



<p>Subject:</p> <p>DFP Memoranda of Reply on the 24th, 25th & 26th Reports from the Public Accounts Committee Mandate 2011-2016</p>	<p>Circular Reference: HSC(F) 26-2015</p> <p>Date of issue: 12th May 2015</p>
<p>For Information to:</p> <p>Chief Executive and Director of Finance of each HSC Body and NIFRS</p> <p>Summary of Contents:</p> <p>DFP Memorandum on the 24, 25th & 26th Reports from the Public Accounts Committee. Mandate 2011-2016</p> <p>Enquiries:</p> <p>Any enquiries about the contents of this Circular should be addressed to:</p> <p>Finance Policy, Accountability and Counter Fraud Unit Room D3 Castle Buildings Stormont Estate BELFAST BT4 3SQ</p> <p>Tel: 028 90765689 fpau@dhsspsni.gov.uk</p>	<p>Superseded Documents:</p> <p>Not Applicable</p> <p>Related Documents:</p> <p>HSC(F)09-2015 (25th Report)</p> <p>HSC(F)54-2014 (24th Report)</p> <p>Expiry Date:</p> <p>Not Applicable</p> <p>Status of Contents:</p> <p>For Information and action if appropriate</p>

Department of Finance and Personnel Memoranda of Reply on the 24th, 25th & 26th Reports from the Public Accounts Committee Mandate 2011-2016

24th Report: DSD: Tackling Social Housing Tenancy Fraud in Northern Ireland

25th Report: The Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project (DFP, OFMDFM & DEL)

26th Report: Northern Ireland Courts and Tribunals Service Trust Statement for the year ended 31 March 2013 (DFP)

Purpose

1. DFP have issued a response to the 26th report from the Public Accounts Committee. This is attached at Annex A below.

Please note that this DFP Memoranda of Reply note also includes references to the 24th and 25th Reports, these have already been addressed in previous circulars - HSC(F) 09-2015 and HSC(F) 54-2014.

Action

2. Please ensure that this circular is brought to the attention of the appropriate staff within your organisation and that any relevant action points are noted.

Should you have any queries please contact Paula Shearer on 02890 765689.

Paula Shearer

Finance Policy, Accountability and Counter Fraud Unit

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FROM: JULIE SEWELL

DATE: 24 APRIL 2015

TO: DEPARTMENTAL AND AGENCY ACCOUNTING OFFICERS AND FINANCE DIRECTORS

MEMORANDA OF REPLY TO NI ASSEMBLY PUBLIC ACCOUNTS COMMITTEE REPORTS

1. A Memorandum of Reply (MOR) is the formal response to the NI Assembly, to the recommendations contained within a Public Accounts Committee (PAC) report. All MORs (and PAC reports) are circulated to accounting officers and finance directors to enable them to review the documents in the context of their own organisations.
2. Attached in the accompanying annex are links to the following PAC reports and MORs:
 - Tackling Social Housing Tenancy Fraud in Northern Ireland (DSD);
 - The Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project (DFP, OFMDFM & DEL); and
 - Northern Ireland Courts and Tribunals Service Trust Statement for the year ended 31 March 2013 (DOJ).
3. I would draw your attention to the second of these on "The Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project", which in addition to containing a number of recommendations applicable to the wider public sector, will be of interest to all departments. Where appropriate, PAC recommendations of 'general application' have been drawn out. They include reviewing PFI projects to identify opportunities for efficiencies; extending the use of the voluntary code of conduct for PFI/PPP contracts; testing deliverability of bids; developing alternative solutions/exit strategies; assessing detailed costings in bids for reasonableness; and post project reviews to include all costs of delivering a project. The most recently published NIAO reports are also listed.

4. Recipients of this letter should ensure that it is given appropriate circulation both within their own organisations and to sponsored bodies.

Julie Sewell

JULIE SEWELL

Memoranda of Reply 2011/16 Mandate

24th Report: Tackling Social Housing Tenancy Fraud in Northern Ireland (DSD)

No general lessons.

A copy of the PAC Report can be accessed at:

<http://www.niassembly.gov.uk/globalassets/documents/reports/public-accounts/report-on-tracking-social-housing-tenancy-fraud-in-ni.pdf>

A copy of the MOR can be accessed at:

http://www.dfpni.gov.uk/index/finance/afmd/afmd-public-audit-and-pac/afmd-memoranda_of_reply/mor_24th_report1116.pdf

25th Report: The Future Impact of Borrowing and Private Finance Commitments and Belfast Metropolitan College's Titanic Quarter PPP Project (DFP, OFMDFM & DEL)

Some general lessons/key issues:

(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.

The Office of the First Minister and deputy First Minister (OFMDFM) is implementing this recommendation.

OFMDFM is considering options for ensuring transparency by providing information in the Northern Ireland Assembly through Ministerial Statements and/or provision of information in the Assembly Library.

OFMDFM will provide a link from its website to the Treasury publication of UK-wide Private Finance Initiative (PFI) information. In addition, OFMDFM will publish the Northern Ireland (NI) information on its website, extracted from the HM Treasury annual report. OFMDFM will also include information on PFI commitments, including projects in the pipeline, in its report on the Investment Strategy and will seek to ensure that information provided is up-to-date.

OFMDFM will continue to work with departments to improve transparency and accessibility in the reporting of PFI projects and will continue to liaise closely with HM Treasury to ensure accuracy and completeness in terms of the information they publish in respect of NI.

(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.

OFMDFM accepts this recommendation.

OFMDFM and the Strategic Investment Board (SIB) are giving consideration to how a programme to review operational PFI contracts can be arranged and funded so as to identify opportunities for departments to deliver long term efficiencies and maximise savings.

This programme would supplement, but not replace, the current activities of individual departments and their Arms Length Bodies in relation to ongoing contract management and review of processes as set out in individual PFI contracts.

(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.

OFMDFM accepts this recommendation.

OFMDFM and SIB will encourage all departments involved in ongoing PFI/Public Private Partnership (PPP) contracts to sign up to the voluntary code of conduct and will urge departments to encourage those private sector partners not already signed up to do so. Furthermore, when SIB is advising organisations on new PFI procurements, it will draw attention to the code of conduct and the benefits to both the department and its private sector partners of being signed up to it.

OFMDFM will also encourage departments to make full use of the opportunities set out in the code of conduct to work with their private sector partners to identify opportunities for savings and efficiencies.

(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.

The Department of Finance and Personnel (DFP)/OFMDFM accept this recommendation.

DFP/OFMDFM agree that, ahead of appointing a preferred bidder for PPP projects, public bodies should test the deliverability of bids and limit the extent of unresolved issues within the bid as far as practicably possible. This should help protect the public sector's interests by ensuring that any subsequent negotiations are kept to a minimum.

The introduction of the Competitive Dialogue procurement procedure in 2006 (as opposed to the Negotiated Procedure used for the Belfast Metropolitan College PPP) is beneficial in this regard since it means that more issues are now resolved in a competitive environment. It will not always be possible however, to resolve every issue

prior to awarding preferred bidder status, for example conditions attached to any planning approval may impact on the deliverability of a project.

To take this recommendation forward, where SIB is providing advice and assistance to departments or other organisations on procuring a PPP project, it will encourage them, as far as is reasonable within the required timeframe, to have a tested and realistic view on the deliverability of bids and to ensure that as far as possible all relevant issues are addressed prior to appointment of a preferred bidder.

DFP will bring this recommendation to the attention of departmental Accounting Officers.

(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.

DFP has implemented this recommendation.

DFP’s Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) contains relevant guidance on exit strategies. It states that departments should have the flexibility to pursue an alternative procurement route without undue delay if at any stage it emerges that a PPP solution has become unaffordable or does not offer the best value for money. Accordingly, there remains a general requirement to develop a fully detailed conventional procurement option (CPO). The CPO should provide the same output as the private sector bids and should be updated regularly throughout the procurement process.

DFP will bring this recommendation to the attention of departmental Accounting Officers.

(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.

DFP has implemented this recommendation.

The Competitive Dialogue procurement procedure as set out in the Public Contracts Regulations is now used to procure contracts for PFI projects. This procedure is designed to identify and define the means best suited to satisfying a department’s requirements through an iterative dialogue with bidders prior to inviting final tenders with associated prices. This procedure allows key components and costings to be appropriately assessed for reasonableness and maintains competitive tension in the negotiation process for longer. It therefore minimises the need for significant clarification or fine-tuning after the receipt of tenders and before contract award.

(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.

DFP accepts this recommendation.

DFP expects a post project review (PPR) to cover all relevant costs. DFP guidance contained in NIGEAE indicates that a PPR should compare planned costs and benefits

with actual costs and benefits to allow an assessment of the project's overall value for money to be made. A PPR should include comment on whether the costing assumptions made at the project's inception proved realistic.

DFP agrees that all investment decisions must consider opportunity costs. DFP remains of the view that selling surplus assets on the open market at the point at which they become surplus remains the most transparent position (as reflected in Land and Property Service guidance), and assets must be sold at prevailing market values. DFP recognises that it is inherently difficult to predict these values in advance with certainty, although the risk of normal fluctuations in the property market has not typically been a high or unmanageable issue for the public sector over the longer term. DFP fully agrees that any decision to underwrite shortfalls in funding arising from asset disposals should only be made after careful consideration.

DFP will bring this recommendation to the attention of departmental Accounting Officers. A copy of the PAC Report can be accessed at:

<http://www.niassembly.gov.uk/globalassets/documents/reports/public-accounts/10914.pdf>

A copy of the MOR can be accessed at:

http://www.dfpni.gov.uk/index/finance/afmd/afmd-public-audit-and-pac/afmd-memoranda_of_reply/mor_25th_report_1116.pdf

26th Report: Northern Ireland Courts and Tribunals Service Trust Statement for the year ended 31 March 2013 (DFP)

No general lessons.

A copy of the PAC report can be accessed at:

<http://www.niassembly.gov.uk/globalassets/documents/reports/public-accounts/nia-2151116.pdf>

A copy of the MOR can be accessed at:

http://www.dfpni.gov.uk/index/finance/afmd/afmd-public-audit-and-pac/afmd-memoranda_of_reply/mor_26th_report_1116.pdf

Recently published NI Audit Office reports

Modernising benefit delivery in the Social Security Agency's local office network (11/11/14)

Primary Care Prescribing (27/11/14)

Continuous Improvement Arrangements in Policing (17/02/15)

Cross-border broadband initiative: the bytel project (03/03/15)

Good Practice Guide: Conflicts of Interest (26/03/15)

Protecting Strangford Lough (31/03/15)

DRD: the effectiveness of public transport in Northern Ireland (21/04/15)

Copies of the above reports are available to download from the NIAO's website at the following link:

<http://www.niauditoffice.gov.uk>