



Northern Ireland
Assembly

**COMMITTEE
FOR THE OFFICE OF THE
FIRST MINISTER AND DEPUTY
FIRST MINISTER**

**OFFICIAL REPORT
(Hansard)**

Investment Strategy for NI

18 November 2009

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Danny Kennedy (Chairperson)
Ms Martina Anderson
Mr Alex Attwood
Mr Tom Elliott
Mr Stephen Moutray
Mr George Robinson
Mr Jim Shannon
Mr Jimmy Spratt

Witnesses:

Dr David Gavaghan } Strategic Investment Board
Mr Patrick McMeekin } Strategic Investment Board

The Chairperson of the Committee for the Office of the First Minister and deputy First Minister (Mr Kennedy):

Good afternoon, gentlemen. You are very welcome. Thank you for your attendance, Mr Gavaghan and Mr McMeekin, who, I understand, is a late replacement for Mr Mark Spollen.

We are here to get an update on the investment strategy for Northern Ireland. We look forward to hearing your brief presentation, after which we hope that you will be available to answer questions.

Mr David Gavaghan (Strategic Investment Board):

I am not sure whether Committee members have seen the brief that we produced, so we have brought some copies.

I believe that in response to the note that we circulated, you asked us to update you on the outturn for the current year. We have just done a draw on the delivery-tracking system, and we can go into the detail of it. The prospect for the current year is that an anticipated £1.6 billion will be invested under the capital investment programme. That is our best estimate of the situation from our consideration of the draw of the delivery-tracking system. The Department of Finance determines the funding envelope, but that is where we see current demand. Supply issues are a matter for the Finance Department.

It is worth touching upon a few areas that resonate with a Committee meeting that you had recently with the Confederation of British Industry (CBI). Although, at present, there is no evidence that outturn costs are falling, forward orders show us that tender prices are improving due to the competitiveness of the market.

During the next period, we will probably see some contraction. It is worth addressing certain other issues in that regard. The first is that with reduced tender prices, transferred risk is probably increased. When you met CBI representatives, they said that there is, inevitably, potential for scope change, litigation, poorer workmanship, and so on, and a contractor could also face insolvency.

The increase in the retail price index, which was announced yesterday, shows that oil prices are beginning to have an effect; the prices of commodities, such as metal, are increasing; as is the cost of bricks.

Although on the face of it there looks to be a window for lower prices, several factors are beginning to militate against that.

Another aspect in which Committee members have been interested is the level of employment that is provided through public-sector infrastructure investment. As a rule of thumb, £1 billion of construction spend probably creates about 22,000 employment years; therefore £1.5 billion would create jobs for about 33,000 construction workers. There is a supply chain over and above that.

That is the position for 2009-2010. I do not know whether Committee members want me to provide an indication of the position for 2010-11.

The Chairperson:

That might be helpful.

Mr Gavaghan:

The granularity of my prediction will not be as good as that for the current year. For 2010-11, the figure will be in roughly the same region — just under £1.6 billion.

The Chairperson:

Thank you very much. The CBI expressed concern about possible tension between the Strategic Investment Board (SIB) and Departments. What is your reaction to that concern? Is it accurate or has it not been evident to you?

Mr Gavaghan:

The discussion that the Committee had with the CBI was about the SIB review. It is worth making the point that that was being discussed in the context of the arrangements that the SIB has with Departments in Northern Ireland. There are differences between that approach and the approach in the Republic of Ireland between Departments and the National Development Finance Agency (NDFA), which is the equivalent of the SIB.

The CBI representative made the point that the National Development Finance Agency has specific legislation that recognises its role in delivering projects. That is different from arrangements in Northern Ireland. It is probably worth examining in due course whether there is a need to review exactly the mechanics of our involvement in projects. I will not comment on that, because it is a matter for Ministers to decide. However, through the review, we can examine the pluses and minuses of the arrangements.

Scotland is looking at the issue with regard to the creation of another similar organisation to the SIB called the Scottish Futures Trust. The Scottish Government are looking specifically at the locus of that organisation in its delivery of infrastructure. There are pluses and minuses; the matter is not straightforward.

The Chairperson:

Would you go as far as suggesting to a Department that it should actively pursue the review to begin, or continue, the formal process of review, specifically looking at that aspect of your work?

Mr Gavaghan:

Yes. That is an important point, particularly as the industry has expressed concern about it. The key issue is not what the legislation does and whether there is confusion. Instead, as with all winning teams, the key is finding how to create a form of teamwork that works for the Department and, ultimately, for the citizens of Northern Ireland. That is the fundamental issue, and we must try to identify the best way of achieving that. Therefore, suggesting that to the Department is worth considering.

Mr Elliott:

Thank you for your presentation. You said that £1 billion of construction spend creates —

Mr Gavaghan:

Twenty-two thousand jobs for construction workers. That is a rule of thumb.

Mr Elliott:

My question relates to the financial difficulties that we are experiencing. Quite a bit of money from the construction sector, particularly the Maze/Long Kesh and Crumlin Road sites, was returned by OFMDFM to the central pot during the June and September monitoring rounds. However, that money has not been realised anywhere else. That money, which has basically disappeared, is construction money.

In my constituency of Fermanagh and South Tyrone, the relatively small project of the Cherrymount Link road has been costed at £3.6 million. We have just been informed that that project will not now take place in this financial year and that it is unlikely to take place before 2011. One of the reasons given is financial constraints in the Executive and the Department for Regional Development; however, at the same time, we are planning to spend more than £800 on the new A5. Will the Cherrymount Link road project go ahead at all? Secondly, is the money for the very high capital-cost projects such as the A5 ring-fenced in the Executive? If not, how do they plan to make that money available?

Mr Gavaghan:

I cannot comment on the Cherrymount Link road: roads and other programmes are under the auspices of the Department. Our role is to give effect to specific projects. I do not know specifically about the Cherrymount Link, but I can look into that and come back to the Committee Clerk with further information.

The A5 is being co-funded by both jurisdictions, and every indication is that funding is available for that project; only the other day, the Minister of Finance and Personnel made a further positive statement about support for it. That is a matter for the Department and the Executive to determine. My understanding is that the project is proceeding as we anticipated.

Mr Elliott:

It was not included in any forward plan, and it was not in the three-year budgets, so where is that money ring-fenced from?

Mr Gavaghan:

What project are you talking about?

Mr Elliott:

I am talking about the £400 million required for the A5 project.

Mr Gavaghan:

The A5 project was included in the investment strategy.

Mr Elliott:

I am sorry; it was not. An upgrade to the A5 was included.

Mr Gavaghan:

No; I am pretty certain that the A5 was specifically included in the investment strategy.

Mr Elliott:

The strategy states "A5 road upgrade".

Mr Gavaghan:

The figure of £400 million was included in the investment strategy. I will happily go through that with you.

Mr Elliott:

I would be grateful if you would.

Mr Shannon:

Gentlemen, I am sorry that I was not here for all of your presentation. Representatives from the construction sector have appeared before the Committee previously and have made it their business to talk to the parties individually. They spoke with our group last Monday. It became clear from those meetings that there are frustrations, worries, and even fears, that many of the schemes that they had hoped would create jobs are not going ahead. They said that every £1 spent on one of those schemes brings £2 into the economy.

The report outlines, under the heading ‘Major developments’, that “work is progressing well”. One of those projects according to the investment strategy is the A5, as Tom Elliott mentioned. The report states that there are 55 projects worth £265 million where the construction contract has recently been signed, and another 40 projects worth £950 million in procurement. What the construction industry and we need to know is how many of those projects will now happen. Representatives of the sector are telling us that those schemes will not be kept in play, and I have no evidence to counteract that.

The Chairperson:

I should have said, gentlemen, that the session is being recorded by Hansard. I know that that does not present a problem, but I just wanted to advise you of it formally.

Mr Gavaghan:

Thank you. We are aware of the concerns expressed by the Construction Employers’ Federation and others.

We have tried to be transparent in addressing those concerns when working with Departments and the Central Procurement Directorate, and the delivery-tracking system is a fundamental plank in doing that. Patrick and I would welcome the opportunity to show members how the delivery-

tracking system works. There is a portal that we could take you through, but we would like to show you the detail of the system at some point if you think that that would be worthwhile.

I recognise fully that the onus is on us to prove to the satisfaction of the construction industry and other stakeholders that what is in the pipeline can be totally transparent. In the early part of my presentation I said that we anticipate £1.6 billion capital investment this year and a similar figure in 2010-11. That is to be distinguished against the awarding of contracts, as that does not immediately result in expenditure on the ground. Lead and lag time need to be addressed.

With regard to the specifics under the delivery-tracking system, £617 million of work has reached contract award already in the financial year 2009-2010.

Mr Shannon:

How does that compare with last year's prices?

Mr Gavaghan:

That is a good question. It is broadly the same.

Mr Shannon:

You can come back to the Committee with those details, as they would be useful to have.

Mr Gavaghan:

Last year, we spent just under £1.7 billion, and we anticipate spending about £1.6 billion this year. I would be surprised if it were materially different. The delivery-tracking system is input, and all the work is done by each Department. Our analysis of the system indicates that £290 million of capital investment is complete or is still on the ground and due to complete in 2009-2010, which is about 60 projects. I can provide members with a list of those projects and a summary.

We recognise the industry's concerns. Increasingly, we can evidence the substantiation of that expenditure, project by project, across government expenditure. That is the dialogue that we are seeking with the Construction Employers' Federation and other stakeholders to reassure them that this is real, that it is happening and that we are not making the figures up — and they have never suggested that we did. However, the Construction Employers' Federation and the industry are

concerned, and we need to recognise that. One point seven billion pounds was spent last year, but not all of it was spent on construction. However, we must spend that money to deliver programmes, provided that it does not all go into construction, although we have never said that it does. That is the only money that is available to fund those programmes.

Mr Shannon:

I welcome your response. However, it is contrary to what we have heard. Any confirmation that you can give the Committee would be helpful.

You said that 40 construction projects across Departments and £220 million in procurement has not yet commenced. If we are to relate to the construction industry, it is important for us to be able to say that those projects are on line to start, not that they are to happen some time in the financial year. We want to know when the diggers will hit the soil.

Mr Gavaghan:

If you forgive me, Mr Chairman, it may be worth exploring that point. In accordance with the delivery-tracking system, we can substantiate, under the heading of contracts that are yet to be awarded in the current financial year, that £420 million will reach contract award during the remainder of this year, which is about 50 schemes. Those schemes include the 50 m pool in Bangor, Magherafelt High School, Knockbreda High School, Strathearn Grammar School, Methodist College, Parkhall College, a small piece of work for Belfast Metropolitan College, the new care facility, a waste-water treatment works, a project for newbuild homes in the west bank of Derry, a further project in Londonderry, the Bass Brewery site, homes at Ballymacross Hill, and a site on the Donegall Road. Those are just some of the projects that are being undertaken. We can provide members with the detailed information. Clearly, we need to be able to show all parties what is being achieved from the £420 million and to have visibility about what is going on. There is a problem at the moment; there does not seem to be that connection.

Ms Anderson:

I am sorry for being late; I was at another event. I want to pick up on some of the comments that have been made. Forgive me if my question has been asked already; if it has, I will look at the Hansard record. The representatives from the CBI raised some concerns when they met us on 4 November. They said that there was tension between the SIB and the Departments. In the light of the ongoing review, what is the SIB's role in relation to the Office of the First Minister and

deputy First Minister (OFMDFM)?

The Chairperson:

We covered that at the outset, but I am happy for David to restate the position.

Mr Gavaghan:

I hope that I can. I read the transcript of that Committee meeting on the Assembly website. One of the key issues in the review is the role of the SIB. We can learn from the example of the equivalent organisation in the South, the National Development Finance Agency (NDFA), and the Scottish Futures Trust in Scotland. There are some specific lessons to be learned when we consider the tensions that were referred to by the CBI's representatives: what is the legislative framework in which we operate?

Departments are required by law to pay regard to our advice. In the Republic, the arrangements for the NDFA are much more legally enforceable. The NDFA is handed a transaction at a certain phase in its progress, and it runs with that project. At the very end, once the project is complete, it is handed back to the particular Department. We do not operate in a legislative environment such as that, which is a matter that OFMDFM and Departments need to consider in the course of the review. The Committee should regard that as a discussion that is well worth having at a later stage.

Ms Anderson:

When the CBI's representatives met the Committee, we asked them about the social requirements that are built into procurement contracts. The CBI made a submission to the Central Procurement Directorate (CPD) in which it talked about one job being created for every £5 million spent. That is not acceptable. I know that, in the contract for the bridge in Derry, the figure was reduced to one job for every £1 million spent and one apprenticeship for every £2 million spent. Is the CBI embracing the social requirements to assist the Executive to deliver the Programme for Government?

Mr Gavaghan:

I am sorry; I did not hear the last part of the question.

Ms Anderson:

Is the CBI embracing the social requirements that have to be built into procurement contracts? It is not acceptable that only one job is created for every £5 million that is spent.

Mr Gavaghan:

I cannot answer for the CBI. Our experience on the most recent schools project is that the contractors have probably done more to embrace the social considerations, find apprenticeships and engage with the community than has been the case for any infrastructure project to date. The experience has been a very good one. We have done a lot of internal and external work to prepare a toolkit to embrace the social issues. The evidence of the engagement that we have had with stakeholders more generally shows that there is very little difficulty with the private sector partners. In fact, the opposite is the case. I can see that they recognise the importance of the social requirements. We must now focus on how to do more.

Ms Anderson:

I am interested in obtaining the list that you talked about, because I do not think that enough people are aware of the work that is being done. I came in when Tom Elliott asked a question. Yesterday in the Assembly, the Minister for Regional Development said that £9 million would be put into the Consolidated Fund, hopefully in a few weeks' time, to complete the contract and design element of the A5 project.

Mr Elliott:

It was €9 million.

Mr Attwood:

I want to follow up on the questions that were asked by the Chair and Martina Anderson. I want to try to decode what you were saying. *[Interruption.]*

The Chairperson:

I remind Committee members that the use of electronic devices such as mobile phones is not appropriate in Committee meetings, particularly when Hansard is recording. Will members please switch off their mobile phones?

Mr Shannon:

I have been duly told off. I will retire to make a phone call and will come back.

Mr Attwood:

Is it your best advice to the Committee, given that we are in a period of potential economic restrictions, that your organisation requires the legal freedom that there is in the South? In your answers to three or four questions from members, you have not denied that the tension referred to by the CBI exists; therefore, I presume that it does exist. I am concerned that, in five or six years' time, we will have a situation in which Richard Barnett will have to do what he has done to reconfigure the relationship between the Government and INI.

The Chairperson:

I must add a word of caution. I do not mind questions being put to witnesses, but I am not sure about words being put into their mouths.

Mr Gavaghan:

First, tension is not necessarily a bad thing; in many senses, creative tension is a good thing. Secondly, the key point is not whether there is legislation; it is about what works. It is making sure that the interface between the SIB and Departments and a whole group of stakeholders gives effect to good infrastructure delivery and achieves the right outcomes.

If someone had said five years ago that we would spend £1.7 billion on an infrastructure investment programme in Northern Ireland, many people would have disagreed. However, the fact is that we did. Many people may say that the tension that the CBI referred to has precluded the delivery of that programme, but I do not believe that it has. The substantial fact is that we have ramped up a very big programme and it has delivered. The counterfactual that should be analysed is whether something better could have been done. I am particularly interested in whether we can do more with less money, which will be our real challenge. The real issue is not to focus on legislation and whether there is tension, but the fact that we will have less money and whether we can deliver more with it. That is what we must focus on in all of the interface issues.

Mr Attwood:

I will not push you further on that issue. I think that it has probably been exhausted, for today's evidence session anyway.

I do not want to invite you into the political arena, but from your developmental perspective

—

The Chairperson:

Get ready. *[Laughter.]*

Mr Attwood:

Given that, potentially, more will be expected from less money in the future on these islands — certainly, in the South — do you feel that more can be done North/South with less money?

Let me give you an example. There is a proposal for an incinerator in Dublin, to be located in the constituency of the Environment Minister, John Gormley TD. This week, the Irish Waste Management Association has claimed that the planned incinerator is twice the size that it needs to be and that it should be scaled back if it goes ahead at all. However, there is probably the need for an all-island incinerator.

Without prejudice to anyone's politics, and given the economic environment that we now face on the islands — never mind on the island — do you think that opportunities exist that are not being taken forward?

Mr Gavaghan:

I do not want to get involved in the political arena. My simple role is to help in the successful delivery of infrastructure in this jurisdiction.

However, one simple example is that when we cross the border we pay road tolls. Such charges could be introduced here, but clearly that would be a decision for Ministers and the Executive. Many countries across Europe are revisiting the policy of road-user charges. Waste management and the climate change agenda are other areas that we need to look at. There is the potential to review whether we are maximising the potential benefits in those areas. Ultimately, it is a political decision. All that my small organisation and I can do, with the board's support, is to present those options to Ministers to take a decision on.

Mr Attwood:

Given the potential for less money, and considering that Government funding based on asset realisation is not going to happen, is there anything else that the Committee needs to know that will inform it in taking things forward?

Mr Gavaghan:

The assumption that asset sales are not going to happen arose from a reference that was made by the CBI. Personally, I think that that decision has yet to be taken. The obverse of the fact that one will probably get less for a property today than two years ago is that one can buy a site for less. Therefore, it equals out. It is too one-dimensional to say that you are not going to sell something when you can buy something for less. That is the issue.

I would be hesitant about saying that value has gone from asset sales. We have been doing a lot of work on this. We know, for instance, that the Welsh Assembly Government made a disposal the other day and has a significant wall of money available to buy assets; it is interested in buying government assets. Even against the height of the market in 2007-08, prices for the right property relative to the right income is attractive. The market has changed. The world stopped one year ago; but it has moved on, and there is a wall of money out there. By working with the Department of Finance and Personnel and other Departments in respect of their properties, our job is to present the options to Ministers, and it is for the Executive to decide what they want to do.

Mr Attwood:

Has caution developed around the sale of assets?

Mr Gavaghan:

We have to show that we are getting value for money for the public purse, and that money has to be put to good effect. There is a challenge between supply and demand. As discussed, there appears to be a strong Government demand to deliver projects. The question is: how much money is available? We are working with colleagues in the Department of Finance and Personnel to look at supply.

Mr Elliott:

I want to clarify an earlier point and to apologise. I have found the reference to the A5 project in

the investment strategy. I based my previous comments on the use of the word “upgrade”, but the A5 is included as a new design-and-build project.

Will you clarify your organisation’s role? Is it purely an advisory role? How much cognisance do Departments have to take of your advice?

Mr Gavaghan:

The SIB’s role is advisory, and the legislation that gave rise to its creation requires Departments to “pay regard” to its advice. There is a distinction between our position and that of the Equality Commission, a sister organisation in OFMDFM, because Departments are obliged to “pay due regard” to the Equality Commission. Departments have a higher onus of obligation to the Equality Commission than they do to the SIB.

I will use the work that we have done with Roads Service over the past few years to illustrate my point on working practices. You would need to ask Geoff Allister and his colleagues in Roads Service for their opinion, but I think that it is fair to say that our relationship has been based on mutual partnership. Geoff would be keen to make sure that the SIB was content with the methodology being adopted in the delivery of road infrastructure projects. Therefore, he would pay regard and would be serious about that endeavour. We work in partnership.

Mr Elliott:

That is helpful. Do Departments come to the SIB with proposals on which you give advice or does the SIB provide advice before Departments come forward with proposals?

Mr Gavaghan:

It is almost always the case that the Department approaches us. Departments are our customers, and the SIB responds to their requests.

The Chairperson:

Thank you for your information. You have offered to provide clarification on a couple of points, and I am grateful for that. I look forward to seeing you again.