives: it preserved affordability and value for money and saved the project.

Mr Dallat: Mr Baker mentioned Springvale. I will not turn this into a history lesson, but that was immediately after the peace process. Can you imagine the shattered lives that were left behind when you walked away from that project? The Committee was critical of you at that stage, but it did not tell you, "Don't throw in the towel if something is wrong in the future." Why throw in the towel if the procedures are correct? There were significant weaknesses in the project management. Do you agree?

Mr Baker: There were significant weaknesses in the college's governance arrangements and in elements of the project management. I agree entirely.

Mr Dallat: Mr Baker, are you taking any responsibility for this project?

Mr Baker: Yes, I have just said that I agreed with you that there were significant weaknesses in the governance and the project management.

Mr Dallat: I will certainly want to read the Hansard report later. You made some remarks at the beginning that worry me, because the only purpose of this Committee is to enquire into projects so that we do not have repetition. That is the only reason: nobody is looking for a head on a platter or anything like that. Do you agree that there were significant delays in the project after the preferred bidder was selected?

Mr Baker: Yes.

Mr Dallat: Do you now accept that, in the future, that would not happen again, because you are aware of the weakness?

Mr Baker: I accept that it should not happen again. You asked whether I agree that it would not happen again. I do not know what is going to happen in the future, but I agree that it should not happen again.

Mr Dallat: Well, I will tell you, Mr Baker, why this is interesting. I keep telling my colleagues that I am the longest serving member on the Committee, and —

Mr Baker: Sorry, I did not hear that.

Mr Dallat: I keep telling my colleagues that I am the longest serving member of the Committee; 14 years. It appals me that, time and again, we sit on inquiries that find that the same mistakes are being made again. I hope that you are not preparing me for some event in the future, when I might not be here, and when the same significant weaknesses will arise. That is all that I am asking.

As for the college itself, I am trying to put myself in your position. I am sure that Marie-Thérèse will put me right on this. What additional bill have you picked up as a result of these obvious weaknesses that were not identified? How many millions of pounds extra has it cost?

Ms McGivern: That is a very difficult question. If we were not where we are — if we were not in the PFI — then the question would be this: where might we be? Going back to government policy at the time, PFI was the fashion. Everything was being done through PFI.

Mr Dallat: I agree with you.

Ms McGivern: We know about all the hospitals and schools that were built that way; it was the flavour of the day. At that point, there did not appear to be any alternative to the PFI track. If we had not gone down that road, we might well still be in College Square East and Brunswick Street, and in environments that were really not fit for purpose any longer. I am not sure that there would have been alternative resourcing for us to rehabilitate and refurbish those buildings to the quality that we now have in the Titanic Quarter and, subsequently, in E3. So, what would our cost be if we were still in the old buildings? That is a hard question to answer.

Mr Dallat: No, Marie-Thérèse, that is not what I am asking. If the weaknesses in the project management and the delays after the preferred bidder was identified had been addressed, I assume, rightly or wrongly, that you might not be committed to the additional money that you have picked up the bill for. I am asking how much that was.

Ms McGivern: Again —

Mr Dallat: I think that it is £20 million, but I might be wrong.

Ms McGivern: My understanding is that we committed to the unitary charge and are still paying the same unitary charge. The question then is whether we can afford it. We can now afford it. We have brought the college to a financial position that allows us to afford it and enjoy the benefits that, in my view, it has brought to student success and achievement and the reputation of further education. It has built our relationship with the private sector to a much greater and stronger extent than we had ever achieved previously. For me, looking at it every day, I am where I am and the college is where it is. We are slowly getting better. We have gone from being inadequate to good in four years. We hope, over the next period, to go from good to great.

Mr Dallat: I think that nobody around the table would disagree with a single syllable of that. I am glad I made it clear in my opening remarks that I am totally prejudiced in favour of the college.

Ms McGivern: You did indeed, Mr Dallat.

Mr Dallat: Finally, I go back to, Pat. You made it very clear at the beginning that you had no preferred interest in the college going to the Titanic Quarter. You robustly answered that. I ask this simple question: what was your role in the Strategic Investment Board and in this whole project, for which you are now sharing a third of the blame?

Mr P O'Neill: First, I do not see blame attached to this project. All projects, no matter which ones, are difficult. As Derek said, you have to address those. I will take you through the chronology of a few things. We started off with two projects: a PPP project and an ICT project. As a result of planning, we then took out the purchase of the site, so that that became a purchase project. As a result of the guidance on reducing and removing assets that were not integral, that became a separate project —

Brunswick Street and College Square East. If you assess each of those projects on their own merits, then the PPP project had a predicted margin of 3·2%, which is £1·6 million value added over the life of the project. That is better than the shadow bid model, which was set many years before. On the disposal project, which was College Square East and Brunswick Street, College Square East became surplus in 2013, so it was no longer used after that. They were valued by the LPS in 2013 at the time they were surplus at £4 million. They have just been sold for £5·5 million. That is £1·5 million better than that benchmark.

In relation to the land purchase in TQ, as Derek mentioned, TQ, as a result of BHC, which is a public body, applying the guidance to get the best value for its asset, asked for an uplift; it wanted an additional £4·7 million. We negotiated it down to an additional £2 million, and £1 million of that, as I said, went back to the public purse. The LPS has signed that off.

The ICT project was predicted to cost £6·2 million, but it came in at £4·9 million. That is £1·3 million better than the benchmark. Each of those individual projects that make up the entirety of the college has delivered value for the public purse.

Mr Clarke: Sorry, Pat. You have that well-rehearsed for today, but —

Mr P O'Neill: It is facts.

Mr Clarke: No, the fact is that you omitted to say things. You are talking about what we got today because you did not sell it until recently, but when you took out Brunswick Street and College Square East, how much was the estimate in terms of the value?

Mr P O'Neill: It —

Mr Clarke: No, just answer the question.

Mr P O'Neill: That is like you asking me what my house price —

Mr Clarke: Well, that is what you —

Mr P O'Neill: — was two years ago and five years ago.

Mr Clarke: Well, why was it taken out? It was because someone in the Department thought that they could realise more money for it, At the time that decision was made, property values were going up.

Mr P O'Neill: To go back to the reason —

Mr Clarke: No. Just answer the point. How much was it taken out at?

Mr P O'Neill: — why they were taken out.

Mr Clarke: How much was it taken out at?

Mr P O'Neill: It was taken out on valuation —

Mr Clarke: At what value?

Mr P O'Neill: — of £10 million.

Mr Clarke: At £10 million. You got £5 million, and you say that that is a success story. That is a farce.

Mr P O'Neill: What I am saying is that the guidance that issued from this same Committee in 2007 stated that buildings that were not integral to a project needed to be removed from it. They were removed.

Mr Clarke: And you realised £5 million less.

Mr P O'Neill: No —

Mr Clarke: Do not come here today, Pat, trying to get a sound bite and trying to make the SIB look like some wonderful department. Your fingerprints and the Department's are all over this. Mistakes have been made. It is time that you stood up and realised that mistakes have been made and accepted responsibility for them.

It is obvious that you have come in here with a script to try to present some sort of case that this has been a wonderful story. It is not a wonderful story. Someone made the decision to remove them and then not do something when they were at a higher value, but you do not want to focus on that. We could also say that, if they had waited for another three years and built the college in a depressed market, they would have got it for less, but that was not the case, either. If you are in here to try to put yourself on a pedestal, with some sort of facts to try to manage figures to make it look like a wonderful deal, you have not convinced me, and I do not think that you will convince the wider public in terms of the handling of it.

Mr P O'Neill: Mr Clarke, my job is not to manufacture figures —

Mr Clarke: Well, it is coming across that that is what you are trying to do.

Mr P O'Neill: No, it is not. They are the figures that are there.

The Chairperson: Sorry, just to conclude: members, we have all had the opportunity to ask our questions, and I just want to ascertain whether Mr Brennan or Mr Donnelly had anything to add. No? OK. Thank you. Do members want clarification on any other questions?

We had a session on 18 June, and I found the evidence session today very valuable in helping with our report. There was a lot of talk about marriage earlier in the session, and I believe that a baby came out of that marriage with a lot of teething problems. In my opinion, thankfully, the foster mother stepped in and sorted out that teething problem and produced teeth, which is now the wonderful Belfast Met. I am sure that all members of the Committee want to celebrate the wonderful building that it is, as well as the staff, students and everyone working in it.

Thank you for your attendance before the Committee today. Some useful information has been provided, and we will take that on board as we develop our report. There are some outstanding pieces of information that we have requested, and the Clerk will write in due course to request that information. It just remains for me to thank you, the Auditor General and Mike Brennan and his team for attending today.