



Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

June Monitoring Round:
Department of Finance and Personnel

28 May 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Ms Michaela Boyle
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Ms Janis Marynowski	Department of Finance and Personnel
Ms Brigitte Worth	Department of Finance and Personnel

The Chairperson: I welcome Brigitte back to the meeting as well as Janis Marynowski. If you would like to make an opening statement, we will then move on to questions.

Ms Brigitte Worth (Department of Finance and Personnel): Thanks, Chair. We are submitting a bid at the June monitoring round to enable us to take forward the elements of the Executive's asset management strategy that the Department of Finance and Personnel (DFP) has been tasked with delivering. We are asking for some £3.6 million of running costs to set up a team for collaborative procurement and also to undertake the reform of property management and some survey work that we need to inform the property programme.

Obviously, the largest element of the bid is the £40 million in capital that we are seeking to enable us to take advantage of some invest-to-save opportunities on the property side. We have identified a number of potential opportunities, or perhaps I should give credit where credit is due to our colleagues in the Strategic Investment Board (SIB), who have identified a number of potential opportunities on this front that would enable us to deliver long-term resource savings but would need upfront capital investment.

I should probably sound a note of caution at this time, in that it is possible that some of the plans that we have identified may not come to fruition. There will be a risk with this funding that we will need to return some of it later in the financial year: I want to be upfront with the Committee about that. The key thing to bear in mind, however, is that, if we do not obtain the funding, we will not be able to proceed with any of the plans. We need the funding to be in place to enable us to make progress. I am comfortable that the list of savings is long enough that £40 million appears to be a reasonable

amount of money that we may be able to achieve in the current financial year, and, on that basis, I am putting the bid forward. I am happy to take questions on the bid or on any other aspects of the paper.

The Chairperson: How much in savings will be directly attributable to the £3.6 million and £40 million current and capital bids respectively?

Ms Worth: Plans have not been 100% firmed up. With the capital bid, we will be looking at a series of proposals and assessing whether their net present value is suitable to justify the investment. Each opportunity will be subject to further appraisal to ensure that we assure ourselves that the rate of return on that investment is delivering sufficient savings to justify the capital up front. We think that lot of those will be looking at a 3% to 5% return on some of the potential investments, but we are still in the very early stages of developing business cases.

The Chairperson: Should they not be done before you make the bid?

Ms Worth: As part of the business case process, we need to confirm that there is affordability. A business case cannot be approved without funding being in place. We are taking the two issues forward in tandem. As I say, we have a list of potential opportunities that total about £100 million. The initial assessment has shown that the rates of return are likely to be of an order that is attractive to us.

The Chairperson: What is that range?

Ms Worth: I do not know for certain. I do not have the exact figures with me, but they are about 3% to 5% rates of return on those opportunities.

The Chairperson: What is that in money?

Ms Worth: Again, I do not have the exact financial figures with me, but a lot of the programmes are returning savings of a couple of million pounds a year. There are substantial savings from them. As I say, we are working up a number of opportunities. I can provide you with further financial details on the ranges of savings that we are looking at. I do not want to be too specific on the opportunities. There are commercial sensitivities around some of them, and it will depend on people being willing to enter into deals with us.

The Chairperson: If there are bids from other Departments — of course there will be — and they have business cases, they can set out the rationale and whether there are any potential savings in their bids. It seems that the Department is going forward with bids without even a range of savings. You seem to be putting the cart before the horse.

Ms Worth: As I say, there is an element of needing to know that we have funding before we can enter into negotiations, because we will potentially enter into negotiations with people to do commercial deals. Our problem is that we cannot do that without having the funding behind us because that is required so that people take us seriously. We are coming forward in the June monitoring round because we know that these opportunities are available to us, but I do not want to ask for funding later in the year when I know that there will be no opportunity, if some of those deals do not come to fruition, to hand the money back to be spent in another more productive way, given that we would then know that those deals are not going to happen. I am probably not expressing that very well.

The Chairperson: Could you not give us even a range? I understand that you sometimes have to take risks in these situations. That has been raised by the Minister. If you are taking a risk, can you give us some sense of what the possible return could be?

Ms Worth: I do not have that information with me today, but I can certainly provide it to you.

The Chairperson: Can we get that before next week?

Ms Worth: Yes, I think that that should be possible.

Mr Cree: You mentioned the risk of some money going back. Can we also have that detail as part of the overall risk?

Ms Worth: Yes, certainly. As I say, I have a list of potential projects that total £100 million. I am asking for £40 million. So I am already saying that we are not trying to do everything. It will be only as time moves on that we will see that. First, we have to confirm that the business cases stack up and that our initial analysis is confirmed by detailed business cases, and we then have to enter negotiations. It may be, for example, that, if we have an opportunity to buy a property, somebody else may offer more money or more money than we are prepared to offer. It will be only at the point, when we get to those negotiations, that we will fully understand the extent of the risk of that money coming back.

It is not possible to give you a quantified idea or what might not happen at this stage. What I can say is that we have a list of projects that total £100 million, and we are banking on £40 million of them coming to fruition. We are saying that we anticipate that not all that will happen and that we should take a reasonable cut of what might be achievable. We have cut that down to £40 million.

Mr Cree: Is that part of the risk calculation?

Ms Worth: It is. It is part —

Mr Cree: You need to have that bid as well.

Ms Worth: OK.

Mr McQuillan: The invest-to-save scheme was high up the agenda three years ago, but it seemed to slip off. I am glad that it is back again and coming to fruition. You said that there is a list of about 100 projects.

Ms Worth: It is £100 million worth of projects.

Mr McQuillan: Can you give us a flavour of any of those?

Ms Worth: They are all on the property side. We have identified a number of opportunities whereby we might be able to buy out of our existing leases and make offers to landlords for the purchase of buildings that we are leasing. We have a list of buildings that we could do that with. We have also been looking at some of our private finance initiative (PFI) contracts and at whether there are opportunities to provide more upfront capital in those that would reduce future unitary charges.

Mr McQuillan: Is there not also an opportunity with some of the buildings that the Department owns? I am thinking about County Hall in Coleraine. A lot of staff are being taken out of that building, and it will be three quarters empty. Is there not an opportunity in the invest-to-save scheme to move other staff into that building?

Ms Worth: Possibly. I know that my colleagues in the properties division will consider that. They will be constantly looking at where our empty properties are. It will depend on the anticipated accommodation needs in the Coleraine area, but they may seek some refurbishment of the building before moving people in. We are constantly seeking to create higher density in our accommodation and refurbish buildings to a more open plan design. That will allow us to provide reasonable accommodation for more people in the same square footage.

Mr McQuillan: Will you look at that as part of the invest-to-save scheme?

Ms Worth: Yes. We are already looking at it. The only reason why I have not mentioned any refurbishment projects in the list of projects is that that is one of the main priorities for our existing capital allocation. This year, we are undertaking a major refurbishment of Adelaide House along those lines. That building will be refurbished to enable us to have a higher density of occupancy. That will enable us to release some leases this year as they come up for renewal instead of needing to take them out again.

Mr Cree: Have you taken any account of the introduction of flexible working in the budgets?

Ms Worth: We have. At the moment, I think that the properties division works to a policy of no more than 1:1: one desk per person. As and when flexible working increases, we will look at a lower ratio.

There is also recognition that part-time workers may use a desk for two days a week while someone else would use it for three days a week. Account would also be taken of that sort of thing.

Mr Cree: That is, of course, the opposite of what we have just been talking about: the utilisation of buildings.

Ms Worth: Yes. You would hope that, if flexible working is used more extensively, there would be less need for accommodation. If you combine less need for accommodation with more densely populated buildings, hopefully there would be a twofold reduction in the area required.

Mr Cree: It will be interesting to see what happens.

Ms Worth: Yes, it will. It has been a very successful programme. I am probably jumping ahead to another evidence session in a few weeks' time, but you will have seen from the DFP savings delivery plan that we have driven significant savings by reducing the volume of our accommodation over the past two Budget periods. For the past seven years, we have been driving down the cost of providing accommodation, in recognition of the fact that we would rather spend that money on front line services.

Mr D Bradley: Good morning. You are making bids to advance the work of the asset management strategy. Your paper states:

"These bids would enable the Executive to progress key aspects of its Asset Management Strategy".

Can you tell us what those key aspects are?

Ms Worth: One of the key aspects is increasing the density of accommodation and thereby releasing leases, which I mentioned. The other key aspect is collaborative procurement, whereby we seek to make best use of our buying power by negotiating contracts on a cross-public sector basis, thereby driving prices down. We have already achieved a couple of successes: the 2014-15 electricity contract and a recently let contract for the provision of security guarding across a wide range of public sector buildings. Between them, savings of just over £1.8 million a year have been achieved. That is just with the first two contracts. Our Central Procurement Directorate has a programme of work to take forward to continue to realise such savings. Those will accrue not only to DFP but to all the public sector bodies participating in those contracts.

The Chairperson: On the reduced requirements, the Department has advised the Committee that £2.4 million needs to be surrendered to meet the costs of non-delivery of welfare reform. Will that be played out in other Departments as well? Is that being relayed to other Committees as we speak?

Ms Worth: Our Minister had written to his Executive colleagues in March advising that, unless there is progress on welfare reform, the June monitoring round will require reductions of 1.5% across all Departments. That is obviously a matter for the Executive to decide. So, to a certain extent, I am anticipating the will of the Executive a little bit by including it in this paper, but I did so to illustrate to you that I had to take that into account when I was looking at the Department's June monitoring position. I could not really go into this monitoring round with a plan to still have that money, when the Executive may, in fact, decide to remove it. That is why that has been included.

In answer to your question, it depends on how other Departments have chosen to present it to their Committees. I may, in fact, be jumping the gun a little by showing it in our position to you. As Jeff or Peter said, it has not been decided yet, but it has been factored into my thinking for our June position.

The Chairperson: How was the 1.5% calculated?

Ms Worth: I am assuming that my Minister took the advice of my colleagues in the public spending directorate on that matter.

The Chairperson: Obviously, there will be ongoing discussions on the issue. I think that the Committee would be interested to know how estimated cuts across Departments were worked out. It is not just about the Treasury saying that these are the cuts required. It is also about why they are

required. Take the IT system argument, for example. Is the argument about IT costs based on the actual system rather than estimates?

Ms Worth: I am afraid that, again, that is a question for my colleagues in the public spending directorate. I can certainly take that back and ask them to provide you with some information.

The Chairperson: That is all right. Thank you very much.