Public Accounts Committee

Report on The Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project

Together with the Minutes of Proceeding of the Committee relating to the Report and the Minutes of Evidence

Ordered by the Public Accounts Committee to be printed on 5 November 2014

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THE REPORT REMAINS EMBARGOED UNTIL 00:01AM ON 10 DECEMBER 2014.

Mandate 2011/16 **Twenty-Fifth Report - NIA 202/11-16**

Membership and Powers

The Public Accounts Committee is a Standing Committee established in accordance with Standing Orders under Section 60(3) of the Northern Ireland Act 1998. It is the statutory function of the Public Accounts Committee to consider the accounts, and reports on accounts laid before the Assembly.

The Public Accounts Committee is appointed under Assembly Standing Order No. 56 of the Standing Orders for the Northern Ireland Assembly. It has the power to send for persons, papers and records and to report from time to time. Neither the Chairperson nor Deputy Chairperson of the Committee shall be a member of the same political party as the Minister of Finance and Personnel or of any junior minister appointed to the Department of Finance and Personnel.

The Committee has 11 members including a Chairperson and Deputy Chairperson and a quorum of 5.

The membership of the Committee since 23 May 2011 has been as follows:

Ms Michaela Boyle[3] (Chairperson)
Mr John Dallat[5] (Deputy Chairperson)
Mr Roy Beggs[14]
Mr Trevor Clarke[8]
Mr Alex Easton[12]
Mr Phil Flanagan[13]
Mr Paul Girvan
Mr Ross Hussey
Mr Daithí McKay[7]
Mr Adrian McQuillan[1]
Mr Seán Rogers[6]

1 With effect from 24 October 2011 Mr Adrian McQuillan replaced Mr Paul Frew

2 With effect from 23 January 2012 Mr Conor Murphy replaced Ms Jennifer McCann

3 With effect from 02 July 2012 Ms Michaela Boyle replaced Mr Paul Maskey as Chairperson

4 With effect from 02 July 2012 Mr Conor Murphy is no longer a Member and his replacement on this committee has not yet been announced

5 With effect from 07 September 2012 Mr John Dallat replaced Mr Joe Byrne as Deputy Chairperson.

6 With effect from 10 September 2012 Mr Sean Rogers was appointed as a Member

7 With effect from 10 September 2012 Mr Daithi McKay was appointed as a Member

8 With effect from 01 October 2012 Mr Trevor Clarke replaced Mr Alex Easton

9 With effect from 11 February 2013 Mr Sammy Douglas replaced Mr Sydney Anderson

10 With effect from 15 April 2013 Mr Chris Hazzard replaced Mr Mitchel McLaughlin

11 With effect from 07 May 2013 Mr David McIlveen replaced Mr Sammy Douglas

12 With effect from 16 September 2013 Mr Alex Easton replaced Mr David McIlveen

13 With effect from 06 October 2014 Mr Phil Flanagan replaced Mr Chris Hazzard

14 With effect from 06 October 2014 Mr Roy Beggs replaced Mr Michael Copeland

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List of Abbreviations

the Committee	Public Accounts Committee (PAC)
C&AG	Comptroller and Auditor General
DFP	Department of Finance and Personnel
DEL	Department for Employment and Learning
SIB	Strategic Investment Board
PFI	Private Finance Initiative
RRI	Reinvestment and Reform Initiative
OFMDFM	Office of the First Minister and deputy First Minister
ICL	Ivywood Colleges Limited
BHC	Belfast Harbour Commissioners
TQL	Titanic Quarter Limited
BMC	Belfast Metropolitan College
PPP	Public-Private Partnership

Executive Summary

Introduction

1. The Executive increases its spending power and supplements its funding of capital investment from the block grant with private sector funding using Private Finance Initiative (PFI)[1] contracts and accessing borrowing under the Reinvestment and Reform Initiative (RRI)[2]. Both give rise to long-term inescapable financial commitments. The current costs of meeting these commitments are substantial, at approximately £375 million each year until 2030. Servicing these is a first call on the Executive's budget requiring it to make substantial annual payments that can extend for up to thirty years into the future. Clarity in terms of the quantum and impact of these commitments is an important part of the decision making process and is critical to the understanding and scrutiny of future public sector budgets.

2. It is important that the affordability of the long-term spending implications of Reinvestment and Reform Initiative borrowing is taken into account by the Executive and visible to the Assembly and its Committees. However, currently there is no published and transparent borrowing strategy underpinning the Executive's budget process. The significant cost of borrowing will further increase depending on any decision to continue to access borrowings beyond planned levels to 2016.

3. The Committee has taken evidence on numerous occasions on projects where business case costs have been under-estimated and where, post the appointment of a preferred bidder, there have been significant changes to the scope and costs of projects. Previous Committee reports on PFI/PPP and other major capital projects have reflected this and highlighted that the public sector needs to act as a more intelligent customer in procuring and managing such projects.

4. The Belfast Metropolitan College project has achieved many satisfactory outcomes e.g. the campus has won awards for building design and high environmental standards and delivered a high level of staff, student and employer satisfaction.

5. However, the Committee has serious concerns over project management, governance, decision-making and the procurement process. It is clear to the Committee that the case for going down the PPP route, as opposed to a conventional procurement route, was marginal at best. But when the additional costs of consultancy, internal staff costs of the College and Department and, in particular, the significant shortfall in receipts from the sale of the surplus properties are taken into account, this was a costly project. In the Committee's opinion the project does not represent good value for money.

6. On a more positive note the Committee was encouraged to hear about the significant turnaround in the College's financial position and positive assurances given by the most recent internal audit review. It commends the Principal and her team for their drive and determination in turning the College around. The Committee also commends the College's witnesses for the candour of their evidence.

7. The wider lessons emerging from this project are not new. However, they serve as a useful reminder and their application should help ensure that value for money is achieved in other public sector projects.

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1 The Private Finance Initiative was launched in 1992. Since then it has become one of the main methods by which government has delivered its capital infrastructure programme.

2 In 2002 OFMDFM announced the establishment of the RRI, including an agreement to regularly access a borrowing facility to support Northern Ireland's substantial infrastructure investment programme - up to £200 million a year from HM Treasury. This provides the Executive with greater freedom and flexibility to deliver improvements in public services.

Overall Conclusions

On the Future Impact of Borrowing and Private Finance Commitments

8. The Committee considers that information on long term financial commitments could be better signposted and considers that there is scope for improving the information provided to the Assembly on borrowings and use of PFI.

9. Currently the main reporting route for Northern Ireland's PFI commitments is through individual Departmental Resource Accounts and Annual Accounts of Arms Length Bodies. Data on PFI projects is also submitted to HM Treasury and published on its website. However, the Committee is concerned that data provided by Departments has been incomplete, resulting in incorrect information being provided in response to Assembly members' questions.

10. The Committee welcomes the OFMDFM Accounting Officer's undertaking to consider what additional measures could be taken to improve the transparency of information. The proposed inclusion of up-to-date PFI information in the annual report on the Investment Strategy will improve the visibility of the level of PFI investment. However, this must be at an adequate level of detail to give a full picture of committed/live projects and those in the pipeline.

11. In terms of RRI borrowing, the Committee welcomes the acknowledgement by the OFMDFM Accounting Officer of the benefits of the Executive having a strategy in place for borrowing.

12. Public bodies need to do more to seek efficiencies and savings from operational PFI projects. Business cases and the fact that PFI contracts are competitively tendered do not, on their own, provide assurance that value for money is being delivered. Active benchmarking and market testing offer much better evidence of whether projects are currently delivering value for money.

13. Given that NI departments have to make annual savings each year, the private sector should be expected to contribute to this. However, in Northern Ireland, there is no strategic programme to review PFI contracts and maximise the opportunities to realise value for money savings.

14. The voluntary code of conduct for operational PFI/PPP contracts[3] could offer additional opportunities to commit to a collaborative approach between the public and private sectors to delivering efficiencies and savings. The Committee notes in evidence provided by the department that many companies involved in PFI contracts are already signed up to the voluntary code but the Committee wishes to see wider application by departments and their private sector partners

On Belfast Metropolitan College's Titanic Quarter PPP project

15. A significant feature of the Belfast Metropolitan College's Titanic Quarter PPP project deal was that the public sector injected £20 million into the project, including £5 million to purchase the sub-lease for the Titanic Quarter site. The sale of the College's surplus properties at Brunswick Street and College Square East was intended to cover these capital contributions. However, proceeds from the sales of the properties in 2014 were £5.6 million leaving a shortfall in excess of £14 million.

16. Significant additional costs have been incurred on the project outside the PPP agreement that must be factored into any valid assessment of the value for money of this project.

3 HMT Code of Conduct for Operational PFIPPP projects (June 2013) – the code of conduct sets out the basis on which public and private sector partners agree to work together to make savings in operational contracts. It includes commitments from both public and private sector parties on constructive engagement, flexibility and improving operational efficiency

17. Negotiations with ICL extended from a planned 12 months to 33 months and the value for money of the deal eroded significantly. There were significant unresolved issues with the bidder's proposals. These included leasing arrangements; planning requirements; and the proposals for the provision of car parking at the Titanic Quarter site. The Committee is concerned that the extent of the unresolved issues and ICL's privileged development position on the Titanic Quarter site meant that it dictated the outcome and pace of the negotiations.

18. The College failed to adequately manage the consultancy contract for this project which put the project completion in jeopardy. The advisors appointed by the College were allowed to exceed the original budget of £300,000, incurring costs in the region of £2.2 million. A settlement figure of £1.5 million was subsequently agreed. In the Committee's view this is indicative of the inadequate governance; and poor financial and management controls operating at the College following the merger of BIFHE and Castlereagh colleges in 2007 and during the procurement phase of this project. The Committee also considers that this reflects on the inadequacies of the Department's oversight of the College and this project in particular. In the Committee's opinion the Department should have been more alive to the cost overrun and exercised a challenge function. The Committee is encouraged by the evidence presented by the College on progress made in improving the financial stability and the significant steps taken to improve the control environment at the College.

19. The College did not have a robust estate strategy in place and the audit trail supporting the identification of accommodation requirements for the new Campus was acknowledged by the Department and the College as being weak. The Committee welcomes the Department's assurances that steps have been taken to improve estate strategies across the FE Sector and its plans to put in place space utilisation targets for the Colleges.

20. The College has yet to assess the benefits delivered or the final value for money of the overall project. The Committee welcomes the College's assurances that the benefits realisation process will be concluded by the end of November 2014 to assess the benefits delivered by the new campus. That said, the Committee is concerned that benefits realisation was not adequately addressed through the strategic planning process and in the preparation of the business plans supporting this project.

21. With the sale of the properties at Brunswick Street and College Square East it is important that the College now assesses the final value for money of the overall project. All costs must be factored into any realistic assessment of value for money of the project.

Summary of Recommendations

On the Future Impact of Borrowing and Private Finance Commitments

Recommendation 1

The Committee recommends that the transparency of long term PFI commitments improves. The publication of PFI commitments information on the OFMDFM website and proposed inclusion of up-to-date PFI information in the annual report on the Executive's Investment Strategy will provide greater clarity. However, it is important that the information provided is up-to-date and presents a full picture of committed projects and projects in the pipeline.

Recommendation 2

The Committee recommends that the Strategic Investment Board is tasked with developing a strategic programme to promote an initiative aimed at driving long term efficiencies from operational PFI projects and maximising value for money savings.

Recommendation 3

The Committee recommends that OFMDFM, in conjunction with SIB, examines the scope for extending the use of the voluntary code of conduct for operational PFI/PPP contracts. The Committee considers that all departments involved in PFI contracts should be signed up to the voluntary code and be actively encouraging their private sector partners to do likewise.

On Belfast Metropolitan College's Titanic Quarter PPP project

Recommendation 4

The Committee recommends that, ahead of appointing a preferred bidder, public bodies must fully test the deliverability of bids and limit the extent of unresolved issues within the bid. This will help protect the public sector's interests by ensuring that any subsequent negotiations are kept to a minimum.

Recommendation 5

The Committee recommends that, ahead of a procurement process for design and build projects, public bodies must develop a credible alternative solution or "exit strategy" which they must be willing to implement.

Recommendation 6

The Committee recommends that, in addition to the overall economic assessment of bids, detailed costings should be assessed for reasonableness and negotiated down where necessary.

Recommendation 7

The Committee is encouraged by the Department's recent steps to improve its estate strategies. The Committee recommends that, as part of its asset management strategy, it should develop space utilisation benchmarks and targets for the further education sector in Northern Ireland to ensure that the most effective and efficient use is made of its estate.

Recommendation 8

The Committee recommends that, as part of the post project review process, public sector bodies must include all costs of delivering the project. This should include a consideration of any opportunity costs arising from investment decisions taken, such as the Department's agreement to underwrite losses resulting from asset sales.

Recommendation 9

The Committee recommends that the Department and the College now finalise all post project reviews and evaluations on the Titantic Quarter project to ensure a timely dissemination of the lessons learned.

Part 1:

The Future Impact of Borrowing and Private Finance Commitments

Introduction

1. The Public Accounts Committee (the Committee) met on 11 June 2014 to consider the Comptroller and Auditor General's report on '*The Future Impact of Borrowing and Private Finance Commitments*'. The witnesses were:

- **Mr Stephen Peover,** Accounting Officer, Department of Finance and Personnel (DFP)
- **Dr Mark Browne,** Accounting Officer, Office of the First Minister and deputy First Minister (OFMDFM)
- **Mr Mike Brennan,** Budget Director, Department of Finance and Personnel
- **Mr Brett Hannam,** Chief Executive, Strategic Investment Board
- **Mr Kieran Donnelly,** Comptroller and Auditor General
- **Mr Jack Layberry,** Treasury Officer of Accounts

2. The financial investment required to improve and maintain Northern Ireland's public infrastructure is significant and requires a mix of funding solutions including borrowing and private finance. The Executive increases its spending power and supplements it's funding of capital investment from the block grant through accessing borrowing under the Reinvestment and Reform Initiative (RRI)[4] and with private sector funding using Private Finance Initiative[5] (PFI) contracts.

3. However, accessing RRI borrowing and using PFI contracts both give rise to long-term financial commitments requiring government to make substantial annual payments which can extend for up to thirty years into the future. The current costs of meeting these commitments are substantial.

4. By 2016 the Executive expects to have accessed borrowings of £2.7 billion from the National Loans Fund which is managed by HM Treasury (draft budget 2015-2016). In 2013-14 the cost of repaying these borrowings was £103 million; this will rise to over £140 million within the next three years. This does not take account of any additional borrowing the Executive may make up to 2016. Existing operational PFI contracts have committed the Executive to over £7 billion in future years; currently the combined annual cost of these contracts is £250 million.

5. Accordingly, understanding the nature of these existing liabilities is an important part of the decision making process and is critical to the scrutiny of future public sector budgets. However, there is currently no central collection or reporting of these costs and commitments directly to the Assembly or its Committees.

Reporting arrangements for long-term commitments are not transparent

6. The Committee welcomes the recognition by the Accounting Officers that information on long term commitments could be better signposted so that members can get information more quickly. The Committee also welcomes the OFMDFM Accounting Officer's assurance that he will be looking at ways of doing this and his undertaking to put relevant information on the OFMDFM website.

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4 In 2002 OFMDFM announced the establishment of the RRI, including an agreement to regularly access a borrowing facility to support Northern Ireland's substantial infrastructure investment programme - up to £200 million a year from HM Treasury. This provides the Executive with greater freedom and flexibility to deliver improvements in public services.

5 The Private Finance Initiative was launched in 1992. Since then it has become one of the main methods by which government has delivered its capital infrastructure programme.

7. Currently the main reporting route for Northern Ireland's PFI commitments is through individual Departmental Resource Accounts and Annual Accounts of Arms Length Bodies. Data on Northern Ireland's PFI projects is also submitted to HM Treasury and published on its website. The OFMDFM Accounting Officer confirmed to the Committee that the information on the site was correct and regularly checked by his staff. However, the Committee is concerned about significant discrepancies in the data which was found to be incomplete and resulted in incorrect information being provided in response to Assembly members questions.

8. The Committee welcomes the Accounting Officer's undertaking to consider what additional measures could be taken to improve the accuracy and transparency of local information. The proposed inclusion of up-to-date information on PFI projects in the annual report on the Executive's Investment Strategy will improve the information available to the Assembly and public. However, this must be at an adequate level of detail to give a full picture, at both aggregate and departmental level, of committed projects and projects in the pipeline.

9. In terms of RRI borrowing, the Committee welcomes the acknowledgement by the DFP Accounting Officer of the benefits of the Executive having a strategy in place.

The Committee also welcomes the inclusion of detailed information on RRI borrowings within the draft Budget 2015-2016. The Committee notes that the Executive are in the process of considering mechanisms for capping RRI borrowing to ensure that the overall level of borrowing remains within manageable limits.

10. In this respect the preparation of an RRI borrowing strategy by DFP is an encouraging development and the Committee looks forward to this being approved by the Executive and published as soon as possible.

Recommendation 1

The Committee recommends that the transparency of long term PFI commitments improves. The publication of PFI commitments information on the OFMDFM website and proposed inclusion of up-to-date PFI information in the annual report on the Executive's Investment Strategy will provide greater clarity. However, it is important that the information provided is up-to-date and presents a full picture of committed projects and projects in the pipeline.

Public bodies need to do more to seek efficiencies and savings from operational PFI projects

11. In the Committee's view the completion and approval of business cases and the fact that PFI contracts are competitively tendered do not, on their own, provide assurance that value for money is being delivered. The Committee is therefore unconvinced by the general assurances given in evidence that all public bodies continue to obtain value for money from current operational PFI contracts. The Committee considers that active benchmarking and market testing, at regular intervals throughout the life of a contract, offer much better evidence of whether projects are currently delivering value for money.

12. Long-term PFI contracts make provision for a value for money review of services every five years. In evidence to the Committee the Accounting Officer reported that such a review in NI Water had resulted in £11 million of savings being delivered. This clearly demonstrates the potential benefits from such reviews. However, it is not clear to the Committee, or from the responses received by NIAO to its survey, that other five year reviews are being conducted to the same rigorous standard or that they are being effective in generating savings.

13. The Committee recognises that individual Accounting Officers are responsible for their own areas of spend but given that there are currently 32 operational PFI projects, considers that expertise is thinly spread across the system. Currently advice on managing contracts is provided to departments by DFP (through the Central Procurement Directorate) and SIB.

However, the Committee was concerned to find that there is no strategic programme to review PFI contracts and maximise the opportunities to realise value for money savings.

14. In the Committee's opinion, given that departments are expected to make annual savings, the private sector should be expected to contribute to this. The Committee considers that this can be better done if driven from the centre using the specialist advice and expertise available in SIB. The Committee recognises the Accounting Officers' acknowledgement that it could be better coordinated and welcomes the steps that have been taken since the publication of the Audit Office report.

15. The SIB's engagement with other UK Departments and public bodies to learn from their experience of carrying out efficiency reviews is an encouraging development. The key lessons emerging from this interaction must be communicated to all public bodies.

Recommendation 2

The Committee recommends that the Strategic Investment Board is tasked with developing a strategic programme to promote an initiative aimed at driving long term efficiencies from operational PFI projects and maximising value for money savings.

Recommendation 3

The Committee recommends that OFMDFM, in conjunction with SIB, examines the scope for extending the use of the voluntary code of conduct for operational PFI/PPP contracts. The Committee considers that all departments involved in PFI contracts should be signed up to the voluntary code and be actively encouraging their private sector partners to do likewise.

Part 2:

Belfast Metropolitan College's Titanic Quarter PPP project

16. The Public Accounts Committee (the Committee) met on 18th June 2014 and 17th September 2014 to consider the Comptroller and Auditor General's report on '*Belfast Metropolitan College's Titanic Quarter PPP project*'. The witnesses were:

- **Mr Derek Baker,** Accounting Officer, Department for Employment and Learning (DEL)
- **Ms Marie-Thérese McGivern,** Principal and Chief Executive, Belfast Metropolitan College
- **Ms Elaine Hartin,** Chief Operating Officer, Belfast Metropolitan College
- **Mr Tom Redmond,** Head of Further Estates Branch, Department for Employment and Learning
- **Mr Pat O'Neill,** Strategic Investment Board (SIB)
- **Mr Kieran Donnelly,** Comptroller and Auditor General
- **Mr Jack Layberry,** Treasury Officer of Accounts
- **Mr Mike Brennan,** Acting Treasury Officer of Accounts

The deal required upfront payments of £20 million by the public sector

17. Belfast Metropolitan College's Titanic Quarter campus was completed in August 2011 as a replacement for the College Square East and Brunswick Street campuses. It is the largest and most expensive Further Education PPP project to date with a capital cost of £44 million.

18. This should have been a low risk project but due to the manner in which the project was managed ended up being more complex and high risk than necessary. However, a significant and unusual feature of the deal was that the Department for Employment and Learning injected £20 million into the project, including £5 million to purchase the sub-lease for the TQ site. The sale of the College's surplus properties at Brunswick Street and College Square East was intended to cover these capital contributions. However, the Committee was informed by the Department that proceeds from the sales of the properties in 2014 were only £5.6 million. This left a shortfall in excess of £14 million which the Department has underwritten.

19. The initial proposal, on which Ivywood Colleges Limited (ICL) was appointed preferred bidder, envisaged the transfer of College Square East and Brunswick Street to ICL following completion of the Titanic Quarter campus. However in November 2006, shortly after appointing ICL as preferred bidder, the College sought to remove the properties from the deal and sell them on the open market. In lieu the College committed to a capital contribution of £10 million. This decision was made at a time when the value of property was rising dramatically and it was felt that removing them from the deal was the best way of achieving open market value.

20. The Committee does not accept the assertion of the SIB witness that this decision was in line with emerging guidance at that time. A key recommendation of the PAC report on "Transfer of Surplus Land" , published on 13 December 2007 and an earlier NIAO report, was that public sector bodies must assess the relative returns and priority between inclusion and conventional disposal, and properly assess the contribution those assets make to the achievement of other strategic objectives. Neither report recommended that surplus properties should be removed from PPP deals but that regardless of the chosen method of disposal public bodies must be able to demonstrate that they have obtained best value for money.

21. The effect of the College's decision was that the public sector became responsible for managing the risk of movements in the value of the property market. In the Committee's view this was a major mistake and was contrary to one of the key principles of PPP that risk is allocated to the party best able to manage it.

22. In addition, it allowed ICL to seek to increase the value of the TQ site in its bid from £3 million to £7.7 million. As a compromise the Department purchased the sublease of the site outside of the PPP deal; this was funded through an up-front £5 million payment, split equally between Belfast Harbour Commissioners and Titanic Quarter Ltd. It was intended that this would be recouped through the sale of the surplus buildings in College Square East and Brunswick Street.

23. The Department contend that, as the surplus properties were removed from the deal, they should not form part of the value for money assessment of the Titanic Quarter project. The Committee is clear; the opportunity cost of making up the £14 million shortfall must be factored into any realistic value for money assessment of the project.

ICL's appointment as preferred bidder was premature and was the fundamental cause of the catalogue of problems that ensued, including the erosion of value for money.

24. ICL was appointed preferred bidder despite there being significant unresolved issues with their proposals. These included leasing arrangements; planning requirements; and the proposals for the provision of car parking at the Titanic Quarter site. Over the period of the ensuing negotiations that extended from a planned 12 months to 33 months, the value for money of the deal eroded significantly.

25. The leasing arrangements for the Titanic Quarter site were complex due to the number and relationship of the parties involved, i.e. the College, ICL, the Belfast Harbour Commissioners (BHC) and Titanic Quarter Limited (TQL). However, the Committee finds it astonishing that the Department, who were represented on the project board, claims that it only became aware in November 2007 that there were problems with the lease. These were eventually resolved and lease approved by the College in November 2008.

26. It is important to note that ICL's parent company, Titanic Quarter Ltd[6], had exclusive development rights in Titanic Quarter. In this context the appointment of ICL, before critical issues were resolved placed the College in a weak negotiating position. In the Committee's view ICL could, and did, dictate the pace of the negotiations in this project.

27. This is further evidenced by the fact that, in February 2007, just four months after their appointment as preferred bidder, ICL submitted a planning application for a sub-basement car park, removing the adjacent car parking that had been included in its original bid.

28. The car parking issue was not resolved until June 2008 when the College entered into an agreement with a company connected to ICL - Ivywood Car Parks Limited – which would see this company construct, at its own cost (£5.3 million), a sub-basement car park which it is entitled to operate for 40 years after which it reverts to the College at no cost. However, in September 2008, ICL's funding bank advised that its appetite to provide all of the funding for the project was reduced due primarily to the uncertainty in financial markets. It also had concerns about the additional interface risks of the underground car park which sat outside of the project. This meant that the project risks could not be controlled as tightly as would normally be the case.To resolve the situation the Department, College and ICL negotiated an increase in the public sector capital contribution (an accelerated debt repayment) to the College project from £10 million to £15 million; the Department pointed out that this resulted in a reduction in the unitary charge of just over £360,000 per annum over the 25 years of the project.

6 Titanic Quarter Ltd has, as part of a leasing agreement with Belfast Harbour Commissioners, exclusive development rights for the Titanic Quarter site.

29. In the Committee's view both the leasing and car parking issues provided the College with opportunities to re-assess the project at an early stage and/or pursue alternative solutions, e.g. pursuing the reserve bid or going back to the market, without the risk of financial penalty In addition to questions put to the witnesses during both evidence sessions and having assessed additional documentation provided to the Committee, including relevant extracts from all Governing Body minutes relating to the Titanic Quarter PPP, the Committee is not convinced that either option was given serious consideration.

30. The Accounting Officer referred to a number of "tipping points" or critical points during the course of the project where the Department had to take decisions on proceeding with the project. In taking these decisions the Accounting Officer told the Committee that the Department's thinking was influenced by the Committee's previous criticisms of the Department walking away from the Springvale project. The Committee does not accept this. Springvale was a very different project undertaken at a different time and in very different circumstances to the College's TQ project.

31. While it is clear to the Committee that ICL's negotiating strategy included an option to walk away, no such option was apparent in the public sector's negotiating strategy. When pressed during negotiations e.g. value of the site, removal of properties and funding of the car park, the public sector's response was to agree to make capital contributions to the project; whilst this resulted in a reduction in the annual unitary payment, in doing so it also significantly increased the public sector's exposure to risk.

Recommendation 4

The Committee recommends that, ahead of appointing a preferred bidder, public bodies must fully test the deliverability of bids and limit the extent of unresolved issues within the bid. This will help protect the public sector's interests by ensuring that any subsequent negotiations are kept to a minimum.

Recommendation 5

The Committee recommends that, ahead of a procurement process for design and build projects, public bodies must develop a credible alternative solution or "exit strategy" which they must be willing to implement.

The College required minimal car parking provision but ended up agreeing a 40 year deal for a commercial underground car park

32. During both evidence sessions, the Department strongly rejected any link between the additional £5 million funding and the costs of constructing the underground commercial car park. To gain a further insight into this issue and on the reasonable supposition that additional construction costs would be incurred in erecting a main college building, with a stronger sub-structure to support the late inclusion of an underground car park. The Committee asked the Department for a detailed breakdown of bid costs and final account costs. The Department was unable to provide this information as they said that costs broken down in this way are not available in a PPP tender and only global construction costs are presented. In addition, the final outturn costs incurred by the bidder are not actually known by the College. The Committee finds this incredulous. This is basic information and is the building block for determining the construction costs of any project whether procured through conventional means or PPP.

33. The Committee is not convinced by the evidence presented by the College and the Department. It was felt that they did not adequately manage risks and protect the public

sector's interest by not factoring in the likely additional costs that would have been incurred for the construction of the car park into the overall construction costs.

34. It was evident from the Titanic Quarter Development Framework (February 2005) that car park provision was a planning requirement for the development of the complete TQ site and individual projects within it. The Committee considers that the Department and College were remiss and should have more rigorously tested and validated ICL's proposals and been prepared to negotiate on the construction costs, just as ICL negotiated on the value of the TQ site.

Recommendation 6

The Committee recommends that, in addition to the overall economic assessment of bids, detailed costings should be assessed for reasonableness and negotiated down where necessary.

During the procurement the College faced significant financial challenges and governance arrangements at the College and Department were extremely weak

35. The Committee is encouraged by the significant improvement in the College's financial management and improvement in control environment that have been brought about by the current Principal/Chief Executive and her team. It is evident that, prior to their appointment, the College was struggling. In relation to this project the College had failed to adequately manage its consultancy contract which put the project in jeopardy. The original budget for the advisors was £300,000. However, the contract was extended without any formal process in place for this. Although the final cost was likely to be in the region of £2.2 million it was settled for £1.5 million. The Committee considers that this is indicative of the inadequate governance; and poor financial and management controls operating at the College following the merger of BIFHE and Castlereagh colleges in 2007 and during the procurement phase of this project. The Committee also considers that it reflects the inadequacies of the Department's oversight of the College and this project in particular. This is further evidenced by the fact that the Department had failed to notice, until pointed out by NIAO, that the £5 million IT spend for this project required DFP approval. This was sought and given retrospectively.

36. The Committee welcomes the Department's assurances that steps have been taken to improve estate strategies in FE and its plans to put in place space utilisation targets for the sector. The College did not have a robust estate strategy in place and the audit trail supporting the identification of accommodation requirements for the new Campus was acknowledged by the Department and the College as being weak.

Recommendation 7

The Committee is encouraged by the Department's recent steps to improve its estate strategies. The Committee recommends that, as part of its asset management strategy, it should develop space utilisation benchmarks and targets for the further education sector in Northern Ireland to ensure that the most effective and efficient use is made of its estate.

Significant additional costs have been incurred on the project outside the PPP agreement that must be factored into a valid assessment of the value for money of this project

37. Other significant costs have also been incurred outside of the PPP contract in order to deliver an operational campus. These include £5 million for IT, multimedia and telephony; £1.8 million for consultancy and advisory costs and £1.1 million preparing for the sale and maintenance of College Square East and Brunswick Street buildings. These costs must also be factored into any realistic assessment of value for money of the project.

38. The Committee welcomes the College's assurances that the Gateway Review on Operations and Benefits Realisation (Gate 5) process will be conducted at the end of 2014. That said, the Committee is concerned that benefits realisation was not adequately addressed through the strategic planning process and in the preparation of the business plans supporting the project.

39. The College has also experienced difficulties agreeing unitary payments and deductions for below standard performance. In addition, the contractor had, at the time of the Committee's inquiry, still to re-run the financial model to take account of any post-signing contract variations which may result in changes to the unitary payment. Although the Committee was assured by the College's witnesses that the changes to the unitary charge would be minor, it is important that the private sector fulfils this contractual obligation.

Recommendation 8

The Committee recommends that, as part of the post project review process, public sector bodies must include all costs of delivering the project. This should include a consideration of any opportunity costs arising from investment decisions taken, such as the Department's agreement to underwrite losses resulting from asset sales.

Recommendation 9

The Committee recommends that the Department and the College now finalise all post project reviews and evaluations on the Titantic Quarter project to ensure a timely dissemination of the lessons learned.

Northern Ireland Assembly

Appendix 1

Minutes of Proceedings of the Committee Relating to the Report

Wednesday, 28 May 2014
Room 106, Parliament Buildings

Present:	Ms Michaela Boyle (Chairperson) Mr Trevor Clarke Mr Michael Copeland Mr Alex Easton Mr Paul Girvan Mr Ross Hussey Mr Adrian McQuillan Mr Seán Rogers
In Attendance:	Ms Lucia Wilson (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer) Miss Clare Rice (Bursary Student)
Apologies:	Mr John Dallat (Deputy Chairperson) Mr Chris Hazzard Mr Daithí McKay

2.27pm The meeting opened in public session

2.32pm Mr Girvan joined the meeting

2.41pm Mr Copeland and Mr Rogers left the meeting

2.43pm Mr Easton joined the meeting

2.50pm Mr Copeland re-joined the meeting

2.53pm Mr Hussey left the meeting

2.57pm the meeting moved to closed session

7. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Briefing Session

The Committee received briefing from C&AG, Eddie Bradley, Brandon McMaster and Sean Beattie on the above Audit Office reports.

3.34pm Mr Copeland left the meeting

[EXTRACT]

Wednesday, 4 June 2014
Room 106, Parliament Buildings

Present:	Ms Michaela Boyle (Chairperson) Mr John Dallat (Deputy Chairperson) Mr Trevor Clarke Mr Michael Copeland Mr Alex Easton Mr Paul Girvan Mr Seán Rogers
In Attendance:	Ms Lucia Wilson (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer)
Apologies:	Mr Chris Hazzard Mr Ross Hussey Mr Daithí McKay Mr Adrian McQuillan

2.22pm The meeting opened in public session

2.46pm Mr Girvan and Mr Easton joined the meeting

2.49pm The meeting moved to closed session

8. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Preparation Session

The Committee received further briefing from C&AG, Brandon McMaster, Sean Beattie and Richard Emerson on the above Audit Office reports.

The Committee identified and developed core issues arising from the reports in preparation for its forthcoming evidence sessions on 11th and 18th June 2014.

3.27pm Mr Copeland left the meeting

[EXTRACT]

Wednesday, 11 June 2014
Senate Chamber, Parliament Buildings

Present:	Mr John Dallat (Deputy Chairperson) Mr Michael Copeland Mr Alex Easton Mr Paul Girvan Mr Chris Hazzard Mr Ross Hussey Mr Daithí McKay Mr Seán Rogers
In Attendance:	Ms Lucia Wilson (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer)
Apologies:	Ms Michaela Boyle (Chairperson) Mr Trevor Clarke Mr Adrian McQuillan

2.06pm The meeting began in closed session

1. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Preparation Session

The Committee concluded its preparations in advance of the evidence session on the 'Future Impact of Borrowing and Private Finance Commitments' element of the inquiry.

2.32pm The meeting moved to public session

5. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Evidence Session

The Committee took oral evidence on the above inquiry from:

- Dr Mark Browne, Accounting Officer, Office of the First Minister and deputy First Minister (OFMDFM);
- Mr Stephen Peover, Accounting Officer, Department of Finance & Personnel (DFP);
- Mr Brett Hannam, Chief Executive, Strategic Investment Board; and
- Mr Michael Breenan, Budget Director, DFP.

The witnesses answered a number of questions put by the Committee and agreed to provide additional information in writing.

2.44pm Mr Hazzard joined the meeting

2.46pm Mr McKay joined the meeting

2.55pm Mr Hazzard left the meeting

2.56pm Mr Hazzard re-joined the meeting

3.09pm Mr Hussey left the meeting

3.13pm Mr McKay left the meeting

3.53pm Mr Copeland re-joined the meeting

The Deputy Chairperson wished Mr Peover well in his forthcoming retirement and thanked him for his work with the Committee over the years.

3.54pm The meeting moved to closed session

3.55pm Mr Girvan left the meeting

6. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Discussion on Evidence Session

The Committee discussed the issues arising from the evidence session on the above inquiry to inform the drafting of an issues paper for consideration at the meeting of 25 June 2014.

[EXTRACT]

Wednesday, 18 June 2014
Senate Chamber, Parliament Buildings

Present:	Ms Michaela Boyle (Chairperson) Mr John Dallat (Deputy Chairperson) Mr Trevor Clarke Mr Michael Copeland Mr Alex Easton Mr Paul Girvan Mr Adrian McQuillan
In Attendance:	Ms Lucia Wilson (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer)
Apologies:	Mr Chris Hazzard Mr Ross Hussey Mr Daithí McKay Mr Seán Rogers

2.18pm The meeting began in public session

9. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Evidence Session

The Committee took oral evidence on the above inquiry from:

- Mr Derek Baker, Accounting Officer, Department for Employment and Learning;
- Mr Tom Redmond, Head of Further Education Estates Branch, Department for Employment and Learning;
- Marie-Thérèse McGivern, Principal and Chief Executive, Belfast Metropolitan College; and
- Ms Elaine Hartin, Chief Operating Officer, Belfast Metropolitan College.

The witnesses answered a number of questions put by the Committee and agreed to provide additional information in writing.

[EXTRACT]

Wednesday, 25 June 2014
Room 29, Parliament Buildings

Present:	Ms Michaela Boyle (Chairperson) Mr Trevor Clarke Mr Michael Copeland Mr Alex Easton Mr Paul Girvan Mr Chris Hazzard Mr Daithí McKay Mr Adrian McQuillan Mr Seán Rogers
In Attendance:	Miss Aoibhinn Treanor (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer)
Apologies:	Mr John Dallat (Deputy Chairperson)

2.11pm The meeting began in public session

2.17pm Mr Hazzard joined the meeting

2.20pm The meeting moved to closed session

2.28pm Mr Clarke joined the meeting

2.29pm Mr McKay left the meeting

2.37pm Mr Copeland left the meeting

2.39pm Mr McQuillan left the meeting

2.40pm Mr Copeland re-joined the meeting

2.44pm Mr McQuillan re-joined the meeting

2.45pm Mr Girvan left the meeting

2.48pm Mr Girvan re-joined the meeting

6. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Consideration of Issues Arising from Evidence Session

Agreed: The Committee noted correspondence received from members of the public in relation to this inquiry and agreed to seek clarification of the issues raised.

The Committee considered the information received during the evidence session on 18 June 2014.

3.09pm Mr Rogers left the meeting

3.19pm Mr Rogers re-joined the meeting

3.20pm Mr Clarke left the meeting

3.22pm Mr McQuillan left the meeting

3.23pm Mr McQuillan re-joined the meeting

3.23pm Mr McQuillan left the meeting

3.24pm Mr Girvan left the meeting

3.28pm Mr Copeland re-joined the meeting

3.34pm Mr Clarke left the meeting

3.41pm Mr Hazzard left the meeting

3.46pm Mr Hazzard re-joined the meeting

3.47pm Mr Hazzard left the meeting

3.48pm Mr Hazzard re-joined the meeting

Agreed: The Committee agreed to call, to provide further evidence at the meeting of 17 September, the original witnesses in the BMC inquiry, and further to call an additional named representative of the Strategic Investment Board. The Committee also agreed to seek information from Ulster Bank in relation to the financing of the project.

[EXTRACT]

Wednesday, 10 September 2014
Room 29, Parliament Buildings

Present:	Ms Michaela Boyle (Chairperson) Mr John Dallat (Deputy Chairperson) Mr Trevor Clarke Mr Alex Easton Mr Paul Girvan Mr Chris Hazzard Mr Adrian McQuillan Mr Seán Rogers
In Attendance:	Ms Lucia Wilson (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer)
Apologies:	Mr Michael Copeland Mr Ross Hussey Mr Daithí McKay

2.12pm The meeting began in public session

2.14pm Mr Hazzard joined the meeting

2.15pm Mr McQuillan joined the meeting

2.35pm Mr Hazzard left the meeting

2.38pm Mr Hazzard re-joined the meeting

2.44pm Mr Easton left the meeting

3.02pm Mr Eason re-joined the meeting

3.16pm The meeting moved to closed session

3.47pm Mr Girvan left the meeting

8. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Correspondence and Preparation Session

3.57pm Mr McQuillan left the meeting

The Committee noted a number of items of correspondence received during summer recess on the above inquiry.

Members noted that, following a request, the Chairperson will meet with a representative of the Ulster Bank to discuss issues of concern in relation to this inquiry.

The Committee also concluded its preparations in advance of the evidence session on the 'Belfast Metropolitan College's Titanic Quarter PPP Project' element of the above inquiry, scheduled for 17th September 2014.

4.06pm Mr Clarke left the meeting

4.11pm Mr Girvan re-joined the meeting

4.13pm Mr Dallat left the meeting

4.15pm Mr Girvan left the meeting; the meeting became inquorate

4.24pm Mr Dallat re-joined the meeting; quorum returned

4.28pm Mr Girvan re-joined the meeting

4.28pm Mr Hazzard left the meeting

[EXTRACT]

Wednesday, 17 September 2014
Senate Chamber, Parliament Buildings

Present: 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

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Trevor Allen (Assistant Assembly Clerk)
Mr Jack Peel (Assistant Assembly Clerk)
Mrs Danielle Saunders (Clerical Supervisor)
Mr Darren Weir (Clerical Officer)

Apologies: No apologies were received.

2.14pm The meeting began in public session

4. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Evidence Session

The Committee noted a number of items of correspondence from Derek Baker, Accounting Officer, Department for Employment and Learning.

The Committee took oral evidence on the above inquiry from:

- Derek Baker, Accounting Officer, Department for Employment and Learning;
- Tom Redmond, Head of Further Education Estates Branch, Department for Employment and Learning;
- Marie-Thérèse McGivern, Principal and Chief Executive, Belfast Metropolitan College;
- Elaine Hartin, Chief Operating Officer, Belfast Metropolitan College; and
- Pat O'Neill, Strategic Adviser, Strategic Investment Board (SIB).

The witnesses answered a number of questions put by the Committee and agreed to provide additional information in writing.

2.29pm Mr McKay joined the meeting

2.55pm Mr Hazzard left the meeting

2.58pm Mr Hazzard re-joined the meeting

3.00pm Mr Hussey left the meeting

3.03pm Mr McKay left the meeting

3.09pm Mr Copeland left the meeting

3.10pm Mr Hussey re-joined the meeting

3.17pm Mr McKay re-joined the meeting

3.18pm Mr Copeland re-joined the meeting

3.24pm Mr McQuillan left the meeting

3.33pm Mr Copeland left the meeting

3.38pm Mr Dallat left the meeting

3.42pm Mr Dallat re-joined the meeting

3.45pm Mr Hazzard left the meeting

3.56pm Mr Rogers left the meeting

3.57pm Mr McKay left the meeting

4.01pm Mr Rogers re-joined the meeting

4.33pm Mr Rogers left the meeting

4.46pm The meeting moved to closed session

[EXTRACT]

Wednesday, 24 September 2014
Room 29, Parliament Buildings

Present:	Ms Michaela Boyle (Chairperson) Mr John Dallat (Deputy Chairperson) Mr Trevor Clarke Mr Michael Copeland Mr Paul Girvan Mr Chris Hazzard Mr Ross Hussey Mr Daithí McKay
In Attendance:	Ms Lucia Wilson (Assembly Clerk) Mr Trevor Allen (Assistant Assembly Clerk) Mr Jack Peel (Assistant Assembly Clerk) Mrs Danielle Saunders (Clerical Supervisor) Mr Darren Weir (Clerical Officer)
Apologies:	Mr Alex Easton Mr Sean Rogers Mr Adrian McQuillan

2.16pm The meeting began in public session

2.22pm Mr Copeland left the meeting

2.23pm Mr Copeland re-joined the meeting

14.55pm Mr Copeland left the meeting

15.03pm The meeting moved into closed session

15.05pm Mr Copeland re-joined the meeting

15.09pm Mr Dallat left the meeting

15.11pm Mr Dallat re-joined the meeting

15.27pm Mr Hussey left the meeting

15.29pm Mr Girvan left the meeting

15.34pm Mr Hussey re-joined the meeting

15.36pm The meeting returned to public session

15.48pm Trevor Clarke left the meeting

15.55pm Michael Copeland left the meeting

16:02pm Mr Girvan re-joined the meeting

16:02pm Mr McKay left the meeting

16:04pm Mr Copeland re-joined the meeting

16.20pm Mr Clarke re-joined the meeting

9. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Consideration of Issues Papers

Agreed: The Committee noted correspondence from Mr Pat O'Neill, Strategic Investment Board, and agreed to write to Mr Brett Hannam, Chief Executive of the SIB, to ask him for an answer to the query on the role of SIB in the wider Titanic Quarter project.

The Committee noted correspondence in relation to the Equality Impact Assessment of the Belfast Metropolitan College.

The Committee received briefing from the C&AG, Brandon McMaster and Richard Emerson on the inquiry's issues paper.

Agreed: The Committee noted the issues paper and agreed that the report on the inquiry be drafted on this basis.

Agreed: The Committee agreed that the Chairperson and Deputy Chairperson would meet Mr Kenton Hillman, Director of Corporate and Institutional Banking at Ulster Bank, on Monday 6th October to discuss the project.

16.28pm Mr Hazzard left the meeting

[EXTRACT]

Wednesday, 15 October 2014
Senate Chamber, Parliament Buildings

Present: Ms Michaela Boyle (Chairperson)
Mr John Dallat (Deputy Chairperson)
Mr Roy Beggs
Mr Trevor Clarke
Mr Paul Girvan
Mr Phil Flanagan
Mr Ross Hussey
Mr Daithi McKay
Mr Sean Rogers

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Jack Peel (Assistant Assembly Clerk)
Mrs Danielle Saunders (Clerical Supervisor)
Mr Darren Weir (Clerical Officer)

Apologies: Mr Adrian McQuillan

2.05pm The meeting began in public session

2.08pm Mr Girvan joined the meeting

2.08pm Mr Flanagan joined the meeting

2.09pm Mr McKay joined the meeting

2.10pm Mr Clarke left the meeting

2.11pm Mr Clarke re-joined the meeting

2.15pm Mr Flanagan left the meeting

2.25pm Mr Hussey left the meeting

2.32pm The meeting went into closed session

2.46pm Mr Girvan left the meeting

2.53pm Mr Girvan re-joined the meeting

2.54pm The meeting was suspended

3.05pm The meeting resumed

3.05pm Mr Flanagan left the meeting

3.15pm Mr Flanagan re-joined the meeting

3.31pm Mr Flanagan left the meeting

7. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and the Belfast Metropolitan College's Titanic Quarter PPP Project

3.38pm Mr McKay left the meeting

The Committee considered correspondence received from Derek Baker, Accounting Officer Department for Employment and Learning, in response to a request for further information previously made by the Committee. The Committee received briefing from Brandon McMaster, NIAO, on the contents of Mr Baker's correspondence.

Agreed: The Committee agreed to note Mr Baker's correspondence.

[EXTRACT]

Wednesday, 22 October 2014
Senate Chamber, Parliament Buildings

Present: Ms Michaela Boyle (Chairperson)
Mr Roy Beggs
Mr Trevor Clarke
Mr Alex Easton
Mr Paul Girvan
Mr Daithi McKay
Mr Adrian McQuillan
Mr Sean Rogers

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Jack Peel (Assistant Assembly Clerk)
Mrs Danielle Saunders (Clerical Supervisor)
Mr Darren Weir (Clerical Officer)

Apologies: Mr John Dallat (Deputy Chairperson)
Mr Phil Flanagan
Mr Ross Hussey

2.06pm The meeting began in public session

2.09pm Mr McKay joined the meeting

2.34pm Mr Clarke joined the meeting

2.53pm Mr Clarke left the meeting

3.01pm Mr Clarke re-joined the meeting

3.15pm Mr McKay left the meeting

3.25pm Mr Girvan left the meeting

3.31pm Mr Girvan re-joined the meeting

3.32pm Mr Rogers left the meeting

3.36pm Mr Rogers re-joined the meeting

3.46pm Mr McQuillan left the meeting

3.48pm Mr McQuillan re-joined the meeting

4.12pm Mr McQuillan left the meeting

4.21pm Mr Clarke left the meeting

4.44pm The meeting went into closed session

7. Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project

The Committee noted an item of correspondence from Mr Brett Hannam, Chief Executive of the Strategic Investment Board.

[EXTRACT]

Wednesday, 5 November 2014
Room 29, Parliament Buildings

Present: Mr John Dallat (Deputy Chairperson)
Mr Roy Beggs
Mr Trevor Clarke
Mr Alex Easton
Mr Paul Girvan
Mr Ross Hussey
Mr Sean Rogers

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Jack Peel (Assistant Assembly Clerk)
Mrs Danielle Saunders (Clerical Supervisor)
Mr Darren Weir (Clerical Officer)

Apologies: Ms Michaela Boyle (Chairperson)
Mr Phil Flanagan

2.13pm The meeting began in public session

2.15pm Mr Beggs joined the meeting

2.17pm Mr Clarke joined the meeting

2.18pm The meeting went into closed session

7. **Inquiry into the Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project – Consideration of Draft Report**

Agreed: The Committee considered its draft report on the above inquiry

Part 1: The Future Impact of Borrowing and Private Finance Commitments

Introduction

Paragraphs 1-5 read and agreed

Paragraphs 6-8 read and agreed

Paragraph 9 read, amended and agreed

Recommendation 1 read and agreed

Paragraphs 11-12 read and agreed

2.35pm Mr Easton left the meeting

Paragraphs 13-15 read, amended and agreed

Recommendations 2-3 read and agreed

Part 2: Belfast Metropolitan College's Titanic Quarter PPP project

Paragraph 16 read, amended and agreed

Paragraph 17 read, amended and agreed

Paragraphs 18-22 read and agreed

2.48pm Mr Clarke left the meeting

2.50pm Mr Easton re-joined the meeting

Paragraphs 23-27 read and agreed

Paragraph 28 read, amended and agreed

Paragraphs 29-30 read and agreed

Recommendations 4 and 5 read and agreed

2.55pm Mr Rogers left the meeting

2.58pm Mr Hussey left the meeting

The Committee lost its decision-making quorum. In the absence of a decision-making quorum proceedings continued in line with Standing Order 49(5).

3.02pm Mr Girvan left the meeting

The Committee lost its quorum. In the absence of a quorum the Chairperson suspended the meeting in line with Standing Order 46(6).

3.04pm Mr Clarke and Mr Girvan re-joined the meeting

The meeting regained quorum and the Chairperson resumed the meeting in line with Standing Order 46(6).

Paragraphs 31-35 read, amended and agreed

3.06pm Mr Hussey re-joined the meeting

3.11pm Mr Rogers re-joined the meeting

Recommendation 6 agreed

Paragraphs 36-37 read, amended and agreed

Paragraph 38 read and agreed

Recommendation 7 read and agreed

Paragraphs 39-41 read and agreed

Recommendation 8 read and agreed

Recommendation 9 read, amended and agreed

Executive Summary

Paragraphs 1-21 read and agreed

Summary of Recommendations

Recommendations 1-8 read and agreed

Recommendation 9 read, amended and agreed

Agreed: The Committee agreed the minutes, minutes of evidence and correspondence to be included as appendices to the report.

Agreed: The Committee ordered the report to be printed

Agreed: The Committee agreed the report to be launched on Wednesday 3rd December and a press release be issued on Wednesday 26th November

[EXTRACT]

Northern Ireland Assembly

Appendix 2

Minutes of Evidence

11 June 2014

Members present for all or part of the proceedings:

Mr John Dallat (Deputy Chairperson)
Mr Michael Copeland
Mr Alex Easton
Mr Paul Girvan
Mr Chris Hazzard
Mr Ross Hussey
Mr Daithí McKay
Mr Seán Rogers

Witnesses:

Mr Mike Brennan Mr Stephen Peover	*Department of Finance and Personnel*
Dr Mark Browne	*Office of the First Minister and deputy First Minister*
Mr Brett Hannam	*Strategic Investment Board*

In attendance:

Mr Kieran Donnelly	Comptroller and Auditor General
Mr Jack Layberry	Treasury Officer of Accounts

1. **The Deputy Chairperson**: With us for the first time in his new role as Treasury Officer of Accounts (TOA) is Mr Jack Layberry. Jack, on behalf of the Committee, I welcome you. I wish you every success as TOA and look forward to working with you.

2. **Mr Jack Layberry (Treasury Officer of Accounts)**: Thank you.

3. **The Deputy Chairperson**: We also have Dr Mark Browne and Mr Stephen Peover, the accounting officers for OFMDFM and DFP respectively. Also in attendance are Brett Hannam, the chief executive of the Strategic Investment Board; and Mike Brennan, the budget director of DFP. Thank you for joining us. You are very welcome to the Committee. Members, you will find biographies for all the witnesses on pages 13 and 16 of your electronic packs — not that, I am sure, you will need to refer to them.

4. The Audit Office previously reported on the lack of transparency around these commitments. Why does there continue to be a lack of transparency in relation to the PFI and reinvestment and reform initiative (RRI) reporting arrangements to the Assembly and its Committees?

5. **Dr Mark Browne (Office of the First Minister and deputy First Minister)**: Chair, perhaps I will start off by responding to the question. There are a number of things that we do to make information on PFI available to the Assembly and Ministers. The investment strategy for Northern Ireland (ISNI) contains an estimate of the amount of alternative or private finance that will be used over the period, in that case to 2021. That is debated in the Assembly and goes out for public consultation. In addition, OFMDFM collects information and makes it available on the Treasury's website, which is open to the public. That sets out in detail all the information on every individual PFI contract and includes a range of information, including the start date, the end date, the unitary charges that are paid each year and those contractors that have an equity interest in the project. That is available on the Treasury's website. An annual update on the investment strategy is also provided to the Assembly. That deals with projects that have been taken forward and projects that are coming in the future. That also includes reference to alternative finance or PFI. There are a range of ways in which information is provided, but we accept that the report identified that there could be an opportunity to make that information more widely available.

6. From an OFMDFM perspective, we have been looking at the information that is provided on the Treasury's website. We intend to take the Northern Ireland

projects that are detailed there and make that information available on the OFMDFM website so that that is more readily accessible to the Assembly and others.

7. **The Deputy Chairperson**: Maybe I could refer to the website. According to the website you have just mentioned, there are only three PFIs in operation in NI, costing approximately £60 million. That is significantly lower than the figures that were reported in the Audit Office report. Clearly there has been a breakdown in the system for recording PFI information on Her Majesty's Treasury's database. Please explain what went wrong and why incorrect information was provided in response to an Assembly question.

8. **Dr Browne**: I am not sure about the response to the Assembly question, but I was on the website this morning and there were many more than four or five — I cannot remember the figure you gave. Some 35 projects were listed as under way. There are different elements to that website, and I do not know whether someone has looked at a different part of it, but certainly that information is there and is available for those projects. I checked it myself only this morning.

9. **The Deputy Chairperson**: I am sure that members will take you up on that. I hope that you were not just on that website this morning before you came to the meeting and that it is checked regularly.

10. **Dr Browne**: My staff check it regularly. I personally went into it this morning to look through the detail in anticipation of some questions that might come up.

11. **The Deputy Chairperson**: Perhaps it might be appropriate at this stage to put into context what we are talking about. When we speak about billions and billions of pounds, we are well above the heads of the ordinary taxpayers and ratepayers who contribute generously. The Audit Office report shows annual costs of £250 million for PFI contracts that have committed the Executive to over £7 billion in future years. While members are worried about welfare reform and all sorts of things, that is a horrendous figure. Reinvestment and reform initiative borrowings cost £100 million each year, and estimated interest of £1·3 billion in future years. I would have thought that that must be really scary for future generations. This is the first time that we have seen the figures. Do you not think that they should be more transparent to us as elected representatives?

12. **Dr Browne**: I will make a few comments on the PFIs and Stephen may want to say something about the RRIs.

13. **The Deputy Chairperson**: I must insist that I get a direct answer to the question I have just put to you.

14. **Dr Browne**: The information on the amount of money that is spent on the projects is on the Her Majesty's Treasury (HMT) database, which OFMDFM collects for all the Northern Ireland Departments. The information is there for every project and it sets out the unitary charge for every year, right beyond the life of the projects.

15. The numbers are large because they are the amounts that will be spent over the next 25 or 30 years. It would be a little like taking all your mortgage payments and multiplying them up into one lump sum and looking at how much you might have to spend on it over the next number of years. You will inevitably get a very large figure when you take amounts for a long period ahead and roll them up into a single figure. That is why the figure appears to be large.

16. The key point to make is that all the projects have been subject to business cases, and all those business cases have demonstrated that the PFI approach demonstrated value for money when compared with the conventional option. While the figures may be large when taken over that long period, the projects have nevertheless been demonstrated to be value for money through the business case process.

17. **The Deputy Chairperson**: So really, Dr Browne, you are telling me that

you are open and transparent, that everything is in place and that there is really no reason for complaining about the accountability and transparency of the process to the Northern Ireland Assembly.

18. **Dr Browne**: I am saying that information is available in a variety of forms. I think that information in response to the report and the comments that are being made could be better signposted so that members can get information more quickly when they have an interest in this area. That is something that we will look at. I have already indicated that we will be putting the relevant Northern Ireland information on the OFMDFM website, and we will put a link to the SIB website and make sure that, when someone is looking for that kind of information on a project, it is available readily.

19. **The Deputy Chairperson**: Dr Browne, just to get it clear for the record, we are not now totally dependent on a website for information to the Northern Ireland Assembly on how much debt has been accumulated for the next 30 years for future generations.

20. **Dr Browne**: The information on individual projects is on the website; the information on PFI is contained in each departmental account. There is also information on RRI and the various borrowings in the public information and expenditure account.

21. **The Deputy Chairperson**: I will stop you there and give you a wee bit of history. In a response from OFMDFM to one of the Committee's questions in relation to the original reinvestment and reform initiative report back in 2008, it was stated that Ministers were:

"considering options for reporting PFI commitments to the Assembly."

22. According to the C&AG's report, there is still no central collection of PFI costs and commitments, or dissemination directly to Northern Ireland. What options, if any, have been proposed by your Department for consideration by Ministers? What was the outcome of those considerations? We have already heard about your website; please, elaborate beyond that.

23. **Dr Browne**: The main source for PFI, at a high level, is the investment strategy, which sets out the amount of funding that we have put towards investment over the longer term and, within that, gives an indication of the amount of private expenditure that is planned, according to the seven pillars and by Departments. That gives the broad, high-level amount. Information on the detailed amount of every project is provided by the individual website. I have indicated that we will seek to improve the signposting of that. Reporting on PFI is also available in individual departmental accounts. So, the information is there, but perhaps it is not gathered in one place or signposted as well as it might be for members to get the information that they require. We are happy to look at how we can better signpost in that regard.

24. **The Deputy Chairperson**: We will move on now to questions from individual members.

25. **Mr Girvan**: Chair, I appreciate that you have taken it down a route, but I want to go back to the reporting mechanism. Paragraph 2.10 of the report mentions the Budget review group having sight of a lot of this information, but it has not necessarily reported that through. Do you not think that it is important that that be reported through to the Committees that it is going to impact upon? Some Departments are making spend and allocating their money, and some are not totally across what PFI contracts they are already committed to out of their budgets. Yesterday, we went through an exercise on the Budget and dealing with the Budget for the next year. It is difficult to extrapolate some of the detail of the PFI commitments within the headings that appear. Maybe that is easily explained, but it did not appear to be easy to pull out where those commitments are put and what headings they are put under within that Budget process. Would there be merit in having a reporting mechanism to ensure

that Committees and the Assembly are made aware of all of the commitments that are put into PFI contracts?

26. **Dr Browne**: The Budget review group is a subgroup of the Executive. Many of the issues that it considers are classified as policy in confidence. It would not be appropriate for the detail of all of those papers to be made available. As I said, the reporting that there is around PFI relates to the ISNI, when it is first developed. An annual update is provided on the investment strategy, there will be six-monthly updates to the OFMDFM Committee, and the individual information that I referred to is on the website. I think that more can be done to make it apparent where that information is available. There is also information in individual departmental accounts, which Committees have access to.

27. **Mr Girvan**: Yes, each Committee has access to its own departmental accounts, though when it comes through to DFP, we get headings. I appreciate that we cannot, perhaps, go down into the minutiae of the detail, but I do not necessarily buy into the idea that there are contractual details that should not — we are living in an environment where openness and transparency is the whole way forward. Some of the PFI contracts that we have may have been going for a number of years. What mechanism is there to review those contracts and ensure that we are getting value for money for them?

28. I appreciate that, next week, we will probably be focusing on what we deem to be, maybe, not great practice in some of the PFI contracts, and there are some where there have been glaring areas where we think they were not right. That is maybe our interpretation of that; we will wait to see how it comes forward and what it bears out. Is there a mechanism to ensure that we are continuing to get value for money from contracts where buildings are not necessarily being used for the purpose that they were and, as a consequence, there is not the same detail required in those contracts? Have adjustments been made to ensure that the public purse is not paying for something that we do not necessarily need, or is there flexibility within the contract to allow that to happen? Sometimes, if I were in the private sector delivering some of those projects, I would be quite happy to be sure that the contract was not written in a way where there was going to be wriggle room, because, whether or not a Department is occupying the building, I would receive the money for the next 25 years. At the end of that term, whether it comes back to me or goes into the public purse is another point. That is just by the way; maybe you could go into that point at the start.

29. **Dr Browne**: The whole issue of effective contract management is a very important one because of the length of the agreements that there are under PFI. In this respect, the key responsibility for contract management lies with the accountable Department which owns the contract and has signed the contract. That Department is responsible for the review of the contract and for ensuring that they continue to get value for money. They are best placed; they know the area, the sector they are in and how the contract was negotiated. However, there are important sources of advice to Departments, and they are provided through the Strategic Investment Board. As part of the learning that has been built into this process over time, the Strategic Investment Board has developed a standard operating contract which is applied to all PFI contracts. There is also a gateway process that all Departments go through before they carry on through the contract, to make sure that they are ready and they have the proper project management skills to take it forward.

30. The standard contract that I referred to, which is sometimes called SoPCNI (standardisation of PFI contracts Northern Ireland), has built into it a five-year review of the soft services that are provided within the contract. If circumstances or costs change, there is an opportunity there for a review of the contract. However, we recognise

that more can be done in this area. The asset management unit has already been working with some Departments. There is an example in the report of some work that was done with Invest NI on a review of the contract. So, some work has already been ongoing there.

31. The report makes a recommendation that SIB and OFMDFM should work with Departments to provide a common approach, so that Departments can review their contracts. The First Minister and deputy First Minister have accepted that recommendation and have written to SIB asking it to work with Departments in this area to provide consistent support and guidance in taking forward the review of contracts. That is one that SIB will be taking forward.

32. **Mr Girvan**: I appreciate your openness on that point. You alluded to the fact that a five-year review is included on every contract. That five-year review should be quite detailed, because we all have leases on properties, one way or another, and we know that people sometimes miss their negotiating date. As a consequence of missing your negotiating date, you are held over a barrel for it. Are those reviews happening on time, and do they always deliver savings?

33. **Dr Browne**: If you do not mind, I will hand over to Brett from the SIB for the detail of this, because he will have that detailed knowledge.

34. **Mr Girvan**: You said that through OFMDFM, the First Minister and deputy First Minister have sent direction for help to be given. Do Departments have the expertise within them to — what way should I put it? — be able to negotiate against what are some very sharp practices within the private sector to ensure that they are getting a very good deal and the public sector is not necessarily getting as good a deal?

35. **Mr Brett Hannam (Strategic Investment Board)**: As Mark said, the responsibility for managing contracts on a day-to-day basis lies with the Departments. They would not wait for five years if there was a problem with a contract. They would step in and deal with any issues that arose as they arose. However, at the five-year point, the contracts will always allow for a periodic review and benchmarking of services to ensure that the public purse is getting what it has paid for in terms of the best deal available at that time. In carrying out that work, individual Departments can call upon the Central Procurement Directorate to provide them with day-to-day advice on contract management issues.

36. The report has suggested that in addition to that regime, the Strategic Investment Board should work with Departments to provide specialist support for more structured and detailed reviews that would bring in legal, technical and financial experts to work with Departments to determine whether there are further opportunities for savings that go beyond the scope of those five-year reviews. I would be happy to go through how that might be taken forward.

37. The reviews that take place periodically do deliver savings. One of the most important of those was one of the water PFIs, where what is known as a prudent operator review took place and some £11 million of savings were delivered by insisting that the operator performed in a particular way that benefited the public to the utmost extent.

38. **Mr Girvan**: Was that in one contract or many?

39. **Mr Hannam**: Mike would have the detail on that, but I believe it was two contracts.

40. **Mr Girvan**: So on two contracts there was £11 million of overcharging that could potentially have been there had they not been renegotiated?

41. **Mr Hannam**: Certainly, if the people managing the contract had not taken that action, it would have been lost, but the point I am trying to make is that the contract managers are alive to that.

42. You also asked whether we thought the operating Departments had the skills, knowledge and experience necessary to manage these contracts properly. That assessment is made at the point before the contract is signed when projects go through a gateway review, one element of which is to assess the Department's capacity and capability in this specific field. Unless that can be demonstrated, the project will not go forward.

43. **Mr Girvan**: I appreciate —

44. **The Deputy Chairperson**: I want to bring in Seán just for a minute.

45. **Mr Girvan**: Yes, that is OK.

46. **Mr Rogers**: It is just a small point but, I think, a very important point. You mention "review" very often, but very few of these reviews were full contract reviews, as the report states on page 23. Not only that, but frequently savings were identified but not quantified. There is a difference between a review and a full contract review, which I think is very important. The report states:

"there have been little or no significant changes to the services or assets provided since contract signature".

47. Can you please identify this review and a full review? Why were there so few full contract reviews?

48. **Mr Hannam**: I cannot speak for Departments, because I simply do not know the arrangements that they have entered into or the details of the reviews that they have carried out. The survey carried out by the Audit Office provides the data to which I think you are referring. What OFMDFM has done since then is to write to all the Departments that contributed to that survey, in order better to understand those issues that they raised. That process is ongoing. OFMDFM is taking the data and collating it, and those are the very issues it will be exploring.

49. **The Deputy Chairperson**: Before I go back to Paul, I am sure members would be keen to know what has happened since the issue was first ventilated in 2008. Today, we hear of the role of the Strategic Investment Board, but, even at this stage, you are communicating only with some Departments. Have you been sitting on your hands, daydreaming, for the last six years? What has been happening?

50. **Mr Hannam**: No, the Audit Office raised the possibility of SIB being asked to work in this area.

51. **The Deputy Chairperson**: Did you take it seriously?

52. **Mr Hannam**: Prior to that, we were not asked to work in this area, and, as I am sure you are aware, SIB works only where it is invited to by Departments. We were not given this responsibility; as Mark and I set out earlier, the responsibility rests with Departments in the first instance. They are able to call upon specialist support from Central Procurement Directorate on contract management issues when they want to. This is a new initiative, suggested by the Audit Office, that SIB should become involved. If you would find it useful, I could talk you through what SIB has done since that was suggested and explain a little bit about how we propose to take this forward.

53. **The Deputy Chairperson**: I will go back to Paul. Go ahead.

54. **Mr Girvan**: In relation to the contracts, I, for one, having been involved in many contracts in the past, know how you can be caught up in quite a bit of detail and miss specific points. It is the transparency of the whole process. When it is public money, I think there is a necessity for us to be across all of the detail. I am not always sure. This is probably the wrong question to ask, but I will ask it anyway: do we believe that we have got value for money from the PFI or PPP contracts, or whatever term you want to use for revenue-funded investment, that we have gone forward with? Could we have made Treasury borrowings, delivered those projects and got better value for the public purse? Could we have gone through that mechanism, as opposed to going down the route of some people getting very

wealthy on the back of the public purse and delivering buildings that the public are sold into for generations?

55. **Dr Browne**: The key aspect for every project, regardless of whether it is PFI or conventional procurement, is that they have to have a business case. Those that are thinking of going down the PFI route must specifically include within that the option of conventional procurement. That business case will look at the whole-life costs, the services that are being provided and whether they are fit for purpose, and the economic and social benefits. Based on that assessment, it will be determined whether the project is value for money. Only those projects that are value for money are signed off by the Minister and DFP and are then able to go forward. So, the guarantee around these projects being value for money relates to the business case process.

56. **Mr Girvan**: That is a question that I wanted to get a wee bit of guidance on, because, if I were delivering something, I would be expecting to get something out of it. The business case must stack up. These are for capital projects, primarily, so you are going to need a building. You have made the business case that you need that. The fact is that it is about the mechanism for delivery of the hardware and, maybe, the maintenance of it during its life. If a private contractor can still make money out of that, why can the public sector not do the same, but, instead of making money out of it, make savings, because it does not have to pay the same amount? Looking at it solely as a businessman, that is my attitude. I would be very hard-nosed in relation to trying to do a deal that was going to give me the best deal. I think that some of these have given opportunities to some people to do very well. We might look at some of those later to see where the same names seem to appear in various ways. Have you ever looked across all of the 35 projects, or however many there are, to see if there is a common thread, such as the same individual forming a shelf company, or whatever? A number of them actually form three or four companies for the delivery of the same thing, and all the companies have directors. The same names appear right through them, and sometimes the same contractors are used to deliver on many of them. Have you looked across that to see where the commonalities are and whether we are being hoodwinked by some very shrewd individuals in the private sector?

57. **Dr Browne**: I will pick up the first part of the question, and Brett can pick up the second. We have to remind ourselves that while, of course, there is a profit element in PFI contracts — no one would undertake a contract if there was not — the key thing is that there has to be a benefit to those undertaking the contract and those receiving the outcome. So it has to be a contract that works for the public sector and the private sector.

58. The second point is that, if we do not use PFI, the other route is conventional procurement. The conventional route still involves a profit for the capital build. Otherwise, again, the contractor would not build it. So there is a profit there and a cost in running the service over the 25 or 30 years, and that would have to come from the public sector.

59. We have to compare all the costs on one side with all the costs on the other. That is done explicitly in the business case through a comparison of the PFI and the conventional operator. That looks at what the best value is for the public and takes account of the full cost — the whole life cost — for both approaches over the period. If it does not demonstrate that the PFI route is the most effective, PFI cannot be substantiated.

60. That comparison has been tested. As I said, it is important in all of these cases that we do not focus too much on one aspect of the private element and ignore some of the other costs that occur in a different route. We need to compare like with like, and that is what the business case seeks to do. Brett, maybe you could pick up on the extent to which there are companies with expertise in

this area that have been successful in winning contracts.

61. **Mr Girvan**: Just before Brett comes in on that, your answer has opened up another question in my mind on public value for money. I am not always so sure that we have the expertise to make sure that we get value for money.

62. If, for example, you go out to tender for an office block, you might get an estimate of, say, £5 million. You might look at doing that under PFI. A private developer can deliver the same building, but it costs him only £3 million. You ask why an extra £2 million was factored in when the contract was tendered under a public procurement procedure. That could make the difference between a project being viable or not, and it could make the decision of not going down this route a lot easier.

63. I am not always sure that we get value for money for the public purse. If a council is delivering a project, we always hear that somebody else could have done it for half the price. I have heard that many times, so you wonder whether we always get value for those contracts when we look at the comparison. Do we get the same? Is it like for like, or can a private sector guy do it for half the price?

64. **Dr Browne**: There are two aspects to that question. One is whether we get better value for money by the route that we choose. In the business case and the comparison of the different routes, we will identify that one route is better value than another. The route chosen should be the better value of the available routes.

65. I think that you went beyond that to ask another question, which is whether, in whatever route we pick, we get the best possible value for money. That is a more difficult question to answer, and I think that I will let Brett come in and give some perspective on that. However, we developed the contracts, and we built in aspects such as profit sharing when there are excess profits and five-year reviews of contracts. All that learning is being built into the process and made available to Departments as they take forward further PFI projects.

66. It is very difficult to say whether every project is the best value. Can we say that we are getting the best of the offers before us? Yes. Can we say that we are getting better? The process is certainly improving.

67. Brett, I do not know whether you have anything that you want to add to that.

68. **Mr Hannam**: The key issue is the competitive nature of the procurements. Whether they are conventional or PFI, there is a competitive element, which drives out value. If the public sector went out to tender without that competitive element, your point would be absolutely right: there would be no way of demonstrating that the office block to which you referred was being built at the most competitive price. However, because there are a number of bidders competing for the business, that competition drives out value.

69. **The Deputy Chairperson**: Brett, I am not sure whether I cut you off earlier when you were, perhaps, going on to explain the new interaction with the Strategic Investment Board. Was there something more that you wanted to say about that?

70. **Mr Hannam**: I offered to explain the actions taken in response to the recommendation in the Audit Office report that the SIB, with DFP and OFMDFM, look at a programme of structured reviews of operational PFIs.

71. **The Deputy Chairperson**: It is intriguing that the inspiration for that was not present in the Department. You are not washing machines that need to be programmed. Surely somebody should have seen that without a prompt from the Audit Office.

72. **Mr Hannam**: As Mark said earlier, and I reiterated, responsibility for the contract management of PFIs rests with Departments. It is for them to assess the quality of that management and whether they need additional help from CPD or anyone else. They would,

I believe, not welcome interference in that because they are accountable to their respective Committee and to this Committee for the management of those contracts.

73. The Audit Office suggested that, if Departments thought it useful, they could work with us to carry out those reviews, and we have taken action to make sure that we are in a position to do that.

74. **The Deputy Chairperson**: I think that a concern among members might be that we should not have to wait for another Audit Office report for future inspiration. These things should be dealt with in an open and transparent way, whereby the taxpayer continues to get best value for money.

75. **Dr Browne**: Another point is that the case study in the report — the INI case study — predates the NIAO recommendation. That was one in which the asset management unit in SIB was working with the Department, at the Department's request, on looking at the contract. That service was available and was taken up in some instances.

76. What we are saying is that, in light of the recommendation from the Audit Office, there will be a more coordinated approach. The availability of advice will be extended and publicised, and Departments will be encouraged to take it up.

77. Brett is quite right: at the end of the day, the Departments are accountable. They have to demonstrate that they are getting the best value out of the contracts. SIB and OFMDFM can make these services available, and we will make them available in response to the NIAO recommendation.

78. **Mr Easton**: Rather than squeezing every penny out of the contract, there appears to be a focus on getting PFI deals done and then hoping that they run their course over the next 25 to 30 years. In 2011, HM Treasury issued draft best practice guidance on four areas in which there was the potential to achieve savings. Why did DFP not circulate that to everybody?

79. **Mr Stephen Peover (Department of Finance and Personnel)**: Under devolution, HM Treasury guidance does not directly apply to Northern Ireland. This is now a devolved matter. We made the guidance available: it was included as part of the green book assessment arrangements and was accessible to Departments. Treasury guidance is just that: it is advisory and it is guidance; it is not a directive.

80. **Mr Easton**: I know, but was it not good advice?

81. **Mr Peover**: It was, yes.

82. **Mr Easton**: So should it not have been passed on to other people?

83. **Mr Peover**: It was passed on.

84. **Mr Mike Brennan (Department of Finance and Personnel)**: It was made available to all Departments through the "What's New?" page of the 'Northern Ireland Guide to Expenditure Appraisal and Evaluation', so all finance directors were made aware of it.

85. The other important thing to know is that Treasury guidance changed the next year. In December 2012, Treasury fundamentally changed the PFI appraisal guidance. DFP issued notes to Departments and put forward its own new appraisal processes.

86. **Mr Easton**: So the HM Treasury guidance has now been passed on to all Departments.

87. **Mr Brennan**: That guidance was passed on to all Departments at that time but is no longer relevant. In fact, on 20 December 2012, Treasury said that it would shortly circulate new PFI guidance on its value for money (VFM) quantitative model. It said that it would be out in early 2013, but it still has not been produced, so the DFP guidance determines PFI and affordability judgements in NI Departments.

88. **Mr Easton**: In the context of recent drives for efficiency savings in public

spending, can you tell me why there has been a lack of progress in applying this guidance? I know that it does not apply here, but you have acknowledged already that it is good, so why have we not applied it here? Are we looking for those savings?

89. **Mr Brennan**: Sorry, do you mean efficiencies in PFI contracts?

90. **Mr Easton**: Yes.

91. **Mr Brennan**: As Mark and Brett said, there is already an ongoing process of driving out efficiencies in PFI contracts: for example, the work that the asset management unit already does in some Departments generates savings. You are aware of the Invest NI Bedford Street development, but a number of other projects are under way as part of the Executive's asset management strategy, which will drive out those efficiencies.

92. **Mr Easton**: Yes, it is under way now, but for how long have some of these PFI schemes been going on without that happening?

93. **Mr Peover**: We are talking about a number of processes. There is the opportunity to benchmark the costs of the soft services that go with PFI contracts as part of the ongoing process of contract management, and that would happen naturally anyway.

94. **Mr Easton**: Have you issued any guidance on PFI schemes?

95. **Mr Peover**: Recent guidance?

96. **Mr Brennan**: Our most recent guidance was issued on 20 December 2012, which set aside the Treasury guidance.

97. **Mr Easton**: So you are using the Treasury guidance.

98. **Mr Brennan**: No, we are setting it aside and going back to the standard green book appraisal process.

99. **Mr Easton**: Before that, did OFMDFM and DFP not issue guidance?

100. **Mr Brennan**: Regular guidance was issued.

101. **Mr Easton**: HM Treasury created a programme team for PFI projects on the basis of the potential to achieve £1·5 billion in savings — is that right?

102. **Mr Brennan**: Yes.

103. **Mr Easton**: Why did we not do the same, and, if we did that now, how much could we save?

104. **Mr Peover**: That is hypothetical, and I am not sure that I can answer a question of that nature. As we said, the contract management responsibility lies with Departments. They let the contracts; they entered into them; they manage them; and they have the expertise for their management. There are arrangements to allow them to review the contracts at regular intervals. They can draw on advice from us, CPD, or SIB as part of that process. There are processes in place to allow them to review contracts. There may be more that we could do.

105. **Mr Easton**: The Audit Office estimates that there could be £12·5 million worth of savings.

106. **Mr Peover**: Was that estimated by factoring down from the overall size of the UK savings?

107. **Mr Easton**: Yes.

108. **Mr Peover**: Possibly.

109. **Mr Brennan**: No. I think that it is only the £253 million paid out of our Budget on a 5% calculation.

110. **Mr Easton**: So is it roughly £250 million a year?

111. **Mr Peover**: Is that the unitary cost?

112. **Mr Brennan**: Yes.

113. **Mr Peover**: I think that the point made earlier was the important one. We have an annual Budget of over £10 billion, between £1·1 billion and £1·4 billion of which is capital. So that £250 million is 2·8% of the total spend. It is a relatively small amount. As Mark said, if you roll it up over 30 years, it sounds like quite a lot: £7 billion. However, if you roll up the total Budget over 30 years, it is £300

billion. It is still the same percentage, no matter whether it is one year or 30.

114. It is an important point, but we buy services. We buy not just a building but the services to support that building as part of the provision of a PFI contract. It would cost us money to run those services if we paid for them ourselves. That, I think, was the point that you were making, Mr Girvan. If we employ the cleaners, cooks and security guards, that is a cost. Quite often, the cost to the public sector seems to be rather higher than what the private sector can buy the same service for. That is one of the areas where savings are made.

115. We have not said anything yet about the positives. PFI and RRI, as mechanisms for funding projects, allow accelerated investment in the capital infrastructure in Northern Ireland, which everybody thinks is a good thing. It is good to have better roads, housing, education facilities and hospitals. This is a way of buying that investment and paying for it over a period of 30 years. So, as Mark said, it has to be justified by value for money so that we are not just throwing money down the drain, but it is a way of getting investment. It is also a way of locking private sector management expertise into public sector contracts. There is general recognition that those in the private sector manage quite well. They tend to deliver projects on time and to budget. They are locked into contracts that require them to maintain buildings over their lifetime, so they have an incentive to do good building work in the first place because they cannot walk away if they have built in a problem. So there are a lot of positives, and it allows us to reform public services by providing better facilities than might otherwise have been available. We have not said much about the positives, but there are positives and they are worth emphasising.

116. **Mr Brennan**: The affordability aspect is critical. Think back to, for example, 10 years ago, when the Executive faced infraction charges under EU directives on waste water. Two water PPPs, Alpha and Omega, cost over £1 billion of investment, but the Executive did not have £1 billion of conventional capital DEL to deliver them. The avoidance of infraction fines, and the fact that there was not enough conventional capital DEL, showed the significant affordability benefits of pursuing those two PPPs.

117. **The Deputy Chairperson**: I am not sure. Is there some confusion about whether £12·5 million might be saved? I was going to ask Kieran Donnelly to explain, for the record, how he estimated that.

118. **Mr Kieran Donnelly (Comptroller and Auditor General)**: We do not really know how much can be saved without some analysis. This was a very crude read-across from Treasury on the potential. The important point is, as the witnesses have said, that it is the responsibility of individual Departments to manage projects and seek out savings. We have only 39 projects right across the system and they are thinly spread, so, if a Department has only one or two projects, it will not always have the necessary negotiating skills or expertise. That is the reason why we called for a central look at this. Until all that is done, it is not clear just how much in savings would materialise. Some savings have materialised. Clearly, the Invest NI case study is a good example of that. The important point is that the slide rule should be put under all of these and the best negotiating skills applied.

119. **Mr Peover**: We agree on the point about benchmarking. The difficulty for us is that it is difficult to do Northern Ireland-specific benchmarking. As the C&AG said, there are relatively few local projects, and we need to draw on expertise from across the UK and, if possible, further afield to give us expert advice on the fruitful areas for scrutiny. That is done: we buy in consultancy.

120. **Mr Easton**: I have a few more questions. A questionnaire was conducted across the 39 PFI projects in Northern Ireland, but one Department did not respond. Do you know which Department that was?

121. **Mr Peover**: It was DOE.

122. **Mr Easton**: Is there any reason for that?

123. **Mr Peover**: I do not know. DOE is not a big capital spending Department, so maybe that is why.

124. **Mr Easton**: I was just curious about why it did not respond. The questionnaire found that reviews were not carried out in line with HM Treasury's best practice guidance, which you semi-ignored. Were the savings identified in the review not quantified? Why was that?

125. **Dr Browne**: Again, that will come to individual Departments to answer because they are responsible for managing those projects. We can say that, in the broadest sense, 25 of the PPP projects have completed a review of some sort, and six are in the process of drafting a review. Some are post-project evaluation reviews (PPEs); others are audit reviews. Reviews are ongoing, but it would be helpful to have more consistency in the reviews that are undertaken.

126. **Mr Easton**: Of the 39 PFI projects across Northern Ireland, were there any clauses in the contracts to have a review of the project lists for the construction costs or the service costs? Was it built into any PFI contract that there would be a review of costs?

127. **Dr Browne**: In the standard contract applied to these projects, a five-year review is built into the provision of the soft services. That is conducted on a —

128. **Mr Easton**: Is that a service cost?

129. **Dr Browne**: Yes, the maintenance, cleaning, catering and so forth.

130. **Mr Easton**: What about the construction costs?

131. **Dr Browne**: They have already have been met at that point.

132. **Mr Hannam**: There would be an element in the unitary charge alongside the soft services. They would all go to make that single unitary charge. All elements of the costs are rolled up into that.

133. **Mr Easton**: Are they not reviewed?

134. **Mr Hannam**: I am not quite sure that I follow what you mean by "review" in that context.

135. **Mr Easton**: You have the PFI projects, so you have the capital cost to build. You have the services cost, and we have established that a review is built in for those, which we agree on. Has any type of review ever been built into the contracts at the capital end to make sure that we are getting the best value for money in that section?

136. **Mr Hannam**: The contract will be at a fixed price, so it is in the interests of the contractor to deliver within that price because, if he does not, he will lose out. The public sector, therefore, is insulated against the risk of cost overrun in that case because, even if the contractor pays more for the asset, he will not get paid any more.

137. **Mr Easton**: Do we have a guarantee that reviews are built into each and every one of the 39 PFI contracts?

138. **Mr Hannam**: Yes.

139. **Mr Easton**: Absolutely?

140. **Mr Hannam**: Yes.

141. **The Deputy Chairperson**: I will direct this question to you, Stephen, because I understand that you are at a stage in your life at which you will be philosophising about the wonderful career that you have had: will you explain to us what the golden rule was and how relevant it still is?

142. **Mr Peover**: The golden rule?

143. **The Deputy Chairperson**: Yes. I have it here somewhere. Sorry for springing this on you.

144. **Mr Peover**: Are you talking about Gordon Brown?

145. **The Deputy Chairperson**: Yes. May I read it for you?

146. **Mr Peover**: Sure.

147. **The Deputy Chairperson**: It reads:

"The Golden Rule, as it pertains to government spending, stipulates that a government will borrow to invest, not to finance existing spending. In other words, the government should borrow money only to fund investments that will benefit future generations, and current spending must be covered by existing taxes."

148. In addition — you probably know this already — it states:

"The term originates from ancient writings, including the New Testament, the Talmud and the Koran. Each has a story that teaches the Golden Rule: do unto others as you would have them do unto you. In fiscal policy, the Golden Rule seeks to protect future generations from debt by limiting borrowed money to investments, and not to indebt future generations for the benefit of current generations."

149. **Mr Peover**: It is philosophy and economic policy at the same time. That was Gordon Brown's golden rule when he was Chancellor, and it was maintained for quite a long time, although I am not sure that even he maintained it to the end of his career. In the main, we are talking about investment for the provision of assets to the Northern Ireland public, whether it is office buildings, hospitals, schools or wastewater treatment works. Associated with those are operating costs, which are charges that would fall on the Northern Ireland taxpayer — in fact, the UK taxpayer — anyway. All our projects have probably been in accordance with the golden rule. I cannot think of an instance when we borrowed for the financing of current expenditure under a PFI contract. We have purchased assets that will be of benefit throughout their lifetime to future generations as well as to us.

150. **The Deputy Chairperson**: So are you happy that we have followed the philosophy of Gordon Brown and that we did not use PFIs to fund existing expenditure?

151. **Mr Peover**: No.

152. **The Deputy Chairperson**: All right.

153. **Mr Peover**: Sorry. Yes, I am happy.

154. **The Deputy Chairperson**: I will take your word on that.

155. **Mr Rogers**: Thanks, gentlemen. There has been quite a bit of reference to Departments being held to account and so on. Let us take a particular case in mind. Balmoral High School, as I understand it, is not being used for its original purpose, and we are still incurring costs. Is that not a real waste of taxpayers' money? Who held the Department of Education accountable in that case?

156. **Mr Peover**: None of us can really speak for the Department of Education, though two of us worked in it before. No contract arrangement, whether it is a conventional procurement, a PFI or any other version, will protect you from a wrong decision. If a decision is made to locate a school in a particular area where the catchment population will not support the long-term viability of that school, that decision is wrong. It does not matter how you buy the asset; it is still money that may well be wasted.

157. Balmoral has been used for other things. It has been used for the Regional Training Unit and as a decant for St Colman's Primary School when its new building was being built. It is being used for another purpose now, as I understand it.

158. **Dr Browne**: A special school has just moved into it — St Gerard's.

159. **Mr Peover**: Looking at the pattern of the schools, Dunmurry High School and the school on Blacks Road were maybe a mile apart in two different education and library boards, and it was maybe not the right decision to build Balmoral High School in that location. Presumably somebody made the decision on the basis of an assessment of need at the time. In retrospect, it looks as if that was the wrong decision, but it would have been the wrong decision whether it was conventionally procured or procured through PFI.

160. **Mr Rogers**: Does DFP or OFMDFM have any role in holding the Department of Education accountable?

161. **Mr Peover**: Not that I am aware of. I probably was not in DFP at the time. The decision was justified on the basis of a business case, which was presumably done by the Belfast Education and Library Board at the time and cleared by the Department. It may even have been cleared by DFP. I am not sure, but it probably would have been large enough to be cleared by DFP.

162. **Mr Brennan**: The DFP supply officer would have seen the business case and would have assessed whether the methodologies were followed correctly, for example, in identifying the preferred option to pursue.

163. **Mr Peover**: I am not trying to defend the decision. Building a controlled school in that location was probably not very sensible.

164. **Mr Rogers**: Page 5 of the NIAO's report states:

"England and Scotland have published details of both the potential for PFI contract savings as well as realised savings."

165. Mr Peover, you mentioned earlier that we are a devolved area, but we seem to have no strategic programme that coordinates the review of the operation of PFI contracts across government. Would you like to comment on that?

166. **Mr Peover**: As my colleagues have said, the responsible bodies here are individual Departments. DFP obviously has a role in looking at the overall management of public spending, and larger projects that require business case approval are cleared through DFP. We do that. The system is in place through us, the SIB and CPD to provide advice to Departments in managing contracts to try to achieve efficiency as part of that process. Could it be more coordinated? Probably.

167. **Mr Rogers**: There is really nothing —

168. **Mr Peover**: There is no requirement.

169. **Mr Rogers**: There is nothing there to prevent Departments doing solo runs and having another Balmoral arise in some other situation.

170. **Mr Peover**: I would not say that. That is a different issue. That is about the validity of the original decision to have the resource available. There is a decision point about whether to build a hospital or a school. Later on, once you have it, there is the question of what you do with it. As Mark said, that asset in Balmoral has been used as part of the Regional Training Unit and as a decant facility for a primary school that needed a newbuild, and it is now being used for special education. If you have an asset, it is sensible to try to make the best use of it. That is a matter for the owner of the asset. I do not know the detail of that well enough to comment on it specifically, but at least the asset is being used.

171. **Mr Brennan**: The other strategic point to bear in mind is that, when projects of that nature come forward, they go as a standing item to Ministers on the Budget review group. They get a list and an update from Brett and me on projects of that nature and how they are progressing.

172. **Mr Rogers**: OK. Thank you.

173. There has been some talk of actual savings to date. Will you give us more information on what savings are being achieved and how we are now achieving better value for money, even as a result of this report?

174. **Dr Browne**: The report identifies a number of instances. It identifies the INI example and points to a number of other reviews. I think that we would accept that the extent of savings that have been driven out through reviews could be improved. That is why the First Minister and the deputy First Minister have written to the SIB to ask it to make expertise available to Departments to try to coordinate advice and support to Departments in undertaking a review of contracts. We recognise that more can be done in that whole area.

175. Brett, you may know more about what has been done to date. That decision by the First Minister and the deputy First Minister was important

in the coordinated response to that recommendation.

176. **Mr Rogers**: I acknowledge that INI has challenged its commitment. That has been done. Is that good practice being disseminated across Departments?

177. **Mr Hannam**: We are certainly carrying on with that programme. The Finance Minister has recently indicated that he is making available some £40 million of capital and £4·5 million of revenue to enable Departments to pursue initiatives, such as the Invest NI project, to deliver further savings to the revenue budget where those initiatives would deliver value for money. That work is ongoing in SIB.

178. **Mr Peover**: Maybe I should say something on that point. We have talked about PFI and PPP and so on. There are lots of long-term commitments that government have entered into, such as leasehold arrangements for office buildings. We have had a policy for some time of seeking to minimise our reliance on leasehold buildings and moving into property that we own or, as Brett said, investing to buy out leases and finding more effective ways of using our current resources to provide the facilities we need. That process is ongoing. We could provide you with figures — I do not have them here — on how much we think that we have saved by concentrating the public sector estate into owned buildings, rather than leased buildings, and maximising the use of space in existing buildings, rather than expanding into new premises. We can provide the Committee with some information on that if you would like.

179. **Mr Rogers**: Going back to my earlier point about reviews, are all reviews now full-contract reviews in which people have to identify and quantify savings?

180. **Dr Browne**: There is a requirement in the overall processes for post-project evaluations. I mentioned the figures that we have for the range of reviews that have been done. Post-project evaluations come back to DFP as a matter of course and are made available to the individual Department, so that we get the loop of learning from that project. Where there are wider lessons to be learned, that can be disseminated through the normal processes in DFP.

181. **Mr Rogers**: Finally, do you keep a sharp eye on what is happening in England and Scotland and how they do things?

182. **Mr Hannam**: Yes. Since the publication of the Audit Office report, we have met the Ministry of Defence, the Department for Transport, the Scottish Futures Trust, DEFRA, the Department for Communities and Local Government (DCLG), the Ministry of Justice and the Home Office to learn from their experience of carrying out similar reviews. I have a list of key lessons that we have derived from their experience that we will certainly apply when we take forward the initiative.

183. **Mr Rogers**: Thank you.

184. **Mr Hazzard**: Thanks, guys, for your answers to date. Stephen, coming back to a point that you picked up on, I think that the list of the long-term commitments and the savings that you have made could be very useful for the Committee to have.

185. Paragraph 5 of the executive summary of the Audit Office's report indicates that the findings and recommendations can be applied equally across a whole range of long-term government commitments. You touched on one of those with the leased buildings. Will you give us a flavour of what some of those long-term commitments are, how they would be funded and, perhaps, where the savings could be made?

186. **Mr Peover**: Leased buildings is one of the most obvious, and it is probably one of the largest, because a fair part of our estate is leased from private landlords. We had a programme some time ago to try to outsource the public sector estate and then lease it back with enhanced space utilisations. That went the way of all flesh at one point because the companies involved merged and there were a lot of complications. Anyway, that went away.

187. As you might appreciate, Governments tend to have higher priorities for capital investment than office buildings for civil servants and public servants. We are usually at the back end of the queue in looking for capital money to refurbish or rationalise our estate. So, we have been trying to do that when we can find money, and when we can establish an invest-to-save argument for a particular rationalisation process, we will do it.

188. I will give you an example from my Department, which is current and quite relevant. Land and Property Services (LPS) headquarters staff are scattered in Belfast in a number of buildings. They are in Lincoln Buildings, where the Land Registry is; they are in Queen's Court, where the evaluation directorate and some of the revenue and benefits side are; they are in College Street; and they are in — the fourth one will come back to me in a second. LPS is rationalising into a single headquarters building down at Lanyon Place, which will do a number of things. It will be refurbished to modern standards — Colby House is the fourth one — so there will be a much more intense utilisation of space. It will get the four directorates together — the key staff in the headquarters directorates together in one building — which will enable the various components of the organisation to have easy access to each other and the development a more corporate culture. That is generating savings through the vacation of premises, sometimes directly or by allowing other staff to move into a vacated building and in turn vacate another one. So, there is a chain of moves.

189. We are doing that, and Brett mentioned the money that my Minister is making available to allow those sorts of things to happen. Those are analogous arrangements that will allow us to generate revenue savings by investing some capital and rationalising the facilities that we have. Those sorts of things are, in a sense, part of the normal day-to-day business of Departments.

190. **Mr Hazzard**: Is the strategic vision shared by OFMDFM and DFP? Is there friction in the system?

191. **Mr Peover**: We work very closely together and are engaged all the time. The asset management strategy was a joint production between ourselves and SIB, and there are joint arrangements in place between DFP, OFMDFM and SIB to follow that up and build on it. I am pretty satisfied that it has started well and will continue to work well and is being done on a cooperative and joint basis. Maybe Brett wants to comment.

192. **Mr Hannam**: I agree with that.

193. **Mr Girvan**: I have a supplementary question. I understand the rationale behind moving out of four buildings that are located all over the place. That rationale will stack up if we are not entering into a PFI contract to move into the premises at Lanyon Place. What is happening with the four buildings, some of which are in fairly prominent sites in Belfast, to make sure that they deliver? This is the whole point: you might well be getting a PFI contract that makes sense, but what is happening with the four properties that are left?

194. **Mr Peover**: In this case, there is no PFI contract. We acquired the premises through a NAMA sale. We own some of the vacated buildings. Lincoln Buildings is leased. We own Colby House in Stranmillis: it could be sold, but it could provide a valuable resource for some of our other staff whom we can move out of leased accommodation and save money as part of that process. The property at Queen's Court is owned, and we will need to retain it for some of our staff. The property at College Street is owned and will be used by another Department, which will move staff there from a leased building. So, the whole thing stacks up as a business case and generates benefits overall for the system.

195. We will get the corporate benefits from LPS having its headquarters staff in a single building for the first time. LPS was constructed in a two-phase process

in 2007 and 2008. It has always been scattered over a number of directorates. It needs to be more integrated, and we will get that, starting this month. It is a well-argued and —

196. **Mr Girvan**: I totally buy into that one; it is not an issue. We might be looking at others not necessarily so joined up in their approach to the use of the building they are in, but that is an argument for another day.

197. John spoke about the golden rule earlier. We used that vehicle for access to funds to deal with equal pay. We said that it is really used to deliver assets. How do you square the circle on the matter in relation to making borrowings to do an equal pay settlement, which probably could not have been delivered through ordinary revenue we had?

198. **Mr Peover**: There are two things. It was approved by the Treasury and, in this case, the Prime Minister.

199. **Mr Girvan**: So, was it unique?

200. **Mr Brennan**: No, it is common.

201. **Mr Peover**: It is common because the capitalisation of those sorts of costs is something that happens regularly in local government in particular. It was not a one-off for us; it was the capitalisation of a cost, which would have been a real pressure on us otherwise. It was maybe slightly unusual capital expenditure, but it was capitalised nonetheless.

202. **Mr Girvan**: It does not fit with the box that I have for what is capital.

203. **Mr Peover**: It does not, but, in terms of local authorities, RRI operates —

204. **Mr Girvan**: I am not saying that it did not have to be dealt with; it had to be dealt with, and the money had to be set up to deal with it.

205. **Mr Peover**: RRI operates on the basis of broad comparability with local government prudential borrowing arrangements. Local government can borrow nationally, as it can here, to invest, and often does. This is one of the things that is allowed to be capitalised for. We could not have gone much higher than the Prime Minister to get agreement.

206. **Mr Girvan**: In the capitalisation of that project, interest will be charged on the borrowings over the period for it. Was that factored in as value for money?

207. **Mr Peover**: It should have been. The borrowing rate is around 3%.

208. **Mr Brennan**: It is 3·3% at the minute. You will not get better anywhere else.

209. **Mr Girvan**: So, it was actually Treasury borrowing.

210. **Mr Brennan**: Yes, it was National Loans Fund borrowing.

211. **The Deputy Chairperson**: Gentlemen, I have a couple of questions. You will be pleased to know that we are coming towards the end. While recognising that the reinvestment and reform initiative is an important driver for the delivery of investment strategy, it is concerning that the estimated cost of borrowing is continuing to increase and that the cost of interest is estimated to be £1·3 billion. In view of that, what assessment has been made of the affordability of the long-term spending implications of reinvestment and reform borrowing? As has already been alluded to by other members, can we afford this?

212. **Mr Peover**: The answer is yes. The payments amount to about 0·5% of —

213. **Mr Brennan**: It is £100 million in total.

214. **Mr Peover**: That is interest and capital.

215. **Mr Brennan**: The capital repayment does not score against the departmental expenditure limit (DEL).

216. **Mr Peover**: One of the points that we have not mentioned yet is that the Executive are considering a borrowing strategy, which would set out all these things. We give a fair amount of information on the RRI in the Budget papers. The costs, interest payments and all the rest of it are set out; they are already fairly transparently available to people. However, it would be sensible

to have a borrowing strategy, and the Executive are considering it. As part of that process, we will look at how the long-term position can best be portrayed or developed.

217. **The Deputy Chairperson**: Since we debated the Budget yesterday, it seems appropriate to ask a question that relates to it. The Budget sets the context and capital expenditure provision for the investment strategy, but what analysis is done of the affordability of future borrowings and anticipated reinvestment and reform initiative commitments in a manner subject to the scrutiny of the Assembly?

218. **Mr Peover**: Those things are dealt with. There is a ceiling on RRI borrowing of £3 billion.

219. **Mr Brennan**: At the minute, the aggregate ceiling is £3 billion, but, as Stephen mentioned, the Executive are currently considering a paper on the borrowing strategy and what they may or may not want to do in terms of future borrowing requirements to fund capital projects.

220. **The Deputy Chairperson**: Why is there no formal borrowing strategy to underpin investment strategy?

221. **Mr Brennan**: When the Executive approved their four-year Budget in March 2011, they set out their borrowing intentions in the Budget document. They are detailed there, with the interest repayments. They could not set out a strategy beyond 2015-16 because there was no spending review for that period, so you had no affordability envelope to construct a strategy. A paper is with the Executive that assesses questions such as, "When do we draw a line in terms of future borrowing?" and, "When does the re-servicing of the debt become unaffordable?".

222. **Mr Girvan**: In relation to the 39 projects that we have, at the end of the term on the majority of those projects, how many of the assets are owned by the public sector and how many will be owned by the delivery agent or whoever provided them? The reason I ask that question is this: is there a comparison between paying primarily rent and a mortgage?

223. **Dr Browne**: I do not have the details for all the projects, but my understanding is that most of them, at the end, would revert to public sector ownership.

224. **The Deputy Chairperson**: Members, does anybody else have a question before we wrap up? Alex?

225. **Mr Easton**: No, just wrap up. *[Laughter.]*

226. **The Deputy Chairperson**: OK. I put the same question to Mr Layberry and his colleagues and to the C&AG. Is there anything you wish to add regarding the evidence that we have just received?

227. **Mr Donnelly**: Chair, no. I have nothing to add.

228. **The Deputy Chairperson**: Gentlemen, before thanking you for your attendance before the Committee, it would be remiss not to acknowledge the fact that, Stephen, you are going towards retirement, and a better mortal than I, no doubt, will sum up your enormous contribution to the Civil Service. As probably the longest-serving members of this Committee, I say that, over the years, you have always robustly defended your Department. That is a strong feature, and no doubt the Assembly has benefited a great deal from your wisdom, your inspiration and indeed, at times, your stubbornness. *[Laughter.]*

229. **Mr Peover**: Thank you, Chairman, that is very kind.

230. **The Deputy Chairperson**: We wish you all the best.

231. **Mr Peover**: If I may, I will say to the members of the Committee what I have said to you in other discussions. It has been a privilege for me, since 2000, to have worked for a local Assembly, particularly since restoration in 2007. I spent most of my career working under a direct rule Administration, and it has been professionally and personally satisfying to work for local politicians, to be accountable to an Assembly and, through the PAC, to be

personally accountable to the Assembly. I have enjoyed my interactions with this Committee, the Finance and Personnel Committee and the Environment Committee before that.

232. **The Deputy Chairperson**: I can say, Stephen, without hesitation on public record that I have always enjoyed your robustness in defending your colleagues. It is nice that we have had a good hearing here, and it is nice for you, I think, to end on a high note. With that, again, thank you for coming.

233. Next week, we have an evidence session on the Belfast Metropolitan College public-private partnership element of this inquiry. Following that, we may need to write to you seeking clarification on issues raised. We will also be writing to you on issues raised today.

18 June 2014

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 Adrian McQuillan

Witnesses:

Ms Elaine Hartin Ms Marie-Thérèse McGivern	*Belfast Metropolitan College*
Mr Kieran Donnelly	*Comptroller and Auditor General*
Mr Derek Baker Mr Tom Redmond	*Department for Employment and Learning*

234. **The Chairperson**: With us today, we have Ms Elaine Hartin, Ms Marie-Thérèse McGivern, Mr Derek Baker and Mr Tom Redmond. Thank you for joining us. You are all very welcome to the Committee.

235. Members and witnesses, can we have all mobile phones switched off? They interfere with the Hansard recording. That also applies to visitors in the Public Gallery's phones.

236. I start by paying tribute to the new campus at the Titanic Quarter. The new building was finished on time, and I commend everyone involved. It has won awards for its design and environmental standards, and it also has a high level of staff, student and employer satisfaction. However, we are here today because we have concerns around the cost; the time taken to negotiate the contract and its impact on value for money; the delays that occurred prior to construction commencing; and the additional costs incurred outside the public-private partnership (PPP) agreement. Those concerns have led the Committee to conduct the inquiry, and we will be asking you questions about those areas. Members will have an opportunity to ask questions in their own core areas.

237. With your indulgence, I will start the line of questioning. As we are all aware, a key aspect of a private finance initiative (PFI)/PPP is the transfer of risk from the public sector to the private sector relating to the design, construction, finance, and maintenance and/or operation of assets. In return, the Government pay an annual unitary charge over the lifetime of the contract, which, in this case, is 25 years. The public sector has injected £20 million into this PPP project. What is the justification for that, and how does it fit into the PFI concept?

238. **Mr Derek Baker (Department for Employment and Learning)**: Thank you, Chair, for your introduction. This was a complicated and very difficult project for all kinds of reasons. As you pointed out, the negotiation of the contract was buffeted by factors intrinsic to the project and, indeed, extrinsic to the project. I accept fully that it took longer than it should have done, and that is disappointing for us all. In all our dealings with the bidder and the potential contractor, both the college and the Department were trying to protect the public sector interest, and that point is acknowledged by the Audit Office in its report. Along the way, we faced substantial difficulties that, from time to time, had the very real potential to derail the project. There is no question about that. At times, it was close to failure. So, the college and the Department had to take some hard decisions, at some stages at seminal points in the project, about whether we wanted to proceed with it or let it fail.

239. One of the most significant issues that impacted on the negotiations was the property crash, which fed through to liquidity problems in the banks, the credit crunch and the loss of appetite

among financial institutions to lend money. The bank specifically concerned with the project was losing its appetite to lend money to the bidder. At that point, the bank was threatening to walk away, and the college and the Department, on the one hand, and the special purpose vehicle (SPV), on the other, had to engage with the bank to shore up its confidence and to try to identify other financial backers.

240. The efforts to identify alternative financial backers failed. Either the terms that they were offering were too expensive or they were not prepared to put up the quantum of money that was needed. The Ulster Bank was held on board, but the price for that was that the Department and the college had to increase their up-front capital input to the project. However, I make the point that, in doing so, the benefit was a corresponding reduction in the unitary charge. For example, one of the decisions was whether to purchase the site for £5 million. That was always going to have to be purchased, and, if it were not purchased up front, it would have been purchased through the ongoing unitary charge. The increase in the bullet payment from £10 million to £15 million, which, admittedly, was done to save the project, again resulted in a reduction in the unitary charge over the lifetime of the project.

241. So, what did the Department and the college get out of the capital investment? They saved the project. In the case of the capital investment in the site, there was an economic advantage in doing so — I can go into that further later, if you wish, but I will not go into it now — and the unitary charge was reduced.

242. I do not know whether you would like to give me an opportunity to bring in any other colleagues if they want to add to that. I am at your disposal on that point. I do not know whether anyone wants to add any comments.

243. **The Chairperson**: Yes, if they want to add anything.

244. **Ms Marie-Thérèse McGivern (Belfast Metropolitan College)**: To add to what Derek said, if the Chair's question relates to whether, in the end, what we got out was worth the effort, we would have to say that, from the college's point of view, all the criteria that we measure now suggest that it was. Hindsight can be 20/20 vision, and, at that time, there was a lack of alternatives routes. PFI was effectively the only show in town, and government at that point could not have afforded to take on the investment. In that sense, it was the only way forward if we were to address the issues identified in the lack of quality in the College Square East and Brunswick Street sites.

245. **The Chairperson**: Before I bring in other members, you talked, Mr Baker, about the unitary charge. What would it have been if it had been reduced? Do you have a figure for that?

246. **Mr Baker**: I think that the additional £5 million that we put in the bullet payment resulted in a reduction in the unitary charge of just over £360,000 per annum over the 25 years of the project.

247. **The Chairperson**: I will let Mr Clarke come in.

248. **Mr Clarke**: Thank you, Chair. Marie-Thérèse said that PFI was the "only show in town". Was it the only show in town at any cost?

249. **Ms McGivern**: No, and I am not suggesting that at any cost would have been the way to do it, but I think —

250. **Mr Clarke**: Your comment was that it was the "only show in town". There should have been a caveat applied to that. It is OK if something is the only show in town provided that it is cost-effective.

251. **Ms McGivern**: I agree with you absolutely and entirely, and I think that public accountability would require that. What I am saying is that it was the only methodology and that, if we were going to proceed with a building, it was the only way forward. However, it also had to meet all the criteria that were set to

prove that it was, in fact, advantageous to go down that route. I am not saying that we did it regardless. There was only one methodology, and we tested that methodology. If that methodology had not stacked up, I suspect that we would still be in College Square East and Brunswick Street.

252. **Mr Clarke**: And probably a lot richer for that.

253. In your opening remarks, Derek you made the point that the project was close to being derailed.

254. **Mr Baker**: Yes.

255. **Mr Clarke**: If you tie that in with Marie-Thérèse's comments about PFI being the only show in town, it suggests to me that you were going to do anything at any cost to make it work.

256. Why were the banks so nervous and wanting to pull away? That suggests to me that the banks did not see merit in the project and their investment in it. Maybe you can tell me why the banks wanted to pull away and why you were so enthused about trying to change the project to keep the banks on board.

257. **Mr Baker**: OK. Your first question was on why the banks wanted to pull away. That was a direct consequence of the property crash, which impacted on the liquidity of all the financial institutions and reduced their appetite to lend. If you roll back to the time that we are talking about and think specifically about the bank that we are talking about, it was in real difficulties. All the banks retrenched in their lending and lost their appetite to lend. Effectively, that was the credit crunch. They were very nervous. The Ulster Bank was being asked to lend a large amount of money to the bidder, and it did not want to lend it or, at least, was losing its appetite to lend it. The fact that the bank was getting nervous about it could be a reflection of the advantageous terms that had been negotiated as part of the project.

258. Your second question dealt with a really important point, and I agree with you. Was it a case of shoring up the project at all costs? No, it was not. Most definitely not. The project was hugely important to the college specifically and to further education generally. That is a given. There was also a pressing business need for it. The college was occupying two premises that were past their shelf life. There is no question about that. However, we were not engaged in a wild adventure on the project, and as the Audit Office report notes, at every stage and in every decision that we took, we sought to protect the public interest.

259. The point is that, in every decision we took on the PFI deal on financing, whether it was increasing the bullet payments, purchasing the site or whatever, we continually assessed whether we were securing value for money against the shadow bid model, which is the benchmark for testing value for money. Affordability is an absolute: you can either afford something or you cannot, and in this case, we could. Value for money is a relative assessment against some kind of benchmark, and we always secured value for money at every stage against the shadow bid model. So, it was not a wild adventure, and it was not done at any cost.

260. **Mr Clarke**: You have talked about affordability, but did you not have to get additional money pumped in? Was it £20 million?

261. **Mr Baker**: Yes, we —

262. **Mr Clarke**: So, your point is that affordability and value for money had to be borne in mind, yet you had to chase an additional £20 million.

263. **Mr Baker**: Affordability and value-for-money assessments were carried out at appropriate points throughout the project. Those were done according to all the guidance. Three such assessments were done as we approached the contract close, and, on each and every occasion, those assessments showed that the project was affordable and demonstrated value for money against the shadow bid model. With affordability, the proof of the

pudding is in the eating, and the college and the Department are affording it. Indeed, when the Department decided to use its capital budget to invest in the project, it did so on the basis that it was good business for the Department. It was a priority project, and the resources were available from within its capital budget. It was quite prepared to invest in it, and it did not displace any other priority projects.

264. **Mr Dallat**: I will come back to you later to ask some detailed questions, but, Marie-Thérèse, I cannot help remarking on the fact that you said that hindsight equals 20/20 vision. Did anyone check the vision of the people who embarked on the project?

265. **Ms McGivern**: If you ask me, the vision was checked at regular times.

266. **Mr Dallat**: Why then was there such a cacophony of errors throughout the project. Albeit, at the end of the day, it was a success story, I suggest that that was achieved more by good luck than anything else.

267. **Ms McGivern**: We can go into detail, and the report addresses in detail a number of the errors that were suggested to have happened. I will keep you going for the next hour if you want me to go through a root-and-branch listing of those errors.

268. **Mr Dallat**: No, I have had a difficult day already. I have been down at the harbour and viewed the new building and all that.

269. **Ms McGivern**: We do not dispute that there were difficulties in the way in which decisions were taken on the college. That is already on public record. There were difficulties, and that is a lesson for us. I think that we have learnt many lessons from it. We have gone on to build a second building since. Hopefully, it will not find its way to the PAC at a future date.

270. **The Chairperson**: You would not do the same thing again.

271. **Ms McGivern**: No, we did it very differently from the first time.

272. **Mr Dallat**: Chairperson, we are dovetailing very well. My only purpose in being here is to make my contribution to a report that will make sure that public money will never again be put into such a situation, in which people were not in control. That is the only reason for being here.

273. **Mr Girvan**: I appreciate that we are dealing with whether this all stacks up, and I appreciate that the people at the end of the table are not necessarily the people who made the decision initially. You might well be trying to dress up the details of what happened. Quite a few further education colleges have been built over recent years. There is a valuation of how much you spend per square foot. I appreciate that we have a high-quality building, but is there any indication of benchmarking of what was spent to deliver the facilities at Titanic against what was spent on other further education properties throughout Northern Ireland — I will not bring in England, instead focusing on what has happened in Northern Ireland — and against new facilities that have been provided in the past number of years? What is the cost associated with those per square metre, compared with what we pay and have paid for at Titanic? There is a table at appendix 3 that makes very interesting reading. I would like some rationale for the breakdown. How do we end up with a unitary cost at such a level?

274. **Mr Baker**: Chair, I will take that question. In response to Mr Girvan's first point, I am the person responsible.

275. **Mr Girvan**: Now. I know that.

276. **Mr Baker**: I am the person responsible. How did we get to the cost of this thing? It is a very good question, and you are absolutely right. What does it cost to build a college? What is the right price to pay for a college? It has got to be about more than sticking your finger in the air and guessing.

277. **Mr Girvan**: I have another question. Who set the specifications of the finish?

278. **Mr Baker**: OK. That is why we have the process called a shadow bid model. Through that process, you commission independent advice. The adviser looks at what it is you are trying to do, and advice is given on what would be a reasonable price based on all the adviser's experience in engaging with the private sector. That is your reference point. The advice tells you whether you are paying over the odds, below the odds, or whatever. That is the recognised way of assessing such matters.

279. **Mr Girvan**: Is that assessed by consultants?

280. **Mr Baker**: Yes.

281. **Mr Girvan**: OK. That might dovetail with other questions.

282. **Mr Baker**: It is a very detailed process. Your point about benchmarking is a good one, too. It is a difficulty in further education, for all kinds of reasons. If you think about schools, you will see that they are much easier to do. Think about enrolments in schools: you have your set population; there is a statutory duty on a certain age group to attend; and pupils are attending five days a week, from 9·00 am to 3·30 pm, or whatever the times are. You can work out the usage of your building and whether it is being used efficiently. Now think about a further education college: enrolments fluctuate; people go at their own discretion; and there are part-time, full-time, evening and short courses, as well as everything else. Getting the metrics by which you can benchmark the usage and the efficiency of that usage between one college and another is difficult. However, a lot of detailed work is going on with the Strategic Investment Board (SIB) for Northern Ireland to look at an asset management strategy across the public sector. Specifically within that, work is being done with further education colleges so that we can assess, across the six colleges that exist, and, indeed, within the campuses that exist, whether we are getting efficient use of the square footage and premises that we have. That is a work in progress. It is very difficult work, because comparing apples with apples is sometimes hard to nail down, given the different curricula in different facilities, but we are working on that. That will be used as part of the benefits realisation on this project, and for us in the Department to assess the relative performance of colleges. We have become a bit more sophisticated over the years, and we have a further education health check, which draws together all kinds of metrics: finance; qualifications; staffing ratios; and quality inspection. We will include that as well. I cannot give you a definitive answer now, because that work is not completed. However, it is work in hand, and we recognise the need to do it.

283. **Mr Girvan**: Would that include a whole-of-life cost across similar projects?

284. **Mr Baker**: I honestly do not know. I am happy to get back to you and give you more detail on that benchmarking.

285. **Mr Girvan**: A number of questions will come up today, and we might not necessarily get the answers to them from you. I would appreciate it if those details could be brought back to the Committee.

286. I am asking one question in particular, and that is for an overall, whole-of-life project cost and valuation between one project and another. We have a list of similar projects here. I believe them to be similar, but they may be totally different. I am also interested in the specification that was used in the building and in who set that specification. By that, I mean the finishes that were used.

287. **Mr Baker**: The specification for the building was set out in great detail in the contract and the project agreement. I have looked at that, and it runs to 400 pages in total, including 24 appendices, and all of that was set out.

288. **Mr Girvan**: Who set those? Was it the consultants or was it the Department?

289. **Mr Baker**: The project board set —

290. **Ms McGivern**: Sorry, I just want to say how we got to developing the spec. The college did an original vision economic appraisal of the two buildings, which it initiated in 1999, and that was completed in 2000. The conclusion was that there was a requirement to replace the two buildings in the city centre. That formed the basis of the kind of spec that eventually emerged. Springvale then intervened, so the original business case that emerged around 2000 had to be refreshed in 2004, and it had to take into account the change in what could have been at Springvale and what, in fact, happened. That refreshed business case then set the framework to develop the spec, so the spec came from the work that the college was doing internally. Obviously, the college was passing on information to DEL, but it would have been doing that internally. The college set the spec and made sure that, whatever it was, the building would meet the student number needs of College Square East and Brunswick Street, as well as address compliance issues. Those were a real problem, particularly in College Square East because, as we were moving, the disability legislation was changing. The bones of the spec came out of that visioning, the business case processes and the refresh business case processes. In that sense, the project board — the capital projects board, as it was then, in the college — developed the spec.

291. **Mr Girvan**: Other Committee members might want to come in.

292. **Mr McQuillan**: Is the project board guided by the consultants or were they part of the project board?

293. **Ms McGivern**: My understanding is that the college did use consultants. The college brought in consultants in 2002 when it did the original piece of work, and it may well have used consultancy support in 2004 when it did the refresh business case. However, it would have been an iterative process. Consultants may well have been used to get into the nitty-gritty and the technical information, but the framework of what the college wanted, which is the basis of the spec, would have come initially from the college. The consultants may well have turned that into square footage and all those other issues that you can imagine, but the spec would have come from the client.

294. **Mr Baker**: Can I bring in Tom to try to answer Mr Girvan and Mr McQuillan's questions further?

295. **Mr Tom Redmond (Department for Employment and Learning)**: I will go back to the shadow bid model. The shadow bid model is a financial model that comes to a conclusion about what the overall cost of the project will be. The individual inputs to that shadow bid model will be contemporary information relating to build costs, whole-life cycle costs, design costs and other costs that feed into and come out with a net present value that is the benchmark against which the project has to be delivered. So, if you think that the shadow bid model sets the cost barometer and the value-for-money barometer against which the project has to be delivered, the quality that you are looking for is the best available quality that you can get within that benchmark parameter. So, by putting an NPV on the shadow bid model, you are effectively saying that that is where we expect the quality to come in at and the best quality that we can get.

296. You mentioned earlier the costs relating to different projects, and it is difficult to compare them across time because, as you can imagine, building square metres of further education accommodation in 2007-08 at the height of the property market would have been much more expensive than it would have been perhaps six, seven or 10 years earlier. So, the cost per square metre going into the shadow bid model in 2007-08 would have been significantly higher than if a shadow bid model had been constructed five or six years earlier.

297. **Mr Girvan**: I —

298. **Mr Redmond**: Sorry, I will just finish this point. The shadow bid model

was constructed by the college's independent advisers. In addition, when it was completed, it was independently signed off by DFP's Central Procurement Directorate.

299. **Mr Girvan**: I can accept that, but you must appreciate that we are dealing with a number and that the South Eastern Regional College developed two within a very short period and a similar time frame, yet its unitary square metre cost is nowhere near. It is roughly 40% less than was spent in relation to the Belfast Metropolitan College.

300. You alluded to how you compile those business cases and how you present the whole lot. We developed a business case for 12 car parking spaces yet ended up having to build a car park, and we have a 25-year lease on the building but a 40-year lease in relation to the car park and the contract associated with that. The original business case stated that you need 12 car parking spaces. I might be wrong. I do not want to get too deep into that because others will want to deal with that. I am more worried about the 40-year contract on a car park when we do not have a 40-year contract on the rest of the building that is associated with that car park.

301. **Mr Baker**: Chair, I will take the point about the car park. The car park was built at absolutely no cost to the college and the Department. This was an issue —

302. **Mr Clarke**: Was there not a £5 million injection there?

303. **Mr Baker**: By the bidder and the bidder's bank. The college and the Department put precisely no money into the car park. That was a bit of good business by the college and the Department. The bidder for —

304. **Mr Clarke**: Is that how you describe it?

305. **Mr Girvan**: We are paying year-on-year from the public purse for use of that car park.

306. **Mr Baker**: No, we are not. We are getting an income indexed at 5% year-on-year for the car park, and the asset reverts to the college after 40 years in its entirety. The bidder, for its own purposes, decided that it wanted to build a basement car park. We can speculate as to the reasons for that. The bidder wanted the college to pay for the car park, and you can understand how the bidder may come along and say, "Why wouldn't you want a car park? It will enhance the building, it will be convenient and you might generate a bit of income". But the college said no and the Department said no, and they stuck to their guns on that. So, eventually, the bidder, which really wanted a basement car park for its own reasons, funded that at its own cost with borrowing, presumably from the bank, of over £5 million. It is operating that car park. It is paying a modest income to the college. It is only £10,000 a year, but it is index linked at 5% for 40 years. At the end of 40 years, that will revert to the college. So, the college and the Department are not one penny out of pocket for the car park. That is why I said that it was a bit of good business. The college is getting the benefit, or the convenience. It is not a monetary benefit, but the college is getting the convenience of having a basement car park. I think that there might have been a misunderstanding that somehow the college had paid for this; it did not.

307. **The Chairperson**: Kieran, as Comptroller and Auditor General, do you want to make a comment on that?

308. **Mr Kieran Donnelly (Comptroller and Auditor General)**: I will return to paragraph 2·8. Connected with the difficulties with the car park, you will see in paragraph 2·8 that:

"The funding bank and ICL sought potential co-funders for the project but this was unsuccessful. In order to find a solution to the funding situation, an increase in the public sector capital contribution (a 'bullet' accelerated debt repayment) to the project from £10 million to £15 million was negotiated".

309. So, there was a further increase in the upfront bullet payment. I suppose that there seemed to be a connection with

the increased risks to the project and the car park.

310. **Mr Baker**: I want to be absolutely clear on this point: I do not know whether the C&AG is suggesting that the college or the Department put any money into this car park, but I am saying, unequivocally, that they did not. No public money went into the car park. The college is getting an income from the car park; the asset will revert to the college after 40 years. The increased bullet payment was nothing to do with the car park. I am making that point. I do not know whether the C&AG is saying something different.

311. **Mr Clarke**: Derek, have you accepted the report?

312. **Mr Baker**: I have accepted the report.

313. **Mr Clarke**: Have you accepted the report in its entirety?

314. **Mr Baker**: Yes.

315. **Mr Clarke**: If you have accepted the report, have you read paragraph 2·8? I will give you a minute or two to read it.

316. **Mr Baker**: I do not see the report saying that the college or the Department —

317. **Mr Clarke**: It says that there was:

"(a "bullet" accelerated debt repayment) to the project from £10 million to £15 million".

318. When I went to school, that was an additional £5 million.

319. **Mr Baker**: Yes, but —

320. **Mr Clarke**: That was referred to as the bullet payment, and it was in conjunction with the car park. It is in paragraph 2·8 of the report, which you have accepted.

321. **Mr Baker**: I do not read that paragraph as saying that that bullet payment is in respect of the car park.

322. **Mr Clarke**: How do you read that paragraph, given that one of the paragraph's opening comments refers to the construction of the underground car park?

323. **Mr Baker**: I do not accept that that paragraph says that the bullet payment was in respect of the car park. I simply do not accept that.

324. **Mr Clarke**: Chairperson, can I read it into the record? Paragraph 2·8 states:

"In order to find a solution — "

325. the solution being to the underground car park

" — to the funding situation, an increase in the public sector capital contribution (a 'bullet' accelerated debt repayment) to the project from £10 million to £15 million".

326. Derek, can you explain to me how that is not an additional injection of £5 million in relation to the car park?

327. **Mr Baker**: Yes, because I do not accept that the solution to the "funding situation" refers to the car park. I simply do not accept that.

328. **Mr Clarke**: You have accepted the report, and that is clearly what it says. That is the understanding that any layman or laywoman who reads it will have.

329. **Mr Baker**: Sorry, for the record, Chair, can I say that I do not accept that the "funding situation" refers to the car park? For the record, I want to say clearly that the Department and the college put no money whatsoever into the car park. No money.

330. **Mr McQuillan**: What was the £5 million used for then? Can you tell us that?

331. **Mr Baker**: The increase of £5 million in the bullet payment was used to reduce the unitary charge.

332. **Mr McQuillan**: How much did it reduce it by?

333. **Mr Baker**: Over three hundred and sixty —

334. **Mr McQuillan**: Was it what you said earlier?

335. **Mr Baker**: Yes, sorry. It was not used to fund the car park; it simply was not.

336. **The Chairperson**: A couple of members want to get in. Kieran, do you want to respond before I let members come in?

337. **Mr Donnelly**: I accept what the accounting officer is saying to an extent; there was no direct connection in terms of funding the car park. But what we do know is that, just months before signing the PPP agreement, ICL's funding bank advised that the appetite to provide the entirety of funding for the project was significantly reduced, partly due to the financial markets but also to additional interface risks with the project, ie the underground car park. So, the underground car park was certainly factored into that bank assessment. It may not have been the only factor, but it seems to have had relevance.

338. **Mr Dallat**: Chairperson, with your permission, I want to go back to an interesting point that Paul raised but that was left hanging. For the record, I am extremely keen to establish who was in charge. Who was the captain of the ship? I am prone to blaming consultants for things, but Marie-Thérèse said that they just came in and out, so we can rule them out. What grade was the person in the Department who was handling all that money?

339. **Mr Baker**: I will answer that in the first instance. There were governance structures around the project and there was a programme board, and that was chaired, as is typical in these projects, by the senior responsible owner. That person —

340. **Mr Dallat**: The senior responsible owner; now, explain —

341. **Mr Baker**: Sorry, that is a technical term that we use in project management. The senior responsible owner in your terminology, Mr Dallat, is the captain of the ship. The senior responsible owner was the principal of the college throughout.

342. **Mr Clarke**: Who was it?

343. **Mr Baker**: The name changed a number of times as principals came and went.

344. **Mr Dallat**: We had loads of captains of the ship. Did they throw them overboard or what happened?

345. **Mr Baker**: It is in the appendix. During the lifetime of the project, a number of principals of the college retired and some went off with ill health. One went off with ill health and retired on health grounds.

346. **Mr Dallat**: Any wonder. Derek, who in the Department is taking responsibility?

347. **Mr Baker**: I am taking responsibility.

348. **Mr Dallat**: You are the current accounting officer. I have done no research, but were you the accounting officer when this happened?

349. **Mr Baker**: I came to the post this time last year —

350. **Mr Dallat**: You are not guilty then.

351. **Mr Baker**: — as an acting permanent secretary.

352. **Mr Dallat**: Chairperson, I want to put on record that Derek is not guilty. He was not in charge.

353. **The Chairperson**: Who was the accounting officer at the time?

354. **Mr Baker**: There were probably a number of permanent secretaries.

355. **Mr Dallat**: I am sure that you have done at least a couple of days' rehearsal before coming here, and you do not know.

356. **Mr Baker**: Well, give me a year. Which year are you talking about? The project ran from —

357. **Mr Clarke**: Every year.

358. **Mr Baker**: — 2004 through to 2011.

359. **Mr Clarke**: We are happy to take every year. We have all day.

360. **Mr Dallat**: Marie-Thérèse said that she could give me an hour. I can take all day. I want to know.

361. **Mr Clarke**: We can come back another day if you want.

362. **Mr Baker**: During the lifetime of the project, there were probably three different permanent secretaries.

363. **Mr Dallat**: Who were they?

364. **Mr Baker**: And, indeed, senior responsible owners. I can give you the names of the senior responsible owners. Tom has shown me a list of them. It is in my briefing pack. Do you want me to read out the list?

365. **Mr Dallat**: Yes.

366. **Mr Baker**: OK. From 2001 to August 2002, a Mr Paddy Murphy was the senior responsible owner. He was the principal in the college. Between September and December 2002, Mr Trevor Neilands was the principal in the college. Between January 2003 and October 2008, Mr Brian Turtle was the principal in the college. All those individuals were senior responsible owners of the project. Between April and June 2008, just for a short period, a Mr Trevor Smyth was the principal and senior responsible owner. Between July 2008 and October 2010, Mr Raymond Mullan was the principal. From November 2010 until the present date, Marie-Thérèse McGivern, who is beside me, has been the principal of the college and the senior responsible owner for the project.

367. **Mr Dallat**: Well, Marie-Thérèse is here. Fair dues to her. Why are the rest of them not here?

368. **Mr Baker**: Chair, as you know, the convention is that current accounting officers attend. I do not think that the previous accounting officers were invited to the Committee.

369. **The Chairperson**: Basically, Deputy Chairperson, I think that what you are saying is that the people who are solely responsible for the debacle are not in front of us today.

370. **Mr Dallat**: You are right, Chairperson. It is a serious weakness in the whole system that one person is sent to carry the can for others whose names we had extreme difficulty extracting from you.

371. **Mr Baker**: Sorry, I did not have the list in front of me when you asked me, Mr Dallat, but I am more than happy to give it to you.

372. **Mr Clarke**: I thought that you said that you had it in your briefing pack.

373. **Mr Baker**: Yes, somewhere, but I could not lay my hand on instantly. Tom kindly found it and put it in front of me.

374. **Mr Dallat**: I am going to come back in later. We still have not established who was in charge.

375. **The Chairperson**: I know that some members have yet to go into their lines of questioning and we are time bound.

376. **Mr Dallat**: I apologise if I have —

377. **Mr Baker**: Sorry, just on that point, which is very important: under the governance structures for any project, the senior responsible owner is in charge of all aspects of the project. That is the way that governance works with project management.

378. **Mr Dallat**: One of the things that I was trying to find out was who in the Department had a watching brief on it? Who allowed it to drift from 12 months to 23 months? Who managed to successfully create a situation in which there was no control?

379. **Mr Baker**: I would dispute the suggestion that there was no control.

380. **Mr Clarke**: You were not there.

381. **Mr Baker**: You are absolutely right, Mr Clarke, but I have to answer the questions that you are putting to me.

382. **Mr Clarke**: Then answer the question that the Deputy Chair put to you.

383. **Mr Baker**: The permanent secretary is ultimately in control of the Department. If you want to go back to 2001, you know who the permanent secretaries were. You could name them. I could name them.

384. **Mr Dallat**: I promise you, Derek, that I do not learn them off by heart.

385. **Mr Baker**: OK. Do you know what, Chair? You are making me feel very

uncomfortable asking me to name other permanent secretaries.

386. **Mr Dallat**: Oh right.

387. **The Chairperson**: Can I just —

388. **Mr Baker**: It is as if I am in the position of being asked to pass the buck to somebody else. I am the person who carries the can for this.

389. **Mr Clarke**: Are you acting as the human shield then? I have heard that phrase being used in the Building before.

390. **Mr Baker**: No, I am not.

391. **Mr Clarke**: Then I do not think that there is any difficulty in putting out the names of those —

392. **The Chairperson**: Members, can I just intervene? It would not be hard to find out who it is. We can go through the research and find out who the accounting officer was at the time. We have to move on. Mr Easton has to leave early, and we have to get into his line of questioning.

393. **Mr Dallat**: I have asked your question, sorry.

394. **Mr Easton**: Have you? Right, OK.

395. **The Chairperson**: It is not the purpose of the Committee to make you feel uncomfortable either.

396. **Mr Easton**: It took 30 months to negotiate the contract. Surely, that is way beyond what it should have taken, even taking into account the magnitude of the project and the contractual complexities. Do you agree with that?

397. **Mr Baker**: I agree entirely with you.

398. **Mr Easton**: Preferred bidder status was awarded in July 2006, subject to satisfactory clarification on a number of issues. What were those issues?

399. **Mr Baker**: I do not know whether I could hand over to Tom on that, because I honestly do not know what the specific issues were in the preferred bid. I apologise; I do not have that information. I do not know whether Tom can add to that.

400. **Mr Redmond**: I can add a little to it; I cannot give you the full exhaustive list. There is a preferred bidder letter that we can make available to the Committee at a later date. Basically, we would have looked at the bid from ICL and, subject to being given some satisfactorily answers on things such as planning risk and various other issues — if it could give us a positive answer on a list of items — we would have been minded to confer the status of preferred bidder on it. I can certainly make those conditions available to the Committee.

401. **Mr Easton**: I am not having a go at any of the panel before us, but I think that we have the wrong people here to answer our questions. That is just an observation.

402. **Mr Redmond**: I suppose that I should maybe put my hand up and say that I was here for most of the project. In relation to an earlier question —

403. **Mr Clarke**: Why can you not answer that question?

404. **Mr Redmond**: Why can I not answer the question?

405. **Mr Clarke**: Yes, the question that has been posed about the problems.

406. **Mr Redmond**: The problems in relation to the preferred bidder.

407. **Mr Clarke**: Yes.

408. **Mr Redmond**: The preferred bidder letter was issued around 2006. I am sorry that I do not have the full details of it in my head at the moment, but, as I said and promised, I can make it available to the Committee. It would have contained some general issues about planning and various other items, clarifications and details about leasing. As I said, I have not got the exact detail.

409. **Ms McGivern**: Sorry, Tom, just to interject: paragraph 3.5 sets out where some of the issues arose. There were certainly technical issues with the leasing arrangement. It was quite

complex, the land belonged to the Harbour Commissioners and there were a lot of interfacing issues. There were also planning issues that, again, ICL may not have expected. We know what was happening in the Titanic Quarter at that time with the masterplan and what the Planning Service wanted at that point.

410. The impact of the credit crunch obviously gave ICL significant problems, ultimately with equity partners and in trying to get sufficient funding for the project. From the college's point of view, I have to say that there were also capability and capacity issues on the part of the college. Those are in the public domain.

411. In my view, none of those were good additions — I was director of development at Belfast City Council, so I am used to doing large-scale projects. Twelve months seems to be a very optimistic guess for a piece of work of that complexity to be put through. My view is that it was wrong to say that it could happen in 12 months. The expectations were too high.

412. **Mr Clarke**: Chairperson, I want to come in for one second. A bit like Derek, I am very uncomfortable with the way that this is going. We have officials here, we are trying to scrutinise a particular report and they are not across the brief, cannot give answers to the questions or delve into the detail on some of the stuff, even the question that Alex just asked. If we cannot be furnished with that detail as part of the inquiry, I really do not see the point in us going on. That really gets into the nuts and bolts of what was wrong and how some of us have come to the opinion that the thing was totally and utterly out of control. We have officials here today, and they cannot furnish us with those answers.

413. We might be playing with the semantics a few minutes ago with the names, but we are now looking for the level of detail about what the problems associated with the contract were, and they cannot give us that. I propose that we should suspend the meeting, send the officials away and get the right people here to answer the questions.

414. We are trying to build confidence in the public out there. The Audit Office has done a very detailed report and there are gaping holes in what the officials are bringing to the table. We cannot get into the level of detail that we want to examine the nuts and bolts of the project and how, some of us privately think, it fell apart.

415. **Mr Baker**: In response to that, I can discuss the difficulties with the contract and the kind of things that Marie-Therese has just mentioned. I can discuss the difficulties that arose in the negotiations about the lease, about the car park, about the —

416. **Mr Clarke**: That is very good, Derek, but that question has been asked and you could not answer it.

417. **Mr Baker**: Sorry, it was a slightly different question that Mr Easton asked. Mr Easton asked about the letter at preferred bidder stage — not the difficulties in the contract that subsequently arose in the negotiations, but the issues of clarification that were required at preferred bidder stage. I am paraphrasing Mr Easton, but —

418. **Mr Clarke**: I would rather that officials who come to the Committee are across the whole brief of the whole project so that they can answer the questions that whichever member wishes to pose, rather that offering to supply us with the answers at a later date. We really want to get into detail so that we can get our heads around it, find out what went wrong, who was responsible and make sure that it does not happen again. The bit that bugs me is that it is public money. If those people had been putting money in from their wallets the project would never would have been at the Titanic Quarter.

419. **The Chairperson**: Can I just say that there are seven members — Mr Copeland, I know that you want to come in — and they have particular areas of questioning.

420. **Mr McQuillan**: Chair, we have to get answers. There is no point in asking the questions if we are not getting answers.

421. **The Chairperson**: We will tease that out through the course of the session.

422. **Mr Clarke**: Well, it has not happened so far.

423. **The Chairperson**: If there is something that you cannot answer, if information can be forwarded to the Committee —

424. **Mr Clarke**: Chair, I made a proposal?

425. **The Chairperson**: There are other people who want to ask their questions, Mr Clarke.

426. **Mr Clarke**: Chair, I think that we are wasting our time, we are wasting the Committee staff's time and we are wasting the Audit Office's time in going through this because it is a total charade.

427. **The Chairperson**: The accounting officer has said that there are questions that can be answered and I would like to hear the questions that can be answered.

428. I will let Mr Copeland in, as he has been waiting for some time. Thank you for your patience.

429. **Mr Copeland**: It has been interesting. I must say that I find myself having some sympathy with Trevor's views, for the first time, probably.

430. Significant unresolved issues existed with Ivywood Colleges Limited at the time that the deal started to proceed. It was still appointed as preferred bidder. Then, within four months of being appointed as such, in a flash of inspiration, this car-parking issue appears on the horizon. Did it not give some concern that that 16-week period was sufficient to pretty much radically change the whole concept to such a degree that the banks then considered it to be a more unacceptable risk, if I can put it in those terms?

431. I am also curious as to how the costs of the car park were calculated. I know a wee bit about concrete and I know an awful lot about foundations. The building structure that you require to build a building on the ground is one thing, but the building structure that you require to build a building on top of a car park that is underground is an entirely different kettle of fish. The foundation structure is different, there is tanking, and there are different supplies of services, particularly if there are two leases available. In your view, the total cost of the car-park component, which would have utilised certain things like foundations or values for foundations that would have been in the original building: did those amounts come out of the contract price for the building in the first place or were they simply added in because they are all standing on the one foundation? The foundation is actually the foundation of the car park, so what did we pay for? Did we pay for a car park or did we pay for a void underneath a building?

432. **Mr Baker**: To answer the first point; yes, we were concerned, because the bidder had submitted a proposal that was accepted on the basis that the bidder would provide a surface car park. Now, in truth, the car parking issue was really — I will not say nothing to do with the authority on this one, but it was a separate issue because the provision of car parking was a planning consideration, and planning risk was transferred to the bidder. So, the only specification in the invitation to negotiate documentation was for a very small number of parking spaces. If the bidder needed to, in order to meet planning conditions, or wanted to provide additional car-parking space, it was for the bidder to seek planning permission. Responsibility and risk for obtaining that planning permission rested with the bidder in its entirety, but it was a matter of great concern that, shortly after the preferred bidder stage, the bidder came back and said that it would like to build a basement car park. As I said, we can speculate as to the reasons for that, and that speculation is probably that the long-term attractiveness of building a surface

car park in Titanic Quarter diminished for the bidder because it might have felt that, in a number of years — sorry, did you want to interrupt?

433. **Mr Copeland**: Sorry, I just wanted to keep this train of thought. The original preferred bid included a provision for how many car-parking spaces?

434. **Mr Baker**: I think it was in the high teens.

435. **Mr Copeland**: Twelve?

436. **Mr Baker**: Twelve; sorry, my apologies.

437. **Mr Copeland**: And this is a metropolitan college catering for how many pupils?

438. **Mr Baker**: A couple of thousand, but the point is that the provision of car-parking was a planning condition and, under the terms of this arrangement, planning risk and meeting planning conditions rests entirely with the bidder. The Department and the college were not going to pay for that. The risk rested with the bidder.

439. **Mr Copeland**: I know a wee bit about foundations, concrete and planning. If someone told me that they were going to construct a signature building on the banks of the River Lagan, a regenerative building in a post-industrial area for several thousand students and — how many staff?

440. **Mr Baker**: About 250 staff.

441. **Mr Copeland**: And there were only 12 car-parking spaces?

442. **Mr Baker**: Yes.

443. **Mr Copeland**: I would have said that they were laughing at you.

444. **Mr Baker**: Sorry, Tom —

445. **Mr Redmond**: Sorry, can I come in there? In addition to the small number of car-parking spaces that were identified in the tender, ICL's original bid also offered a surface car park with 240 car-parking spaces for a period of 10 years, on a site adjacent to the current BMC site. It also specified that the additional car park—

446. **Mr Copeland**: Did they own the site that they were putting this car park on?

447. **Mr Redmond**: Titanic Quarter owns the site that they were specifying for the additional 240 car-parking spaces. They also specified in their bid additional car-parking spaces in conjunction with the Odyssey Arena.

448. **Mr Copeland**: What was that, at the arena?

449. **Mr Baker**: The car park opposite the arena.

450. **Mr Copeland**: Which is owned by the —

451. **Mr Baker**: It is owned by the Odyssey, but they were going to negotiate a concessionary rate for those car-parking spaces. So that was in their bid.

452. **Mr Copeland**: What is the site of the 250 proposed car-parking spaces adjacent to the current site of the college being used for now?

453. **Mr Baker**: It is not used for anything.

454. **Mr Redmond**: Subsequently, ICL changed their proposal to the basement car park, and the surface car park did not materialise in the changed proposal.

455. **Mr Copeland**: Was the surface car park part of the original tender price?

456. **Mr Baker**: Yes, it was part of the original tender price.

457. **Mr Copeland**: So they took that out; they got an extra £5 million for this car park going in underneath —

458. **Mr Redmond**: Sorry, they did not get —

459. **Mr Copeland**: No. They had this site. Belfast Metropolitan College was to have 250 parking spaces in an adjacent site. ICL then removed the 250 car-parking spaces and built this thing underneath.

460. **Mr Redmond**: Yes.

461. **Mr Copeland**: What is the value of the site, if you can park 250 cars on it?

462. **Mr Redmond**: That was negotiated at the time, obviously quite a number of

years ago. The costs of providing that were taken out of the bid.

463. **Mr Copeland**: What was that cost?

464. **Mr Redmond**: I cannot remember an exact number of pounds.

465. **Mr Copeland**: What would have been the capital value of what it would have been used for? I would like an answer to that.

466. **Mr Redmond**: It would not have been a capital value, because what was being offered in the bid was 10 years. It was not a site in perpetuity. It was a car-parking facility for 10 years only, after which, obviously, it would have reverted back to whatever use ICL or Titanic Quarter could have achieved for it.

467. **Mr Copeland**: And is Titanic Quarter connected with the Ivy people who actually did this?

468. **Mr Redmond**: Yes they are the parent company.

469. **Mr Girvan**: Can I ask one question? If it was a 10-year lease for that car park, yet we were in a 25-year lease on the building, therefore, for 15 years of the use of the building, would there not have been a difficulty? If ICL decided to actually redevelop that site and put another building on it, you were then going to have to look for car parking, because you only had a 10-year lease in relation to car parking, yet you had the life-lease on the building.

470. **Mr Redmond**: I think that that was actually part of ICL's difficulties, in that they latterly realised that, having provided those car-parking spaces for the college for 10 years, in 10 years' time it would have been a planning issue, as to whether they would have got a change of use for that facility.

471. **Mr Baker**: The car park — sorry.

472. **Mr Redmond**: If I could just add one other thing. The addition of the basement car park did not change the cost specified in ICL's bid for the college. Anything that was done in relation to the basement car park and any additional costs associated with it was met by ICL from within its own resources. The cost of the college building did not change from what had been specified in the tender.

473. **Mr Copeland**: Including the foundations, excavation and tanking?

474. **Mr Baker**: Correct.

475. **Mr McQuillan**: Tom, you said earlier that you were involved in this from the early days. What was your role throughout the whole project?

476. **Mr Redmond**: My role was to represent DEL on the project board of the BMC project and report back through to my accounting officer, who was the person with responsibility for DEL's involvement.

477. **Mr McQuillan**: So, you sat on the project board throughout this.

478. **Mr Redmond**: Yes.

479. **Mr McQuillan**: Were any of your three colleagues on it, or was it just yourself?

480. **Mr Redmond**: Just me.

481. **Mr McQuillan**: Who was leading the project board?

482. **Mr Redmond**: The SRO and the names that Derek read out.

483. **Mr McQuillan**: They were on the project board as well.

484. **Mr Redmond**: They chaired the project board. The project actually belonged to Belfast Metropolitan College.

485. **Mr McQuillan**: From hearing that, I think that Trevor is 100% right that we have the wrong people here. I second his proposal. We need to get to the nitty-gritty of this. The college failed miserably to manage even its consultancy fees, for instance. There was a £300,000 cap over three years, and it ended up at £1·5 million. It should have been £1·8 million, but, after a bit of reasonable negotiation, it ended up at £1·5 million. That is something that the project board should have been over from day one, and it let it slip. It has failed miserably.

486. **Mr Dallat**: If Adrian would permit me; you were obviously the continuous liaison with these people. In your honest opinion, on the record, were these people qualified to take charge of a multimillion pound project like that? So many of them have moved on to greater things. The reason why I am asking the question is that, as I said at the very beginning, we would like to produce a report that prevents people who have absolutely no concept of managing very clever people on the other side from doing so. Is that what it was? Tom, you had a very difficult job; how did you do it?

487. **Mr McQuillan**: Why are you still there? *[Laughter.]*

488. **Mr Redmond**: Most colleges —

489. **Mr Dallat**: What training did they have?

490. **Mr Redmond**: Most colleges would not deliver more than one project of this magnitude in their lifetime.

491. **Mr Dallat**: Is that not a queer job?

492. **Mr Redmond**: To supplement that, the college would have appointed a team of advisors who would have the technical, legal and financial capability to do this. We are talking about —

493. **Mr Dallat**: With Adrian's permission; could you please name all the people, who presumably got fat payments? Who were the people who gave all this technical advice to the innocents at sea who were in charge of the project, and how much did they get?

494. **Mr Redmond**: I can name them. The advisory team was appointed in 2002 and stayed until the project was signed in 2009. The financial expertise was supplied by KPMG, the legal advice was supplied by A&L Goodbody, and the technical expertise was provided by Farrell Grant Sparks.

495. **Mr Clarke**: May I ask how much they received?

496. **Mr Redmond**: The sum of money that was mentioned earlier: £1·5 million plus VAT.

497. **Mr McQuillan**: How did it rise from £300,000 to that figure? It was capped at £300,000 over three years.

498. **Mr Baker**: That was poor management. I accept that, and there is no excuse for it. That is unacceptable. It should not have happened, and I would not try to defend it. That was simply poor management.

499. **Mr McQuillan**: That is just one of the things that was poorly managed. There is one example after another throughout this report; there is a build-up.

500. **Mr Clarke**: May I move the proposal, which was seconded by Adrian, that we suspend this meeting and bring back the people who really need to be at the end of the table so that we can get to the bottom of this?

501. **Mr Dallat**: Perhaps Trevor would allow his colleagues to respond to that. This place goes into recess next week —

502. **Mr Clarke**: I am happy enough to come back.

503. **The Chairperson**: I propose that we suspend the meeting for about five or 10 minutes so that we, as a Committee, can discuss this matter. Is that OK with you? Whatever our deliberations are, we will bring you back in again and let you know. I think that that is the fair way to do it.

The Committee suspended at 3.25 pm and resumed at 3.47 pm.

On resuming —

(The Deputy Chairperson [Mr Dallat] in the Chair)

504. **The Deputy Chairperson**: You are very welcome back again. I suppose I had better explain immediately — I saw the shock on Derek's face — that I am here because the Chairperson has been called away. We just hope that everything is OK. We decided to break up and have a discussion. We think and hope that we can get as much information as we need to make our report. If, by the end of the afternoon, we have not, we will either recall and ask for additional witnesses or simply write asking for information,

which is the usual process. However, I need to emphasise that members are determined and anxious to have a report that will serve a purpose in the future, irrespective of who the personalities are.

505. **Mr Baker**: Thank you for that. It is my intention and our intention to be as helpful to the Committee as possible. I apologise if there is any sense that I am not being helpful to the Committee. That is certainly not my intention.

506. **The Deputy Chairperson**: Thank you; that is very useful. Michael, you were in full flow of asking questions. If other members are in agreement, we will begin again with Michael.

507. **Mr Copeland**: Thank you. Tom, these are directed at you because you are probably best-placed to answer them. At no stage during this will I, or I presume any of the other members, lose sight of the fact that you have delivered a wonderful signature building that is being used for the purpose for which it was intended. Our responsibility is to examine the matters that we are examining.

508. I want to try to go through it in my own mind just to clarify it. The original business plan was based on a city centre location that required only 12 car parking spaces, presumably because, in the city centre, people would use public transport. Is that a fair statement?

509. **Mr Redmond**: For major projects and buildings in the city centre, planning —

510. **Mr Copeland**: I do not need the whole — that is a correct assumption.

511. **Mr Redmond**: Yes. Planning was not —

512. **Mr Copeland**: There is a master plan in Belfast in which a number of companies are involved. For whatever reason, whether those companies were involved in this or not, this thing ended up in the Titanic Quarter. As an East Belfast representative, I am very proud of that. It ended up on the right side of the Lagan. The requirement for 12 car parking spaces then became obsolete and inside a 16-week period a decision was taken to incorporate a basement car park.

513. As I understand it, the lease arrangements are from the Belfast Harbour Commissioners for 250 years with a further 25-year lease or buy-out arrangement with the people who construct it or use it, and a 40-year lease below that for the underground car park.

514. If the title for the proposed surface car park and proposed college were resident in the same place initially, and the lease that transferred included the original surface car park, as it could have, since the title was resident in the same place, how did that then become free of those incumbencies? It would, in my estimation, have acquired considerable addition capital value as a development site for any other type of development in the light of the proposal that had received planning permission, which is the college itself. It goes from being a flat piece of ground in a development area proposed as a car park, which may or may not have had a legal impediment on it for educational use only, to a development site.

515. Could all those who took this into account have been expected to question the increase in value of that piece of land? The difficulties that could be hidden in there are that the public purse was viewed as being open and available to suit the needs of private industry above and beyond the provision of the college, which is what it was doing.

516. **The Deputy Chairperson**: Michael —

517. **Mr Copeland**: That is cynical but forgive me.

518. **The Deputy Chairperson**: Could I maybe stop you there and hopefully somebody will pick up on some of the points that Michael has raised. Michael, you are then welcome to come back in.

519. **Mr Copeland**: I appreciate that, Chair. I know that the hour is late.

520. **Mr Redmond**: First of all, I need to make it clear that the only title that was transferring ... The title comes from the Harbour Commissioners through Titanic Quarter, and it came down then to BMC for the site that the college is built on. As for the additional surface car park, there was never any intention to transfer the title to that land to BMC.

521. **Mr Copeland**: So, who would have owned the car park?

522. **Mr Redmond**: Titanic Quarter would have owned the car park.

523. **Mr Copeland**: Titanic Quarter was one or two steps above the college in terms of title for that site.

524. **Mr Redmond**: BMC was only getting title to the site on which the college is built. The surface car park was never transferring to BMC.

525. **Mr Copeland**: It is not BMC I am interested in; it is the one above them. It is the commonality of the title between the car park and the site upon which the college is built.

526. **Mr Redmond**: There are two sites, as I understand it —

527. **Mr Copeland**: One parcel of land but two sites.

528. **The Deputy Chairperson**: Michael, maybe let Tom just answer because I am conscious that Hansard is recording this.

529. **Mr Redmond**: There is the three-acre site on which the BMC campus is built. That came from the Harbour Commissioners through the Titanic Quarter down to BMC. The proposal in relation to the additional bit of land that was to be the surface car park, the title on it was never transferring from anyone. It was going to remain with the Belfast Harbour Commissioners and Titanic Quarter. BMC students and staff were to have the use of that for a 10-year period, at which stage it would have become unavailable to BMC and, as far as we understand, was going to remain in the ownership of Titanic Quarter and the harbour authority.

530. **Mr Copeland**: How could that have been viewed by the planners as the provision of on-site parking? It is not. It is on-site parking that is not on-site, which is adjacent to but is owned by somebody else. How could that affect the planning application?

531. **The Deputy Chairperson**: I will maybe give Tom a chance.

532. **Mr Redmond**: Our understanding was that the planners would have been content to give planning permission to the BMC campus with those car parking arrangements attached. However, that was never tested with a planning application, so we do not really know, because what transpired in its place was the basement car park wholly funded by Ivywood Colleges Ltd.

533. **Mr Copeland**: Was an amount of money set aside at the time of the preferred bid to provide 250 surface car parking spaces?

534. **Mr Redmond**: An amount of money would have been set aside in the financial model of the bid that Ivywood Colleges made. When it was taken that out of the bid, we sought a refund of money in relation to that part of the bid, given that that part of the bid was no longer being delivered.

535. **Mr Copeland**: What is on that site now, Tom? Do you know?

536. **Mr Redmond**: I am not sure; I have no idea.

537. **Mr Copeland**: Do you know, Marie-Therese?

538. **Ms McGivern**: My understanding is that it is the site at the back of the college. At this minute, it is empty. They have cleared it. They use it, occasionally, for car parking at events, but, other than that, it is clear, although my understanding is that Titanic Quarter has plans for its development.

539. **Mr Copeland**: Do you know the nature of those plans?

540. **Ms McGivern**: My past understanding was that they were for some form of

commercial call and digital call centre. People have projects all of the time, but that —

541. **Mr Copeland**: You are a notifiable neighbour, I presume.

542. **Ms McGivern**: We are, but we have not been notified formally. That is just what I hear.

543. **The Deputy Chairperson**: I think that Adrian wants to come in with a follow-up.

544. **Mr McQuillan**: It is not a follow-up; it is on a different line.

545. **The Deputy Chairperson**: OK; maybe that is a good idea. Go ahead.

546. **Mr McQuillan**: I will park that one.

547. **Mr Girvan**: Can I come in on that, Chair? Michael alluded to the additional cost. I understand and accept that people came back and said that there would be a car park below the development. When they did that, there would have been additional costs, because, as Michael has alluded to, it would have taken a lot more foundation work and everything else. Were they indicated in a clear and transparent manner to those who sat on the panel? Were they made aware of the additional costs that would be required due to having to put in an underground car park? Building the building was one point, but having to spend additional moneys to deal with the underground aspect was —

548. **Mr Redmond**: The addition of the car park cost no additional money to BMC or the public sector. The price that was bid in the tender for the provision of the building — the BMC campus — remained unchanged. Any additional money that was required to deliver the basement car park was met by Ivywood Colleges from within its own resources. Obviously, Ivywood Colleges hopes to recoup that over the 40 years in which it will be operating the car park as a facility. It is going to operate the car park for 40 years to, hopefully, get back the money that it invested to build the basement car park

549. **Mr Girvan**: Can I ask a wee question? I do not know whether it will clarify anything; in fact, it might create more of a difficulty. It is in relation to convoluted details. You mentioned Ivywood Colleges, but we have a list of companies involved. The names seem to recur quite a bit through this. There is commonality throughout the whole thing. We have Harcourt Developments, Titanic Island Ltd, Ivy Wood Properties Ltd, Ivywood College Holdings Ltd, Ivywood Colleges Holdings Ltd and Ivywood Car Parks Ltd, as well as Titanic Quarter Ltd. All of them have their fingers in this project; every one of those companies is involved in some way, shape or fashion and, within the returns, would be receiving some form of payment from the development of the site.

550. **The Deputy Chairperson**: Sorry, Paul —

551. **Mr Clarke**: The question that Paul is getting to, John, is this: how much more difficult did all of those companies make to the terms of the negotiations for the college? As Paul has said, there is a very long list of linked companies and linked directors. Given that you were on the project board and that we are aware of all the difficulties you had with this contract, how much more difficult did that make it?

552. **Mr Redmond**: It made it significantly more difficult.

553. **Mr Clarke**: Did all these linkages concern you?

554. **Mr Redmond**: They did concern me, but —

555. **Mr Clarke**: What did you do about it?

556. **Mr Redmond**: We acted at all times to protect the —

557. **Mr Clarke**: I am sorry; who is “we”?

558. **Mr Redmond**: The project board —

559. **Mr Clarke**: Who?

560. **Mr Redmond**: Well, BMC, the Department as the approving authority —

561. **Mr Clarke**: What exactly did you do, Tom?

562. **Mr Redmond**: Our contract is with Ivywood Colleges Ltd. BMC provides a lease to the car parking company, but the only company that we have contracted with is Ivywood Colleges Ltd. That contract is a set of obligations which, if they are delivered, on the other hand, merits Ivywood Colleges a unitary charge. Conversely, if they are not delivered, the company does not get its unitary charge.

563. **The Deputy Chairperson**: I am sorry; I want to intervene before Trevor or Michael come back in. At that stage, with Ivywood in all its forms, had you effectively lost control of the project?

564. **Mr Redmond**: I would not say we had lost control of the project. We had to make sure that the relationships between all the companies were correct and right and that there was no risk or additional risk to the college. For example, the report says that the provision of the car park brought additional risks. We did not challenge that because it probably does bring additional risks, but it does so for Ivywood Colleges because, I repeat, Ivywood Colleges has a contracted set of obligations which, if delivered, means that it gets its unitary charge. If it does not deliver, for whatever reason — it may be car park relationships between companies stepping up to Harcourt — that is of no consequence to BMC. If it does not deliver the obligations in the contract, it does not get its unitary charge. That is the safeguard that we have at all times to ensure that contracted obligations are delivered.

565. **Mr Clarke**: Did you say, Tom, that you had concerns about all the different companies?

566. **Mr Redmond**: Not concerns that we were not able to overcome in the longer term, but there were things that had to be —

567. **Mr Clarke**: Who did you alert that to, other than the project board? Who else?

568. **Mr Redmond**: We dealt with all the things in the business case —

569. **Mr Clarke**: No; who else did you raise your concerns about the different issues with?

570. **Mr Redmond**: It was raised in the college and —

571. **Mr Clarke**: Who with?

572. **Mr Redmond**: With the governing body?

573. **Mr Clarke**: Who was?

574. **Mr Redmond**: In what sense? I cannot remember all the names of the members of the governing body.

575. **Mr Clarke**: It seems that you were the most senior person. You are the person here today who was involved at that time. Who, in particular, did you raise your concerns with?

576. **Mr Redmond**: I would have brought all the concerns back into the Department through the finance director —

577. **Mr Clarke**: Which was who?

578. **Mr Redmond**: The finance director in DEL.

579. **Mr Clarke**: The person you have just said you raised it with.

580. **Mr Redmond**: It would have been raised right up to the different permanent secretaries at all times.

581. **Mr Clarke**: Is there a good paper trail of that?

582. **Mr Redmond**: There would be a paper trail, yes.

583. **Mr Baker**: May I just add to that? I am sorry; a lot of people want to speak, Deputy Chairperson, over to you.

584. **The Deputy Chairperson**: I will try to control it the best I can, but, at the same time, I want it to be open and frank. Before you or Michael come back in, there is a question that I want to put to you, for the record. Did your negotiating strategy include options for walking away from this deal? Under what circumstances would you have walked away?

585. **Mr Clarke**: That is really for Tom to answer.

586. **Mr Redmond**: OK. I am happy to answer that. We went out to tender because we had a problem at College Square East and Brunswick Street. We got two tenders, which we evaluated. The most economically advantageous tender was the Titanic Quarter tender. There were times when we thought we might have to walk away when, for example, Titanic Quarter was looking for a huge uplift in the value of the land.

587. **Mr McQuillan**: May I interrupt you? You are saying that the Titanic Quarter tender was the most preferred, appetising option on the table, but, according to the brief, you were looking for a town centre space to build the college on to start off with. When did the focus shift to Titanic Quarter?

588. **Mr Redmond**: We went out to tender seeking proposals to rebuild on Brunswick Street or to come forward with another site that would be considered on its merits.

589. **Mr Clarke**: So, you described that site as “advantageous”. Given that you were on the project board, tell us why was it more advantageous than the city centre.

590. **Mr Redmond**: Well, price was one issue.

591. **Mr Clarke**: Is that the starting price or the finishing price?

592. **Mr Redmond**: The finishing price. Obviously, the price that we evaluated was the price that we evaluated on the day, but that, however it shifted, continued to remain the most economically advantageous tender. The alternative bidder was proposing a 22-story building on Brunswick Street. As you can imagine, the adjacencies and the functionality of a 22-story building in relation to all of the different curriculum areas etc would be more convoluted in terms of quality than a three- or four-storey, more spacious three-acre site at Titanic Quarter. There was a quality and —

593. **Mr Clarke**: So, it has now got an advantageous site in the Titanic Quarter. Part of that deal was putting Brunswick Street against Titanic Quarter: is that right?

594. **Mr Redmond**: That had been considered, yes.

595. **Mr Clarke**: No, I think that that was the option at the start, was it not?

596. **Mr Redmond**: It was —

597. **Mr Clarke**: It was. Right.

598. **Mr Redmond**: It was, but it was never —

599. **Mr Clarke**: So, it was the option, and, at some stage —

600. **Mr Redmond**: Sorry. I have to be clear about this; it was not the definitive option. In the invitation to negotiate (ITN), in the documentation that went out, it was not definitive that those sites would go into the project.

601. **Mr Clarke**: When did the Titanic Quarter become the most advantageous site? In what year?

602. **Mr Redmond**: Immediately after the tender was made, those tenders were evaluated —

603. **Mr Clarke**: What year?

604. **Mr Redmond**: — in 2006, and it was designated as the preferred bidder on the basis that it was the most economically advantageous tender.

605. **Mr Clarke**: When was Brunswick Street removed as an option?

606. **Mr Redmond**: Definitively, it was removed probably around 12 months later.

607. **Mr Clarke**: So, why did it take 12 months to make a decision to remove it?

608. **Mr Redmond**: I think that it was always our decision not to have it in the deal and —

609. **Mr Clarke**: So why was it in the deal then for 12 months?

610. **Mr Redmond**: — and it was only definitively communicated in —

611. **Mr Clarke**: Why was it in the deal, Tom?

612. **Mr Redmond**: When we started out on this project, the convention was that surplus properties in PPP projects were disposed of in the deal, but that was —

613. **Mr Clarke**: How much was it worth in 2006, Tom?

614. **Mr Redmond**: Through those years, it was escalating. Up to 2007, it escalated with valuations, and I stress that they were valuations, to £22 million.

615. **Mr McQuillan**: Who decided to remove it from the market and not to sell it?

616. **Mr Redmond**: It was a project board decision, but that would have had to be approved by governing bodies and by the Department.

617. **Mr McQuillan**: Who in the Department?

618. **Mr Redmond**: Right up to accounting officers.

619. **Mr McQuillan**: So, the permanent secretary is responsible for that. Also, what are these buildings now worth?

620. **Mr Redmond**: Much less: somewhere around about £4 million or £5 million.

621. **Mr Girvan**: Although I do not know whether it was a desktop operation done by Land and Property Services (LPS) to give some value to these buildings, but in 2010, LPS valued them at £4·6 million.

622. **Mr Redmond**: There were various valuations that —

623. **Mr Girvan**: At £4·6 million. Now, I appreciate that we are dealing with commercial issues associated with that site at the moment, but my understanding is that you are currently in a position to close a deal on those properties.

624. **Mr Redmond**: We are currently in negotiations. I presume that you received the communication. That was what was referred to earlier in the meeting.

625. **Mr Girvan**: I do not wish to go into the commercial aspect of that.

626. **Mr Clarke**: Paul, I think we would be better going back a stage.

627. **Mr Girvan**: OK.

628. **Mr Clarke**: I am still concerned why someone decided — I think that we need to tie down who made the decision to remove a building that was worth £20 million at that time, given that —

629. **A Member**: Two buildings.

630. **Mr Clarke**: Two buildings, sorry. Those would have offset the amount of money that the public purse was spending. Who made the decision to remove those?

631. **Mr Copeland**: Did they figure in the Belfast masterplan?

632. **Mr Redmond**: The implication in your question is that we could have got £20 million. That was never a realistic option, but in relation —

633. **Mr Clarke**: Why?

634. **Mr Redmond**: The buildings were worth that in 2007. However —

635. **Mr Clarke**: So who made the decision to remove them?

636. **Mr Redmond**: The project board, the governing body and the Department.

637. **Mr Clarke**: Someone has to have come in with a proposal to remove them from the project. One person has to have been the driver. Who was the driver?

638. **Mr Redmond**: I do not think that it was one person.

639. **Mr Clarke**: It was two of the people then.

640. **Mr Redmond**: It was the project board. The governing body and the Department endorsed it.

641. **Mr Clarke**: What expertise was there in the project board to make a decision like that?

642. **Mr Redmond**: There were property advisers on board. LPS was also there. It was representatives from LPS who said that, in their opinion, the most transparent and best way of achieving open market value was to sell them on the open market when they were surplus. They were not surplus in 2007.

643. **Mr Clarke**: So, three different firms, employed at an estimated cost of £1·5 million, gave the advice not to sell two buildings that were worth approximately £20 million. Is that what you are saying?

644. **Mr Baker**: Can I just add a point?

645. **Mr Clarke**: Is that right or wrong, Derek?

646. **Mr Baker**: The buildings could not have been sold then. They could only have been disposed of after the new premises had been completed and the students had left the premises.

647. **Mr Clarke**: Was the deal not done, whether it was Ivywood, Harcourt or whatever — all those subsidiary companies? Was it not part of the deal with the Titanic Quarter? So, yes, it could have been.

648. **Mr Baker**: It would only have been at the point of contract signing.

649. **Mr Clarke**: Which was when?

650. **Mr Baker**: April 2009. That was when the contract was actually signed. On a point that Tom was going to make, you are asking, quite rightly, what would be the rationale for deciding not to incorporate those properties, which would have become surplus at some stage in the future, in the PFI deal. Given what happened with the property crash, it is a very legitimate question and goes right to the heart of this thing.

651. There are a couple of points there. We are charged — every public body is charged — to achieve full market value for surplus assets. Now, what is the best way to do that? The advice we got from Land and Property Services was that the simplest, most transparent and most accountable way to do that is to sell it on the open market. Indeed, I think that the Committee and the Audit Office in their respective reports on the pathfinder education PFI projects the very next year noted the fact that including the disposal of assets in a PFI deal can unnecessarily complicate matters. I think that that was a comment that was made by this Committee.

652. **Mr Clarke**: That is fair enough, Derek, but why was it allowed to be included at the start?

653. **Mr Baker**: It was a concept at the start that it might be a good idea, but, on reflection, the decision was taken to remove them, first, as LPS guidance was as it was, secondly —

654. **Mr McQuillan**: Was LPS on the project board as part of that —

655. **Mr Baker**: LPS was not on the project board.

656. **Mr McQuillan**: It was just brought on as and when —

657. **Mr Baker**: It was brought on and advice was sought from it and the Central Procurement Directorate as required.

658. **The Deputy Chairperson**: OK, maybe to get us back on the rails again —

659. **Mr Redmond**: Can I add one point? The decision to include them in the ITN predated the NIAO and PAC reports of 2007.

660. **The Deputy Chairperson**: I am going to call Michael back in again, but I want to put a formal question to the witness first. Staying with the issue, the Department agreed to underwrite any shortfall should the sale of the properties not reach £20 million. Was that potentially significant call on public funds made clear to DFP, the Employment and Learning Committee and the Assembly? That requires —

661. **Mr McQuillan**: Who made that call, as well?

662. **Mr Baker**: Ultimately, that call was made by the permanent secretary in DEL, who is accountable for everything that goes on in DEL. It was made clear to

DFP, which approved all aspects of the project, including the business cases, the value for money assessments and so forth. I cannot answer your question about whether it was made clear to the Employment and Learning Committee; I honestly do not know that. I also do not know whether that point was made clear to the Assembly. I will have to come back to you on that. I do not know the answer to those two questions.

663. **The Deputy Chairperson**: I think that that is important because, across the Assembly, Committees sometimes complain that they are not given all the information. It would be helpful if we knew.

664. **Mr McQuillan**: Was the Minister across that? Was it ever discussed with the Minister?

665. **Mr Baker**: Yes

666. **Mr McQuillan**: Or was it taken to permanent secretary level and the Minister was forgotten about?

667. **Mr Baker**: The size of the project was such that it exceeded the delegated limit for a permanent secretary to make a decision. The route is that the project board would seek approval from the Department — that is, the accounting officer — then the Minister, then the Department of Finance and Personnel. The Minister was involved in all the approvals of the business cases on this issue.

668. **Mr Clarke**: Chairman, we are going into an interesting area, and I think that you slightly touched on it. Following on from Adrian's point, is it common practice to exclude the relevant Statutory Committees of the Assembly, and the Assembly, when making decisions like that? Are they always circumvented in such a way? We had just formed in 2005, and in 2006 or 2007 we were making multimillion pound decisions. Are you telling us that that has been the norm and that the Assembly — particularly the relevant Statutory Committee — was not aware?

669. **Mr Baker**: My experience of engaging with Assembly Committees, particularly the Employment and Learning Committee, is that we make every effort to ensure that the Committee is aware of as much as possible of what is going on in the Department. There are regular submissions —

670. **Mr Clarke**: That is not really the question that I asked you.

671. **Mr Baker**: I know.

672. **Mr Clarke**: I would rather that you answered the question I asked. I know that you keep Committees aware about what you want to tell them. What I want to know is whether, with multimillion-pound projects like that or anything else, there are occasions when you circumvent Committees and the Assembly and make those decisions yourselves.

673. **Mr Baker**: Are you talking about DEL specifically, or all Departments?

674. **Mr Clarke**: Given that you are the acting permanent secretary of DEL, let us talk about DEL, and then we can talk about the other ones later.

675. **Mr Baker**: No, it is not the practice to circumvent the Committee.

676. **Mr Clarke**: Did it happen when you were in DHSSPS?

677. **Mr Baker**: Sorry?

678. **Mr Clarke**: I think you were in Health, yes?

679. **Mr Baker**: Gosh, I was in Health a long time ago.

680. **The Deputy Chairperson**: OK. The conversation is wandering.

681. **Mr Baker**: I think that that predates — sorry.

682. **The Deputy Chairperson**: Trevor, I think that we are going to have to park you for a moment, because —

683. **Mr Clarke**: Chairman, I think that that is something that we need to get to the bottom of. Derek is the permanent

secretary, and if we are learning today that this happens, we need to get to the bottom of it. There are 108 Members of the Assembly who are supposed to be accountable, and we are accountable, but the problem is that civil servants have never been accountable. They are making multimillion-pound decisions where protocol would surely suggest — albeit the Minister may have known, but there are another 107 other people who did not know.

684. **The Deputy Chairperson**: I will give you another opportunity to come back in again. Michael, I am sorry for keeping you so long. Go ahead.

685. **Mr Copeland**: No, it is OK. I am infinitely patient.

686. Getting back to the car park again, Tom, I am going to ask you a straight question, if I can. The cost of building a conventional building of that type and foundation is different to the cost of building a building of that type on top of a car park, because of the stresses, the structures and the supporting mechanisms that actually keep it up. Are you 100% sure that the agreed cost at the time the contract was signed, no matter what the specification was, did not include the cost of the underground car park?

687. **Mr Redmond**: Yes.

688. **Mr Copeland**: You are 100% sure?

689. **Mr Redmond**: Yes, 100% sure.

690. **Mr Copeland**: In percentage terms, what was the cost of the car park in the overall construction of the project?

691. **Mr Redmond**: We do not exactly what the capital cost of the actual project — the campus — might be.

692. **Mr Copeland**: How can you not know?

693. **Mr Redmond**: Because we pay a unitary charge. We pay a unitary charge to Ivywood Colleges, and it disburses that money to the subcontractors. We do not have absolute visibility on what that is. We understand that the capital value of the building is around £44 million. Again, we do not have visibility on what Ivywood Colleges borrowed off Ulster Bank to build the basement car par park, but we are led to believe that is was about £5·3 million. So, you are talking, I suppose, about one eighth or one ninth of the total value.

694. **Mr Copeland**: The cost of the car park itself, free-standing, could have implications for the cost of the construction of the building in the part that you have already covered, if you understand what I mean. This is all terribly complicated, and we will not get to the bottom of it until we see all the —

695. **Mr Redmond**: The assurance I can give you is that Ivywood Colleges bid us a sum of money to build a college without a car park. That remained the sum of money that we paid them when they built —

696. **Mr Copeland**: You used the term "planning risk" earlier. I know development, and anything that begins with 'r' in development is taken into account at the time. They must have known that there would have been planning implications for that. If I was them, I would have scaled the building and costed it to such a degree that it covered all the unforeseen consequences that might arise. You still got the building, albeit at the same price, but they are away with maybe £4·5 million to £5 million of public money.

697. **Mr Clarke**: When did they bid you the price for the building? Approximately when?

698. **Mr Redmond**: About June 2006.

699. **Mr Clarke**: Right, in 2006 they came up with a price. When was the car park included?

700. **Mr Redmond**: The car park was included months later.

701. **Mr Clarke**: Then why, in August 2007, did the cost of the site go from £3 million to £7·7 million?

702. **Mr Redmond**: The cost —

703. **Mr Clarke**: We are now in a situation where we have got the prices a year or 18 months before the price goes up.

704. **Mr Redmond**: Ivywood Colleges sought an increase in the price of the land and the price of the site.

705. **Mr Clarke**: In August 2007.

706. **Mr Redmond**: Yes.

707. **Mr Clarke**: When did you make the decision not to sell or do the deal with the other colleges?

708. **Mr Redmond**: It was around about 2007 that they were notified.

709. **Mr Clarke**: What month would that have been, approximately?

710. **Mr Redmond**: I would have to check that, and I can check that for you.

711. **Mr Clarke**: I think Marie-Thérèse is looking at that now for us.

712. **Ms McGivern**: According to the report, it was in December 2006.

713. **Mr Clarke**: So, in December 2006, you made a decision not to sell buildings that would have offset about £20 million. Then, some months later, you have to add an additional £4·5 million.

714. **Mr Redmond**: They sought an increase to £7·7 million.

715. **Mr Clarke**: How much did they get?

716. **Mr Redmond**: They got £2 million.

717. **Mr Clarke**: So they got additional money.

718. **Mr Redmond**: They got additional money for the site, yes.

719. **Mr Clarke**: What was that used for?

720. **Mr Redmond**: The money for the site was divided equally between the holders of the lease: Belfast Harbour Commissioners and Titanic Quarter Ltd. So, the £5 million was divided between the Harbour Commissioners and Titanic Quarter.

721. **The Deputy Chairperson**: Gentlemen, before I bring Paul back in, it seems that at that stage there were at least two external bodies with their fingers in the pie. I put the question to you formally: at any stage, did the Department and the college consider one of the many options available to it — opting out, going back to the reserve bidder or going out to the market again? If not, why not?

722. **Mr Redmond**: It was considered on a number of occasions, but at all times, and particularly when the increase in the land value was being agreed, we went back and re-evaluated the tenders to assure ourselves that Ivywood Colleges, even with the uplift in land values, remained the economically most advantageous tender. We also knew at all times that we had significant difficulties at College Square East and Brunswick Street. Those difficulties at all times remained to be resolved. Albeit there were difficult decisions to be made, the view always was, right up until the contract was signed, that the best prospect to resolving those difficulties remained signing that contract. Tipping points could have been reached that would, perhaps, have made walking away the answer. Although that remained an option, it was not considered that the tipping point had been reached.

723. **Mr Clarke**: By whom?

724. **Mr Redmond**: By the project board.

725. **Mr Baker**: By the project board and the Department.

726. Can I just add to what Tom has said, Chair? This was a difficult project. We ran into difficulties in the negotiations, and we have touched on some of those. There were issues around the car park, the lease, the credit crunch and the bank losing its appetite. We could have walked away at any of those points, and —

727. **Mr McQuillan**: But each time, Derek, you just came back to the Department and got another draw of money. It was easy to do that.

728. **Mr Baker**: Well, that is the point that I am coming to, the point that I made

right at the outset and the point that is acknowledged in the Audit Office report: at each decision point, we took steps to protect the public interest. We did that by assuring ourselves that the bid that we were dealing with offered positive value for money against the shadow bid model, which is the reference point and is how you assess value for money. At each decision point, we took the opportunity to make sure that onerous conditions were not imposed upon us.

729. If I can make a general point, this was a hugely important project. Given the times that were in it, it was very relevant to the Department that, in the middle of all these difficulties, it received a very critical report from this Committee about the Springvale project that failed. You will recall that, or some of you who were on the Committee will recall that. One of the criticisms, one of the central tenets of the criticisms directed at the Department by this Committee was that the Department “lost the will” — that was the term that was used — to see through a difficult project and did not stretch itself to make sure that it followed through and afforded a project. All of that translated into a very pointed recommendation of the Committee that, if the Department — DEL —encountered substantive operational problems with an important project, it should take all reasonable means to ensure that those problems are overcome, that the project objectives are achieved and that not addressing those problems in a meaningful way is not an option. That is what this Committee said to the Department. Now, that recommendation could have been written for —

730. **Mr McQuillan**: Why was that not carried out?

731. **Mr Baker**: I would suggest that that recommendation could have been written for this project. It was a major project, it was really difficult and we had major problems with it, and we could have walked away. We did not walk away: we stuck with it for the reasons that Tom has explained; because we saw a prize at the end, which was to deliver the project objectives. All —

732. **Mr McQuillan**: Was the prize at a price?

733. **Mr Baker**: Yes, I agree, at a price — and, all the time, within a positive affordability and value-for-money assessment.

734. **Mr Clarke**: How can you describe that later on, given that the contract took so long, that you did not look at other options, Derek?

735. **Mr Baker**: That is a fair question. We were —

736. **Mr Clarke**: It is a fair question based on your answer, and I appreciate your saying that it is a fair question, because you said that it was always the best option. It is not the best option if you did not explore other options. Given that we were in a market where, as you have described, the banks were starting to get nervous because of the way properties were going and everybody was getting nervous because of the crash, there were still other options, but they were not explored.

737. **Mr Baker**: Other options were explored at bidding stage.

738. **Mr Clarke**: I am talking about the latter stage, Derek. Whenever —

739. **Mr Baker**: Yes, I will come to that.

740. **Mr Clarke**: You came in at bidding stage and had adjustments made, and those who you have entered into this agreement with came back looking for additional millions of pounds. There was more than one, there were more than two opportunities for you to back off this project, for the Department to back off at that particular time, but you did not look at other options. There is absolutely no evidence of other options being looked at here.

741. **Mr Baker**: At the final contract close stage, we did a value for money and affordability assessment, which looked not just at the shadow bid model but at a public sector comparator, which was the ultimate other option: let us call the whole thing off and back off. Let us reflect where we were at that point and consider what would have been

a reasonable, rational and sensible decision to take. We had beaten our way —

742. **Mr McQuillan**: Sorry for interrupting you, but we heard earlier on from Marie-Thérèse that this was the only show in town, so how do you square that with what you are saying?

743. **Mr Baker**: That is the point; I am about to explain that.

744. We had beaten our way through 30 months of really difficult negotiations. It took too long: I accept that, and I have accepted that. We had dealt with huge problems, but, at the end of that, we had reached the point where we had a contract — and bear in mind that this is not a back-of-an-envelope thing, this was 400 pages long — that worked both for the bidder and for the Department. We had a proposal on the table that met the pressing business need, which was to replace two obsolete colleges. We had a proposal on the table that, by the properly carried out assessment, demonstrated affordability and positive value for money against the public sector comparator as well as the shadow bid model. In the light of all of those circumstances, what was the right decision? To say, “You know what, we will walk away?” What would have happened? For a start, we would have been hauled through the courts for abortive costs; indeed, the final value-for-money assessment tried to put a figure on that. Furthermore, we would not have had a project; we would not have had a college; and we would not have had a 30-month negotiation, we would have had a 50-month negotiation.

745. **Mr McQuillan**: Was the contract not changed leading up to where you are now, on behalf of the preferred bidder?

746. **Mr Baker**: Only one contract was signed, and that was in April 2009. This was a negotiated process. There were lots of changes going on from preferred bidder right up to the contract sign. Of course there were.

747. **Mr Clarke**: Yes, but there were opportunities to pull out at that stage, and you would not have been brought to court. You are trying to put on the record today that you could have been in court if you had tried to come out of the contract. The opportunities for you—

748. **Mr Baker**: No, actually —

749. **Mr Clarke**: Sorry, the opportunity, Derek, was long before you signed the contract. That is when the alarm bells were ringing. I would have hoped to have seen someone pulling out at that time, not after it was signed. The opportunities were long before that.

750. **Mr Baker**: I am talking about before it was signed, at financial close. However, even in advance of that, the reason we stuck with the contract, as Tom has explained, was that the assessments we were doing showed that this was still the most advantageous bid. It carried the best opportunity of delivering the project objectives — project objectives that were very, very important to us. Again, we built in the protection — the value-for-money assessment.

751. **The Deputy Chairperson**: I will stop you there. We only have a few minutes left, because one member has to leave, and we will lose quorum. I ask you, in the interest of making the best use of our time —

752. **Mr McQuillan**: I have a couple of questions.

753. **The Deputy Chairperson**: This is the point I am coming to. Direct everything through the Chair, so that I can get everything.

754. **Mr Girvan**: I want to be quite pointed in one area. Within the project board that was sitting — Tom, you alluded to not knowing the exact cost of each part of the project. You got an overall figure of how much it was going to cost to deliver it. What expertise did the Department, as well as the Met, put into having someone independently price what they were getting for their money?

755. **Mr Redmond**: We had done that previously in the shadow bid model, the inputs to which were constructed

by the independent advisers that were appointed to the project, and which was signed off by the Central Procurement Directorate. The bid that we got had a total NPV under the NPV in the shadow bid model. Given that, overall, it was giving us value for money, we would not have been that concerned by the individual constituent parts. We were getting an overall deal that offered value for money.

756. **Mr Girvan**: That brings me back to the first question that I asked in relation to the cost per square metre, compared with others. It was extremely high. Was the Strategic Investment Board involved in any of that process?

757. **Mr Redmond**: The Strategic Investment Board supported the project.

758. **Mr Girvan**: OK. Yes, it could support it in financial terms, but did it have the expertise from a building and quantity surveying point of view to be able to tell you whether you were getting value for money? I know how developers work, having worked with them and working with them still. You give them a figure; they will say, "I'll deliver that for that price". If you give them half of that price, they might still be able to deliver exactly the same thing. That is how some of them work, so I am wondering just how —

759. **Mr Redmond**: Our figure was garnered from market intelligence that existed at the time.

760. **Mr Girvan**: I used a date at which two colleges were delivered by another board — I think it was the Southern Board. It was delivering two further education colleges, and the price per square metre was 40-odd per cent cheaper to deliver than what we have. That is why I went back to the very start; to the specification and finish and who set the specification and finish. I am asking if we were dragged by the nose to deliver an all-singing, all-dancing Rolls-Royce or not. That is the point.

761. **Mr Redmond**: All those shadow bid costs would have been constructed long before any developer came on the horizon, so we were not —

762. **Mr Girvan**: I am happy to hear that, because I am always fearful that somebody else is dragging the horse as opposed to somebody actually riding the horse.

763. **Mr Baker**: There was no bidder on the scene when the shadow bid model was first developed.

764. **Mr Girvan**: Is there any commonality between consultants and who we ended up with as preferred bidder?

765. **Mr Redmond**: No.

766. **Mr McQuillan**: I will follow on from Paul's question before I go into it a wee bit further. Where did the expertise that you got at that stage of the shadow bids come from? Was it the consultants?

767. **Mr Redmond**: The consultants would have garnered that from the contemporary market intelligence that existed at the time.

768. **Mr McQuillan**: Was there any relationship between the consultants and the preferred bidder?

769. **Mr Redmond**: No.

770. **Mr McQuillan**: None whatsoever? We established earlier who made the decision not to sell Brunswick Street and College Square East, but we did not establish why that decision was made.

771. **Mr Baker**: Can I clarify? We could not sell Brunswick Street.

772. **Mr McQuillan**: I am talking about in 2007, sorry.

773. **Mr Baker**: Do you mean why was it not included in the PFI?

774. **Mr McQuillan**: Yes.

775. **Mr Baker**: I think that I had started to explain that. I mentioned that Land and Property Services had advised us that the best way to get full market value was through an open market process — in other words, to sell it on the open market.

776. **Mr McQuillan**: That did not happen.

777. **Mr Baker**: But it will happen.

778. **Mr McQuillan**: It did not happen then.

779. **Mr Baker**: It could not have happened then. We had several thousand students in the buildings.

780. **Mr McQuillan**: After the students moved out.

781. **Mr Baker**: Yes. We put it on the market and, because of the state of the market, nobody was bidding, and banks are not lending to developers to buy such properties. That is just the state of the market. We did not predict the property crash; I will hold my hands up to that, but neither did half the Western Governments in the world, the central banks and everybody else.

782. **Mr McQuillan**: I will not hold you responsible for not predicting that. That is one thing that we will not hold you responsible for. *[Laughter.]*

783. **Mr Baker**: Thank you for that.

784. **The Deputy Chairperson**: Before Michael goes, I need the agreement of the Committee to write to the Department about any outstanding issues.

785. **Mr Girvan**: I think that it needs to come back.

786. **Mr Copeland**: Can we reserve the right to call future witnesses?

787. **The Deputy Chairperson**: Absolutely. We considered a number of options in private session, and one of them was to call for additional witnesses. Is that agreed?

Members indicated assent.

788. **Mr Baker**: Chair, I am happy to come back to the Committee. You have run out of time, but I am at your disposal.

789. **Mr Clarke**: Tom, are you free to come back?

790. **Mr Redmond**: I am available, but I am not sure that I like the implication in that question. *[Laughter.]* Yes, I will come back.

791. **The Deputy Chairperson**: Thank you very much for that offer. I am conscious, Elaine, that we did not hear from you at all. You no doubt put a lot of preparation into this, and were not asked a single question.

792. **Ms Elaine Hartin (Belfast Metropolitan College)**: I am perfectly happy. *[Laughter.]*

793. **Mr Girvan**: That might come in when we are looking at changes that have been made.

794. **Ms McGivern**: I am very happy to talk to you all afternoon about the changes that have been made. I agree with Derek; we have no difficulty answering further questions from the Committee.

795. **The Deputy Chairperson**: Thank you very much for your time.

796. **Mr Baker**: Thank you.

17 September 2014

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 Ms Marie-Thérèse McGivern	*Belfast Metropolitan College*
Mr Kieran Donnelly	*Comptroller and Auditor General*
Mr Derek Baker Mr Tom Redmond	*Department for Employment and Learning*
Mr Pat O'Neill	*Strategic Investment Board*

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

798. 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.

799. 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.

800. **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.

801. 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.

802. 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?

803. **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.

804. 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.

805. **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?

806. **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.

807. **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.

808. **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?

809. **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.

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

811. **Mr Hussey**: Yes.

812. **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.

813. 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.

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

815. **Mr Baker**: I absolutely accept that.

816. **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?

817. **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.

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

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

820. **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?

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

822. **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.

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

824. **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.

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

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

827. **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?

828. **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.

829. **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.

830. **Mr Clarke**: It was there.

831. **Mr Redmond**: It was there.

832. **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.

833. **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.

834. **Mr Clarke**: Sorry, there was a capability problem.

835. **Ms McGivern**: There was a capability problem.

836. **Mr Clarke**: What was it?

837. **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 —

838. **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?

839. **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 —

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

841. **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.

842. **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?

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

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

845. **Ms McGivern**: It is not a “Name names” scenario. I think —

846. **Mr Clarke**: Positions will do, then.

847. **Ms McGivern**: — that things —

848. **Mr Clarke**: Positions will do.

849. **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 —

850. **Mr Clarke**: A civil partnership.

851. **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.

852. **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?

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

854. **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.

855. **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 —

856. **Mr Clarke**: You are acknowledging that.

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

858. **Mr Clarke**: That is progress.

859. **Ms McGivern**: — one of the factors.

860. **The Chairperson**: Mr Hussey, are you finished?

861. **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?

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

863. **Mr Hussey**: Yes.

864. **Mr Baker**: I cannot confirm that today, Chair.

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

866. **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.

867. **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.

868. **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.

869. **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?

870. **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 —

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

872. **Ms Hartin**: — and providing the information.

873. **Ms McGivern**: She did, many times.

874. **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.

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

876. **The Chairperson**: Yes.

877. **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.

878. **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.

879. **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.

880. 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.

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

882. **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.

883. **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?

884. **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.

885. **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.

886. **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."

887. 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?

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

889. **Mr Copeland**: It is footnote 39 on page 34.

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

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

892. **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.

893. 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.

894. **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?

895. **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 —

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

897. **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 —

898. **Mr Copeland**: Should there have been?

899. **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.

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

901. **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.

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

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

904. **Mr Copeland**: Including Belfast Metropolitan.

905. **Mr Redmond**: Including Belfast Metropolitan.

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

907. **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 —

908. **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?

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

910. **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.

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

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

913. **Mr Clarke**: It felt like that.

914. **Mr Baker**: — and I think you know that.

915. **Mr Clarke**: Can I just ask, because —

916. **The Chairperson**: Michael, are you finished?

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

918. **Mr Clarke**: Keep them on track, Michael.

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

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

921. 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?

922. **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.

923. **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?

924. **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.

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

926. **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.

927. 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.

928. **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?

929. **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.

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

931. **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?

932. **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.

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

934. 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.

935. 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?

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

937. **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?

938. **Mr Baker**: In what way?

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

940. **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.

941. **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.

942. **Mr Baker**: I know that.

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

944. **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.

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

946. **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.

947. **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.

948. **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.

949. **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.

950. **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.

951. **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.

952. **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.

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

954. **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.

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

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

957. **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.

958. **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.

959. **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.

960. **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?

961. **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.

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

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

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

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

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

967. **Mr P O'Neill**: No.

968. **Mr Redmond**: Can I answer that, Mr Clarke?

969. **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.

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

971. **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.

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

973. **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?

974. **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.

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

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

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

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

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

980. **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.

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

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

983. **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 —

984. **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 —

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

986. **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?

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

988. **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.

989. **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.

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

991. **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?

992. **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.

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

994. **Mr P O'Neill**: None whatsoever.

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

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

997. **Mr Hazzard**: Thanks so far.

998. 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?

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

1000. **Mr Dallat**: I am sorry that I started this.

1001. **Ms McGivern**: It is all right. It does work.

1002. **Mr Dallat**: It was you who started it.

1003. **Ms McGivern**: It was me who started it.

1004. 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.

1005. 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.

1006. 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.

1007. **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?

1008. **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.

1009. 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.

1010. **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.

1011. 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.

1012. **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?

1013. **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.

1014. **Mr Hazzard**: Has that been approved and signed off by the Department?

1015. **Ms Hartin**: It has gone to the Department.

1016. **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.

1017. 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.

1018. 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.

1019. **Mr Hazzard**: It is a matter of weeks rather than months that we are looking here then, is it?

1020. **Mr Redmond**: It is a matter of weeks, yes.

1021. **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?

1022. **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.

1023. **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?

1024. **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.

1025. **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.

1026. 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.

1027. 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.

1028. **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 —

1029. **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.

1030. **Mr Hazzard**: No problem.

1031. **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"

1032. but it is very hard to comprehend this.

1033. **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.

1034. 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.

1035. **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.

1036. **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."

1037. When the Northern Ireland Audit Office began this investigation, there was retrospective approval. Why was DFP's advice not acted on?

1038. **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."

1039. 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.

1040. **Mr Rogers**: So there is an acknowledgement of the Department's oversight. Is there an assurance that that cannot happen again?

1041. **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.

1042. **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?

1043. **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.

1044. 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.

1045. **Ms Hartin**: You asked whether the escalation procedures in the contract were sufficiently robust.

1046. **Mr Rogers**: Yes.

1047. **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.

1048. 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.

1049. 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.

1050. There are some final ratchets and mechanisms around that where we are moving into more formal procedures if we cannot get things agreed.

1051. **Mr Rogers**: So, has it been particularly in the last year that you have been invoking these penalties?

1052. **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?

1053. **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?

1054. **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.

1055. 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.

1056. **Mr Rogers**: How does the Department make information about the unitary charges available to the Assembly and, in particular, to DEL?

1057. **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.

1058. 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.

1059. **Mr Rogers**: But it is broken down, college by college, no?

1060. **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.

1061. **Mr Rogers**: I just think it would be useful.

1062. **Mr Baker**: OK.

1063. **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?

1064. **Mr Baker**: OK. Continue.

1065. **Mr Clarke**: But is what I am saying right? I do not want to say something wrong here.

1066. **Mr Baker**: OK. We do not have a contract, in the sense that we are not paying for any car parking spaces.

1067. **Mr Clarke**: Have we a lease?

1068. **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.

1069. **Mr Clarke**: How many car parking spaces does the college have access to in that car park?

1070. **Mr Baker**: It does not have any —

1071. **Mr Clarke**: I am just trying to clear this up.

1072. **Mr Baker**: Car parking spaces are not earmarked for the college.

1073. **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 —

1074. **Ms Hartin**: There are 12 surface car parking spaces.

1075. **Mr Baker**: Sorry. There is no charge —

1076. **Mr Clarke**: In terms of the car parking?

1077. **Mr Baker**: It is a pay car park.

1078. **Mr Clarke**: That is fine.

1079. **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.

1080. **Mr Clarke**: How long is the contract and the lease for the college itself?

1081. **Mr Baker**: The lease is for 250 years. The PPP contract is for 25 years.

1082. **Mr Clarke**: OK. What is the tie-in with the car park, then?

1083. **Mr Baker**: Sorry?

1084. **Ms Hartin**: It is 40 years.

1085. **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.

1086. **Mr Clarke**: And there is no-tie in to the Met in relation to the car park whatsoever?

1087. **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.

1088. **Mr Clarke**: Can we hear some sums, there?

1089. **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.

1090. **Mr Clarke**: OK.

1091. **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.

1092. **Mr Clarke**: So, that is a golden egg; can we call it that?

1093. **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.

1094. **Mr Clarke**: So, you are going to have this after 40 years.

1095. **Mr Baker**: Yes.

1096. **Mr Clarke**: How many years has it been running now?

1097. **Mr Baker**: Three years.

1098. **Mr Clarke**: And it is making no profit.

1099. **Mr Baker**: It has not made a profit to date because they had to borrow.

1100. **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.

1101. **Mr P O'Neill**: It is not our car park.

1102. **Mr Clarke**: After 40 years?

1103. **Mr P O'Neill**: It is not our car park now. It belongs to Ivywood Car Parks Ltd, which is a totally independent company.

1104. **Mr Clarke**: What happens to it after 40 years, Pat?

1105. **Mr P O'Neill**: After 40 years, it comes into the ownership of BMC.

1106. **Mr Clarke**: Yes. That is the point that I am trying to make.

1107. **Mr P O'Neill**: Apologies.

1108. **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?

1109. **Ms Hartin**: In 37 years' time.

1110. **Mr Clarke**: Yes.

1111. **Ms Hartin**: I have to admit that I have not looked at our accounts or forecasts for 37 years' time.

1112. **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.

1113. **Mr Baker**: No, I said that it has not started to make a profit yet.

1114. **Mr Clarke**: You do not know if it will ever make a profit, Mr Baker.

1115. **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 —

1116. **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.

1117. **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.

1118. **Mr Clarke**: And there is nothing to say whether it will make a profit or whether it will cost you money.

1119. **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.

1120. **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.

1121. **Mr Redmond**: We did not have that information.

1122. **Mr Clarke**: I take that on board. How was that calculated for the shadow bid?

1123. **Mr Redmond**: How were the construction and life cycle and facilities —

1124. **Mr Clarke**: Yes.

1125. **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.

1126. **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?

1127. **Mr Baker**: First of all, there was a planning requirement on the bidder, not on the Department or the college —

1128. **Mr Clarke**: When was the Department first aware of the planning condition?

1129. **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.

1130. 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.

1131. **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.

1132. **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?

1133. **Mr Clarke**: The wee men on Mars could be orange and not green. We could speculate on all things.

1134. **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.

1135. **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.

1136. **Mr Clarke**: For the record, Mr Redmond, you used the word “dodgy”, not me.

1137. **Mr Redmond**: Sorry, I did not mean to imply that you had suggested that it was dodgy.

1138. **Mr Clarke**: You quite freely said that it may have looked dodgy, but I did not.

1139. **Mr Redmond**: That is fair enough. I acknowledge that entirely.

1140. **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?

1141. **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.

1142. **Mr Easton**: OK. What were the unresolved issues?

1143. **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.

1144. **Mr Easton**: OK. We are talking about issues. How many unresolved issues were there?

1145. **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.

1146. **Mr Easton**: Do you not find it a bit strange that somebody becomes a preferred bidder and yet there are so many issues?

1147. **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.

1148. **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?

1149. **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.

1150. **Mr Easton**: Remind me: how many bidders were there?

1151. **Mr Redmond**: Two.

1152. **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?

1153. **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.

1154. **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?

1155. **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.

1156. **Mr Baker**: Yes, you go ahead.

1157. **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.

1158. **Mr Easton**: Were there any other tipping points?

1159. **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.

1160. **Mr Easton**: So, we have identified three tipping points.

1161. **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.

1162. **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 —

1163. **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.

1164. **Mr Easton**: Those are the three main ones. OK.

1165. **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?

1166. **Mr Redmond**: The increase in the land price.

1167. **Mr Baker**: The site where we built the college.

1168. **Mr Clarke**: What did you finish up settling at?

1169. **Mr Redmond**: It was £5 million.

1170. **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.

1171. **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.

1172. **Mr Clarke**: That was in the bid.

1173. **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.

1174. **Mr Clarke**: Why did it cause you a difficulty?

1175. **Mr Baker**: It caused us a difficulty because the college would have had to pay for that increased site price through the unitary charge.

1176. **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?

1177. **Mr Redmond**: No.

1178. **Mr Clarke**: Mr Baker —

1179. **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.

1180. **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?

1181. **Mr Redmond**: Yes.

1182. **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.

1183. **Mr Redmond**: Well, we agreed £5 million.

1184. **Mr Clarke**: So, you gave them £2 million more than you initially evaluated the contract at.

1185. **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.

1186. **Mr Clarke**: Yes, the £3 million was included.

1187. **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.

1188. **Mr Clarke**: That is very useful.

1189. **Mr Baker**: That was the point I did not get to, Mr Clarke.

1190. **Mr Clarke**: Sorry. OK, thank you.

1191. **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?

1192. **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".

1193. **Mr Easton**: Did anyone do so before you were there?

1194. **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.

1195. **Mr Redmond**: I will just add that the contract was actually signed, I think, before you came on board, Marie-Thérèse.

1196. **Ms McGivern**: Oh yes, it was signed in April 2009.

1197. **Mr Redmond**: I had various meetings with the governing body at various times when there were discussions —

1198. **Mr Easton**: About walking away?

1199. **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.

1200. **Mr Easton**: So, you have had sight of letters that were sent to ICL before your time, suggesting that you might walk away.

1201. **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.

1202. **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?

1203. **Ms McGivern**: You have caught me off guard because —

1204. **Mr Easton**: That is good.

1205. **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.

1206. **Mr Easton**: Would we be allowed to see those letters?

1207. **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.

1208. **Mr Easton**: We are not talking about the Department. There are letters from the college.

1209. **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.

1210. **Mr Easton**: Can we see that letter?

1211. **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.

1212. **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.

1213. **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.

1214. **Mr Easton**: Were any of these discussions documented?

1215. **Mr Redmond**: Some of them were documented.

1216. **Mr Easton**: There are minutes?

1217. **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.

1218. **Mr Easton**: Can we have sight of those?

1219. **Mr Redmond**: Yes.

1220. **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?

1221. **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.

1222. **Mr Clarke**: At no time did you discourage the college?

1223. **Mr Redmond**: It depends what you mean by discourage. If, for example —

1224. **Mr Clarke**: If you want me to explain what I mean, I can do that.

1225. **Mr Redmond**: No. Well, OK. If, for example, you mean explaining —

1226. **Mr Clarke**: Maybe I should explain —

1227. **Mr Redmond**: Sorry, let me finish —

1228. **The Chairperson**: Let Mr Redmond —

1229. **Mr Clarke**: Chair, I think he is having difficulty understanding what I am asking him, so I will ask him in a different way.

1230. **Mr Redmond**: I have a form of words in my head, which —

1231. **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?

1232. **Mr Redmond**: If you are asking whether I explained the implications of walking away, yes I did.

1233. **Mr Clarke**: Would you have tried to discourage them then?

1234. **Mr Redmond**: It was not discouragement.

1235. **Mr Clarke**: Thank you. That is clear.

1236. **Mr Redmond**: I want to make it absolutely clear.

1237. **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?

1238. **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?

1239. **The Chairperson**: Yes, I just wanted clarification on that.

1240. **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.

1241. 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.

1242. **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.

1243. 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.

1244. **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?

1245. **Mr Baker**: There were significant weaknesses in the college’s governance arrangements and in elements of the project management. I agree entirely.

1246. **Mr Dallat**: Mr Baker, are you taking any responsibility for this project?

1247. **Mr Baker**: Yes, I have just said that I agreed with you that there were significant weaknesses in the governance and the project management.

1248. **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?

1249. **Mr Baker**: Yes.

1250. **Mr Dallat**: Do you now accept that, in the future, that would not happen again, because you are aware of the weakness?

1251. **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.

1252. **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 —

1253. **Mr Baker**: Sorry, I did not hear that.

1254. **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.

1255. 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?

1256. **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.

1257. **Mr Dallat**: I agree with you.

1258. **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.

1259. **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.

1260. **Ms McGivern**: Again —

1261. **Mr Dallat**: I think that it is £20 million, but I might be wrong.

1262. **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.

1263. **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.

1264. **Ms McGivern**: You did indeed, Mr Dallat.

1265. **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?

1266. **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.

1267. 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.

1268. 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.

1269. **Mr Clarke**: Sorry, Pat. You have that well-rehearsed for today, but —

1270. **Mr P O'Neill**: It is facts.

1271. **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?

1272. **Mr P O'Neill**: It —

1273. **Mr Clarke**: No, just answer the question.

1274. **Mr P O'Neill**: That is like you asking me what my house price —

1275. **Mr Clarke**: Well, that is what you —

1276. **Mr P O'Neill**: — was two years ago and five years ago.

1277. **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.

1278. **Mr P O'Neill**: To go back to the reason —

1279. **Mr Clarke**: No. Just answer the point. How much was it taken out at?

1280. **Mr P O'Neill**: — why they were taken out.

1281. **Mr Clarke**: How much was it taken out at?

1282. **Mr P O'Neill**: It was taken out on valuation —

1283. **Mr Clarke**: At what value?

1284. **Mr P O'Neill**: — of £10 million.

1285. **Mr Clarke**: At £10 million. You got £5 million, and you say that that is a success story. That is a farce.

1286. **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.

1287. **Mr Clarke**: And you realised £5 million less.

1288. **Mr P O'Neill**: No —

1289. **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.

1290. 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.

1291. **Mr P O'Neill**: Mr Clarke, my job is not to manufacture figures —

1292. **Mr Clarke**: Well, it is coming across that that is what you are trying to do.

1293. **Mr P O'Neill**: No, it is not. They are the figures that are there.

1294. **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?

1295. 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.

1296. 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.

Northern Ireland Assembly

Appendix 3

Correspondence

Correspondence of 11 June 2014 from Department for Employment and Learning

Department for
Employment and Learning
www.delni.gov.uk

Adelaide House
39/49 Adelaide Street
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BT2 8FD
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Ms Lucia Wilson
Clerk to the Committee
Public Account Committee
Parliament Buildings
Ballymiscaw
Stormont
BT4 3XX

11 June 2014

Dear Lucia

DISPOSAL OF SURPLUS PROPERTIES IN BELFAST METROPOLITAN COLLEGE

Tom Redmond, Further Education Division, agreed with the Northern Ireland Audit Office that he would update the Public Accounts Committee on progress with the disposal of the surplus properties in the Belfast Metropolitan College. These are the properties at College Square East and Brunswick Street which are the subject of a PAC hearing on the 18th June 2014.

Tom has confirmed that there are advanced negotiations ongoing with prospective buyers for both properties. These will hopefully conclude in sales but this cannot be confirmed until contracts are signed and funds exchanged. In the meantime the negotiations remain commercial in confidence.

Please advise the Public Accounts Committee of the contents of this letter.

Yours sincerely

Fiona Stanley
Departmental Assembly Liaison Officer

Cc: Cathie White
Clerk to the Committee for Employment and Learning

Correspondence for 11 July 2014 from Department of Employment and Learning

Department for
Employment and Learning
www.delni.gov.uk

Ms Michaela Boyle
Chairperson
Public Accounts Committee
Room 371
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Date: 11th July 2014

Dear Ms Boyle,

Public Accounts Committee Evidence Session

Derek Baker's letter to you dated 2nd July 2014 refers. In relation to the additional information we had agreed to provide, please note:

- Information on the benchmarking for Whole of Life costs of the project across similar projects requires further detailed analysis involving archived material. I expect to be able to provide a response by the end of July.
- I can confirm that capital spend is reported formally to the relevant committees at Budget level. It is not normally reported specifically at project level.
- I attach a copy of the Preferred Bidder letter from the College's Advisors, Farrell Grant Sparks, to the Bidder's Advisors, Cyril Sweett Limited, see ANNEX A.

I trust that the above is satisfactory.

Yours sincerely,

Tom Redmond

Tom Redmond
Head of Further Education Estates
Copy: Derek Baker, Perm Sec, DEL.

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ANNEX A

Conor McCrory
Bid Manager
Cyril Sweett Limited
Pembridge House
240 Belmont Road
Belfast
BT4 2AW

18 July 2006

Our ref: EFM/BIFHE/ems

Dear Conor

Re: Belfast Institute PPP Project

We have now completed our evaluation of the Bids that have been received by the Institute in relation to the above project and we are pleased to inform you that the Institute is minded to appoint Ivywood Colleges Limited as the Preferred Bidder for this Project on the basis of your submitted Bids. However, the Institute's decision is subject to (a) approval by the Minister for Employment and Learning and (b) the Institute receiving satisfactory clarification from you in relation to the following outstanding issues:

1. During the Bid Evaluation process, the Institute experienced some difficulty in reconciling the technical specifications for the new campus and the corresponding maintenance and lifecycle expenditure profile. Maintenance and lifecycle costs in your Bid are well in excess of the costs included in our Shadow Bid Model. Accordingly, we require confirmation that Ivywood Colleges Limited will provide the Institute with a robust and justifiable maintenance and lifecycle activity profile and negotiate an appropriate level of expenditure for this Project.
2. Whilst not assessed as part of your Bid, the Institute acknowledges the contents of your letter of 19 June 2006 in relation to alternative car parking provision, and seeks confirmation from Ivywood Colleges Limited that this proposal is still open to negotiation.
3. The Institute does not accept the level of subsidy sought in the Bid for bus transportation to the proposed site within Titanic Quarter and seeks confirmation from you that the commercial arrangements involving both Ivywood Colleges Limited and Translink can be discussed and negotiated.
4. The Institute does not accept the level of capital contribution received by the Project in relation to the potentially surplus properties at College Square East and Brunswick Street, particularly in light of recently secured and imminent Outline Planning Permissions. The Institute seeks confirmation from you that the values attributed by Ivywood Colleges Limited to these properties in its Bid Model can be discussed and negotiated.

5. Please confirm that Ivywood Colleges Limited will continue to provide the Institute with information concerning the wider Titanic Quarter development and, in particular, proposals for the development of site infrastructure and adjoining plots.

6. The Unitary Payments set out within your bid are fixed by reference to your design and services proposals (subject, of course, to any significant client changes) and on the assumption that financial close occurs on or before 01 January 2007. If financial close occurs more than 3 months after that date then your construction price will be increased only by movements in the BCIS Tender Price Index from 01 April 2007 to the date of actual financial close. In the event that financial close is delayed, you will be required to demonstrate how construction costs have increased and use all endeavours to mitigate the impact of increases in construction costs. The estimates of operating and lifecycle costs in your Bid should have been stated at 01 January 2007 prices and you should have applied your own assessment of future indexation to such costs. The Institute will take the risk of any movement in the LIBOR swap rate between 11am on Wednesday 22 March 2006 and financial close. The benefit of any reduction in the LIBOR swap rate (including the buffer) will be passed in full to the Institute. Please confirm that you accept this requirement.

7. We note there has been a significant decrease in the net worth of Ivywood Properties Limited from the draft accounts for 2004 furnished at pre-qualification stage to the draft accounts for 2005 forwarded in response to round four of financial clarifications. We require confirmation that Ivywood Colleges Limited will closely monitor the movements in the net worth of its parent company and immediately alert the Institute to any significant variations in same.

8. In light of the above, the Institute requires detailed narrative outlining the share ownership structure of the Ivywood Properties Limited parent company and ultimate parent company and any implications this would have on the proposed UK tax payments set out in the financial model. Detailed narrative is also required on the role of each of these entities within the group structure, along with an undertaking from Ivywood Colleges Limited that a parent company guarantee will be furnished from Titanic Investments Limited should the Institute, in its sole discretion, deem the financial strength of Ivywood Properties Limited to have reached an unacceptable level.

9. Please confirm that you understand that the appointment of Preferred Bidder is on the assumption that Ivywood Colleges Limited achieves Composite Trade tax status.

10. We require confirmation that Ivywood Colleges Limited and their appointed financial advisers are prepared to work with the Institute's appointed financial advisers to improve the efficiency of the financial model received on 20 June 2006 with a view to reducing the unitary charge sought by Ivywood Colleges Limited yet maintaining the nominal post tax blended equity return.

11. This Project is being procured in accordance with OGC guidance on Achieving Excellence in Construction. We require confirmation that you will continue to co-operate with the Institute in the assessment and provision of technical information relating to design, construction and operation of the new Project facilities to ensure that this OGC guidance is followed and that the building is delivered fully in accordance with the ITN and developed contract specifications.

12. We require unequivocal confirmation that Ivywood Colleges Limited and their Lenders are prepared to accept the Revised Contract in its current form and will only request changes in relation to any issues that arise out of negotiations associated with:

    12.1 Agreement of final staffing and TUPE matters
    12.2 Agreement of final scope and specification of finishes and furniture and equipment
    12.3 Insurance due diligence
    12.4 Technical due diligence, including calibration of the payment mechanism
    12.5 Issues which are solely related to the project and which justify a departure from the terms and conditions of the Revised Contract.

I would request, in order that we may keep to the Project timescale, that you provide the above confirmation by no later than 3.00pm on 25 July 2006.

I trust that this is in order. If you have any queries, I would request that you address them in writing to me.

I look forward to hearing from you.

Yours sincerely,

ERIC MUNRO
Partner

c.c Mike Smith, Ivywood Colleges Limited

Correspondence of 11 July 2014 to Ulster Bank

Public Accounts Committee
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BT4 3XX
Tel: (028) 9052 1208

Mr Kenton Hilman
Director
Corporate and Institutional Banking
Ulster Bank Limited
11-16 Donegal Square East
Belfast BT1 5UB

11 July 2014

Dear Mr Hilman,

Belfast Metropolitan College's Titanic Quarter PPP Project

The Public Accounts Committee requested and was provided with a copy of correspondence dated 9th January 2014 from you to the NI Audit Office commenting on extracts of the Comptroller and Auditor General's report on Belfast Metropolitan College's Titanic Quarter PPP Project published in March 2014.

The Committee has been taking evidence from both the Department for Employment and Learning and Belfast Metropolitan College in relation to the report, including how the project was funded. In this respect the Committee would like further clarification from the Bank about its concerns, namely:

- margins proposed for the project were too low;
- higher bonding levels were sought; and
- the additional interface risks with the Project, due to the fact that there was an underground car-park proposed, that sat outside of the Project and hence meant that the project risks could not be controlled as tightly as would normally be the case

In particular the Committee is keen to understand the relevant balance and weighting the Ulster Bank gave to these factors, especially the link with the underground car park, and their influence on the Bank's decisions about funding.

The Committee would also welcome clarification over the increased bullet debt repayment – stated in your correspondence as £14.5m one year post operation of the college. Can you confirm who proposed the increase in the bullet debt repayment and how was the figure derived?

As the Committee intends to hold a further evidence session with the Department and College to discuss these issues, I would welcome a reply by 1 August 2014.

Please find attached extracts from the NIAO report highlighting the key findings in relation to the funding of the underground car park.

Yours Sincerely

Michaela Boyle
Chairperson
Public Accounts Committee

Paragraph	Extract from report	NIAO response
11	In September 2008, just months before signing the PPP agreement, ICL's funding bank advised that it might not be able to fund the project in its entirety. ICL sought potential co-funders but was unsuccessful and reverted to its original funder. However, this required an increase in the public sector capital contribution (bullet payment) to the project from £10 million to £15 million[1], which was then paid in September 2012. The Department told us that it did not impact adversely on value for money because the additional payment had the effect of reducing the annual charge payable by the College to the contractor. In total the public sector contributed £20 million capital to the project as it also agreed to fund an up-front £5 million capital payment for the Titanic Quarter site acquisition (which it valued at the time to be worth £7.5 million).	Amendments made to paragraphs and related footnotes to reflect correspondence in relation to the "capital contribution" terminology used: In September 2008, just months before signing the PPP agreement, ICL's funding bank advised that, due to the uncertainty in the financial markets at the time, the appetite to provide the entirety of the funding required for the project was significantly reduced. The funding bank and ICL sought potential co-funders but this was unsuccessful. In order to find a solution to the funding situation the Department and College proposed an increase in the public sector capital contribution to the project from £10 million to £15 million[2], which was then paid in September 2012, one year post-operation of the campus. The Department told us that it did not impact adversely on value for money because the additional payment had the effect of reducing the annual charge payable by the College to the contractor. In total the public sector contributed £20 million capital to the project as it also agreed to pay £5 million for the sub lease of the Titanic Quarter site - £2.5 million each to Belfast Harbour Commissioners and Titanic Quarter Limited[3].
Part 2 Key Findings	In order to ensure that the Preferred Bidder's Bank was able to fund the debt requirement for the entire project, the College increased its capital contribution from £10 million to £15 million	

Paragraph	Extract from report	NIAO response
2.8	The College's capital contribution was increased by £5 million when ICL's funder advised that it was unwilling to fund the Project in its entirety During September 2008, ICL's funding bank advised it that it may not be able to fund the project in its entirety. ICL sought potential co-funders for the project but was unsuccessful and reverted to its original funder. However, this required an increase in the College's capital contribution to the project, from £10 million (paragraph 2.2) to £15 million.	Amendments made to reflect correspondence: In September 2008, just months before signing the PPP agreement, ICL's funding bank advised that, due to the uncertainty in the financial markets at the time, the appetite to provide the entirety of the funding required for the project was significantly reduced. In addition, there were additional interface risks with the Project, due to the fact that there was an underground car park proposed, that sat outside of the Project. This meant that the project risks could not be controlled as tightly as would normally be the case. The funding bank and ICL sought potential co-funders for the project but this was unsuccessful. In order to find a solution to the funding situation the Department and College proposed an increase in the public sector capital contribution (a "bullet" accelerated debt repayment) to the project from £10 million to £15 million[4], which was then paid in September 2012, one year post-operation of the campus (paragraph 2.2).
3.9		Amendments made to reflect response: In February 2007, four months after its formal appointment as Preferred Bidder, ICL submitted a planning application for a 315 space sub-basement car park removing the adjacent car parking that had been included in the original bid. The need for car parking was a condition of Planning Service approval. However, it was considered that the cost of meeting the planning requirement had "the potential to break the deal". Negotiations between the College and ICL to resolve the issue were extremely difficult and complex and was another factor contributing to the delays in the delivery of the new campus at Titanic Quarter. This also meant that there were additional interface risks with the project, due to the fact that the sub-basement car park sat outside of the project (paragraph 2.8).

Paragraph	Extract from report	NIAO response
4.31	The College explained that the final re-run of the financial model had not been completed due to difficulties experienced in tidying up the "snagging list" which was impacted by the liquidation of one of the consortia. BMC is working in partnership with Ivywood Colleges Ltd. which is a consortium comprising Titanic Quarter Ltd, Patton Construction, Ulster Bank, Amey and Todd Architects	Amendments made to reflect response: Following hand-over to the College the contractor was required to re-run the Financial Model to take account of any post-signing contract variations. All aspects of the final contract costs – capital, lifecycle, and facilities management - were well below contract signing figures. The re-run of the financial model may result in changes to the unitary payment. We would have expected the model to be updated and changes applied within a few months of the satisfactory completion of construction and hand over to the College. However, over two years later this has yet to be done. The College explained that the final re-run of the financial model had not been completed due to difficulties experienced in tidying up the "snagging list" which was impacted by the liquidation of one of the PFI sub-contractors[5].
Appendix 2	Time line of the delivery of the new Campus at Titanic Quarter Nov-08 ICL advised that Ulster Bank could no longer provide the full package of debt required for the project (i.e. £20m instead of £40m).	Amendments made to reflect response: Nov-08 ICL advised that Ulster Bank might not be able to fund the project in its entirety Mar-09 Capital contribution (bullet accelerated debt repayment) increased from £10 million to £15 million Sep-12 Capital contribution (bullet accelerated debt repayment) of £15 million made

(Footnotes)

1. Figure excludes VAT

2. Figure excludes VAT. In terms of the funding provider this is in effect an accelerated debt repayment.

3. BHC is freeholder and leased the site to TQL under a 250 year lease. TQL subleased the site to the College, for 250 years, who in turn paid a premium of £5 million for the lease, which Land and Property Services (LPS) valued at the time to be worth £7.5 million.

4. Figure excludes VAT

5. Ivywood Colleges Ltd (a 100 per cent subsidiary of Titanic Quarter Ltd) work in partnership with service providers including Patton Construction (the construction sub-contractor), Amey (FM sub-contractor) and Todd Architects. Ulster Bank were the project funder.

Correspondence of 29 July 2014 from Department for Employment and Learning

Department for
Employment and Learning
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Date: 29th July 2014

Dear Ms Boyle,

In your letter to Derek Baker of 2nd July 2014 you asked for "further detail on the benchmarking for Whole of Life costs of the project across all similar projects, as listed in Appendix 3 to the Northern Ireland Audit Office report". My reply of 11th July 2014 promised further information on this issue which is now contained in this letter.

While I can provide an analysis of construction costs, I must caution that the information in Appendix 3 does not provide a basis for an equitable comparison of the capital costs and unitary payments that are incurred in PPP projects. This is because the different projects have their own unique cost specific characteristics. Each project has a business case, prepared by the colleges' advisors, which is subsequently approved by the Department of Finance and Personnel. This approval includes a review by quantity surveyors in the Central Procurement Directorate. Business cases are prepared on a project by project basis and will encompass the full range of characteristics particular to each project.

The Capital Value

The shadow bid model in the business case contains the forecast costs of all the various project specific characteristics. These are used to construct the value for money benchmark for each project. The objective for each tenderer is then to

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produce the Most Economically Advantageous Tender that also beats the value for money benchmark, as established in the shadow bid. It should be noted that a bidder may not necessarily allocate the same level of cost to each element of the project in the way the shadow bid model is constructed. This is acceptable as long as the bidder meets the quality and cost benchmarks required to win the tender.

The construction and life cycle cost characteristics that form part of the shadow bid model will vary from project to project due to site specific issues such as topography, contamination, piling requirements, decant, demolition, landscaping, phasing, etc. This means that two projects with buildings of a similar size can legitimately have a different capital cost. It should be noted that in PPP projects the public sector estimates the capital cost, based on the shadow bid model.

When a contract has been agreed, a PPP operator is required to deliver (at whatever the cost) the services specified in the contract for which the operator receives the contracted unitary charge.

Unitary Charges

Similar size buildings in PPP projects can have different unitary charges. This can be down to factors such as the timing of the actual construction. Normally projects completed earlier will have had lower build costs so the borrowing element in the project will also have been lower. There may also be upfront capital payments in the form of bullet payments or property transfers which impact on the level of the ongoing unitary charge.

Construction Costs

The construction costs assumed in the shadow bid models (these were known as public sector comparators in the earlier projects) and the cost base dates for the projects listed at Annex 3 are as follows:

Project	Cost per square metre	Cost Base Date
South West College (Omagh)	£749	July 03
South West College (Dungannon)	£749	July 03
South Eastern Regional College (Lisburn)	£1115	May 06
South Eastern Regional College (Downpatrick / Newcastle / Ballynahinch)	£1082	May 06
Belfast Metropolitan College (Titanic Quarter)	£1052	Jan 07

The other two projects (North West Regional College – Northland Building and Belfast Metropolitan College – Millfield) were procured by the Department of Education as further education fell within the remit of that Department when they were procured.

I hope this information is helpful.

Tom Redmond

Tom Redmond.

Head of Further Education Estates
Copy: Derek Baker, Permanent Secretary, Department for Employment and Learning

Correspondence of 29 July 2014 to Department of Finance and Personnel

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29 July 2014

David Sterling
Accounting Officer
Department of Finance and Personnel
2nd Floor West
Clare House
303 Airport Road West
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BT3 9ED

Dear David,

Inquiry into the Future Impact of Borrowing and Private Finance Commitments

At its meeting on 11 June 2014, the Public Accounts Committee took oral evidence on the above inquiry from the following witnesses:

- Dr Mark Browne, Accounting Officer, Office of the First Minister and deputy First Minister (OFMDFM);
- Mr Stephen Peover, Accounting Officer, Department of Finance & Personnel (DFP);
- Mr Brett Hannam, Chief Executive, Strategic Investment Board; and
- Mr Michael Breenan, Budget Director, DFP.

At the meeting, it was indicated that the Committee would write to witnesses seeking clarification on a number of issues raised and also to request information on issues not covered during the session.

Whilst I appreciate that you are new to the position of DFP Accounting Officer, I would ask that you co-ordinate the response to this letter.

- Recommendation 6 of the Northern Ireland Audit Office report deals with the benefit of Departments with PFI contracts engaging with PFI investors, subcontractors and lenders to seek their agreement to improving transparency in older contracts through a voluntary code of conduct. What are your views on this recommendation? What engagement has there been to date with PFI investors, subcontractors and lenders and is it intended that this code of conduct will be applied?
- Can you give the Committee an understanding of the mathematical evidence that exists that demonstrates the savings to be gained over the lifetime of PFI projects?

- Long-term commitments, such as Shared Services and PPPs, were discussed during the evidence session and Members felt that this is an area where transparency seems to be lacking and that needs to be made clear to the Assembly. What are your thoughts on this and how transparency can be improved?
- Finally, Mr Peover discussed the estimated savings by concentrating the public sector estate into owned buildings, rather than leased buildings, and maximising the use of space in existing buildings, rather that expanding into new premises. Mr Peover offered to provide information on this to the Committee and Members would request that information.

I would be grateful to receive your response to this request by Friday 22nd August 2014.

Yours sincerely,

Michaela Boyle

Michaela Boyle
Chairperson
Public Accounts Committee

Correspondence of 18 August 2014 from Department of Finance and Personnel

From the Permanent Secretary
David Sterling

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Michaela Boyle
Chairperson
Public Accounts Committee
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18 August 2014

Dear Michaela

Inquiry into the Future Impact of Borrowing and Private Finance Commitments

Thank you for your letter of 29 July in which you request clarification on a number of issues raised at the 11 June evidence session and information on issues that were not covered during the session.

Having considered your revised request, I think it would be helpful to address each issue in turn.

Recommendation 6 of the Northern Ireland Audit Office report deals with the benefit of Departments with PFI contracts engaging with PFI investors, subcontractors and lenders to seek their agreement to improving transparency in older contracts through a voluntary code of conduct. What are your views on this recommendation? What engagement has there been to date with PFI investors, sub contractors and lenders and is it intended that this code of conduct will be applied?

The Code of Conduct for Operational PFI/PPP Contracts sets out the basis on which public sector bodies and their PPP partners (investors, lenders, construction contractors and service providers) agree on a voluntary basis to identify and deliver efficiencies and savings in operational PFI and PPP contracts.

It supports a collaborative approach to working together and its intention is to enhance the long term partnership between parties through developing an improved and informed working relationship.

The Code can be applied to operational PFI and PPP contracts and is voluntary and not intended to be legally binding. It does not seek to add to, amend or replace the existing project-specific contractual agreements that are in place for each operational project.

Because the Code is voluntary and not binding, it is not a replacement for effective contract conditions in new PFIs. The good practice principles in the Code are already reflected in more recent PFI and RFI contracts and SIB will monitor the guidance on Standardisation of PFI

Contracts (SOPCNI, see http://www.sibni.org/sopcni_3_final.pdf) to ensure that they reflect best practice as it develops. Additionally, in the process of its dealings with departments on developing future projects, SIB will promote the use of the principles set out in the Code as a means of enhancing the positive relationships between public and private sector partners in any new contracts.

In relation to existing PFI contracts where the Code could offer additional opportunity to commit to a collaborative approach to delivering efficiencies and savings, OFMDFM will explore ways to encourage departments to sign up to the Code of Conduct and to encourage their private sector partners to sign up if they have not already done so. For example, SIB will promote the Code in its ongoing liaison with private sector organisations in the construction and finance sectors who are involved in PFI.

Many of the companies which are involved in PFI projects in Northern Ireland are also involved in similar projects elsewhere and a number of these have already signed up to the Voluntary Code, for example:-

- Amey – BELB Strategic Partnership, DBFO2 Road
- Hochtief – Bangor Academy/ Nendrum College PPP Project
- HSBC –BELB Strategic Partnership
- Interserve – Derry Diocese St Cecilia's College / St Mary's College PPP Project, Down & Connor / De la Salle Schools, Holy Cross College PPP Project, St Genevieve's High School PFI Project, South West College - Dungannon Campus, South West College - Omagh Campus, Enniskillen Hospital
- John Laing Investments and subsidiaries– Kinnegar WwTW (Laing Investments), Project Omega (Laing O'Rourke)

It would be a matter for the contracting department/agency to work with these companies and their other private sector partners to give effect to the good practice set out in the Code.

Can you give the Committee an understanding of the mathematical evidence that exists that demonstrates the savings to be gained over the lifetime of PFI projects?

For all projects where the use of PFI is considered, the estimated costs of a PFI procurement are compared with those of a conventionally funded procurement within the Business Case before any decision is taken to proceed with PFI.

This cost comparison is conducted according to the principles of the HM Treasury Green Book. All costs over the whole life of the project are set out for each procurement option, and a net present cost (NPC) is calculated for each.

The NPC is the standard summary cost indicator used in all public sector investment appraisals to help decide best value for money. The difference between the NPCs indicates the estimated savings of using PFI rather than conventional procurement over the whole life of the project.

As a general rule, PFI will only be pursued if it demonstrates best value for money.

Long-term commitments, such as PFI and PPPs, were discussed during the evidence session and Members felt that this is an area where transparency seems to be lacking and that needs to be made clear to the Assembly. What are your thoughts on this and how transparency can be improved?

At the PAC evidence session, the OFMDFM Accounting Officer undertook to consider what additional measures could be taken to improve transparency of local information. For example, Ministers report to the Assembly on progress with the Investment Strategy and one option would be to include some degree of information on completed, current and forthcoming Private Finance Initiatives/Revenue Funded Investments in this report.

The collection of Private Finance Initiative data (which includes future commitments) for the financial year 2013/14 is in progress and the completed information will be available in the autumn. Discussions are currently underway on how this most current information can be reported in an accessible and useful format.

The OFMDFM Accounting Officer also undertook to consider how best to use the OFMDFM and other websites to enhance public access to the available information once it has been reported to the Assembly and/or published by HMT, including by publishing Northern Ireland extracts on the OFMDFM website.

From a DFP perspective, it is intended that the RRI Borrowing Strategy will be published as part of the Budget once it has been approved by the Executive. The RRI Borrowing Strategy is currently under consideration by the Budget Review Group before final proposals are presented to the Executive.

In terms of wider improvement, Assembly Committees may wish to initiate regular evidence sessions with their departments on longer term commitments to ensure that they are kept abreast of the latest position.

Finally, Mr Peover discussed the estimated savings by concentrating the public sector estate into owned buildings, rather than leased buildings, and maximising the use of space in existing buildings, rather that expanding into new premises. Mr Peover offered to provide information on this to the Committee and Members would request that information.

DFP has made cumulative savings in excess of £15 million in the period from 2009 up to March 2014 by reducing the number of buildings we lease and making better use of space in the existing public sector estate. These savings have been made in rent, rates and service charges.

In terms of strategic asset management across wider public sector, in July, 2012, the Northern Ireland Executive approved the first region-wide Asset Management Strategy for the public sector estate. The primary objectives of the strategy are:-

- To reduce the net cost service delivery through the efficient use of public assets; and
- To promote effective asset management processes that unlock value.

Significant progress has been made in the last 2 years with the collection of data on running costs for the Estate, which allowed the publishing of The State of The Estate Report 2012. Work is ongoing to collect running cost data for 2012-13, providing a platform for the Reform of Property Management Project (RPM), which has now been established with the recent appointment of the Project Director. The RPM core team is currently being finalised with the imminent appointment of the Office Transfer Manager and a Transformation Director.

Within the RPM project there are 3 main work streams, namely; Office Asset Transfer, Surplus Land Transfer, and the Transformation of Properties Division. This will enable the property management function to become responsible for the management of the region-wide estate.

The Office Transfer element requires the collection of a significant amount of data, due diligence work, along with the design of a robust transfer process, in advance of the transfer of properties to DFP Properties Division.

I trust you will find this helpful.

Yours sincerely

David Sterling

Correspondence of 29 August 2014 to Department for Employment and Learning

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29 August 2014

Derek Baker
Accounting Officer
Department for Employment and Learning
Adelaide House
39-49 Adelaide Street
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BT2 8FD

Dear Derek

Public Accounts Evidence Session

Following on from Tom Redmond's letter of 29th July 2014, and in preparation for the PAC evidence session on 17 September, the Committee would find it helpful to have some further information in relation to the bid and construction costs of the TQ project. The attached table sets out the information required and the proposed format to assist the Committee. I would be grateful if you could please provide the requested information by 8 September 2014.

Yours sincerely

Michaela Boyle

Michaela Boyle
(Chairperson)
Public Accounts Committee

Please provide this Committee with information on the two bids from ICL and the reserve Bidder for the BMC Titanic PPP project; the details in the final Shadow Bid Model; and the Final Outturn for the project in the following format;

Cost Category	**Shadow Bid Model**	**Reserve Bid**	**ICL Bid**	**Final Cost**
	£/m²	**£/m²**	**£/m²**	**£/m²**
Sub-Structure				
Superstructure				
Internal Finishes				
Services				
Building Subtotal				
External Works				
Other				
Preliminaries				
Contingencies				
Contract Sum				
Total				

Correspondence of 8 September 2014 from Department for Employment and Learning

FROM THE PERMANENT SECRETARY
Derek Baker

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Michaela Boyle
(Chairperson)
Public Accounts Committee
Room 371
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BELFAST
BT4 3XX

8 September 2014

Dear Ms Boyle

RE: PUBLIC ACCOUNTS EVIDENCE SESSION – BELFAST METROPOLITAN COLLEGE TITANIC QUARTER

I am writing to update you on two issues – the sale of Belfast Metropolitan College's properties at College Square East and Brunswick Street and your letter of 29th August 2014 requesting further information related to the costs for the Titanic Quarter project.

Property Sales

The Belfast Metropolitan College's Brunswick Street and College Square East properties became surplus as a consequence of its move to the new campus at Titanic Quarter. No interest was shown when the premises were advertised in a Public Sector Trawl so the College offered both properties for sale on the open market.

Both properties have now been sold and the funds have been received by the college;

- **Brunswick Street** – was sold to Beechill Business Properties Ltd for £2.03m;

  and

- **College Square East** – was sold to Lacuna Developments for £3.52m. As a condition of sale the buyer has requested that details of the sale value remain confidential. (*It is likely that an exemption may apply to the sale value under Freedom of Information Section 43, Commercial Interests.*)

The sales process has been supported by DFP's Land and Property Services Agency and by the Strategic Investment Board's Asset Management Unit.

Your request for further information, dated 29th August 2014.

I am sorry that I am unable to provide the information you have asked for by the requested date. We recalled the bids made in 2006 from the archives but unfortunately the information that you have asked for is not available in the format that you have requested as this is not how a Public Private Partnership procurement is run. What you have asked for is the type of information that would be expected in a conventional procurement. I will however endeavour to provide whatever information I can that resembles as closely as possible the information you require.

I hope to be able to do so before the end of this week.

Yours sincerely

D A Baker

DEREK BAKER

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Correspondence of 11 September 2014 from Department for Employment and Learning

FROM THE PERMANENT SECRETARY
Derek Baker

Department for Employment and Learning
www.delni.gov.uk

Ms Michaela Boyle
Chairperson
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Date: 11 September 2014

Dear Ms Boyle

RE: THE PUBLIC ACCOUNTS COMMITTEE HEARING ON BELFAST METROPOLITAN COLLEGE'S TITANIC QUARTER PPP PROJECT

In your letter dated 29th August 2014 you asked for a breakdown of construction costs from the two bids and the shadow bid model for the above project. I apologise for not meeting your date for reply.

You have asked for these costs to be broken down in a way that unfortunately is not available in a Public Private Partnership tender. The information that you have requested reflects the type of information that would be available within a bill of quantities in a conventional procurement.

PPP procurements are different in that within a PPP tender a global construction cost is presented. If the entire bid is deemed to be the most economically advantageous the bidder will then be expected to meet the output specifications laid down in the contract from within the cost that is bid. The bidder is expected to meet these output specifications irrespective of whatever actual costs are eventually incurred by the bidder; that is the risk the bidder accepts within the terms of a PPP contract. The final outturn costs incurred by the bidder are not actually known to the College.

The control is that the College pays the unitary charge if the specified service is provided, and does not pay the unitary charge if the service is not provided in accordance with the contractual provisions.

I can, however provide to the Committee the following information which formed part of the overall bidding process, and I hope the Committee finds this useful.

Net Present Costs from the Bids and from the Shadow Bid Model.

Cost Area	ICL Bid	BEP Bid	Shadow Bid Model
Construction and related costs	£35.04	£42.81m	£37.51m
Lifecycle Costs	£6.80m	£4.40m	£5.61m
Facilities Management Costs	£13.53m	£9.00m	£13.06m
Total	**£55.37m**	**£56.21m**	£56.18m

Yours sincerely

D A Baker

DEREK BAKER

Correspondence of 15 September 2014 from Department for Employment and Learning

FROM THE PERMANENT SECRETARY
Derek Baker

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Michaela Boyle
(Chairperson)
Public Accounts Committee
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BELFAST BT4 3XX

Date: 15 September 2014

Dear Ms Boyle

RE: PUBLIC ACCOUNTS EVIDENCE SESSION – BELFAST METROPOLITAN COLLEGE TITANIC QUARTER

I wrote to you on the 8th September 2014 to update you on two issues including the sale of Belfast Metropolitan College's properties at College Square East and Brunswick Street. In confirming the sale of the College Square East property I indicated that the buyer, Lacuna developments, had requested that details of the sale value remain confidential.

In my letter of the 8th I advised that 'It is likely that an exemption may apply to the sale value under Freedom of Information Section 43, Commercial Interests.' I have today received legal advice which indicates that the confidentiality provisions only apply prior to completion and it is therefore in order to disclose the purchase prices. This information will be made available to the public as soon as the transfers are registered in the Land Registry in any event.

I hope this clarification is helpful.

Yours sincerely

D A Baker

DEREK BAKER

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Correspondence of 15 September 2014 to Strategic Investment Board

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19 September 2014

Pat O'Neill
Strategic Adviser
Strategic Investment Board

Dear Pat,

PAC inquiry into Belfast Metropolitan College's Titanic Quarter PPP Project

Thank you for your participation in the Committee's evidence session on this inquiry on 17 September.

The Committee has asked that you provide the following additional information for their consideration:

- At the evidence session you clarified that you personally had no role in promoting the wider Titanic Quarter development plan. Please could you advise what the overall role of the Strategic Investment Board was in promoting the wider Titanic Quarter development plan prior to, during and after the preferred bidder was appointed?

I would request a response on the above issue by 3 October 2014.

Yours sincerely,

Michaela Boyle

Michaela Boyle
Chairperson,
Public Accounts Committee

Correspondence of 24 September 2014 to Department for Employment and Learning

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24 September 2014

Derek Baker
Accounting Officer
Department for Employment and Learning

Dear Derek,

PAC inquiry into Belfast Metropolitan College's Titanic Quarter PPP Project

Thank you for your participation in the Committee's evidence session on this inquiry on 17 September.

The Committee has asked that you provide the following additional information for its consideration:

- Could you confirm that for each of the projects listed in Appendix 3 to the NIAO report into Belfast Metropolitan College's Titanic Quarter PPP Project, estate strategies were fully documented and supported with an adequate audit trail?
- Could you provide a breakdown from the two bids and the shadow build model showing costs both with and without the sales proceeds of the properties at College Square East and Brunswick Street factored in? Could this breakdown also include the £3m Payment to ICL then later adjusted to £5m to ensure that ICL remained the most competitive bid. Please provide this information in tabular format.
- Could you please provide us with a copy of the College's Post Project Evaluation for the Titanic Quarter PPP Project once completed and the expected timescale for its completion?
- Could you provide a breakdown by FE College of the annual unitary charge payments made by DEL under PPP arrangements?
- Please could you provide all documentation such as letters of dissatisfaction/minutes from BMC expressing its concerns in relation to the project?
- Please could you also provide documentation such as minutes/letters from the Department to the governing body which outlines the implications of walking away from the project?

I would request a response on the above issues by 8 October 2014.

Yours sincerely,

Michaela Boyle

Michaela Boyle
Chairperson,
Public Accounts Committee

Correspondence of 24 September 2014 from Strategic Investment Board

SIB strategicinvestmentboard

Investment Strategy Northern Ireland

Michaela Boyle MLA
Chairperson,
Public Accounts Committee
Room 371
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BELFAST BT4 3XX

24th September 2014

Dear Michaela

RE: PAC inquiry into Belfast Metropolitan College's Titanic Quarter PPP Project

Thank you for your letter dated 19th September in which you asked what the overall role of the Strategic Investment Board was in promoting the wider Titanic Quarter development plan prior to, during and after the preferred bidder [for Belfast Metropolitan College] was appointed.

Unfortunately, I am not in a position to answer this question on behalf of SIB as a whole. The appropriate person to deal with the query would be Brett Hannam, SIB's Chief Executive.

Yours sincerely

Pat O'Neill

Pat O'Neill
Strategic Advisor

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Correspondence of 2 October 2014 to Strategic Investment Board

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2 October 2014

Brett Hannam
Chief Executive
Strategic Investment Board

Dear Mr Hannam,

PAC inquiry into Belfast Metropolitan College's Titanic Quarter PPP Project

Following his participation in an evidence session on this inquiry on 17 September, the Committee wrote to Pat O'Neill, Strategic Advisor, on 19 September to ask a follow up question. Mr O'Neill replied on 24 September to advise that you, rather than him, were the appropriate person to deal with the query.

The Committee would therefore request that you provide the following additional information for their consideration:

- At the evidence session your colleague, Pat O'Neill, clarified that he personally had no role in promoting the wider Titanic Quarter development plan. Please could you advise what the overall role of the Strategic Investment Board was in promoting the wider Titanic Quarter development plan prior to, during and after the preferred bidder was appointed?

I would request a response on the above issue by 15 October 2014.

Yours sincerely,

Michaela Boyle

Michaela Boyle
Chairperson,
Public Accounts Committee

Correspondence of 9 October 2014 from Department for Employment and Learning

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Derek Baker

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Ms Michaela Boyle
Chairperson
Public Accounts Committee
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Date: 9 October 2014

Dear Ms Boyle

RE: PAC INQUIRY INTO BELFAST METROPOLITAN COLLEGE'S TITANIC QUARTER PPP PROJECT

Thank you for your letter dated 24th September 2014 seeking additional information following on from the evidence session to the Committee on 17th September. I have dealt below with each of the issues in the order in which they were raised in your letter.

The Projects listed in Appendix 3 of the NIAO report.

Most of the projects listed at Appendix 3 to the NIAO report were in the development phase well before the Department issued its formal Estates Guidance in 2003/4 and consequently estates strategies were not developed in accordance with that Guidance. I can, however, assure the Committee that at all times colleges were required to match their business needs to their accommodation bases. This meant assessing student numbers across teaching/vocational areas and providing the appropriate type and quantum of accommodation in accordance with the Education and Training Inspectorate schedule. In each of the projects listed the schedule of new accommodation underpinning the project was approved and signed off by the Education and Training Inspectorate as appropriate to meet the needs of the college's business.

Breakdown of the two bids and the shadow bid model

In answering this question I have enclosed for your information and perusal the relevant evaluation reports in their entirety. The financial evaluations of bids are conducted in economic terms which take the financial inputs in the bids with their timings, and discounts that information back to net present values. To provide the information you have requested within context I have enclosed the following reports:

The Invitation to Negotiate (ITN) Bid Evaluation Financial Report – June 2006. The relevant table is on Page 12;

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The bid Evaluation Summary Report – July 2006. The relevant tables are on Page 5.

Addendum to ITN Financial Evaluation – Impact of increased site acquisition costs sought by Ivywood Colleges Ltd – October 2007 the relevant tables are Table 1 and Table 2 on page 2.

The College's Post Project Evaluation (PPE)

The College continues to work on its PPE which the Department expects to have in final draft by end November 2014. I will ensure that the Committee receives a copy of the PPE when complete.

Breakdown of the Annual Unitary Charge made by DEL and the Colleges under PPP arrangements

The table below sets out the annual unitary charge for each Further Education project broken down by the split between the Department's contribution and that of the relevant college.

College	Campus	College Contribution	DEL Contribution	Total
BMC	Millfield	£1,505,117	£2,814,995	£4,320,112
BMC	TQ	£2,000,426	£3,670,092	£5,670,518
SERC	Lisburn	£1,124,024	£2,426,665	£3,550,689
SERC	East Down	£1,424,961	£3,458,821	£4,883,782
SWC	Dungannon	£628,216	£2,916,553	£3,544,769
SWC	Omagh	£833,740	£3,104,164	£3,937,904
		£7,516,484	£18,391,290	£25,907,774

Documentation / Minutes expressing BMC concerns in relation to the Project and letters to the Governing Body outlining implications of walking away from the Project.

To avoid being selective I have assembled a document containing a list of verbatim extracts from all Governing Body minutes which relate to the Titanic Quarter PPP project. This provides a full history of all discussions and assurances leading up to the agreement of the Governing Body to seek Departmental approval to enter into the PPP Agreement. For the purposes of clarity, references in the document to, for example, "GB 4.76" relate to the paragraph number of the Governing Body minutes in question. I also enclose a copy of a letter from Ian Walters, then Deputy Chairman of the BMC Governing Body, and the response to that letter from Catherine Bell, Deputy Secretary in the Department for Employment and Learning.

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I hope this clarification is helpful. Please let me know if you require any further information.

Yours sincerely

D A Baker

DEREK BAKER

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KPMG

Corporate Finance

BIFHE City Centre PPP Project

ITN Bid Evaluation Stage

Financial Evaluation Report

June 2006

Advisory

AUDIT ▪ TAX ▪ ADVISORY

KPMG

BIFHE City Centre PPP Project
ITN Bid Evaluation Stage
Corporate Finance
June 2006

Important Notice

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KPMG

BIFHE City Centre PPP Project
ITN Bid Evaluation Stage
Corporate Finance
June 2006

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1 Executive Summary

1.1 Background

On 05 August 2005, ITN documentation was issued to the two short-listed Bidders for the BIFHE City Centre PPP Project ("the Project"). This was followed by a number of clarification notes during the bid development phase. On 29 March 2006, responses to ITN documentation were received by Central Procurement Directorate ("CPD") from both short-listed Bidders. Each Bidder was required to submit a mandatory Base Bid, three mandatory Alternative Price's and up to two Optional Variant Bids. The mandatory requirements were as follows:

- Base Bid – Complies precisely with the core requirements of the ITN documentation, with the exception that insurance costs should be based on the provisions set out in the revised SoPC3 insurance guidance (December 2005) and Financial Clarification Note 5.

- Alternative Price 1 – Based on the same inputs and assumptions as the Base Bid, with the exception that cleaning and caretaking services (and provision of equipment and supplies required to deliver same) are excluded as part of the Project.

- Alternative Price 2 – Based on the same inputs and assumptions as the Base Bid above, with the exception that cleaning costs (and provision of equipment and supplies required to deliver same) are excluded as part of the Project.

- Alternative Price 3 – Based on the same inputs and assumptions as the Base Bid but reflects FM staffing levels as per the TUPE list provided by the Institute.

Each Bidder also submitted two Optional Variant Bids that incorporated deviations from the Base Bid which the Bidders believe will offer better Value for Money ("VFM") to the Department and the Institute. These were as follows:

- Optional Variant Bid 1

  - Bidder A - "Best Value" Bid reflecting an increase in the surplus land receipt for College Square East to £7.5m on the basis that no underpinning of foundations is required and reduced FM rates of pay for TUPE staff to current rates.

  - Bidder B - reflects numerous mark-ups to the revised contract, a detailed breakdown of which is included in the legal evaluation report.

- Optional Variant Bid 2

  - Bidder A - Based on the same inputs and assumptions as the Base Bid except that the operation period is extended to 30 years.

  - Bidder B - Based on the same inputs and assumptions as the Optional Variant Bid 1 except that the operation period is extended to 30 years.

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Following a number of rounds of Financial Clarifications, final financial models were received from Bidder A and Bidder B on 25 May 2006 and 20 June 2006 respectively and it is these financial models that the figures within this report are based.

Separate evaluation reports have been prepared in respect of the Design & Technical, Services and Legal aspects of the Bids received. This report is based solely on the financial aspects of the bid evaluation process, with appropriate input from technical and legal advisers, where required.

Section 2 of this report sets out a summary of all Bids and Alternative Prices received and the evaluation status of same, while Sections 3 to 5 detail the results of the financial evaluation of the Base Bids in terms of the scores awarded to each Bidder and their relative ranking. Section 6 outlines the relevant Tax and Accounting assumptions that underpin the financial models.

1.2 Financial Evaluation Group

The Financial Evaluation Group comprised the following individuals:

Name	Position	Organisation
Mr Gerry Whittle	Chairman	BIFHE
Mr Brian Turtle	Member	BIFHE
Mr Tom Redmond	Member	DEL
Ms Wendy Lecky	Member	DEL
Mr Glenn Parker	Member	DEL
Mr Pat O'Neill	Member	SIB
Mr Paul Hollway	Financial Adviser & Quality Assurance	KPMG
Ms Ashleen Feeney	Financial Adviser	KPMG
Mr Anthony Kelly	Financial Adviser	KPMG
Ms Catherine McConvey	Financial Adviser	KPMG
Ms Elaine O'Haire	Financial Adviser	KPMG
Ms Emma McGuigan	Observer	FGS

The Financial Evaluation Group met on the following dates:

Date	Agenda
Monday 10 April 2006	• Consideration of financial section of Bidders' responses to ITN received on 29 March 2006 • High level overview of the different bid submissions • Summary of Base Bid submission (key dates/ financing terms)
Thursday 04 May 2006 (Special Meeting of Financial Evaluation Group)	• Review of Net Present Value differences across Bids, in particular Base Bids, received 29 March 2006

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Thursday 01 June 2006	• Overview of revised financial models and responses to clarifications received 25 May 2006 • Financial robustness of proposed funding structure • Preliminary Value for Money assessment
Thursday 22 June 2006	• Approval of draft Financial Evaluation report • Scoring and ranking of Bidders.

1.3 Code Names

The code names Bidder A and Bidder B have been applied to the Bidders to ensure confidentiality during the financial evaluation process.

1.4 Compliance with ITN Instructions

At the start of the financial evaluation process a compliance check was performed to ensure that each Bidder had satisfied the financial requirements set out in Section 7.6.4 of Volume 1 to the ITN documentation. After three and six rounds of financial clarification questions, for Bidder A and Bidder B respectively, the bid submissions received from both Bidders were deemed satisfactorily compliant with the financial instructions set out in the ITN documentation. While financial clarifications were sought from Bidders and all bid submissions were subsequently deemed compliant there remains a small list of issues for each Bidder which should be given due consideration in the Preferred Bidder Appointment Letter. A brief summary of these issues is set out in Appendix A.

1.5 Summary of Base Bid Submissions

Details	Bidder A			Bidder B		
Financial Close	**01 January 2007**			**01 January 2007**		
	Term	**Period From**	**Period To**	**Term**	**Period From**	**Period To**
Construction Phase	31 mths	01 Jan 07	31 Jul 09	24 mths	01 Jan 07	31 Dec 08
Operating Phase	25 yrs	01 Aug 09	31 Jul 34	25 yrs	01 Jan 09	31 Dec 33
Financing structure		**%**	**£000's**		**%**	**£000's**
Senior debt		90.38	42,788		89.50	37,959
Sub-debt		9.52	4,507		10.38	4,403
Equity		0.10	47		0.12	50
Total initial funding requirement		**100.00**	**47,343**		**100.00**	**42,412**

An overview of the Base Bid submissions is presented in the following table:

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Summary of Base Bid submissions: Bidder A	Bidder B
• Most expensive bid	• Least expensive bid
• Significantly lower Lifecycle and FM Service costs	• Lower Construction and SPV Overhead costs
• Lower surplus land proceeds due to disposal of College Square East site only	• Greater surplus land proceeds due to the disposal of both the College Square East and the Brunswick Street sites
	• More competitive funding terms however seeking higher blended equity return

1.6 Financial Evaluation Criteria

The criteria used to evaluate the Bids submitted by the two Bidders from a financial perspective were as follows:

- Ability to deliver Value for Money (in monetary terms), and
- Financial robustness of proposed financing plan.

Each Bidder was scored on a scale of 0 to 25 against each of the above financial criteria, depending on the extent to which their Base Bid met the project requirements. Scoring was divided into four bands which were as follows:

Scoring Band Interpretation	Scoring Band
Unacceptable	0-5
Barely adequate, some serious shortcomings	6-11
Generally satisfactory, minor reservations	12-17
Fully satisfactory	18-25

The Financial Evaluation Group agreed the band within which each Base Bid fell for each of the two financial evaluation criterion, and then the score to be awarded within that band. Each of the scores awarded were adjusted by the weightings detailed below to reflect the relative importance of each criterion. The weightings assigned to each of the financial criterion were as follows:

Financial Evaluation Criteria	Weight (%)
Ability to deliver a Value for Money (in monetary terms) solution	80
Financial robustness of proposed financing plan	20
Total	100

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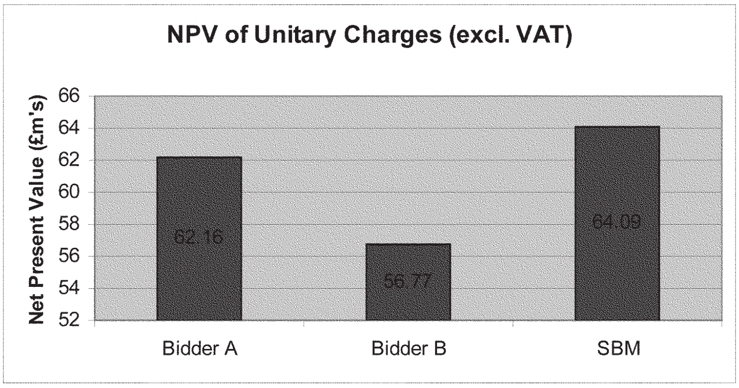
1.7 Summary of Financial Evaluation Results

1.7.1 Value for Money (in monetary terms) assessment

The results of the Value for Money (in monetary terms) assessment are summarised in the table below which shows the Net Present Value ("NPV") at 01 January 2007 (Target Financial Close) to the Department and the Institute of the Base Bids submitted. The NPV represents the cost in present value terms to the Department and the Institute of the stream of Unitary Charges (excl. VAT) sought by each Bidder during the term[1] of the Contract for the Base Bids – these have been adjusted for differences in construction completion dates (see Section 4.2). Detailed spreadsheets which underpin the results of the Value for Money (in monetary terms) test are included as Appendix B to this report.

Bidder	NPV per Bidder Financial Model £'000s	NPV per KPMG Bid Evaluation Model £000's	NPV per SBM £000's	(Cost)/Savings £000's	(Cost)/Savings %
Bidder A	59,187	62,163	64,087	1,924	3.00%
Bidder B	54,313	56,768	64,087	7,319	11.42%
Difference		5,395			

The results in the above table indicate that Bidder B has submitted the least expensive Base Bid which is £5.395m lower than Bidder B and £7.319m lower than the Shadow Bid Model ("SBM") (in NPV terms).



The above chart also illustrates that both Bidder A and Bidder B offer VFM (in monetary terms) to the Department and the Institute as it is evident that the NPV of the unitary charge of each bidder is lower than that per the SBM.

[1] 25 years from Target Service Commencement Date

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1.7.2 Value for Money (in monetary terms) Scoring

It is clear from the results of the VFM (in monetary terms) test that both Bidder A and Bidder B offer a VFM (in monetary terms) solution to the Department and the Institute. As Bidder A was 3.00% less expensive than the SBM (equating to £1.93m) it has been awarded an unweighted score of 20 out of 25. As Bidder B was 11.42% less expensive than the SBM (equating to £7.32m in NPV terms), it was awarded an unweighted score of 24 out of 25 in respect of its Base Bid.

Bidder	Unweighted Score (max 25)	Weighted Score (max 80)
Bidder A	20	64.0
Bidder B	24	76.8

1.7.3 Financial Robustness of Proposed Financing Plan

In summary, the robustness of the Bidders' financing proposals refers to the level of funding commitment underlying the Base Bids and the certainty of those financing proposals being delivered within the necessary timescale. The level of commitment to the Project on the part of the funders, based on the requirements of the Department and the Institute, is satisfactory for both Bidders as shown in the table below:

	Bidder A	Bidder B
Senior debt commitment	HIGH	HIGH
Equity commitment	HIGH	MEDIUM/HIGH
Financing plan	HIGH	HIGH

All funders were comfortable with the risk profile of the project, as set out in the Revised Contract issued as part of the ITN documentation to Bidders and which formed the basis for the preparation of the Base Bids.

Both Bidders' funders fully met the requirements of Section 7.6.13 "Commitment of financing at ITN Bid Submission Stage" of Volume 1 to the ITN documentation.

Both Bidder A and Bidder B propose to invest pinpoint equity at Financial Close of £47k and £50k respectively and utilise an Equity Bridge loan to cover the remaining equity requirement until the end of construction. The Equity Bridge loan is replaced by subordinated debt at the end of the construction period for Bidder A and six months after construction completion for Bidder B.

1.7.4 Financial Robustness of Proposed Financing Plan

Both Bidder A and Bidder B submitted robust bids from a financing perspective and this is reflected in high scores awarded of 23 out of 25 and 19 out of 25 respectively. Bidder A scores higher than Bidder B as it provided a stronger equity letter of support, with Bidder B's equity

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letter of support failing to make reference to the terms of the bid or the quantum of equity approved.

Bidder	Unweighted Score (max 25)	Weighted Score (max 20)
Bidder A	23	18.4
Bidder B	19	15.2

1.7.5 Overall Scores and Ranking

The overall financial evaluation scores awarded to each Bidder presented in the table below are out of 100.

Bidder	Weighted Score (max 100)	Rank
Bidder A	82.4	2
Bidder B	92.0	1

1.8 Conclusions

The main conclusion to be drawn from the financial evaluation of the Base Bids submitted by the short-listed Bidders is that Bidder B is the least expensive in NPV terms to the Department and the Institute while Bidder A has scored higher in terms of financial robustness. In order to explain where the efficiencies have been made by Bidder B in their Base Bid, the following table illustrates how the Bidders compare against each other within each of the main cost categories.

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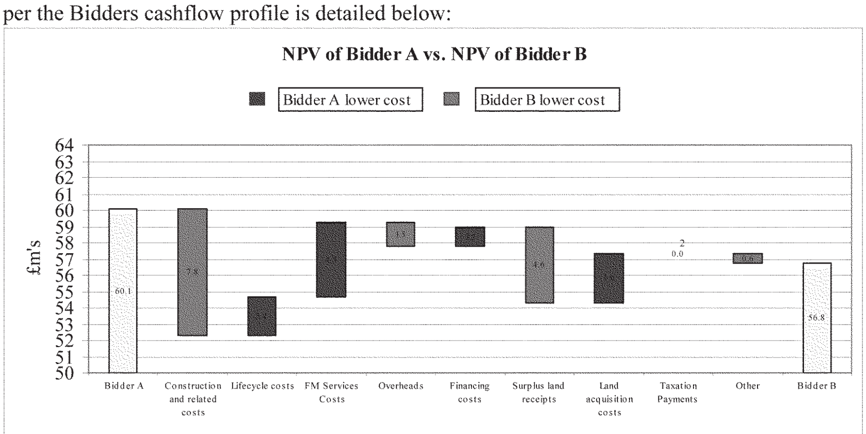
Cost Category	Bidder A	Bidder B
Construction and related costs	✓	✓✓✓
Lifecycle costs	✓✓✓	✓
FM Services costs	✓✓✓	✓
SPV Overheads	✓	✓✓✓
Financing costs	✓✓✓	✓
Surplus land receipts	✓	✓✓✓
Land acquisition costs	✓✓✓	✓
Taxation payments	✓✓✓	✓
Other[3]	✓	✓✓✓

KEY:
✓✓✓ - Lower cost compared to other Bidder
✓✓ - Average cost
✓ - Higher cost compared to other Bidder

A detailed comparison of the constituent costs that make up the NPV of the Unitary Charge as per the Bidders cashflow profile is detailed below:



The graph shows that Bidder A's costs are more competitive than Bidder B in respect of lifecycle costs, FM service costs and financing costs, whilst Bidder B is more competitive in terms of construction and related costs and overheads. Bidder B's income from disposal of land exceeds that of Bidder A due to the fact that Bidder B proposes to dispose of two sites (College Square East and Brunswick Street) whilst Bidder A will only have one site to dispose (College Square East) as their proposed solution involves redevelopment of the existing site at Brunswick Street.

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[2] £33k difference in NPV of Taxation Payments
[3] 'Other' consists of net cashflow impact of VAT, cost of cash and reserves and miscellaneous items and represents <1% of total costs.

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1.9 Recommendation

Both Bidders submitted robust bids from a financing perspective which are less expensive than the SBM. However, whilst Bidder A scores higher from a financial robustness perspective, Bidder B's Base Bid is significantly less expensive than Bidder A's Base Bid resulting in Bidder B's weighted score for financial evaluation being higher than that awarded to Bidder A. It is therefore recommended that, solely from a financial perspective, Bidder B is awarded Preferred Bidder status. This is conditional upon satisfactory resolution to all the issues relating to Bidder B's Bid set out in Appendix A.

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2 Description of Bids and Alternative Prices

The table below gives a brief description of each of the Bids and Alternative Prices and details the NPV as per the KPMG Bid Evaluation Model for each Bidder:

Bid Description	NPV per Bidder Financial Model		NPV per Bid Evaluation Model £000's		Difference in NPV per Bid evaluation Model £000's	
	Bidder A	Bidder B	Bidder A	Bidder B	£	%
Base Bid – Complies precisely with the core requirements of the ITN documentation, with the exception that insurance costs should be based on the provisions set out in the revised SoPC3 insurance guidance (December 2005).	59,187	54,313	62,163	56,768	5,395	9.50%
Alternative Price 1 – Based on the same inputs and assumptions as the Base Bid, with the exception that cleaning and caretaking services (and provision of equipment and supplies require to deliver same) are excluded as part of the project.	56,561	49,288	59,405	51,515	7,890	15.32%
Alternative Price 2 - Based on the same inputs and assumptions as the Base Bid above, with the exception that cleaning costs (and provision of equipment and supplies required to deliver same) are excluded as part of the project.	56,561	49,858	59,405	52,111	7,293	14.00%
Alternative Price 3 – Based on the same inputs and assumptions as the Base Bid but reflects FM staffing levels as per the TUPE list provided by the Authority.	66,078	57,336	69,400	59,927	9,473	15.81%
Optional Variant 1 – Bidder A "Best Value" Bid/Bidder B Contract mark-up Bid	56,693	53,961[4]	59,544	56,400	3,144	5.57%
Optional Variant 2 – 30 year operational period.	61,790	58,359	64,598	60,995	3,603	5.91%

[4] Bidder B has proposed an Optional Variant Bid which consists of a package of proposed contractual variants, as detailed in Appendix 5 to the Legal Evaluation Report. The collective NPV savings of these variants total £368k, however a number of these variants have been deemed unacceptable from a legal perspective. Due to insufficient information being furnished by the Bidder, it has not been possible to separately identify the NPV saving attributable to the unacceptable changes.

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2.1 Evaluation status of Bids and Alternative Prices

2.1.1 Base Bids

The Base Bids submitted by both Bidders have been fully evaluated and scored.

2.1.2 Alternative Price 1, 2 and 3

The Alternative Prices are not being fully evaluated or scored at this point. All bids have been analysed within the KPMG Bid Evaluation Model to check accuracy of the NPV calculation however the detailed evaluation has concentrated on the Base Bid submissions.

2.1.3 Optional Variant Bids 1 and 2

The Optional Variant bids are not being fully evaluated or scored at this point. All bids have been analysed within the KPMG Bid Evaluation Model to check accuracy of the NPV calculation however the detailed evaluation has concentrated on the Base Bid submissions.

2.1.4 Summary

The table below summarises the evaluation status of each of the bids received.

Bid Reference	High level Evaluation	Detailed Evaluation	Scored
Base Bid	✓	✓	✓
Alternative Price 1	✓	X	X
Alternative Price 2	✓	X	X
Alternative Price 3	✓	X	X
Optional Variant 1	✓	X	X
Optional Variant 2	✓	X	X

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3 Analysis of Costs

3.1 Introduction

An analysis of Bidders' Base Bid costs in NPV terms under the main cost categories is summarised below while a detailed analysis of costs is set out in Appendix C to this report.

	NPV			
Sources and Uses of Funds	**Bidder A Total**	**Bidder B Total**	**Difference**	**SBM**
Sources of Funds				
Unitary Charge[5]	**60,057**	**56,764**	**(3,294)**	**64,087**
Uses of Funds				
Construction and related costs	42,810	35,042	(7,768)	37,512
Lifecycle costs	4,401	6,807	2,406	5,611
FM Services costs	9,003	13,532	4,529	13,063
Overheads	5,983	4,524	(1,459)	4,936
Financing costs	1,432	2,602	1,169	3,371
Surplus land receipts	(4,127)	(8,757)	(4,630)	(8,244)
Land acquisition costs	0,000	3,000	3,000	6,738
Taxation payments	0,300	0,332	0,033	0,895
Other	0,256	(0,318)	(0,574)	0,206
Total	**60,057**	**56,764**	**(3,294)**	**64,087**

The financing costs and taxation payments are discussed later in Sections 5 and 6 while the remainder of this section provides a detailed breakdown and discussion on the remaining costs and surplus land receipts listed above.

3.2 Construction and related costs

The charts below show the NPV of construction and related costs included in the Bidders' Base Bids. Construction and related costs comprise of design and building costs, professional fees, fixtures, loose furniture and equipment and start-up costs (e.g. SPV bid costs, adviser fees, funder arrangement fees etc.).

[5] Please refer to Section 4.2 for reconciliation between NPV as per KPMG bid evaluation model and NPV as per stream of Unitary Charge cashflows in Bidders model.

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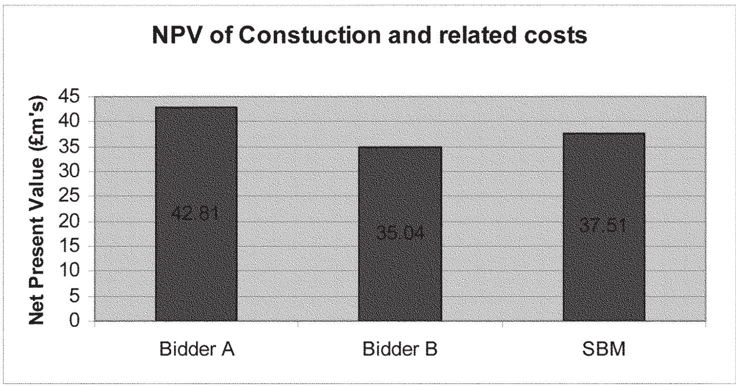
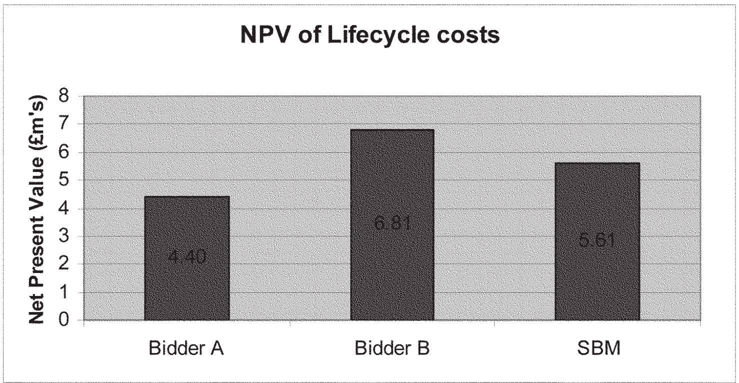


The above chart shows that on a whole Bidder B's construction and related costs are significantly lower than Bidder A and the SBM, being 22.17% lower than Bidder A and 7.05% lower than the SBM. Bidder A's construction and related costs are significantly higher than those presented by Bidder B (22.17%) and the SBM (14.12%).

3.3 Lifecycle costs

The chart below shows the NPV of the lifecycle costs for the Base Bids submitted by the Bidders.



Bidder A has the least expensive lifecycle costs in NPV terms, being 54.67% cheaper than Bidder B and 27.49% cheaper than the SBM. The NPV of lifecycle costs within the SBM are 21.32% cheaper than those presented by Bidder B.

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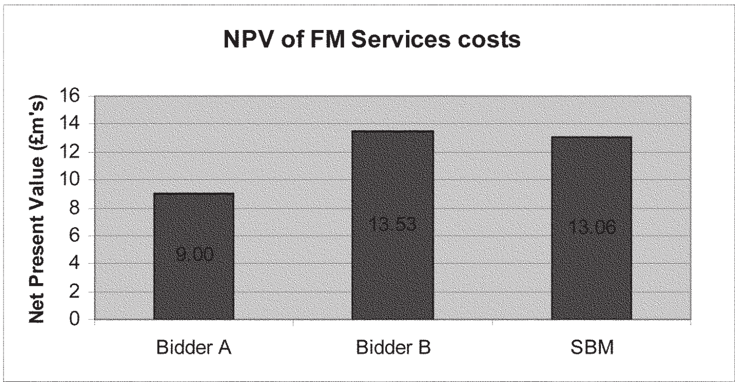
A further analysis of lifecycle costs is set out in Appendix C.[6]

3.4 Facilities Management ("FM") Services costs

The chart below shows the FM Service costs in respect of the Base Bids submitted by the Bidders.



It is evident from the chart above that Bidder A has significantly lower FM Services costs than Bidder B and the SBM, being 50.30% and 45.09% cheaper respectively.

Further analysis on FM Service costs is set out in Appendix C.[4]

3.5 Overhead costs

The chart below shows the NPV of the overhead costs in respect of the Base Bids submitted by each Bidder. Overheads comprise insurance premia relating to operational phase, SPV management costs, audit, accounting and tax fees, legal fees, bank fees, FM management costs and Transport costs (Bidder B) incurred during the operational phase.

[6] Technical advisers to comment on reasonableness and robustness of Lifecycle and FM Service costs.

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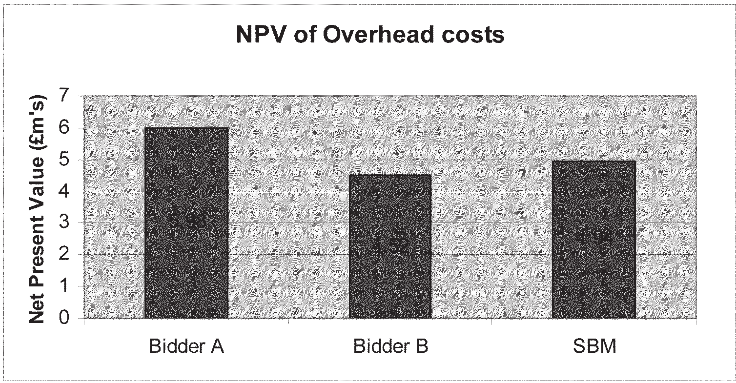

Bidder B has proposed lower overhead costs in NPV terms, being 32.25% cheaper than Bidder A and 9.11% cheaper than the SBM.

It is worth noting that Bidder A has included a cost of £105k per annum in their overheads under the cost category 'FM management' however they have not included any cost under "Helpdesk" in their FM Service costs. Hence it is likely that a proportion of these FM management costs relate to FM service costs. The NPV of FM management costs over the term of the project equates to £1.645m.

3.6 Surplus land proceeds

Bidders were issued with a Technical Clarification on 21 March 2006 detailing the Open Market Values ("OMV") for the Brunswick Street and College Square East site. This clarification also outlined that the Institute would expect to achieve, as a minimum, OMV's for the properties, otherwise the property would be retained and sold on the open market. The table below shows the surplus land proceeds bid by each Bidder for the surplus sites and the OMV of same:

Site	Bidder A £	Bidder B £	OMV £
Brunswick Street	-	4,400	3,800
College Square East	5,000	5,600	5,000
Total	**5,000**	**10,000**	**8,800**

The figures in the table above are summarised in the chart below:

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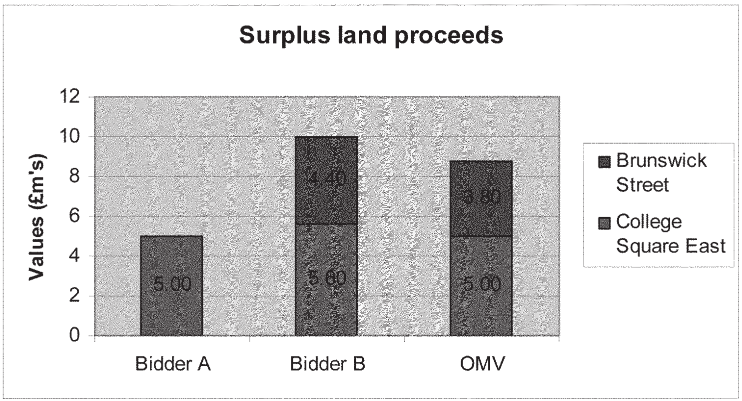
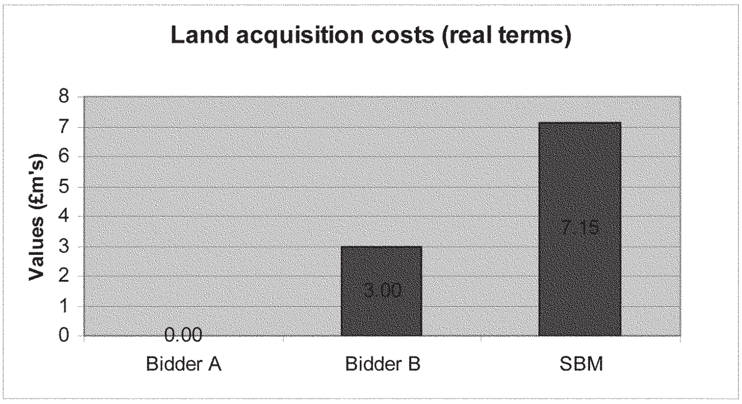


From the table and graph above we can see that Bidder A has bid the same value for the College Square East site as the OMV. Bidder B's surplus land proceeds for Brunswick Street and College Square East is £600k greater than that of the OMV associated with each of the respective sites.

3.7 Land acquisition costs

The chart below show the land acquisition costs for each Bidder and the SBM.



Bidder A does not include any land acquisition costs in their financial model as their proposed solution involves redevelopment of the existing site at Brunswick Street.

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4 Value for Money (in monetary terms) Assessment

4.1 Introduction

Value for Money was assessed in quantitative terms by recalculating the NPV of the payments sought by the Bidders using a nominal discount rate of 6.09% in the KPMG Bid Evaluation Model. This model was developed to ensure that both Bidders were compared on a fair and equitable, like for like basis to one another and the SBM. Furthermore, this model ensures that the stream of Unitary Charges sought by each Bidder are indexed using the correct indexation formula (as set out in Part 3 to Schedule 7 of the Revised Contract and subsequently updated during the Financial Clarification Process) and discounted using the same methodology. This recalculation of the NPV in the KPMG Bid Evaluation Model results in a number of reconciling items to the NPV in the Bidders model, which are detailed in Section 4.2 below.

4.2 Reconciliation between Bidders Model and the KPMG Bid Evaluation Model

Bids have been assessed on a comparable basis by taking data from each Bidder's financial model and calculating the NPV of Unitary Charges on a consistent basis. Differences between the NPV's as stated in Bidder's financial models and the NPV as evaluated primarily arise due to different discounting methodologies, different timing and indexation assumptions.

The table below provides a reconciliation of the movements between the KPMG Bid Evaluation Model and the NPV per the Bidders Model for the Base Bid.

Reconciliation between NPVs in the Bidders Model and the Evaluation Model	Bidder A £'000	Bidder B £'000
NPV per Financial Model	59,187	54,313
Discounting methodology	0,870	2,450
NPV per Unitary Charge cashflows	**60,057**	**56,764**
Construction completion adjustment	2,097	0,000
Indexation / Timing	0,008	0,004
NPV per KPMG Bid Evaluation Model	**62,163**	**56,768**
Difference (Bidder Model and KPMG Bid Evaluation Model)	**2,976**	**2,455**

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Detailed below is an explanation for each Bidder of the reconciling items outlined in the table above:

Reconciliation items	
Bidder A	**Bidder B**
• The differences between the NPV per the Bidders model and the NPV calculated from the Unitary Charge cashflow is due to the fact that Bidder A discounts to 31 December year ends and therefore receives 9 months additional discounting each year; • Construction completion adjustment – this adjustment is necessary to realign the timescale over which the bidders Unitary Charges are discounted to enable a like for like comparison (see Section 4.3 below); and • The other difference is due to the fact the KPMG Bid Evaluation model calculates indexation based on a daily basis whereas the Bidder's Financial Model calculates indexation on a monthly basis.	• Discounting differences – the Bidder model discounts the cashflows back to 31 March 2006, whereas the actual NPV base date should be 01 January 2007 as in the Bid Evaluation Model; and • The other difference is due to the fact the KPMG Bid Evaluation model calculates indexation based on a daily basis whereas the Bidder's Financial Model calculates indexation on a monthly basis.

The above adjustments have resulted in an increase of c. £2.976m and c. £2.455m to the NPV of the payments sought by Bidder A and Bidder B respectively in their submitted models. These adjustments are necessary to ensure that the Bidders are compared on a consistent basis. Similar adjustments were required in order to assess Alternative Prices 1, 2 and 3, and Optional Variant Bids 1 and 2.

The results of the Value for Money (in monetary terms) test are detailed in the spreadsheets included as Appendix B to this report and are summarised below.

4.3 Results of Value for Money (in monetary terms) test

In order to compare the Base Bids submitted by each of the Bidders against each other, in addition to the Shadow Bid Model (SBM), a timing adjustment is required to the Base Bids in respect of construction completion date to allow for the fact that the construction completion date underpinning the bids submitted may be different from completion date assumed in the SBM. Discounting the stream of Unitary Charges sought by Bidders over a different timescale would give unfair results – hence for financial evaluation purposes all completion dates have been aligned to the completion date assumed in the SBM of 31 December 2008.

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Bidder	NPV per Bidders Financial Model £000's	NPV per KPMG Bid Evaluation Model £000's	NPV per SBM £000's	(Cost) / Saving £000's	(Cost) / Saving %
Bidder A	59,187	62,163	64,087	1,924	3.00%
Bidder B	54,313	56,768	64,087	7,319	11.42%
Difference		(5,395)		(5,395)	

It is evident from the results in the above table that both Bidder A and Bidder B deliver Value for Money (in monetary terms) being 3.00% and 11.42% respectively below the SBM.

4.4 Evaluation scores

Financial Criterion: Ability to deliver Value for Money (in monetary terms)		
Bidder	**Unweighted Score (max 25)**	**Weighted Score (max 80)**
Bidder A	20	64.0
Bidder B	24	76.8

It is clear from the results of the VFM (in monetary terms) test that both Bidder A and Bidder B offer a VFM (in monetary terms) solution to the Department and the Institute. As Bidder A was 3.00% less expensive than the SBM (equating to £1.924m) it has been awarded an unweighted score of 20 out of 25. As Bidder B was considerably less expensive than the SBM, i.e. 11.42% (equating to £7.319m in NPV terms), it was awarded an unweighted score of 24 out of 25 in respect of its Base Bid.

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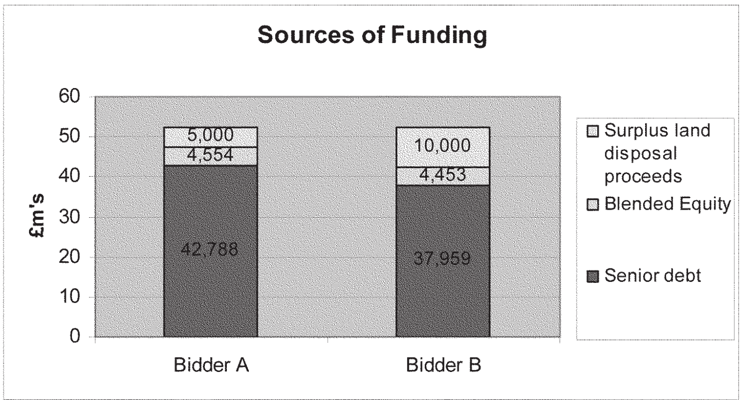
5 Financial Robustness

5.1 Proposed Financing Structure

5.1.1 Sources of funds during development

The chart below illustrates the various sources of funds used by the Bidders to fund the capital expenditure in their Base Bid (in nominal terms):



The table below shows the amounts of each source of funds and the corresponding use of funds during the development phase (in nominal terms) and their relative percentages.

	Bidder A		Bidder B	
	NPV £'000	%	NPV £'000	%
Sources of Funds				
Senior debt	42,788	81.7%	37,959	72.4%
Sub-debt	4,507	8.6%	4,403	8.4%
Pure equity	0,047	0.1%	0,050	0.1%
Surplus land	5,000	9.6%	10,000	19.1%
Total	**52,343**	**100%**	**52,412**	**100%**
Uses of Funds				
Construction costs	45,533	87.0%	38,929	74.3%
SPV Costs	2,210	4.2%	2,497	4.8%
Interest & fees	4,026	7.7%	2,748	5.2%
Cash & Reserves	0,005	0.0%	7,872	15.0%
Working capital	0,569	1.1%	0,366	0.7%
Total	**52,343**	**100.0%**	**52,412**	**100.0%**

Key points:

- Both Bids are funded by a combination of debt, equity and surplus land proceeds;

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- Surplus land proceeds represent a significantly higher proportion of the total funding sources for Bidder B than Bidder A (19.1% vs. 9.6% respectively);

- Bidder B's failure to utilise a surplus land bridging loan results in a very large cash balance upon receipt of surplus land proceeds. This large cash balance is then used to make a bullet repayment on the senior debt. This is inefficient in financing terms primarily for two reasons:

    1) The margins on a surplus land bridging loan are typically significantly lower than on a senior debt loan; and

    2) The potential gearing level is decreased as the surplus land bridge is being financed out of senior debt – surplus land bridging loans do not form part of the gearing ratio used by funders to set maximum gearing levels in their term sheets.

The table below shows the total debt and equity funding in real terms for both Bidders:

	Bidder A		Bidder B	
	£'000	%	£'000	%
Senior Debt	42,788	90.38%	37,959	89.50%
Subordinated debt	4,507	9.52%	4,403	10.38%[7]
Equity	0,047	0.10%	0,050	0.12%
Total	47,343	100.00%	42,412	100.00%

Key points:

- Similar gearing levels for both Bidders, however Bidder B has potential to generate more efficient gearing by introducing Surplus Land Bridge loan as outlined above.

5.1.2 Term Sheet Overview

All of the Bidders supplied detailed term sheets from their funders to support their Base Bid submissions. The tables below highlight the funding institutions involved and the key features of the senior debt, subordinated debt, equity capital, equity bridging and land bridging finance (where applicable).

[7] In the financial models received on 20 June 2006 the percentage of sub-debt had increased since the original bid, this will be clarified should Bidder B be appointed Preferred Bidder.

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5.1.2.1 Senior debt

Senior Debt	Bidder A	Bidder B
Financial Adviser	PricewaterhouseCoopers	BDO Stoy Hayward
Lead Arranger	Barclays Bank plc	Ulster Bank
Facility Amount (up to)	£43m	£38.75m
Repayment Term	24 years from the Project Completion Date	24 years from the Project Completion Date
Interest Rate	LIBOR swap rate (4.49%) + Credit Spread (10 bps) + MLA (1 bp) + Margin	LIBOR swap rate (4.41%) + Credit Spread (10bps) + MLA (0.5bps) + Margin
Margins	Construction period: 85 bps	Construction period: 75bps
	Operations:	Operations:
	(yrs 1-10) – 70 bps	(yrs 1-10) – 70 bps
	(yrs 11+) – 80 bps	(yrs 11–20) – 75bps
		(yrs 21+) – 80 bps
Commitment fee	0.40%	0.35%
Arrangement fee	0.80%	0.70%
ADSCR (min)	1.15	1.15
LLCR (min)	1.18	1.18
Source of information	Financial text and model	Financial text and model

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5.1.2.2 Sub-ordinated debt

Sub-ordinated Debt	Bidder A	Bidder B
Provider	Same as equity capital*	Same as equity capital*
Facility (up to)	£4.5m	£4.2m
Repayment Term	25 years	25 years
Interest Rate	12.71%	14.46%
Source of information	Financial text and model	Financial text and model

5.1.2.3 Equity

Equity	Bidder A	Bidder B
Subscribers*	Bilfinger Berger BOT Ltd (70%) John Graham (Dromore) (30%)	Ivy Wood Properties Limited (100%)
Pure Equity Injection	£47k at financial close	£50k at financial close
Blended Equity IRR (post tax nominal)	13.03%	14.50%
Source of information	Financial text and model	Financial text and model

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5.1.2.4 Equity bridge and Surplus Land bridge

	Bidder A	Bidder B
Equity Bridge		
Provider	Barclays Bank plc	Ulster Bank
Commitment fee	0.15%	0.20%
Arrangement fee	0.40% if Letter of Credit backed	0.30%
Margin	25 bps if Letter of Credit backed	40 bps if Letter of Credit backed
Land Bridge		
Provider	Barclays	N/A
Facility (up to)	£7.5m	
Commitment fee	0.15%	
Arrangement fee	0.40%	
Margin	25 bps	
Source of information	Funder Term Sheets	Funder Term Sheets

5.1.3 Cost of financing

The table below highlights the cost in NPV terms to Bidders of their financing proposals.

	Bidder A £000's	Bidder B £000's
Senior Debt	1,227	0,936
Sub-Debt	(2,247)	(3,460)
Pure Equity	(0,518)	(0,186)
Sub-Debt Bridge	0,151	0,214
Land Bridge Debt	0,146	0,000
Debt Service Reserve Facility fees	(0,108)	(0,047)
Change in Law Facility fees	(0,083)	(0,058)
Total	**(1,432)**	**(2,602)**

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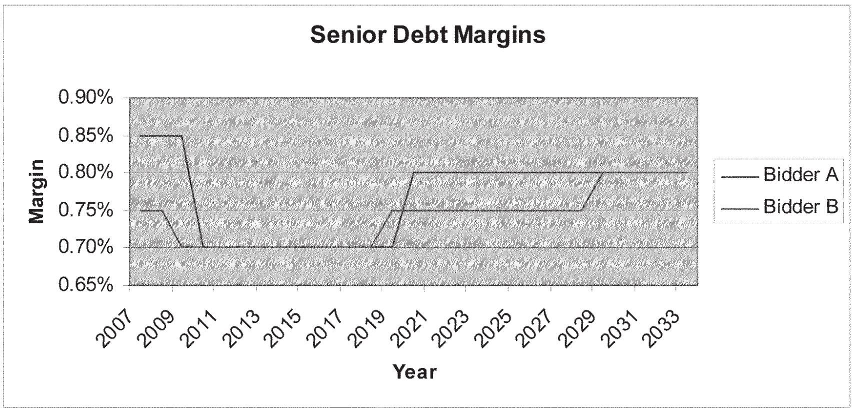
5.1.3.1 Cost of Equity

Both Bidders provide the equity to the SPV's via a combination of share equity and subordinated debt. Bidder A provides a total of £47k pure equity and £4.51m of subordinated debt while Bidder B provides a total of £50k pure equity and £4.40m of subordinated debt.

Bidder B has bid a higher nominal blended Internal Rate of Return ('IRR'), which includes all returns to shareholders (i.e. sub-debt interest and equity dividends), of 14.51% compared to Bidder A's IRR of 13.03%. This is largely due to Bidder B having a higher coupon rate on the subordinated debt (14.46% vs. 12.71% for Bidder A).

5.1.3.2 Cost of Senior Debt

Both Bidder A and Bidder B generate a positive cost of senior debt at £1,227k and £936k respectively. This is because the nominal discount rate applied in the evaluation (i.e. 6.09%)[8] is actually higher than the interest rate underlying the senior debt financing (c.5.2% - 5.5%).



Whilst Bidder B has more competitive senior debt interest rate margins on average than Bidder A, as shown in the graph above, because Bidder A draws down more senior debt and does not repay the senior debt as quick as Bidder B, it has a higher positive cost of debt than Bidder B in NPV terms. The graph below shows the outstanding senior debt balances for both Bidders over the concession term.

[8] This nominal discount rate is derived by multiplying the real discount rate as advised by HM Treasury (3.5%) by the assumed inflation rate (2.5%)

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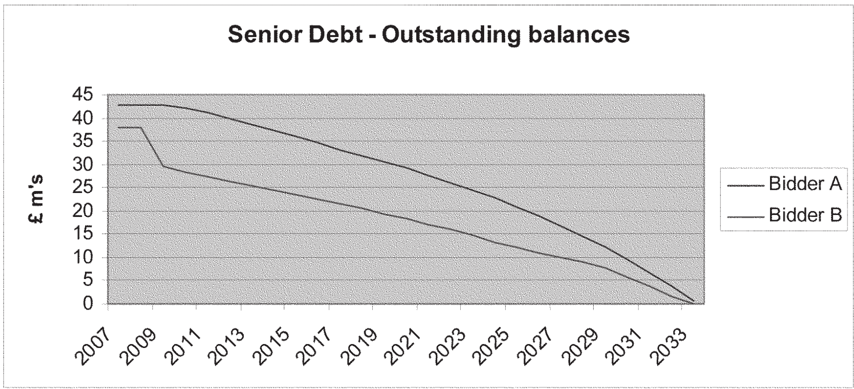

5.2 Feasibility of Financing Plan

Each of the Bidders' Base Bid submissions were reviewed with regard to the funding structure being proposed, taking account of the commitment present in relation to that funding and the deliverability of the funding package in accordance with the proposed timetable for procurement of new accommodation and associated services for the Institute.

The results of this analysis, based on the requirements of the Department and the Institute as set out in the ITN, is as follows:

	Bidder A	Bidder B
Senior debt commitment	HIGH	HIGH
Equity commitment	HIGH	MEDIUM/HIGH
Financing plan	HIGH	HIGH

All funders were comfortable with the risk profile of the project, as set out in the Revised Contract issued as part of the ITN documentation to Bidders and which formed the basis for the preparation of the Base Bids.

Both Bidders' funders fully met the requirements of Section 7.6.13 of Volume 1 to the ITN documentation. Both Bidders have also stated that they are confident of securing all internal approvals within the eight weeks timescale outlined in Section 7.6.14 of Volume 1 to the ITN documentation.

Both Bidders submitted a letter from their respective financial advisers stating that debt funding is achievable, however only Bidder A's financial adviser letter states that the financing proposals are sufficient to enable the Bidder to meet its obligations under the Revised Contract and that the accounting and tax assumptions underpinning the financial model are reasonable

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and appropriate for the Bidder's financial proposal. Bidder B's financial adviser has not commented on such matters.

5.3 Equity commitment

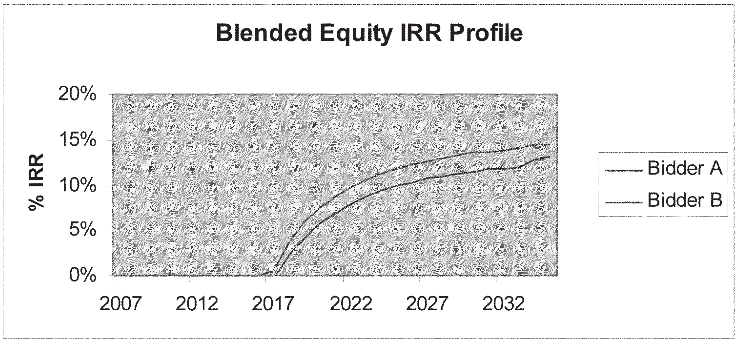
Bidder A provides a strong equity letter of support from its majority shareholder, expressing their enthusiasm for the project and the fact they have carefully considered and approved the terms of their bid. Bidder B provided a very short letter of support stating they would fund the pure equity and subordinated debt finance, however they make no reference to the terms of the bid or the quantum of equity approved.

Both Bidder A and Bidder B propose to invest pinpoint equity at Financial Close of £47k and £50k respectively and utilise an Equity Bridge loan to cover the remaining equity requirement until the end of construction. The Equity Bridge loan is replaced by subordinated debt at the end of the construction period for Bidder A and six months after construction completion for Bidder B.

The table below shows the build up of Blended Equity IRR over time, as per the Bidders' Model:

Blended Equity IRRs		
Year	**Bidder A**	**Bidder B**
10	5.64%	5.81%
15	9.86%	11.29%
20	11.48%	13.35%
25	13.03%	14.51%

From the above table and graph below we can see that the build up of the Blended Equity IRR for both Bidders occurs over the full term of the project, indicating that both Bidders are committed to the project for the full concession period.



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5.4 Evaluation scores

The table below contains the scores for the financial robustness of the proposed financing plan considering the comments above:

Financial Criterion: Financial Robustness of Proposed Financing Plan		
Bidder	**Unweighted Score (max 25)**	**Weighted Score (max 20)**
Bidder A	23	18.4
Bidder B	19	15.2

Both Bidders submitted robust bids from a financing perspective, however the stronger equity letter of support from Bidder A has resulted in Bidder A scoring 23 out of 25 and Bidder B scoring 19 out of 25.

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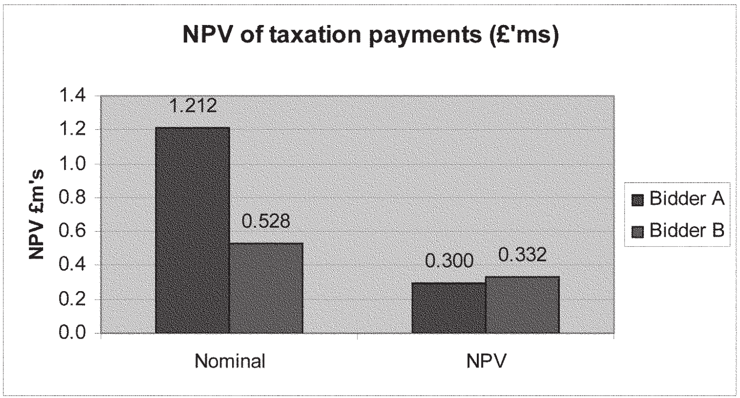
6 Taxation & Accounting Reviews

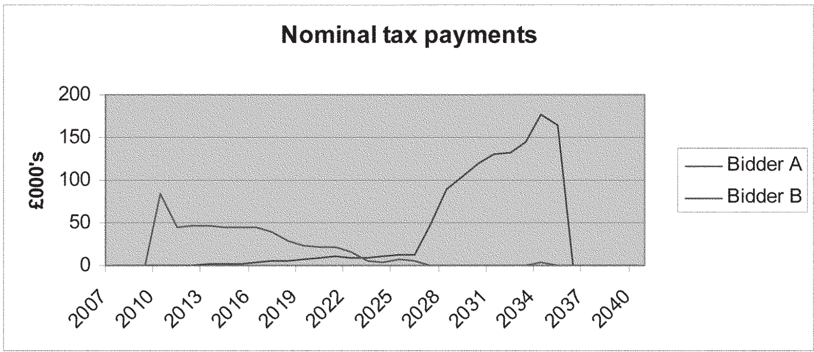
As part of the financial evaluation KPMG tax and accounting specialists reviewed both Bidders Base Bid financial models. The following sections detail the tax and accounting assumptions made by Bidders in their financial models and also highlights the issues surrounding same that have arose as a result of the specialist reviews.

6.1 Taxation

The chart below shows the NPV of the taxation costs applicable to each Bidder.



Whilst the nominal taxation costs of Bidder A are 130% higher than that of Bidder B, it is worth noting that in NPV terms Bidder B's taxation payments are actually 11% higher than that of Bidder A. This variance can be explained by the profile of the taxation payments as Bidder A incurs the majority of its tax charges in the later years of concession, whereas Bidder B incurs substantial taxation charges in the early years of the concession. This profile is demonstrated in the graph below:



Both Bidders have assumed that the Special Purpose Vehicle (SPV) will have 'Composite Trader' tax status. As expected under Composite Trade, the tax calculations follow the accounting treatment in relation to the recognition of income. The accounting treatment is therefore critical to the tax calculations. As both Bidders assume Finance Debtor accounting treatment and there were no material issues identified in the application of the same, (see section 6.2 below) no material issues arose in respect of the calculation of corporation tax within the Bidders financial models.

It should be noted that any risk associated with taxation assumptions is the full responsibility of the Bidder and hence any additional costs that occur as a result of clarification of taxation assumptions at Preferred Bidder stage should only impact the Bidders return and not be passed onto the Department and the Institutes in the form of a higher unitary charge.

6.2 Accounting

A review of the accounting treatment within each Bidders Base Bid was carried out and a number of minor issues noted. None of the issues identified are deemed material to the extent that they would have any impact on the ranking of the Bidders. As with taxation assumptions any risk associated with accounting assumptions is the responsibility of the Bidder and hence any additional costs that occur as a result of clarification of accounting assumptions at Preferred Bidder stage should only impact the Bidders return and not be passed onto the Department and the Institutes.

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A Areas to be reviewed prior to formal appointment of Preferred Bidder

There are a number of issues in relation to each Bid that should be clarified before either of the Bidders is formally appointed as Preferred Bidder. Such issues should be fully reflected in the Preferred Bidder Appointment letter and are as follows:

Bidder A

In the event that ground water cooling proves not to be feasible, Bidder A would propose that it would revert in part or in full to conventional chillers. Bidder A states that the alternative solution of chillers will not incur any additional capital costs but will incur additional revenue costs as follows (base date 01 January 2007):

- Annual maintenance - £5,000
- Life Cycle replacement - £75,000 in year 16
- Electricity consumption – estimated at £8,000 per annum.

Should Bidder A be selected as Preferred Bidder clarification should be sought as to the full cost implications to the Department and the Institutes of reverting to conventional chillers.

Bidder B

- At Pre-Qualification Stage the Financial and Economic Standing of Bidder B was evaluated based on the Financial Statements for Ivy Wood Properties Limited for the year ended 31 December 2002, 2003 and draft accounts for the year ended 31 December 2004, at which point the net worth of the company was stated as £57.4m. Bidder B has subsequently provided signed audited accounts for year ended 2004 and draft accounts for Ivy Wood Properties Limited for year ended 2005. These indicate that the net worth of the company has fallen from £41.5m in the signed audited accounts for 2004 to £26.3m in the draft accounts for 2005. The primary reasons for these changes are as follows:

  - £15.9m written off investments in signed audited accounts for year ended 2004; and
  - £15m of preference shares reclassified from equity to liabilities in draft accounts for year ended 2005 due to change in accounting policy.

  In light of the above, should the Bidder be selected as the Preferred Bidder it would be necessary to continue to closely monitor the Financial and Economic Standing of the parent company.

- Bidder B has assumed that Composite Tax Trader status will be achieved. There is an ongoing clarification between Bidder B's financial adviser BDO and with Inland Revenue and Customs to establish whether this is feasible. In the event that Composite Tax Trader was not achieved, Bidder B has recalculated their stream of unitary charge cashflows based on Capital Tax treatment being adopted. This has resulted in an NPV increase of c. £1.52m.

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KPMG have been unable to verify the above uplift as no financial model was provided to support the revised cashflows.

- There are a number of inefficiencies in Bidder B's model. For example the surplus land bridge is being funded of senior debt. Should this be replaced with a surplus land bridge loan greater efficiencies could be derived through reduced margins and increased gearing. Also, in the revised models received on 20 June 2006 Bidder B has decreased its gearing from 90.25% to 89.50%. Should the Department and the Institute select Bidder B as Preferred Bidder a condition should be that their financial adviser work with KPMG in re-optimising the model to reduce the Unitary Charge whilst maintaining the blended equity return.

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B NPV Analysis – Value for Money (in monetary terms) Test Results

APPENDIX B

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ITN Stage - Bid Evaluation Model
Value for Money Summary

	Bidder A						Bidder B					
	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Best Value bid	Optional Variant Bid 2 - 30 yr term	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Contract Mark-up	Optional Variant Bid 2 - 30 yr term
	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Concession Term	25 years	25 years	25 years	25 years	25 years	30 years	25 years	25 years	25 years	25 years	25 years	30 years
Bidders Payments Required	60,066	57,400	57,400	67,059	57,535	62,418	56,768	51,515	52,111	59,927	56,400	60,995
Adjustment to Bidders Models for difference in Construction completion dates												
Date construction completed	31-Jul-09	31-Jul-09	31-Jul-09	31-Jul-09	31-Jul-09	31-Jul-09	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08
Adjusted completion date per SBM	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08	31-Dec-08
Index Year reference number	-0.581	-0.581	-0.581	-0.581	-0.581	-0.581	0.000	0.000	0.000	0.000	0.000	0.000
Discount rate	103.492%	103.492%	103.492%	103.492%	103.492%	103.492%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%
Completion date adjustment	2,097	2,004	2,004	2,342	2,009	2,180	0,000	0,000	0,000	0,000	0,000	0,000
Total Adjusted Bid	62,163	59,405	59,405	69,400	59,544	64,598	56,768	51,515	52,111	59,927	56,400	60,995
Shadow Bid Model	64,087						64,087					
Difference	1,924						7,319					
Is Bid Value for Money?	TRUE						TRUE					

C Detailed Sources and Uses of Funds analysis

APPENDIX C

BIFHE City Centre PPP Project
ITN Stage - Bid Evaluation Model
Analysis of Sources & Uses of Funds

	Bidder A						Bidder B					
	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Best Value bid	Optional Variant Bid 2 - 30 yr term	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Contract Mark up	Optional Variant Bid 2 - 30 yr term
	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Sources of Funds												
Unitary Charge	60,057	57,393	57,393	67,050	57,527	62,411	56,764	51,511	52,108	59,923	56,396	60,988
Senior Debt Drawdown	37,712	37,685	37,685	37,663	35,618	38,021	34,641	34,641	34,641	34,641	34,641	33,900
Sub-Debt Drawdown	3,720	3,744	3,744	3,763	3,549	3,460	3,635	3,635	3,635	3,635	3,635	4,226
Sub-Debt Bridge Drawdown (if applicable)	4,443	4,471	4,471	4,494	4,238	4,131	4,340	4,340	4,340	4,340	4,340	5,046
Mezzanine Debt Drawdown (if applicable)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Land Bridge Drawdown (if applicable)	4,780	4,778	4,778	4,777	7,115	4,798	0,000	0,000	0,000	0,000	0,000	0,000
Equity Drawdown	0,047	0,047	0,047	0,047	0,044	0,047	0,049	0,049	0,049	0,049	0,049	0,049
Guaranteed Third Party Income (if applicable)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Interest Received on Cash	0,010	0,010	0,010	0,010	0,010	0,009	0,000	0,000	0,000	0,000	0,000	0,001
Interest Received on Reserves	0,219	0,219	0,219	0,219	0,219	0,263	0,000	0,000	0,000	0,000	0,000	0,000
Surplus Land disposal proceeds:												
Brunswick Street	0,000	0,000	0,000	0,000	0,000	0,000	3,853	3,853	3,853	3,853	3,853	3,853
College Square East	4,127	4,127	4,127	4,127	6,191	4,127	4,904	4,904	4,904	4,904	4,904	4,904
Third Party Revenue ATM and Retail Unit	0,000	0,000	0,000	0,000	0,000	0,000	0,370	0,370	0,370	0,370	0,370	0,412
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Total	**115,115**	**112,473**	**112,473**	**122,151**	**114,511**	**117,267**	**108,555**	**103,303**	**103,899**	**111,714**	**108,187**	**113,380**

APPENDIX C

BIFHE City Centre PPP Project
ITN Stage - Bid Evaluation Model
Analysis of Sources & Uses of Funds

	Bidder A						Bidder B					
	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Best Value bid	Optional Variant Bid 2 - 30 yr term	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Contract Mark up	Optional Variant Bid 2 - 30 yr term
	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Uses of Funds												
1. Pre-operating costs												
Construction Costs	-40,681	-40,681	-40,681	-40,681	-40,681	-40,681	-38,042	-38,042	-38,042	-38,042	-38,042	-38,042
Professional fees	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Furniture and Equipment	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Start-up Costs	-2,129	-2,129	-2,129	-2,129	-2,199	-2,129	0,000	0,000	0,000	0,000	0,000	0,000
Construction insurance	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
2. Lifecycle costs												
Roof Repairs	-0,204	-0,204	-0,204	-0,204	-0,204	-0,242	-0,124	-0,124	-0,124	-0,124	-0,124	-0,149
Redecoration	-0,377	-0,377	-0,377	-0,377	-0,377	-0,421	-0,488	-0,488	-0,488	-0,488	-0,488	-0,606
Suspended ceilings	-0,195	-0,195	-0,195	-0,195	-0,195	-0,197	-0,058	-0,058	-0,058	-0,058	-0,058	-0,080
Floor coverings	-0,338	-0,338	-0,338	-0,338	-0,338	-0,368	-0,515	-0,515	-0,515	-0,515	-0,515	-0,662
Fitted furniture	-0,927	-0,927	-0,927	-0,927	-0,927	-1,071	-2,581	-2,581	-2,581	-2,581	-2,581	-3,115
Sanitary appliances	-0,223	-0,223	-0,223	-0,223	-0,223	-0,277	-0,010	-0,010	-0,010	-0,010	-0,010	-0,012
Boilers	-0,153	-0,153	-0,153	-0,153	-0,153	-0,169	-0,211	-0,211	-0,211	-0,211	-0,211	-0,244
Radiators	-0,213	-0,213	-0,213	-0,213	-0,213	-0,240	0,000	0,000	0,000	0,000	0,000	0,000
Main switchgear installation	-0,143	-0,143	-0,143	-0,143	-0,143	-0,195	-0,175	-0,175	-0,175	-0,175	-0,175	-0,215
Light fittings	-0,213	-0,213	-0,213	-0,213	-0,213	-0,233	0,000	0,000	0,000	0,000	0,000	0,000
Fire alarm installation	-0,114	-0,114	-0,114	-0,114	-0,114	-0,168	-0,133	-0,133	-0,133	-0,133	-0,133	-0,198
Ventilation installation	-0,362	-0,362	-0,362	-0,362	-0,362	-0,435	-0,514	-0,514	-0,514	-0,514	-0,514	-0,676
IT installation	-0,042	-0,042	-0,042	-0,042	-0,042	-0,062	-0,009	-0,009	-0,009	-0,009	-0,009	-0,009
Kitchen & Dining F&E (A) / External walls, Doors,	-0,184	-0,184	-0,184	-0,184	-0,184	-0,208	-0,434	-0,434	-0,434	-0,434	-0,434	-0,557
Salon FF&E PC sum (A) / Internal walls, partitions	-0,340	-0,340	-0,340	-0,340	-0,340	-0,374	-0,408	-0,408	-0,408	-0,408	-0,408	-0,493
Windows and External cladding (A) / Lifts, Service	-0,373	-0,373	-0,373	-0,373	-0,373	-0,440	-0,431	-0,431	-0,431	-0,431	-0,431	-0,524
Lifecycle Management	0,000	0,000	0,000	0,000	0,000	0,000	-0,716	-0,716	-0,716	-0,716	-0,716	-0,949
3. FM Service Costs												
Planned Preventative Maintenance	-2,604	-2,604	-2,604	-2,604	-2,604	-2,906	-1,191	-1,157	-1,157	-1,620	-1,125	-1,295
Reactive Maintenance	0,000	0,000	0,000	0,000	0,000	0,000	-0,596	-0,579	-0,579	-0,810	-0,563	-0,648
Electrical Maintenance	0,000	0,000	0,000	0,000	0,000	0,000	-0,894	-0,868	-0,868	-1,215	-0,844	-0,972
Mechanical Maintenance	0,000	0,000	0,000	0,000	0,000	0,000	-0,298	-0,289	-0,289	-0,405	-0,281	-0,324
Grounds Maintenance	-0,029	-0,029	-0,029	-0,029	-0,029	-0,033	-0,054	-0,054	-0,054	-0,054	-0,052	-0,060
Minor Improvements	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Energy Management	-0,221	-0,221	-0,221	-0,221	-0,221	-0,246	0,000	0,000	0,000	0,000	0,000	0,000
Fire Safety	0,000	0,000	0,000	0,000	0,000	0,000	-0,053	-0,053	-0,053	-0,053	-0,052	-0,059
Security	-0,677	-0,677	-0,677	-1,618	-0,633	-0,755	-2,226	-2,961	-2,150	-3,484	-2,090	-2,413
Car Parking	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Cleaning & Housekeeping	-2,501	0,000	0,000	-5,767	-2,310	-2,791	-3,613	-0,109	-0,109	-4,134	-3,659	-4,201
Cleaning & Housekeeping out with term time	0,000	0,000	0,000	0,000	0,000	0,000	-1,155	-0,032	-0,032	-1,214	-1,074	-1,233
Window Cleaning	-0,265	0,000	0,000	-0,265	-0,265	-0,295	-0,180	-0,180	-0,180	-0,180	-0,175	-0,200
Pest Control	-0,015	-0,015	-0,015	-0,015	-0,015	-0,016	-0,030	-0,030	-0,030	-0,030	-0,029	-0,033
Caretaking and Porterage	-2,251	-2,251	-2,251	-1,839	-2,104	-2,512	-1,452	0,000	-1,412	-1,641	-1,373	-1,588
Telecommunications and Information Technology	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Help Desk (FM Management)	0,000	0,000	0,000	0,000	0,000	0,000	-0,369	-0,369	-0,369	-0,370	-0,359	-0,412
Malicious damage risk	-0,294	-0,294	-0,294	-0,294	-0,294	-0,328	0,000	0,000	0,000	0,000	0,000	0,000
Waste Disposal	-0,147	-0,147	-0,147	-0,147	-0,147	-0,164	0,000	0,000	0,000	0,000	0,000	0,000
TUPE Tradesmen as per BIFHE list	0,000	0,000	0,000	-3,310	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
FM Management & Admin	0,000	0,000	0,000	0,000	0,000	0,000	-1,423	-1,522	-1,522	-1,524	-1,479	-1,706

APPENDIX C

BIFHE City Centre PPP Project
ITN Stage - Bid Evaluation Model
Analysis of Sources & Uses of Funds

	Bidder A						Bidder B					
	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Best Value bid	Optional Variant Bid 2 - 30 yr term	Base Bid	Alternative Price 1	Alternative Price 2	Alternative Price 3	Optional Variant Bid 1 - Contract Mark up	Optional Variant Bid 2 - 30 yr term
	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV	NPV
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
4. Overheads												
Operating insurance	-1,508	-1,508	-1,508	-1,508	-1,508	-1,683	-2,237	-2,237	-2,237	-2,237	-2,237	-2,496
SPV Management Costs	-2,021	-2,021	-2,021	-2,021	-2,021	-2,251	-1,491	-1,491	-1,491	-1,491	-1,491	-1,664
Audit, accounting & tax fees	0,000	0,000	0,000	0,000	0,000	0,000	-0,224	-0,224	-0,224	-0,224	-0,224	-0,250
Legal fees	0,000	0,000	0,000	0,000	0,000	0,000	-0,149	-0,149	-0,149	-0,149	-0,149	-0,166
Bank fees	-0,147	-0,147	-0,147	-0,147	-0,147	-0,164	-0,060	-0,060	-0,060	-0,060	-0,060	-0,067
Benchmarking costs	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
SPV Risk Margin	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Directors fees	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
FM Management Costs	-1,645	-1,645	-1,645	-1,645	-1,645	-1,852	0,000	0,000	0,000	0,000	0,000	0,000
Audit & legal fees	-0,662	-0,662	-0,662	-0,662	-0,662	-0,739	0,000	0,000	0,000	0,000	0,000	0,000
Transport costs	0,000	0,000	0,000	0,000	0,000	0,000	-0,363	-0,363	-0,363	-0,363	-0,363	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
5. Finance costs												
Senior Debt Fees Payments	-0,600	-0,600	-0,600	-0,600	-0,577	-0,604	-0,426	-0,426	-0,426	-0,426	-0,426	-0,415
Senior Debt Interest Payments	-19,065	-19,111	-19,111	-18,848	-17,917	-21,506	-13,425	-13,597	-13,579	-13,319	-13,437	-14,054
Senior Debt Capital Repayments	-16,819	-16,740	-16,740	-17,013	-15,970	-14,410	-19,854	-19,657	-19,677	-19,976	-19,840	-18,251
Sub-Debt Fees Payments	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Sub-Debt Interest Payments	-4,300	-4,378	-4,378	-4,240	-4,060	-4,100	-6,065	-6,058	-6,059	-6,067	-6,063	-7,802
Sub-Debt Capital Repayments	-1,667	-1,652	-1,652	-1,742	-1,612	-1,504	-1,030	-1,034	-1,034	-1,029	-1,031	-0,878
Sub-Debt Bridge Fees Payments (if applicable)	-0,081	-0,082	-0,082	-0,082	-0,077	-0,076	-0,013	-0,013	-0,013	-0,013	-0,013	-0,016
Sub-Debt Bridge Interest Payments (if applicable)	-0,491	-0,494	-0,494	-0,496	-0,468	-0,456	-0,478	-0,478	-0,478	-0,478	-0,478	-0,551
Sub-Debt Bridge Capital Repayments (if applicab	-3,720	-3,744	-3,744	-3,763	-3,549	-3,460	-3,635	-3,635	-3,635	-3,635	-3,635	-4,226
Mezzanine Debt Fees Payments (if applicable)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Mezzanine Debt Interest Payments (if applicable	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Mezzanine Debt Capital Repayments (if applicab	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Land Bridge Interest Payments (if applicable)	-0,021	-0,021	-0,021	-0,021	-0,033	-0,021	0,000	0,000	0,000	0,000	0,000	0,000
Land Bridge Capital Repayments (if applicable)	-0,486	-0,485	-0,485	-0,484	-0,696	-0,493	0,000	0,000	0,000	0,000	0,000	0,000
Land Bridge Fees Payments (if applicable)	-4,127	-4,127	-4,127	-4,127	-6,191	-4,127	0,000	0,000	0,000	0,000	0,000	0,000
Equity Repayments	-0,009	-0,009	-0,009	-0,009	-0,008	-0,007	-0,010	-0,010	-0,010	-0,010	-0,010	-0,007
Dividends	-0,556	-0,585	-0,585	-0,519	-0,521	-0,658	-0,226	-0,272	-0,271	-0,199	-0,234	-0,237
Overdraft Interest	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Debt Service Reserve Facility fees	-0,108	-0,108	-0,108	-0,108	-0,108	-0,165	-0,047	-0,048	-0,048	-0,046	-0,047	-0,044
Change in Law Facility fees	-0,083	-0,083	-0,083	-0,083	-0,083	-0,087	-0,058	-0,058	-0,058	-0,058	-0,058	-0,134
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
6. Other costs												
Shared Third Party Income (if applicable)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Net Cashflow Impact of Vat	-0,120	-0,120	-0,120	-0,120	-0,121	-0,120	0,190	0,161	0,164	0,208	0,188	0,212
Taxation Payments	-0,300	-0,325	-0,325	-0,260	-0,270	-0,385	-0,332	-0,358	-0,356	-0,319	-0,335	-0,340
Movement in Reserve accounts	-0,408	-0,408	-0,408	-0,408	-0,408	-0,491	-0,241	-0,241	-0,241	-0,241	-0,241	-0,315
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Other (please specify)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Total	**-115,158**	**-112,503**	**-112,503**	**-122,227**	**-114,552**	**-117,315**	**-108,555**	**-103,302**	**-103,898**	**-111,714**	**-108,187**	**-113,377**
Movement in Cash	**-0,043**	**-0,030**	**-0,030**	**-0,077**	**-0,041**	**-0,048**	**0,001**	**0,001**	**0,001**	**0,001**	**0,001**	**0,002**
Difference (should be zero)	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

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Belfast Institute of Further and Higher Education PPP Project

Bid Evaluation Summary Report to the Governing Body

3 July 2006

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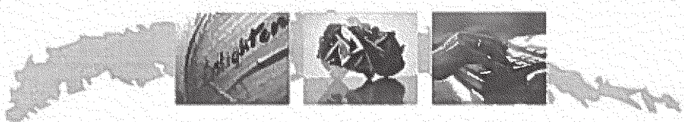
Appendices



FGS

Belfast Institute of Further and Higher Education PPP Project
Bid Evaluation Summary Report to the Governing Body
3 July 2006

1 INTRODUCTION AND BACKGROUND

This report sets out the evaluation of the Bids received for the Belfast Institute of Further and Higher Education City Centre PPP Project.

Belfast Institute began the process of seeking a PPP partner on 7 March 2005, when a notice was despatched for publication in the Official Journal of the European Union (OJEU), to seek expressions of interest in the Project. The issue of a Pre-Qualification Questionnaire and an Information Memorandum to respondents in March 2005 resulted in four submissions being received from consortia interested in submitting Bids for the Project. Following a Pre-Qualification Evaluation process, four bidders were short-listed to receive contract documentation.

The short-listed Bidders were (in alphabetical order):

- BIFHE Education Partnership
- McAleer & Rushe
- Newco
- Titanic Quarter.

Following the pre-qualification stage, a series of meetings were held with the Bidders and the following information was provided to assist them complete their bid submissions:

- Invitation to Negotiate
- Schedule of Accommodation
- Design guidelines
- User Requirements
- Service Requirements (facilities management output specifications)
- General information on the Institute's proposed operations
- Project Agreement

Following the release of the ITN to the short listed bidders, both the McAleer & Rushe and Newco consortiums withdrew from the Project. The Project proceeded with the following short-listed bidders:

- BIFHE Education Partnership
- Titanic Quarter

Bidders were invited to submit their proposals to develop and service new accommodation by 29 March 2006.

1

This report is a record of the Evaluation process followed by the Evaluation Groups, which was conducted in accordance with the Evaluation Criteria and Procedures agreed by the Capital Projects Board.

2 EVALUATION PROCESS

2.1 Introduction

The evaluation of the bids was approached by subdividing each bid into a number of discrete sections that were then assigned an Evaluation Group as follows:

- Design and Technical Evaluation Group
- Services Evaluation Group
- Financial Evaluation Group
- Legal Evaluation Group

Each section was assessed and scored by the Evaluation Group in accordance with the evaluation criteria that had been provided to the Bidders.

2.2 Evaluation Groups

Each Evaluation Group comprised members of the Capital Projects Board and its advisors and relevant departmental and senior management staff of the Institute and the Department for Employment and Learning. External advisors were called upon as appropriate during the evaluation process, for example to advise on architectural issues, sustainability and M&E.

2.3 Evaluation Scoring

Bidders were given details of the evaluation criteria for each element of the bid submission; design and technical, services, financial and legal. Each criterion was awarded a weighting out of 100 in order to prioritise relative importance.

The Evaluation Groups then scored individual evaluation criteria for each Bid on a scale of 0 to 25, depending on the extent to which the Bidders proposals met the project requirements. The breakdown of this scoring is detailed in the table below:

Assessment Criteria Scores	Score
Unacceptable	0-5
Barely adequate, some serious shortcomings	6-11
Generally satisfactory, minor reservations	12-17
Fully satisfactory	18-25

2.4 Overall Bid Scoring/Weighting

Prior to the receipt of the Bids, the Capital Projects Board agreed an overall weighted score for each element of the Bid to differentiate the relative importance of that element to the Capital Projects Board. The table below sets out the agreed weightings for each area.

Criteria	Weighting
Design & Technical	50%
Services	25%
Financial	20%
Legal	5%
Total	**100%**

FGS

Belfast Institute of Further and Higher Education PPP Project
Bid Evaluation Summary Report to the Governing Body
3 July 2006

3 SCORING OF BIDS

The results of the weighted scores for each of the Evaluation Groups and the weighted total scores are as follows:

Evaluation Group	BEP	Ivywood Colleges
Design & Technical	36.2	39
Services	19.6	17.85
Financial	16.48	18.4
Legal	4.65	4.7

The Evaluation Group rankings and overall ranking are as follows:

Evaluation Group	BEP	Ivywood Colleges
Design & Technical	2	1
Services	1	2
Financial	2	1
Legal	2	1

Overall Ranking	BEP	Ivywood Colleges
Total Weighted Score	76.93	79.95
Overall Ranking	2	1

Scores for the individual Evaluation Groups are contained in Appendix 1.

4 CONCLUSION

Having evaluated the Bids received for the Belfast Institute PPP Project in accordance with the agreed Bid Evaluation Methodology, the highest ranking Bid is the Bid from Ivywood Colleges. The next ranked Bid is the Bid from Belfast Educational Partnership (BEP).

4.1 RECOMMENDATION

The results of the Bid Evaluation indicate that Ivywood Colleges should be appointed Preferred Bidder, subject to satisfaction of remaining concerns coming forward from the four Evaluation Groups. The detail of these outstanding concerns are set out in a draft letter to Ivywood Colleges contained in Appendix 2. It should be noted that the designation of Preferred Bidder simply means the choice of Bidder with whom to negotiate a PPP contract and is subject to the approval of the Full Business Case by DEL and DFP.

There is no obligation on the Institute to enter any legally binding arrangements at this stage in the procurement process and the terms of any final contractual proposal will also require the approval of the Capital Projects Board and the Governing Body.

On this basis, it is our advice that the Governing Body recommends the appointment of Ivywood Colleges as Preferred Bidder to the Minister for Employment and Learning, subject to a satisfactory response being received from Ivywood Colleges to the draft letter contained in Appendix 2.

It is further recommended that BEP is appointed Reserve Bidder and is asked to hold its Bid open for acceptance for a six month period.

KPMG

CORPORATE FINANCE

Belfast Metropolitan College

Addendum to ITN Financial Evaluation - Impact of increased site acquisition costs sought by Ivywood Colleges Ltd

October 2007

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Belfast Metropolitan College
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1 Impact of increased site acquisition costs on ICL's ITN bid

1.1 Introduction

In June 2006 Ivywood Colleges Ltd (ICL) submitted a Financial Model underpinning their Base Bid which included acquisition of 3.08 acres of land at Titanic Quarter at a cost of £3m (i.e. £970k per acre). In September 2007 ICL issued a letter (attached at Appendix A) outlining their proposal to include site acquisition costs at an increased value of £5m (i.e. £1.62m per acre). Further to subsequent discussion on the issue at Project Team Meetings during September 2007, it was agreed that financial analysis should be undertaken to assess the impact this £2m increase in site acquisition costs would have on the Net Present Value ("NPV") and Unitary Charge associated with ICL's ITN Bid submission.

1.2 Financial evaluation criteria at ITN Stage

Financial evaluation criteria accounted for 20% of total ITN Bid Evaluation marks.

The criteria used to evaluate the ITN Bids submitted by the two Bidders from a financial perspective were as follows:

- Ability to deliver Value for Money (in monetary terms) – 80% weighting, and
- Financial robustness of proposed financing plan – 20% weighting.

1.2.1 Value for Money (in monetary terms) assessment

1.2.1.1 ITN Stage - £3m site acquisition costs

Table 1 below outlines the results of the Value for Money (in monetary terms) assessment as carried out in June 2006, in relation to ITN Bids received from BEP and ICL. Table 1 details the NPV at 01 January 2007 (Target Financial Close) to DEL and Belfast Metropolitan College of the Base Bids submitted. Table 1 also presents the NPV as per the KPMG Bid Evaluation Model which made a number of adjustments[1] to Bidders' Financial Models to ensure Bids were assessed on a like-for-like and fair and equitable basis.

[1] Adjustments included alignment of construction completion dates, discounting methodology and indexation methodology

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Table 1

Bidder	NPV per Bidder Financial Model £'000s	NPV per KPMG Bid Evaluation Model £000's	NPV per SBM £000's	(Cost)/ Savings £000's	(Cost)/ Savings %
BEP	59,187	62,163	64,087	1,924	3.00%
ICL (Site acq. £3m)	54,313	56,768	64,087	7,319	11.42%
Difference		5,395			

1.2.1.2 ITN Stage - £5m site acquisition costs

On 09 October 2007, KPMG requested ICL to submit a Financial Model reflecting all inputs contained within their Base Bid (submitted on 20 June 2006), with the exception of site acquisition costs which were to be increased from £3m to £5m. ICL's Financial Advisors were requested to ensure to optimise the Financial Model to the same level as ICL's Base Bid (20 June 2006) for the purposes of this exercise.

ICL's Financial Advisors submitted the requested Financial Model on 17 October 2007. Table 2 below presents the results of this Financial Model and illustrates the impact that a £2m (real terms) increase in site acquisition costs would have had to the assessment of Value for Money (in monetary terms) at ITN Stage i.e. it is estimated that this will produce a £2.016m increase in NPV terms[2].

Table 2

Bidder	NPV per Bidder Financial Model £'000s	NPV per KPMG Bid Evaluation Model £000's	NPV per SBM £000's	(Cost)/ Savings £000's	(Cost)/ Savings %
BEP	59,187	62,163	64,087	1,924	3.00%
ICL (Site acq. £5m)	56,329	58,874	64,087	5,213	8.13%
Difference		3,289			

It should be noted that the Financial Model received on 17 October 2007 was not fully optimised to the same level as ICL's ITN Stage Base Bid, as requested KPMG's instructions of 09 October 2007. When fully optimised to this level, the NPV will be reduced marginally due to the reduction in inefficiencies inherent in this Financial Model. The outcome presented in the table above is therefore a prudent view of the impact of a £2m increase in site acquisition costs.

Appendix B provides a summary of the Value for Money (in monetary terms) assessment.

[2] This increase in NPV includes the increase in financing costs associate with the proposed uplift in site acquisition costs

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1.2.1.3 Financial evaluation scoring

Table 3 below sets out the unweighted and weighted scores attributed to each Bidder in the Value for Money (in monetary terms) test at ITN Stage (June 2006).

As BEP was 3.00% (£1.9m) less expensive than the SBM it was awarded an unweighted score of 20 out of 25. As ICL was 11.42% (£7.3m) less expensive than the SBM, it was awarded an unweighted score of 24 out of 25 in respect of its Base Bid.

Table 3

Bidder	Unweighted Score (max 25)	Weighted Score (max 80)
BEP	20	64.0
ICL (Site acq. £3m)	24	76.8

Based on preliminary analysis Table 4 below sets out the scores that may have been attributed to ICL's Base Bid at ITN Stage had it included site acquisition cost of £5m as opposed to £3m.

Table 4

Bidder	Unweighted Score (max 25)	Weighted Score (max 80)
BEP	20	64.0
ICL (Site acq. £5m)	22.5	72.0

It is estimated that ICL would have been awarded a score of 22.5 should it have bid site acquisition costs of £5m as this would have meant that its bid was 8.13% (£5.2m) less expensive than the SBM as opposed to 11.42% (£7.3m) less expensive than the SBM. Based on preliminary analysis ICL's bid remains some £3.3m (in NPV terms) lower than the unsuccessful Bidder's Bid.

1.2.2 Financial robustness of proposed financing plan

At ITN Stage each Bidder was also scored in relation to financial robustness of the financing plan. The £2m increase in site acquisition cost would not have impacted the scoring of this financial robustness. Table 5 below outlines the scores attributed to each Bidder at ITN Stage:

Table 5

Bidder	Unweighted Score (max 25)	Weighted Score (max 20)
BEP	23	18.4
ICL	19	15.2

BEP scored higher than ICL as it provided a stronger equity letter of support, with ICL's equity letter of support failing to make reference to the terms of the bid or the quantum of equity approved.

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1.2.3 Summary of financial evaluation scoring

The overall financial evaluation scores awarded to each Bidder at ITN Stage are presented in Table 6 below and are out of 100.

Table 6

Bidder	Weighted Score (max 100)	Rank
BEP	82.4	2
ICL (Site acq. £3m)	92.0	1

Table 7 below shows the overall financial evaluation scores which may have been awarded to each Bidder if ICL had bid £5m as opposed to £3m site acquisition costs. The results show that in terms of the financial evaluation, ICL still attains a higher weighted score than BEP.

Table 7

Bidder	Weighted Score (max 100)	Rank
BEP	82.4	2
ICL (Site acq. £5m)	87.2	1

1.3 Overall evaluation at ITN Stage

In addition to financial evaluation at ITN Stage evaluation was also carried out in order to assess how each of the Bidders scored in relation to Design and Technical requirements, Service specifications and Legal requirements. Table 8 below details the weighted scoring attributed to each Bidder at ITN Stage:

Table 8

Criteria	Weighting	BEP weighted score	ICL weighted score
Design & Technical	50%	36.20	39.00
Services	25%	19.60	17.85
Financial	20%	16.48	18.40
Legal	5%	4.65	4.70
Total	**100%**	**76.93**	**79.95**

Having considered the impact on financial scoring in Section 1.2.3, Table 9 below estimates the weighted score which would have been attributed to each Bidder had ICL bid £5m site acquisition costs at ITN Stage as opposed to £3m. This increase in land valuation would not have impacted on any of the other three evaluation criteria.

Table 9

Criteria	Weighting	BEP weighted score	ICL weighted score
Design & Technical	50%	36.20	39.00
Services	25%	19.60	17.85
Financial	20%	16.48	17.44
Legal	5%	4.65	4.70
Total	**100%**	**76.93**	**78.99**

The results show that overall, ICL still attains a higher weighted score than BEP.

1.4 Affordability impact

At ITN Stage, financial evaluation was based on Value for Money (in monetary terms) assessment and financial robustness. It must be recognised that an increase in site acquisition cost from £3m to £5m will not only impact the Value for Money (in monetary terms) assessment but also affordability parameters.

Table 10 below outlines the Unitary Charge (at 01 January 2007 prices and excluding rates, utilities and VAT) bid by each Bidder at ITN Stage (June 2006).

Table 10

	Unitary Charge £000's
BEP	4,913
ICL (Site acq. £3m)	4,474

Based on the Financial Model received from ICL's Financial Advisors on 17 October 2007, Table 11 presents an estimate of the impact a £2m increase in site acquisition costs on the Unitary Charge at ITN Stage i.e. an increase of £166k per annum (01 January 2007 prices). As stated in Section 1.2.1.2, this is a prudent view as the Financial Model submitted was not fully optimised to the same level as the Base Bid received in June 2006 and the Unitary Charge may therefore decrease marginally.

Table 11

	Unitary Charge £000's
BEP	4,913
ICL (Site acq. £5m)	4,640

Tables 10 and 11 therefore illustrate that whilst an increase of £2m in site acquisition costs will have an affordability impact for DEL and the Institute, ICL's bid would still have offered a lower annual Unitary Charge than BEP had ICL bid £5m site acquisition cost at ITN Stage.

A ICL Letter – Increase in site value proposal

Ivywood Colleges Limited
Thomas Andrews House
Queen's Island
Belfast
BT3 9DU

Our Ref
Your Ref
Date 19 September 2007

SUBJECT TO CONTRACT

Mr Eric Munro
FGS McClure Watters
1 Lanyon Quay
Belfast
BT1 3LG

Dear Eric,

BMC Project - Land Valuation

We refer to the meeting of 11 September 2007 and our prior correspondence of 16 August 2007. The consortium's position remains that the SPV must be given fair value for the lands provided in the project. In an effort to progress the project we are willing to accept a greatly reduced value of £5 million for the lands. This is an increase in the value by approximately £2 million from that submitted in March 2006. This price shall remain fixed until 31 March 2008.

For the avoidance of doubt, we currently value the lands at £2.5 million per acre, which, at 3.08 acres, produces an overall land value of £7.7 million. This material concession is on the understanding that the project shall now progress expeditiously to Financial Close. The concession is made without prejudice to the validity of the arguments previously stated in our letter of 16 August 2007.

The SPV requires an additional £2 million to be injected into the project to reflect the abated increase in land value. We believe that this is consistent with the rules governing public procurement and also the findings of the Northern Ireland Audit Office report of 11 September 2007.

We look forward to hearing from you in regard to the additional land value which is essential to progress this project.

Yours sincerely,

Mike Smith
Director

B Value for Money (in monetary terms) Summary

BIFHE City Centre PPP Project
ITN Stage - Bid Evaluation Model
Value for Money (in monetary terms) Summary

	BEP	ICL	
	Base Bid	Base Bid	Increased land acq (£5m)
	June 2006	June 2006	October 2007
	NPV	NPV	NPV
	£000	£000	£000
Concession Term	25 years	25 years	25 years
Bidders Payments Required	60,066	56,768	58,874
Adjustment to Bidders Models for difference in Construction completion dates			
Date construction completed	31-Jul-09	31-Dec-08	31-Dec-08
Adjusted completion date per SBM	31-Dec-08	31-Dec-08	31-Dec-08
Index Year reference number	-0.581	0.000	0.000
Discount rate	103.492%	100.000%	100.000%
Completion date adjustment	2,097	0,000	0,000
Total Adjusted Bid	62,163	56,768	58,874
Shadow Bid Model	64,087	64,087	64,087
Difference in Total Adjusted Bid and Shadow Bid Model	1,924	7,319	5,212
Is Bid Value for Money?	**TRUE**	**TRUE**	**TRUE**
Difference ICL Bid and BEP Bid		-5,395	-3,289

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TITANIC QUARTER/CITY CENTRE PROJECT November 04 to December 09

DETAIL: EXTRACTS FROM THE RELEVANT MINUTES FROM NOVEMBER 2004

Nov 04
GB.4.76 Capital Projects Board
(b) City Centre Project
That recent Treasury and DFP guidance meant that a shadow bid had to be produced [the alternative was a new appraisal]. This bid would be submitted to DFP on 30 November 2004.

Feb 05
GB.5.11 Institute Development Plan
In regard to the City Centre project he [Mr Turtle] was expecting a second letter of approval from DEL in the near future.

June 05
GB.5.30 Report of the Capital Projects Board held 27 May 2005.
City Centre PPP project. The Director said that five bids had been received despite pre launch concerns of only two potential bidders, and that four of these had progressed to the Invitation to Negotiate stage. The Director summarised the history of the project and said that the project was now back on target.

Sept 05
GB.5.47 Report on Capital Projects Board held 29 June 2005.
City Centre Project: The Director recapped on progress to date and said that the two remaining bidders had presented two differing visions for two differing sites. He confirmed that once the bids had been evaluated, both seemed likely to meet all contractual requirements, and that the competing proposals would come before the Governing Body for a decision in early 2006.

Nov 05
GB. 5.63 Matters Arising
City Centre Project The Director explained that the expected December delivery date for bids would not be met, and that it would be February 2006 due to changes in the schedule of accommodation.

Feb 06
GB.6.10 Merger with Castlereagh
The Director said that six weeks remained before the dissolution of the Governing Bodies and that decisions on the City Centre Project loomed. He reprised the history of the proposals and DEL action.

May 06
GB.6.17 Matters Arising
GB 6.10 Economic Appraisals [Upcoming GB to discuss city centre bids and appraisals.]

July 06
GB.6.28 City Centre Project

It was agreed to promote this item up the agenda.

NB Members had access to the individual group reports in the week prior to the Governing Body meeting and the summary of the bid evaluation was circulated a week in advance.

The Chairman welcomed those present and asked Mr Chambers to lead. Mr Chambers said that he was satisfied that the evaluations had been carried out objectively, that he was satisfied with both the outcome and the transparency, and that subject to some caveats [the satisfaction of some remaining concerns] it was the Capital Projects Board recommendation that Ivywood Colleges be appointed the preferred bidder.

Mr Munro outlined the background, the valuation process, the scoring of bids, and the recommendation. He noted the subdivision of bids into four discrete sections which were then assigned to evaluation groups which met and reported separately to the Capital Projects Board. The evaluation criteria with potential scores from 0 to 25 inclusive were determined by the project teams and approved by the Capital Projects Board.

Mr Munro spoke in detail of the two differing designs. In sum BEP offered a 15 storey signature elliptical building in the city centre compared with the Ivywood Colleges' [Ivywood] more generous footprint low rise building overlooking the Abercorn basin. Mr Munro considered the Ivywood solution to be function led and the BEP solution design led.

In regard to Services Mr Munro gave details of the respective bids. In sum the Project Board thought that BEP/ Graham had the edge because, being the provider of services at Millfield, they knew the client better and thus their services component was tailor made to the FE sector, whereas Ivywood/Amey's bid was built around experience of schools.

Mr Paul Hollway spoke about the Financial Evaluation Group's findings. The two evaluation criteria were VFM and the "robustness of the bid". The former was determined by the calculation of Net Present Value over 25 years and comparison with a shadow bid. It was clear that whilst both bids offered VFM the difference in costs between the two bidders was significant both in absolute terms and in a comparison with costs for projects of this nature. The Ivywood bid was significantly cheaper. In regard to the latter the BEP bid was more professionally presented, had better commitment levels, and there were no queries arising while there were two significant concerns over Ivywood. Firstly, Ivywood needed to confirm Composite Trade tax status and thus less tax before appointment as a preferred bidder and secondly, Ivywood had to confirm that their group structure had sufficient share and loan capital. In addition the holding company for Ivywood was off shore and hence did not provide complete transparency therefore it was reasonable to insist on a share of any additional profits derived from being in Jersey. The Chairman noted the absence of actual unitary costs from the summary. It was confirmed that the Governing Body had approved a unitary charge band in 2004 and that subsequent negotiations would finalise the actual cost within the original budget.

Mr Munro spoke of the little difference between the two bids in relation to the legal aspects and that the 5% weighting owed much to the fact these were standard contracts.

Mr Munro concluded by detailing the contents of a proposed letter to Ivywood which stipulated satisfactory clarification on a number of points as follows:

- Maintenance and lifecycle activity profile
- Car parking
- Bussing to the Titanic Quarter
- The Titanic Quarter development
- The use of the BCIS Tender Price Index or LIBOR rate as appropriate
- Monitoring and notification of an changes to net worth
- Share ownership of the structure of Ivywood
- Off shore status of the parent company and sharing of tax benefits
- Composite Trade Tax status
- Efficiency of unitary charge
- OGC guidance
- Circumstances for change

The project and the bids were discussed in detail. Discussions included

- the structure of the Ivywood group of companies and their relationship with the Titanic Quarter
- confirmation that the carbon footprint of either replacement building was significantly less then its predecessors
- confirmation that an EQIA would be carried out if the Titanic Quarter was chosen [it was noted that the Odyssey was already attracting significant numbers in the relevant age groups]
- transport - the present and future transport and parking facilities, the intended bus service was thought to be key

- consideration of the project as a stand alone project borne of necessity to avoid the expensive upgrading of existing buildings and prior to any intention of merger with Castlereagh
- the associated risks including the three year disruption and potential risks caused by decanting from Brunswick Street
- the strategic aspects ranging from 5 - 25 years, and the overall DEL strategy
- enrolments and demographic downturns and the adequacy of the teaching space
- the increased efficiency of the replacement building replacing a total of 22K metres space with 17K metres space
- the options for future growth and increased capacity including car parking
- the differing functional benefits of the differing sites – horizontal cf vertical, lifts, ground floor public access to Institute facilities etc
- the existence of current buildings in the figures and costings
- the number of staff employed and the number of staff concurrently on site at any one time
- quality of build by comparison with Millfield campus
- design and build costs, costs per annum and DEL contributions

It was unanimously agreed to accept the recommendation that Ivywood be appointed preferred bidder subject to the satisfactory resolution of outstanding concerns and subject to the inclusion of unitary costs in the report.

It was unanimously agreed to accept the recommendation that BEP be appointed Reserve Bidder and that it be asked to hold its bid open for a six month period.

October 06
GB.6.43 Matters Arising
Para 6.28 City Centre Project. The Director confirmed that there would be a Ministerial announcement on 4th October and that detailed financial discussions would begin on 5th October. It was likely that planning authorities would block the building unless there was significant car parking facilities; this would mean an about turn by DEL. The Director confirmed that existing sites would in part contribute to the costs of the new build, and that College Square East had been listed as a result of executive action.

Nov 06
GB.6.65 Minutes of the Capital Projects Committee held 15 November 2005.
The Director highlighted the preferred bidder announcement for the City Centre Project and the proximity to finalising the Full Business Case [FBC]

Jan 07
GB.7.03 Matters Arising
GB 6.65 Full Business Case for City Centre Project. The Director tabled a briefing note which as a bottom line showed the amount payable for running costs if there were no further successful negotiations. He also highlighted the variances between the Preferred Bidder and Shadow Bid costs viz additional cleaning costs (arising from the additional transit areas) and additional security costs. It was confirmed that the difference in VAT between the old and the new would be met by DEL. The Chairman noted the potential implications of the increased recurrent costs and asked for the future report to highlight participant costs and issues previously raised by the Governing Body.

Apr 07
GB.7.18 City Centre Project: Approval of the Full Business Case [FBC]
An executive summary of the FBC was tabled. The Chairman invited Mr Chambers to introduce the guests. Mr Munro began by re-iterating the background highlighting the strategic context, the tendering process, the risk transfer and the "in house" cleaning bid. Ms Feeney said a decision was yet to be made as to whether the project would be on or off the balance sheet. Mr Munro drew attention to the latest affordability calculations [pp 7] which showed the respective contributions of DEL and the BI to the unitary charge which was in the proportion of roughly 2:1. He also highlighted the implementation plan noting that the key short term date was 27th July, the estimated date of planning approval, from which other dates followed. There followed a full discussion which included the following points:

- It was confirmed that it would take two years to build the facility once planning permission had been given. The target date for entry was July 2009 but there was potential for delay arising from planners' car parking concerns and possible slippage until Christmas or July 2010.
- Mr Munro confirmed that any agreement to a handover date would be at a date that suited the Institute and that this would not necessarily impinge financially on the builders.
- It was confirmed that this was a turnkey/walk in project.
- It was confirmed that a 50% balance area allowance had been approved by DEL.
- It was noted that there was insufficient information and explanation underpinning the tables.
- It was agreed that the lifecycle costs were not fully reflected in the papers and that these should be identified and investigated further.
- It was agreed that the make up of the running costs for College Square East/ Brunswick Street [CSE/BS] and the current estimate of BI contributions to the unitary charge as stated were not a comparison of like with like.
- Mr Munro confirmed that lifecycle costs were both planned and reactive in order to satisfy safety performance standards and minimum standards prior to hand back. He cited planned replacement as a key benefit of the process.
- It was confirmed that there were some major items of high maintenance expenditure on the horizon for both CSE/BS which needed to be added to the running costs of current buildings when viewed against the Institute contribution to the unitary charge.
- In contrast the new facility would be more efficient and energy conscious
- Similarly there was no provision in the running costs for identified savings in ancillary staff or an apportion of allocated overheads.
- DEL's ceiling of £35k on the Institute's contribution to rates applicable to both sites was noted and welcomed.
- It was agreed that references to TUPE and insurance be inserted.
- Mr Munro said that the ancillary staff costs reflected optimal staffing levels based on an optimal staffing transfer.
- It was agreed that a decision needed to be made concerning the level of planned maintenance [or reduced maintenance] which would impact on affordability and business continuity.
- Mr Redmond confirmed that the new build was a very high specification [roughly £2k/m^2] with a significant quality premium and he also confirmed that that provision for the quality premium was built into the DEL contribution to the unitary charge.
- It was agreed that governors were happy with the principle of a quality premium but that which entailed a quality premium should be detailed e.g. the replacement schedules [every 5 years, 10 years etc]
- It was confirmed that other buildings in the Titanic Quarter paid rates.
- It was noted that CSE/BI was to be sold on the open market within a year of moving onto new site and re-invested in projects to reduce the debt of the developers.
- Mr Redmond said that any overage must be re-invested in DEL capital projects and could not go towards reducing the Institute's contribution.
- It was recalled that no developers had previously shown interest in CSE/BI.

It was agreed that further information was required before a decision on whether to approve the FBC could be made in particular ref Tables 2 and 3. It was considered that following a revision of Table 3 and agreement that there was a comparison of like with like, that any remaining significant gap and hence impact upon affordability, should be commented upon by senior management and a recommendation made by them. It was agreed that the Secretary take receipt of the revised paper and notify governors of a further meeting. Mr Munro confirmed that all papers would be circulated well in advance.

Messrs Munro and Redmond, and Ms Feeney left the meeting at 7.15pm

A potential conflict of interest was raised by a governor and discussed. This concerned the company providing the Institute's current Internal Audit services which was also the company employed by the lead consultant in the City Centre Project. Given that the company was contracted to the lead consultant and not the Institute it was agreed that there was no conflict of interest.

Jun07
GB.7.22 City Centre Project: Full Business Case [FBC]: Affordability

The Director introduced the item by referring to the Governing Body's previous meeting wherein members had requested additional and comparable "like with like" information and a statement from the Directorate on the affordability of the City Centre Project. He noted that the Directorate had considered a revised paper from KPMG on 31 May 2007. The Directorate considered that the project was affordable and demonstrated VFM bearing in mind the following:

- The absence of clear information on the FE funding formulae and the impact of Training for Skills on future income
- The assumption of stable growth and at least steady state resourcing
- The condition survey in 2005 on existing accommodation which indicated a bill of £28m over seven years
- A negotiated reduction to the excessive £890k FM service costs
- A significant reduction in utilities costs given capital investment in energy efficiency
- A reduction in staff costs for estate management

The Director tabled additional information as follows:

- Rates costs were seen to be prudent estimates
- The ongoing discussions on car parking
- The provision of a bus service from 7.30am to 9.30pm every 15 minutes

In the detailed discussions that followed Mr Munro said that there were still a number of negotiations across a number of fronts to be finalised, but that the competitive process was strengthened by the option to revert to the reserve bidder. Ms Feeney noted increases in contributions were tied to the RPIX [the Retail Price Index excluding mortgage interest payments] and confirmed that the RPIX was applicable to both sides i.e. to existing [College Square East/Brunswick Street (CSE/BI)] and new building costs.

The degree of uncertainty was discussed and whether agreement should await the new Governing Body. It was believed that no Governing Body would have a clear picture of funding for the next 25 years, that a degree of uncertainty was a constant, and that it was preferable to keep the momentum going. Mr Redmond noted that a delay would put back the construction date perhaps until the next academic year. Mr Munro confirmed that the contract would not be signed until the planning permission had been received and that the final negotiated contract would be brought back to the new Governing Body.

It was confirmed that relevant CSE/BS staff costs were actual costs based on an actual head count and that Unions had agreed a protocol. Ms Feeney confirmed that the contractor bid costs were payable in each of the 25 years and that these were split between the Institute and DEL in compliance with DEL methodology. It was noted that it would have been helpful to have total contractor costs clearly stated. The members discussed VFM in detail. Miss Feeney said there was competitive tension and the safeguard of a shadow bid model. Mr Redmond confirmed the comparison against the Shadow Bid Model as a government requirement. It was noted that the staff costs had to be taken to ensure a like for like comparison and that the grade of refreshments had not been circulated. Mr Munro confirmed the existence of a detailed lifecycle portfolio in the FBC.

Members then discussed additional capital sales receipts, in a buoyant property market, which were to be returned to DEL for capital investment elsewhere. It was thought that a case could be made for the return of some monies as only DEL would benefit and it was right to share the benefits. Mr Redmond said that it was the intention that the disposal of capital assets would part fund the project, that the projected sale sums might not be achieved, and that DEL bore the risk. Members thought it an option to share the risk in return for benefits if achieved. Mr Redmond however confirmed it was government policy not to convert capital receipts for recurrent expenditure.

Members agreed that the proposed City Centre Project costs were affordable and demonstrated VFM bearing in mind the underlying assumptions of stable growth and negotiated reductions in service and utility costs.

July 07
Extract from summary of D.Diligence received by the TEC and circulated to BMC members

Estates:	Estates (11.5)	Refs: 5.1.1; 5.1.2; 5.2.1; 5.2.2; 5.2.3; 5.2.4
Findings:	BMC will inherit ageing estate with new PFI site at Millfield and one planned for Titanic Quarter.	
Rec:	Strategic assessment of estate required before further action.	

Mar 08
07/08/93Estates: Titanic Quarter In the absence of Mr Lee, the Clerk outlined the project issues arising after the appointment of the preferred bidder. He said he had spoken to Mr Chambers as follows:

- Car park: That the preferred bidder had taken on the planning risk but did not anticipate a planning requirement for 300+ permanent spaces for the duration of the contract therefore the proposal had been re-appraised. The preferred bidder had agreed to supply basement car park on a fees basis. The issue was nearing resolution once the length of the contract was determined.
- Head lease: That an uplift on the costs was required to ensure an unencumbered lease not tied to education.
- Sustainability: That a new government policy required an aspiration to excellent sustainability and the extra costs would be met by DEL.
- TUPE: That cleaning staff would transfer from BMC.
- CSE/Brunswick Street: That capital receipts need not necessarily be fully handed back to DEL contrary to previous advice.

Members noted the contribution of Mr Chambers to this project and sought advice on how his expertise could be retained. **END**

GB of May 2008. Extract 1

07/08/97 Presentation by FGS on the City Centre Project

The Chair invited Mr Munro to make his presentation. Mr Munro outlined the background and the appointment of the Ivywood Group as preferred bidder. Planning approval for the building, half as big again as Millfield in floor space, had been given in February 2008. In regard to current project issues he highlighted the car park, the request for an increase in site value, lease issues, capital receipts, and sustainable energy.

In regard to the car park the aim was to include a basement car park in the PPP project at no additional costs to BMC. In essence the building and the car park would revert to BMC after 25 years and 40 years respectively. In regard to the site value, the original bid by Ivywood Colleges Limited [ICL] in 2006 valued the site at £3m but in August 2007 ICL formally requested an increase to £7.7m. Subsequently the bid was revised down to £5m and Land and Property Services [LPS] were required to approve the site value. He confirmed that site values were not fixed at an early stage but that BMC also benefited from increased site values and that construction costs were linked to the BCIS index, a government published index. In regard to the lease all parties were currently trying to remove an encumbrance to the lease which stipulated a sole educational use for the site. In regard to capital receipts the last revaluation by LPS valued the respective sites contributing to the bullet payment as £13m and £9.5m for Brunswick Street and College Square East respectively. In regard to sustainable energy installations ICL had been instructed to prepare detailed technical specifications for consideration by DEL as part of the final VFM submission. It was confirmed that the unitary payments attracted VAT but that there would be a payment from DEL to compensate.

It was noted that the implementation plan and timetable omitted a Governing Body approval stage and it was agreed that a special meeting of the Governing Body was required. This meeting to be informed by a full financial analysis.

GB of May 2008. Extract 2

BELFAST METROPOLITAN COLLEGE: GOVERNING BODY MEETING 14/05/08

AGENDA ITEM

No 13 PRESENTATION ON THE CITY CENTRE PROJECT & ESTATES UPDATE

AUTHOR/ SOURCE

Mr Kevin Chambers

CDP Reference

The City Centre Project is approaching its financial sign off prior to the commencement of the building phase. It is appropriate that Mr Eric Munro of Farrell Grant Sparks, the lead consultants on the project, reprises the background and provides assurances as to the resolution of project problems before moving to the next stage. He will make a presentation to members supported by Ashleen Feeney (KPMG, Financial Consultants).

The attached paper provides a very brief background and update to members of the current Governing Body on the implementation of the estates strategy previously agreed by the Governing Body of the Belfast Institute. This strategy was agreed in 2005 and the then Governing Body approved the major projects outlined below.

Project	Stage
1 City Centre Project	*Approaching financial sign off*
2 E3 Project at Springvale	*Approaching design phase*
3 Proposal for Sports Hall/Theatre and Performing Arts Spaces	*Awaiting approval of Economic appraisal [EA] but EA needs to be re-visited.*
4 Proposal for College Facilities in East Belfast.	*Post merger needs to be re-considered.*
5 Proposal to develop Student Accommodation;	*BMC seeking partners*
6 Proposed purchase of premises at Wilson Street	*Executive shortly to seek approval to progress*

A new Estates Strategy which takes account of the merger and current developments is currently being prepared and will be presented to governors on completion. The broad strategy involves replacing current substandard buildings with new, purpose-built facilities.

PROPOSAL

Members are asked to satisfy themselves that City Centre project problems have been addressed, and to note the report.

GB of May 2008. Extract 3
UPDATE ON THE ESTATES DEVELOPMENT STRATEGY

Introduction

This paper provides an update to members of the current Governing Body on the implementation of the Estates Strategy previously agreed by the Governing Body of the Belfast Institute. This strategy was agreed in 2005 and the then Governing Body approved the major projects outlined below. A new Estates Strategy which takes account of the merger and current developments is currently being prepared and will be presented to governors on completion.

1 City Centre Project
2 E3 Project at Springvale (Employability, Enterprise, Entrepreneurship)
3 Proposal for Sports Hall/Theatre and Performing Arts Spaces
4 Proposal for College Facilities in East Belfast.
5 Proposal to develop Student Accommodation; and the
6 Proposed purchase of premises at Wilson Street, Millfield.

Until 2002 the Belfast Institute was in the unfortunate position of occupying some of the worst educational facilities and buildings in Western Europe. The new Gerald Moag Complex at Millfield, opened in September 2002, represented a major step forward in addressing the above problems, in that it provided state-of-the-art accommodation for up to 3000 students. Millfield became the benchmark for the remainder of Institute buildings.

Broad Strategy

The broad strategy involves replacing current substandard buildings with new, purpose-built facilities that are designed to deliver modern educational programmes and courses appropriate for the 21st century student. The initial concentration has been on the replacement of two city centre campuses at Brunswick Street and College Square East and on the delivery of services and technologies that will underpin and develop Northern Ireland's economy and provide much needed benefit and value to the wider community.

DEL

This approach is very much in line with current government policies and strategies and in particular with the Department for Employment and Learning's policy document 'Further Education Means Business'.

It should be made clear that a long term Estates Development Strategy for the College must be considered in relation to "a fully integrated estate strategy which is also firmly anchored in the Academic Plan of the College" [DEL] and all of the above proposals should be considered, and amended, in that context.

DEL have made it clear to us that they will not consider new substantive proposals to further develop our estate without significant supporting evidence and documentation including detailed curriculum development plans, rigorous space utilisation analyses, and a coherent, integrated and comprehensive estates services strategy.

Completion dates

All of the following milestone projections represent the earliest possible completion dates and assume no interruptions to the planning or construction phases (caused by legal impediments pertaining to any site, planning objections and/or the unavailability of utility services at or in close proximity to each site). In that respect they represent challenging targets.

GB of May 2008. Extract 4

1 City Centre Project – Replacement Building for Brunswick Street and College Square East under a Public/Private Partnership

SUMMARY All of the major problems relating to the project contract have now been resolved and notwithstanding some final and commercial and legal issues relating to the car park contract, it is anticipated that the PPP contract will be signed in early summer 2008, and the build completed in late 2010

PROJECT MILESTONES	DURATION	APPROX. DATE
Outline Business Case given approval		February 2005
Formal launch of project		March 2005
Five bids submitted		March 2006
Governing Body appoint Ivywood Colleges Ltd (subsidiary of Titanic Island Ltd) as preferred bidder		July 2006
Announcement of preferred bidder		October 2006
Contract negotiation and financial close	20 months	June/July 2008
Planning permission	12 months	January 2008
Construction phase	24 - 30 months	Late 2008 late 2010
Project completion/handover*		Late 2010

* originally scheduled for late 2009 but see below.

It became clear as the design development process unfolded, that there were significant hurdles to be overcome before the contract could be signed. In particular:

Car parking

This issue has been the primary reason why the contract for the delivery of the new campus at Titanic Quarter has not yet been signed. The Preferred Bidder [PB] accepted "Planning Risk" in their initial bid offer and following revised planning requirements proposed to construct a basement car park for 300 cars under the BMC building, alongside an agreement with the Odyssey Trust to have car parking space provided for our students. This was acceptable to the planners, along with Preferred Bidder proposals for a frequent public transport service

Since this planning requirement became evident the PB has sought various ways to recoup the cost of building a basement car park. BMC confirmed at the outset that it would not be legally permitted to meet any of the costs. Ivywood Colleges Ltd accepted this. The outturn is essentially private car park under public building and the PB has agreed to hand over the car park and all associated assets to BMC at the end of an agreed period when the developer has gained a satisfactory return on their investment.

Lease

Ivywood Colleges Ltd indicated in their bid documentation that they had agreement with the landowners, Belfast Harbour Commissioners, to lease the land for a period of 250 years. Only in late 2007 did BMC become aware that, in fact, no final agreement had been reached with the Harbour Commissioners. After intensive negotiations all the major issues relating to the land lease/purchase costs have now been resolved. One of the difficulties was that the landowners were attempting to introduce a restrictive covenant into the lease that would have been prejudicial to the BMC had we wished to vacate the site and sell the land at some future date. BMC would not accept this restriction.

Gov Body June 2008
07/08/121 City Centre Project/ Titanic Quarter

Members expressed concerns about the affordability of the project, future enrolment numbers and the high cost of professional fees. It was agreed that the development be put on hold until further advice sought from DEL.

Gov Body August 2008 Extract 1
BELFAST METROPOLITAN COLLEGE: GOVERNING BODY MEETING 28/08/08

AGENDA ITEM

No 7 Update on City Centre Project/ Titanic Quarter

AUTHOR/ SOURCE

FGS McClure Watters Lead Consultants

CDP Reference

BACKGROUND

Members should note that they will have an opportunity to review the project and the associated costs and continued affordability prior to any financial sign off**.** This is an update on current challenges facing the project team.

Dr Mullan and Mr Lee will report on their meeting with all interested parties on Tuesday 5th August. Mr Tom Redmond [DEL] will also be in attendance.

Subsequently the memo overleaf has been prepared by FGS to provide a brief summary of the challenges the Project Team face in reaching an 2 October 2008 Financial Close deadline on the BMC PPP Project. The challenges have been categorised into Financial, Technical and Legal issues.

As agreed at the previous Governing Body, FGS have also been asked to provide an updated timetable which incorporates an approval stage by the BMC Governing Body. This will be tabled.

As also agreed at a previous Governing Body any decision will need to be informed by a full financial analysis and full briefing prior to the financial close.

Governors will also wish to be reminded of a relevant paragraph in Mrs Bell's letter of 18 July to Dr Walters.

"Finally in relation to the Titanic Quarter project, the Department considers that it would be inadvisable to take any action to curtail progress since, to do so, would almost inevitably, incur additional developer costs. Accordingly, it would be our view that the project be permitted to continue as planned."

PROPOSAL

Members are asked to note the update.

Gov Body August 2008 Extract 2

Financial Issues

Site Value – In August 2007 ICL advised the Authority that they required an uplift in site acquisition cost from £3m at ITN stage to £7.7m based on valuations at that time. Following negotiations, it was agreed in October 2007 that the Authority would seek approval from DFP for an uplift in site acquisition cost to the value of £2m (increasing site acquisition cost to £5m). This approval will be formally requested within the final Value for Money Paper.

Stamp Duty Land Tax – ICL advised the Authority in June 2008 that the Authority would be liable for SDLT on the cost associated with acquisition of the site at Titanic Quarter. Given that BMC has charitable status for tax purposes, it is envisaged that the college should be able to avail of the SDLT exemption under the provisions of SDLT legislation. It is however necessary that BMC establish contact with HMRC Charity Division prior to financial close to verify this.

VAT – ICL advised the Authority in June 2008 that the Authority was liable for VAT (at a rate of 17.5%) on cost associated with acquisition of site at Titanic Quarter on day 1 of the PPP Contract. The Authority and ICL are currently working together to ascertain whether relief can be gained on VAT applied to the Annual Unitary Charge (which takes into account the cost of the site over the 25-year contract period) should the Authority pay the VAT associated with the land acquisition cost on day 1 of the PPP Contract.

Credit Crunch Impact: increase in debt margins – In June 2008, ICL advised the Authority that their funders, Ulster Bank, were no longer able to deliver the required debt funding at the same margins as included within their Base Bid at ITN Stage due to the current liquidity issues in the financial markets as a result of credit crunch. This is an issue currently affecting all UK infrastructure projects, and is not Bidder or project specific. ICL have agreed to work with BMC up to Financial Close to ensure that the most competitive terms in the current market are achieved.

Technical Issues

Finalisation of Contractor's Proposals – As a schedule to the Project Agreement the Bidder must provide full details of the final design proposals including final floor plans, room layouts, M&E information, finishes schedules and building specification. BMC require a copy of the final version of this documentation in order to approve its inclusion in the Project Agreement. This information has been outstanding for some time and the Bidder has now proposed to forward the full Contractor's proposals to BMC/FGS by the end of next week for approval.

Legal Issues

Head Lease – The terms of the Head Lease from the Belfast Harbour Commissioners to Titanic Quarter Ltd (TQL) and the sub-lease from TQL to BMC have still to be agreed.

Car Park Deal Structure – It has recently been agreed that TQL will fund a separate Car Park Operating Company to procure the car park works. The Car Park Operating Company will pay the Design/Build Contractor directly. This structure will require amendment of the Project Agreement and lease structure and these changes are still to be agreed.

Bid Team's Legal Documentation for Financial Close – The Bidder's legal team has a significant amount of legal documentation to produce (60+ documents) and all of these have to be checked by BMC's legal advisors A&L Goodbody. To date very few of these documents have been provided by the Bidder, leaving the Project Team concerned about the workload and timescale for the Bidder to complete all documentation necessary for Financial Close. **FGS McClure Watters 20/08/08**

Gov Body August 2008 Extract 3

08/09/4 City Centre Project/Titanic Quarter

Mr Rodway declared an interest in that he was one of the Belfast Harbour Commissioners. It was agreed that Mr Rodway remain given the briefing paper had been circulated prior to the declaration of the interest.

Mr Eric Munro and Mr Pat O'Neill joined the meeting

Dr Mullan introduced the item. He focused on the timetable which was tabled. He anticipated that a complete Full Business case, approved by DEL and DFP, would come to the Governing Body at its Governing Body meeting on September 29th.

Mr Munro gave details of the reasons for recent delays e.g. delay in planning permission, car park issues. He believed that the land valuation was still valid. Mr Redmond noted that DFP would have to approve uplift in land value and that DEL had agreed the raised valuation subject to DFP approval sub.

Members expressed concerns about the affordability, increased costs, "credit crunch", falling enrolments, the size of the new build, the age of the business plan, the impact of continuing industrial action, the correspondence from Mrs Catherine Bell [18th August] and sought reassurance. Mr Redmond referred members to the business case put forward by BIFHE six years previously which concluded that Brunswick Street/College Square East [BS/CSE] then were not fit for delivering modern education and training. The two options had been either a rebuild on Brunswick Street or a new build in the Titanic Quarter and the latter had been chosen. The refreshed business case in 2005 had reached the same conclusion. He believed that the new build had passed the VFM test and that the private sector had come forward with a VFM solution. In total three business cases, in 2002, '05 and '07 had been presented to the Department for assessment and approval. The final VFM paper would confirm the unitary payment payable and the BMC contribution to that payment was likely to be @£1.5m per annum and that much of that sum was currently being spent on BS/CSE. Mr Munro confirmed that the main justification for the project remained the increasing expenditure on BS/CSE and that necessary improvements to CSE on the grounds of Disability, Fire and Health and Safety had not been executed, with the approval of the relevant authorities, due to the impending move.

A view was expressed that the project had advanced too far and that withdrawal would create uncertainty. Dr Mullan confirmed that BS/CSE would be very costly to improve and said that the Titanic Quarter project would be a flagship for further education in Belfast. But it was not just about F/T education, BMC needed to develop links with the community and industry, improve cost recovery and exploit that which had not yet been exploited. He had been encouraged by discussions with his senior management team and staff, and had every confidence that he could grow student numbers given also that current market penetration was low. He thought it better that BMC go into a bigger building with room for growth than opt for a smaller building. He believed there were encouraging developments from DEL with substantial innovation fund (£1m) and community action monies (£1/2m) for which to play.

Mr Munro gave details of the apportionment of additional costs outlined in the briefing paper as follows:

Site Value: Increase of £2m would be payable by DEL
Stamp duty: The tax of £235k would be payable by DEL
VAT uplift: The tax of £875k would be payable by DEL
PPP/PFI margins payable by DEL.
Increased capital contributions payable by DEL in the event of market fall [in the event BMC to receive letter of indemnity]

It was noted that two thirds of the BMC contribution viz £1m related to salary costs and thus were index linked and the remainder fixed.

Mr Redmond confirmed that the recession in the construction industry, and thus potentially reduced labour costs, had been matched by rising steel and oil costs and the costs of the credit crunch. It was difficult to predict property prices in three years' time but confirmed that any shortfall would be met by DEL.

It was agreed that a summary of issues on the City Centre Project be prepared for circulation to members by 15th September. The paper to include commentary and figures/costs where appropriate:

- on the proposed size of the new build
- on the assumptions in relation to student numbers and demographic trends
- on the affordability of the BMC contribution [£1.5m]
- on the costs and ramifications of withdrawing from the deal
- on the new build costs compared with the maintenance of the existing CSE/BS estate
- on how the City Centre Project fits in with the rest of the Estates Strategy
- on a comparison of the key assumptions in the business case then [2002] and now [2008]
- on the safeguards underpinning the assurances given to BMC Governing Body e.g. the DEL commitment to underwrite any shortfall in the projected monies gained from the sale of CSE and BS.
- on any other considerations relevant to the decision making for the financial close
- and recommendations from all interested parties on whether to proceed

Gov Body September 2008

BELFAST METROPOLITAN COLLEGE: GOVERNING BODY MEETING 29/09/09

AGENDA ITEM | **Special Meeting 1 and Meetings 2 and 3 of the Governing Body.**

Best practice in Corporate Governance *requires that Governors and Officers in attendance are reminded that if they have a conflict of interest, they must declare that interest and if necessary leave the room during the deliberation of that item.*

AUTHOR/ SOURCE	FGGS lead consultants	**CDP Reference**	7 Estates 11 Governance

BACKGROUND

There are two additional meetings on the evening. The last one, meeting 3, is an "In Committee" meeting and as such not exceptional. It will take place at the end of the evening.

Meeting 1 is a special meeting of the Governing Body to discuss the Titanic Quarter/ City Centre project. Members at the last Governing Body meeting of August 28th asked for an issues paper on the project. This issues paper is attached together with a "letter of comfort". Also attached are specimen minutes of the special meeting which will be amended in light of the discussions at the meeting. These cover attendance and apologies, project documentation, the approval for the chair and principal to sign the PPP contract, and specimen signatures. I understand that there are in excess of 70 documents to be signed later down the line and that assurances will be given to the Governing Body that these documents are in compliance with Treasury guidelines. *One key document, the VFM appraisal, is with DFP and any agreement on the financial close is conditional upon DFP giving VFM clearance*. This document should be available on the evening for inspection.

Representatives of all of the participants in the TQ/CCP project [FGS, KPMG, SIB, DEL, A&L Goodbody Solicitors] will be present to answer any additional questions. Meeting 1 will then be concluded. Meeting 2 will then commence.

NB Please note that the minutes of the previous meeting and matters arising feature as agenda items in meeting 1, a requirement of the Articles of Government, but it is recommended that these are dealt with in meeting 2.

Meeting 2 will feature minutes from both the August 28th Governing Body meeting and the Governing Body meeting immediately prior [meeting 1]. Any amendments to the specimen minutes will need to be made in the interval so there will be an opportunity for a comfort break. Meeting 2 will then commence as per usual.

All of the above suggested arrangements are of course subject to alteration at the direction of the Governing Body.

PROPOSAL

Members of the Governing Body are asked to determine whether they have sufficient relevant information to bring this stage of the project to a financial close, and if so to indicate any amendments to the specimen minutes, and provide authority for the Chair and Director to sign the PPP contract.

Gov Body September 2008 extract 2

08/09/03 Titanic Quarter/City Centre Project

Mr Rodway voluntarily withdrew from the meeting having indicated a potential conflict of interest in his role as a Belfast Harbour Commissioner and BMC governor in the matter of the City Centre project.

Mr Rodway left the meeting at 6.05

Dr Mullan summarised the issues paper previously circulated as follows:

The underlying assumptions in 2002

- concerning the background to the new build remained unchanged in the 2008 Full Business Case
- concerning fitness for purpose of the new build remained unchanged
- concerning student numbers had been strengthened given that the curriculum areas proposed for the new building reflected key government strategy documents including FE means Business
- concerning size of the new build remained appropriate

The new site and estates strategy was driven by the overall curriculum planning which reflected BMC's response to the strategic planning and policies of DEL. The strategy comprised three phases namely the opening of Millfield campus, the development of E3 and the Titanic Quarter, and thirdly the review of sites in South and East Belfast.

Dr Mullan stated the costs of withdrawal from the project as in the region of £10m and a legacy of continued use of buildings in poor condition. He also highlighted the costs of BMC's contribution to the annual unitary charge as in the region of £1.5m rising to £1.8m in 2015 excluding rates utilities and VAT.

Dr Mullan also highlighted some proposed safeguards to underpin the assurances given to governors in particular a letter of comfort from DEL to the chair, and a letter from the Director to DEL containing details of how proceeds from the surplus properties should be used to reduce the borrowing for the project.

Mr Munro drew attention to the large folder containing the Final Business Case stating that a significant number of updates and revisions had been incorporated into the final submission.

In regard to the 22k m^2 size of the new build at a cost of £1.8m per annum, he noted the notional rent expressed as costs divided by a floor space [£8 per m^2] compared to the rental costs of new builds elsewhere typically £130 per m^2.

Mr Munro confirmed that enrolment and demographic figures had been factored into the build and that there was room for growth, and increased capacity in terms of hours' usage. He explained the increase in space provision saying that the net teaching area had grown substantially. Mr Redmond said that the revised Departmental Schedule of Accommodation template had led to increased teaching space but that new building regulations had a more significant impact e.g. taking account of the disabled.

In regard to the use of up to date enrolment figures, it was recognised that BMC failed to meet its target in 07/08 however trend analysis over ten years showed a flattish profile. The use of 06/07 figures was criticised but it was recognised that a snapshot had to be taken at some point.

It was recognised that new builds and organisations elsewhere had benefited from a new building bounce i.e. an increase in related activity.

It was agreed that there was under utilisation of BS/CSE and other BMC sites however it was thought that the primary consideration was one of fitness for purpose. Mr Redmond believed that there was no overlap in the E3 and City Centre projects.

It was confirmed that the costs attributable to Brunswick Street and College Square East in the paper were real costs that could be saved arising in part from replacing two buildings with one.

It was noted that payments were made only for calendar agreed days - in the region of 220 days including Saturdays.

Mr Redmond confirmed that in the event of the capital released from BS/CSE being insufficient for the project that DEL would cover the shortfall. It was confirmed that the building reverted to the College after 25 years and the car park after 40 years.

The location of the project was discussed and the area was seen as an extension of the City centre, an existing entertainment area for the whole city, a future location for a range of financial and residential buildings, and getting in early was viewed to be beneficial. It was confirmed that the majority of the intake in Tower Street was from West and North Belfast.

Members were reassured by the discussion and responses from their advisers and confirmed that, subject to forthcoming assurances on enrolments by Dr Mullan [see minute 10/08/09] they were content to move forward on the proposals and had no objections.

08/09/04 Formal Resolution

That the Chairman and Principal be authorised to sign PPP agreements and take the necessary actions as appropriate. This was proposed by Ms C McKinney and seconded by Mr D Hatton. This was unanimously agreed.

It was also agreed that the names and the specimen signatures of the Chair and the Principal be appended to the minutes.

Gov Body October 2008

08/09/17 Matters Arising

Titanic Quarter /City Centre Project

Dr Mullan updated members on two issues which remained unresolved. The first arose from the Credit Crunch and the increased cost of borrowing and the need of the funder to syndicate the debt i.e. find a partner. Dr Mullan said that he had been assured by Mr Redmond in writing that BMC's contribution to the Unitary charge would remain unchanged. The second concerned the need of BMC not to carry any risks where they arose from any performance or non performance of the project company. Negotiations were continuing.

Gov Body November 2008 Extract 1

AGENDA ITEM **1 Special Meeting of the Governing Body.**

Best practice in Corporate Governance *requires that Governors and Officers in attendance are reminded that if they have a conflict of interest, they must declare that interest and if necessary leave the room during the deliberation of that item.*

AUTHOR/ SOURCE **A&L Goodbody Solicitors** **CDP Reference** **7 Estates 11 Governance**

BACKGROUND

Members will recall the special meeting of the Governing Body of 29th September 2008 at which the Titanic Quarter/City Centre Project was discussed in depth.

There is a need to have further special meeting to clarify the list of project documents being entered into and to enter a further formal resolution. The draft minute of the meeting recommended by Goodbody's [Solicitors] is attached.

This meeting will then be concluded and the draft minutes amended as necessary.

A further meeting will then take place and the minutes of the previous special meeting agreed.

PROPOSAL

Members of the Governing Body are asked to propose, second and agree the resolution.

Gov Body November 2008 Extract 2

08/09/30 Titanic Quarter /City Centre Project

The minutes of the fifteenth special meeting of the Governing Body of the Belfast Metropolitan College held on Monday 29th September 2008 and discussions at that meeting relating to Titanic Quarter/City Centre Project required further discussion, and a further formal resolution, in respect of (1) confirming the list of project documents being entered into; and (2) entering into a formal resolution that addresses legal concerns with the validity of the previous formal resolution.

Project Documents

Mr Tom Redmond DEL advised that the Governing Body, as the contracting authority, would be entering into the following documents (the **Documents**) relating to the Project. It is also noted that the list of Documents is the provisional list as of 19 November 2008:

1. Lease agreements:

   A Development Underlease with Titanic Quarter Limited and the Belfast Harbour Commissioners;

   A Car Park Lease with Ivywood Car Parks Limited and Ivywood Properties Limited;

2. A Car Park Agreement for Lease with Ivywood Car Parks Limited and Ivywood Properties Limited.

3. A project agreement with Ivywood Colleges Limited in respect of the design, financing and operation of the Campus;

4. A direct agreement with Ivywood Colleges Limited and Ulster Bank Limited in respect of, among other things, the rights of Ulster Bank Limited to procure a new PFI contractor in the event that Ivywood Colleges Limited defaults;

5. An agreement with Ivywood Colleges Limted, Ulster Bank Limited, Ivywood Carpark Limited and the Technical Adviser (TA), under which the TA will act as the independent certifier of the completion of the construction of the Campus;

6. A direct agreement with Ivywood Colleges Limited and David Patton & Sons (NI) Limited relating to the Governing Body’s direct rights against the contractor building the Campus;

7. A parent company guarantee with David Patton & Sons (NI) Limited and the Guarantor in relation to the direct agreement with Ivywood Colleges Limited and David Patton & Sons (NI) Limited relating to direct rights against the contractor building the Campus;

8. An agreement with Ivywood Colleges Limited, David Patton & Sons (NI) Limited and Barrie Todd Architects Limited (the Architect) relating to the Governing Body's direct rights against the Architect designing the Campus;
9. An agreement with Ivywood Colleges Limited, David Patton & Sons (NI) Limited and the landscape architect relating to the Governing Body's direct rights against the landscape architect of the Campus;
10. An agreement with Ivywood Colleges Limited, David Patton & Sons (NI) Limited and Cyril Sweett Limited (the Quantity Surveyor) relating to the Governing Body's direct rights against the Quantity Surveyor of the Campus;
11. An agreement with Ivywood Colleges Limited, David Patton & Sons (NI) Limited and the civil, structural and civil and structural engineer relating to the Governing Body's direct rights against the civil and structural engineer of the Campus;
12. An agreement with Ivywood Colleges Limited, David Patton & Sons (NI) Limited and the civil, structural and M&E engineer relating to the Governing Body's direct rights against the M&E engineer of the Campus
13. An agreement with Ivywood Colleges Limited, David Patton & Sons (NI) Limited and Harvey Group plc (the M&E Contractor) relating to the Governing Body's direct rights against the M&E Contractor of the Campus;
14. An agreement with Ivywood Colleges Limited, Amey Community Limited (FM Co) and Amey UK plc (FM Guarantor) relating to the Governing Body's direct rights against the facilities manager of the Campus and the parent company guarantee from the FM Guarantor relating to the obligations of the facilities manager of the Campus;
15. A supplemental deed with Titanic Quarter Limited and the Belfast Harbour Commissioners in relation to supplemental arrangements to the Development Underlease."

08/09/31 Titanic Quarter /City Centre Project Formal Resolution

Following a period of discussion, the Chair sought Governing Body approval for:

1. the terms of the Documents;
2. the Governing Body to enter into and perform its obligations under each Document;
3. the Interim Director and Acting Chair to sign the Documents on its behalf, to make any clarificatory or minor amendments and do anything which they consider reasonable and necessary to give effect to the Documents and the transactions contemplated thereby; and
4. the Governing Body to take all other action required under or in connection with the Documents

This was unanimously agreed by members on the proposal of Mr Ray Kennedy and seconded by Professor Kenneth O'Neill

08/09/32 AOB

There was no other business.

Chairman ______________________________ Date____________________

APPENDIX

SPECIMEN SIGNATURES

The following persons may sign the Documents on behalf of the Governing Body in accordance with the provisions of paragraph 08/09/26 sub para 3 of the minutes:

Full name (BLOCK CAPITALS) and Status	**Specimen Signature**
PETER MCNANEY …………………………………………….. [Acting Chair]	……………………………………………….
RAYMOND MULLAN …………………………………………….. [Interim Director]	………………………………………………

Gov Body January 2009

08/09/39 AOB

Audit Committee

Dr Walters briefed members on the Audit Committee of 4th December focusing on:

- The Internal Auditors' [KPMG] continued limited assurance. Progress had not been as good as expected and there was still a great more work to be done. Members had been very disappointed that the good work carried out in spring/ early summer had not been continued.
- The number of outstanding Internal Audit recommendations not fully addressed.
- The External Auditors' letter to BMC summarising the results of a "Hot Desk" review of the set of accounts forwarded to NIAO. In other circumstances NIAO would have withdrawn
- Concerns raised by NIAO about the level and approval of consultancy costs arising from the Titanic Quarter project where there appeared to be irregular expenditure. It seemed unlikely that retrospective approval would be given

by DFP and NIAO thought that the accounts would likely be qualified and a report issued.
- NIAO scepticism about the off balance sheet treatment of PFI projects and the possibility that the accounts might be qualified if not brought onto the balance sheets.

Dr Walters said that overall the financial management of the College continued to raise concerns.

It was agreed that a report be sought from the Director outlining risks and intended actions, and seeking assurances and the implications of a qualified set of accounts.

It was agreed that the action plan should be merged with the Efficiency Review recommendations.

It was agreed that performance indicators be set for the Director.

Amendment to minutes of 19th November 2008

The cross-reference in the appendix of the minutes of the meeting was amended to 08/09/31 sub para 3

Gov Body February 2009

08/09/45 Committee Reports

Audit Committee

Dr Walters introduced the Audit Committee reports of 4th December 2008 and 26th January 2009 and summarised the key points over two meetings as follows:

- The Internal Auditors' [KPMG] limited assurance. Progress had not been as good as expected and there was still a great more work to be done. Members had been very disappointed that the good work carried out in spring/ early summer had not been continued.
- The number of outstanding Internal Audit recommendations not fully addressed at the time of the first meeting, 84, but subsequently addressed leaving 3 not yet implemented.
- The External Auditors' letter to BMC summarising the results of a "Hot Desk" review of the accounts and the subsequent revised set of accounts.
- Concerns raised by NIAO about the level and approval of consultancy costs arising from the TTCC project. There was the possibility that the accounts would be qualified and a report issued. He noted the involvement of DEL and SIB and, in the words of NIAO not recorded, their being "inextricably involved".
- NIAO scepticism about the off balance sheet treatment of PFI projects and the possibility that the accounts might be qualified if not brought onto the balance sheets.

Arising from the above it was agreed that the consultancy issue was a question of process rather than substance given that the monies had been properly spent and there was no question of fraud. It was however recognised that even if retrospective approval was received there was still the possibility of qualification; and if not received, a risk to reputation, negative publicity and a possible PAC appearance. It was agreed that the Director prepare a full report focussing on an investigation, the risks, appropriate actions, lines of accountability, and providing assurances. It was also agreed to look at the original procurement exercise and determine exactly what was contracted and the contract's extension. Mr Whittle confirmed that the then current year's fee transactions had been reversed out of the accounts.

Arising from the above it was agreed to circulate a summary sheet of the original outstanding Internal Audit recommendations and the actions taken.

In regard to staff comments made to auditors Dr Mullan reminded members of the paper on affordability unanimously agreed by the Governing Body in September 2008. The situation had not changed for the worse, and there was the prospect of an even better deal than six months ago which could have a beneficial impact on the unitary payment. The Chair was critical of unsupported comments made by NIAO and confirmed that the Governing Body had not received any adverse comments from staff. The Secretary confirmed sight of both sets of audit committee minutes and terminology therein by NIAO staff.

Gov Body March 2009 extract 1

AGENDA ITEM	**No 6 Titanic Quarter / City Centre Project /UPDATE**		
AUTHOR/ SOURCE	**Mr Munro/** FGGS	**CDP Reference**	**7 Estates** **11 Governance**

BACKGROUND

This is a special meeting of the Governing Body to update members on the Titanic Quarter/ City Centre project. The meeting will be informed by a meeting of the Capital Project Boards meeting earlier that day.

Representatives of all of the participants in the TQ/CCP project {FGS, KPMG, SIB, DEL, A&L Goodbody [Solicitors]} will be present to answer any additional questions.

Mr Tom Redman [DEL]	Mr Eric Munro [FGS]
Ms Ashleen Feeney [KPMG]	Mr Paul Hollway [KPMG]
Mr Kevin Feeney [A&L Goodbody]	Pat O'Neill [SIB]

NB An issues paper on the project and was delivered at the September 29th Governing Body. This is attached for ease of reference. The conclusion of the September Meeting in regard to the TQ/CC project was as follows:

> "Members were reassured by the discussion and responses from their advisers and confirmed that, subject to forthcoming assurances on enrolments by Dr Mullan [see minute 10/08/09] they were content to move forward on the proposals and had no objections." Extract from minute 08/09/03 [JMcA]

Update as of Monday 9th March

I understand that Ms Feeney [KPMG] will table a paper on the affordability of the unitary payment. Any changes, if any, from the assumptions stated in the paper of September 2008 will be noted and the impact on affordability, if any, assessed. Later this week Dr Mullan will be writing to DEL and DFP confirming that the Titanic Quarter city centre project is affordable, that the costs are proportionate and that the whole will meet the needs of BMC.

PROPOSAL	*Members are asked to seek assurances to re-affirm that that the Titanic Quarter project is affordable, that the costs are proportionate and that the whole will meet the needs of BMC.*

Gov Body March 2009 extract 2

08/09/61 Titanic Quarter/City Centre Project [TT/QC]

Affordability

Ms Feeney said that the Ulster Bank had been unsuccessful in finding a partner and had therefore increased the required capital contribution. This was deemed to be acceptable by DEL as the long term debt was reduced but that DFP approval was still required.

Ms Feeney updated a VFM and affordability analysis previously presented in September 2008. She tabled a paper showing the Annual Unitary Charge and the respective contributions of DEL and BMC. She explained the changes in the unitary charge as follows:

- A reduction due to a downward renegotiation of the construction price
- A reduction due to optimisation of the financial model
- A reduction due to an increased capital contribution from £10m to £15m excluding VAT
- An increase due to an increase in the salary costs of BMC staff who were to transfer to the private sector as a consequence of the PPP project
- An increase due to increased debt financing costs

The above resulted in an overall net reduction of unitary charge from the September 08 position - down from £4,706k per annum to £4,452 assuming that a fixed interest rate for the project of 4.4% was achieved. This is subject to fluctuation as it can only be agreed and fixed on the day the project is signed.

The relative split of the unitary charge between DEL and the college had changed from £1,490k per annum for BMC and £3,216 per annum for DEL, in September 08, to £1,535k for BMC and £2917 for DEL.

This was because the increase that DEL had absorbed due to increased debt financing costs had been offset by the reductions due to lower construction costs and the additional £5m that DEL were paying upfront as a consequence of the increased capital contribution. BMC's increased cost was due to the salary increases of BMC staff transferring to the private sector arising from a national pay award.

Ms Feeney also highlighted that BMC's contribution to the Annual Unitary Charge would increase in line with the RPI.

The like for like comparison of the total annual running costs of remaining in College Square East/Brunswick Street [CSE/BS] and moving to Titanic Quarter were discussed. Overall around £470k had to be found each year to enable the move to Titanic Quarter.

On enquiry Mr Munro confirmed that the justification for the BMC contribution to the Unitary Charge was in the Outline Business Case [based on Green Book guidance] and in the Full Business Case which would be adjusted to show the final costs.
It was viewed that the choice was between £2.3m for TQ/CCP, a guaranteed compliant building with guaranteed maintenance for 25 years and £1.85m for substantially failing buildings at CSE/BS.

Dr Mullan said that if there was continued growth then the project was affordable. There was likely to be a bid for an 8% increase in FLU income in 09/10 and there was further scope for growth given the population base. Mr Munro said that the new building would also attract new students.

Mr Redmond said that BMC were presenting the business case and making the case that it was affordable and that BMC would not be afforded preferential funding treatment by DEL

Documentation

Mr Kevin Feeney of A&L Goodbody gave a detailed overview of the legal documentation. He said that in regard to governance it was fundamental that governors were familiar with the contractual matrix. In sum Belfast Harbour Commissioners [BHC] had a head lease relationship with Titanic Quarter Limited (TQL) who had an underlease relationship with BMC who in turn granted a sub lease to Ivywood Carparks Limited [ICL]. The parent company was Ivywood Properties Limited who were effectively the owner of the property rights and who also guaranteed the obligations of ICL.

Mr Feeney said that the Head Lease and the Underlease were almost identical. One safeguard was that BHC had limited statutory functions and were an organisation who would not be motivated to act in a vexatious manner. The service charges for the Head lease were typical at around £50k and the rent peppercorn at £1. A supplemental deed dovetailed a PFI contract with the traditional landlord/tenant structure and TQL had no rights during the project agreement.

Car Park

Mr Feeney confirmed the 40 year lease at no cost and no risk to BMC together with a profit sharing mechanism over £700k.

Mr Feeney was confident that Goodbody had gone as good a job as possible to represent BMC interests and that the risks had been mitigated upwards and downwards. He advised governors to read the lease reports to satisfy corporate governance requirements. Overall he considered the deal to be a good deal with managed risks which the Governing Body should continue to support.

Mrs Haren and Professor O'Neill left the meeting

The Secretary advised that the meeting was still quorate. The Chair advised that the draft minutes be viewed by the main external contributors to the meeting.

At the conclusion of the discussion the chair asked if there were any further questions and none were raised and if there were any reservations and none were expressed.

Members re-affirmed that that the Titanic Quarter project was affordable, that the costs were proportionate and that the whole would meet the needs of BMC.

Gov Body May 2009

08/09/44 TQ/CCP & E3 / 08/09/61 Titanic Quarter/City Centre Project It was noted that the financial phase of the TQ/CC Project was signed off on 3rd May by the Chair and Director, and the construction phase was launched on 6th May 2009 by the Minister. The Chair thanked those members that had attended and said that a site visit could be arranged for any member wishing to see the ongoing work. He congratulated the Director on a successful launch.

It was agreed that a paper be prepared for the Governing Body showing how all of the new opportunities, that the new build presented, were to be fully exploited

Deputy Chairman Governing Body

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11 July 2008

Mrs Catherine Bell
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Department of Employment and Learning
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39-49 Adelaide Street
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BELFAST METROPOLITAN COLLEGE (BMC)

As you know, the Governing Body of BMC met on 30 June when it discussed the present funding crisis within the College and the resignation of James O'Kane as Chairman.

The Governing Body agreed that a sub-group led by me as Deputy Chairman should seek a meeting with you to discuss how the current issues can be addressed urgently through an in-depth review leading to a recovery plan aimed at placing the college on a sound footing for the long term.

At our meeting on 9 July you indicated the Department's willingness to immediately appoint an efficiency review team, which would include HR, accountancy, and other specialists, to consider the College's current and forecast financial position, curriculum, estates and staffing strategy; determine how the current problems have come about and recommend a high level series of actions on which a recovery plan would be based.

I hardly need mention that the College has been dealing with several major management challenges including the merger, prolonged industrial action by lecturers and the absence of its Director on long term sick leave. Trevor Smyth has done a first class job as Acting Director without a replacement for his Deputy Director role and of course this has served to stretch even further an already overstretched top management team. In this context we discussed the need for additional support for the Directorate during the period of the review and the implementation of the recovery plan until Brian Turtle returns to work.

Belfast Metropolitan College has been formed as a result of the merger of Belfast Institute and Castlereagh College – effective from 1 August 07

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In these circumstances the Governing Body firmly believes it would be sensible to ask the Department to identify a capable and experienced individual who would act as Interim Director for the time being. The Governing Body has also asked me to seek the Department's agreement in principle to a package of financial support to meet the demands of the efficiency review and the implementation of the recovery plan. The level of support required should be calculated as quickly as possible by the Directorate and the review team in consultation with the Governing Body and the Department.

You indicated your agreement to the establishment of a Steering Group, which would oversee the efficiency review, consisting of representatives of DEL, the Governing Body and the Directorate. We should discuss separately its terms of reference and membership.

During our discussion I referred to the Governing Body's concern about proposed new premises for the College and the Titanic Quarter project in particular. Those concerns are affordability, uncertainty over student numbers in the years ahead and the high cost of professional fees. I understand these concerns were raised at the recent Gateway Review. It is for these reasons that we recommended that the proposed developments should be put on hold until the review has thoroughly examined them.

In summary therefore, the Governing Body would be grateful if the Department would;

(i) Appoint an efficiency review team to start work immediately,
(ii) Forward to me the proposed terms of reference for the review and to consider any suggestions from the Governing Body,
(iii) Appoint an Interim Director for at least the time being,
(iv) Agree in principle to a package of support for the College for the duration of the review and the implementation of a recovery plan,
(v) Work with the Governing Body to form a steering group.

Finally, may I reaffirm the Governing Body's determination to work in partnership with the Department to ensure that the current problems are correctly analysed and appropriate action taken so that the splendid work being done by BMC is not only maintained but strengthened for the benefit of all the citizens of the City. The College has achieved much during its first year and we see no reason why it should not establish a track record of which we will all be proud.

Yours sincerely

IAN WALTERS
Deputy Chairman
Belfast Metropolitan College Governing Body

Belfast Metropolitan College has been formed as a result of the merger of Belfast Institute and Castlereagh College – effective from 1 August 07

18 July 2008

Dr Ian Walters
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Dear Ian

BELFAST METROPOLITAN COLLEGE (BMC)

Thank you for your letter of 11 July 2008 which, following our meeting on 11 July, set out the position of the governing body in relation to the proposed efficiency review of the college.

We have appointed Richard Buchanan to lead the review team on behalf of the Department. Richard is a former senior civil servant and has carried out similar reviews at other colleges in recent years. He will be supported by a team of consultants to be appointed early next week with a view to commencing the review without delay.

To guide the review, we have developed terms of reference (annex 1) which reflect the need for a comprehensive review of the college's operations. This is a relatively standard approach to such assignments and is in line with reviews which have been conducted in other colleges. The Department will, of course be prepared to consider any additional areas that the Governing Body might wish to have included.

The Department fully appreciates the considerable demands that have been placed on the college's senior management team in recent months and, in particular, on the acting Principal, Trevor Smyth. There have been exceptional pressures as a result of the prolonged lecturers' pay dispute, college re-structuring, including the difficulties in effecting redundancies, the absence of the Principal due to illness, and, critically, the college's deteriorating financial situation. However, the commissioning of an efficiency review will bring a new set of demands on senior managers and, understandably, the Governing Body has asked that the Department identify a suitable individual to strengthen and lead the team through the review and into the recovery process. As you are aware, we have since asked Raymond Mullan, former principal of Newry and Kilkeel Institute, to agree to be appointed as Acting Principal of the College effective from Monday 21 July 2008. Obviously, as an employee of the governing body, Mr Mullan's appointment will need to be confirmed by the governing body and, assuming your agreement, I would ask that you take steps to ensure that all necessary procedures are followed and documented; including the appointment of him as Accounting Officer.

The Department will meet the cost of Richard Buchanan's assignment, as well as the other members of the review team. We will also consider the provision of additional resources that might be required to implement the college's recovery plan. In addition, we would be prepared to consider any necessary interim support to strengthen the college's finance function where such need is identified by Raymond Mullan and his senior managers.

I would agree with your view that a steering group be established to ensure effective oversight of the review process. I propose that such a steering group comprise Richard Buchanan, Raymond Mullan and Peter McNaney, who volunteered to represent the governors at our meeting on 11 July. I also propose to chair the steering group on behalf of the Department. To ensure sufficient college representation, it would be appropriate for one additional member of the Governing Body to attend, should the Governing Body so wish. You may wish to consider this point and advise me in due course. As discussed you may wish to act as alternate should a member be unable to attend a meeting. In the meantime, I will make arrangements for the steering group to meet in the very near future.

Finally, in relation to the Titanic Quarter project, the Department considers that it would be inadvisable to take any action to curtail progress since, to do so, would, almost inevitably, incur additional developer costs. Accordingly, it would be our view that the project be permitted to continue as planned.

The Department is committed to working in partnership with the governing body to resolve the college's difficulties which have led to the need for this review. Whilst the process is likely to present significant challenges in the short term, the outcome will be a stronger and more secure college better prepared to meet the needs of students, employers and the wider economy in the greater Belfast area.

I would be happy to discuss any matters arising, or offer clarification, if required.

Yours sincerely

CATHERINE BELL

Annexe 1

Belfast Metropolitan College

Terms of Reference for a Comprehensive Efficiency Review

Terms of Reference

The purpose of the Efficiency Review is to examine the management and operations of Belfast Metropolitan College (including Belfast Institute of Further and Higher Education and Castlereagh College) and to make recommendations which will improve its economy and efficiency and the effectiveness of its management and operations. In particular, the review will be required:

- to establish the exact financial position of the College;
- to identify the causes of the current and projected deficits;
- to review the adequacy and effectiveness of all financial controls in place and identify any inadequacies, including the reasons for any failures in the current arrangements;
- to review staffing levels (part time and full time academic staff and other support staff) in light of student enrolments, curriculum provision and demand from local business and the community;
- to review the effectiveness of the college estate strategy;
- to review the arrangements in place to ensure congruency between corporate planning, curriculum planning, estate planning and financial planning;
- to investigate the adequacy of the College's Management Information System;
- to review the adequacy of the College's audit procedures as prescribed by the Financial Memorandum;
- to consider the performance of the Senior Management Team* in fulfilling their individual responsibilities with regard to ensuring the efficient financial management of the college;
- to include, within the scope of the review, any other issues identified by DEL;
- the Review Team's recommendations must focus on:

- making improvements in the economy and efficiency of the operation and management of the college that are necessary to eliminate the current and future deficits and restore it to sound financial health within a reasonable period of time;

- ensuring sound financial and operational control systems and procedures are established and maintained within the College; and

- the capacity of the Senior Management Team* to address the issues set out in the review.

* - the Senior Management Team comprises the Principal and Deputy Directors.

Correspondence of 21 October 2014 from Strategic Investment Board

Michaela Boyle MLA
Chairperson
Public Accounts Committee
Room 371
Parliament Buildings
Ballymiscaw
BELFAST BT4 3XX

21st October 2014

Dear Ms Boyle

PAC Inquiry into Belfast Metropolitan College's Titanic Quarter PPP Project

Thank you for your letter dated 2nd October in which you asked what the overall role of the Strategic Investment Board was in promoting the wider Titanic Quarter development plan prior to, during and after the preferred bidder for Belfast Metropolitan College was appointed.

SIB has worked on projects within Titanic Quarter in support of Departments since 2008. These projects included the Titanic Signature Project (Titanic Belfast and associated assets), Heritage Lottery Fund applications for HMS Caroline and the Harland and Wolff Headquarter Building and the production of a draft business case for a proposed extension to the NI Science Park, in addition to the Belfast Metropolitan College project.

I can confirm that SIB has had no role in promoting the development plans for Titanic Quarter advanced by Titanic Quarter Limited.

Yours sincerely,

Brett Hannam, Chief Executive
Strategic Investment Board

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Northern Ireland Assembly

Appendix 4

List of Witnesses who gave Oral Evidence to the Committee

List of Witnesses who gave Oral Evidence to the Committee

1. Mr Stephen Peover, Accounting Officer, Department of Finance and Personnel (DFP)
2. Dr Mark Browne, Accounting Officer, Office of the First Minister and deputy First Minister (OFMDFM)
3. Mr Derek Baker, Accounting Officer, Department for Employment and Learning (DEL)
4. Mr Mike Brennan, Budget Director, Department of Finance and Personnel
5. Mr Brett Hannam, Chief Executive, Strategic Investment Board
6. Ms Marie-Thérese McGivern, Principal and Chief Executive, Belfast Metropolitan College
7. Ms Elaine Hartin, Chief Operating Officer, Belfast Metropolitan College
8. Mr Tom Redmond, Head of Further Estates Branch, Department for Employment and Learning
9. Mr Pat O'Neill, Strategic Investment Board (SIB)
10. Mr Mike Brennan, Acting Treasury Officer of Accounts
11. Mr Kieran Donnelly, Comptroller and Auditor General
12. Mr Jack Layberry, Treasury Officer of Accounts

information & publishing solutions

Published by Authority of the Northern Ireland Assembly,
Belfast: The Stationery Office

and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone 0870 240 3701

TSO@Blackwell and other Accredited Agents

£21.00

Printed in Northern Ireland by The Stationery Office Limited

ISBN 978-0-339-60548-0

9 780339 605480