



Northern Ireland
Assembly

Public Accounts Committee

OFFICIAL REPORT (Hansard)

Inquiry into Major Capital Projects:
Department of Finance; Executive Office;
Strategic Investment Board;
Northern Ireland Audit Office

5 March 2020

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr William Humphrey (Chairperson)
Mr Roy Beggs (Deputy Chairperson)
Mr Cathal Boylan
Ms Órlaithí Flynn
Mr Harry Harvey
Mr David Hilditch
Mr Trevor Lunn
Mr Maolíosa McHugh

Witnesses:

Mr Des Armstrong	Department of Finance
Ms Sue Gray	Department of Finance
Mr Stuart Stevenson	Department of Finance
Mr Kieran Donnelly	Northern Ireland Audit Office
Mr Brett Hannam	Strategic Investment Board
Mr David Sterling	The Executive Office

The Chairperson (Mr Humphrey): I invite to the table Mr David Sterling, the head of the Northern Ireland Civil Service; Sue Gray, accounting officer for the Department of Finance (DOF); Mr Des Armstrong, the chief executive of construction and procurement delivery in the Central Procurement Directorate (CPD) of the Department of Finance; and Brett Hannam, the chief executive of the Strategic Investment Board.

Mr Kieran Donnelly, the Comptroller and Auditor General (C&AG) and Mr Tomas Wilkinson, a director in the office of the Comptroller and Auditor General, are also available to answer members' questions. Also in attendance are Mr Stuart Stevenson, the Treasury Officer of Accounts (TOA), and Ms Julie Sewell, an official from the TOA, who are available to answer any relevant questions that members may have.

Good afternoon, Mr Sterling.

Mr David Sterling (The Executive Office): Good afternoon, Chair

The Chairperson (Mr Humphrey): Good afternoon Ms Gray, Mr Armstrong and Mr Hannam. Thank you very much indeed for coming to the Committee. Will each of you make some remarks, or will someone lead on behalf of your delegation?

Mr Sterling: I was just going to say two or three things very quickly. I am not sure whether my colleagues want to say anything. We welcome the opportunity to discuss the challenge of delivering major projects. Evidence from around the world shows that major projects are intrinsically difficult to deliver and that as many as eight of 10 fail to meet their time and budget targets.

We welcome the contribution that the Audit Office report makes to the debate on how we can reduce the risk of budget and time excesses. We agree with the report's two recommendations and welcome the C&AG's proposal to conduct two further studies into the lessons to be learned from the judicial review process and a review of the efficiency and effectiveness of the Northern Ireland planning system. We think that those will be very helpful.

I was not going to say anything more by way of introduction, and I do not think that any of my colleagues will either.

The Chairperson (Mr Humphrey): OK. Thank you.

We have just received a briefing from the Northern Ireland Audit Office (NIAO), which indicates that there may be an issue with the accuracy, preciseness and efficiency of outline business cases (OBCs). Companies may have been tendering for public works of the scale that we are talking about here — in particular, for the 11 major contracts that are sizeable investments by the Northern Ireland Government — on the basis of inaccurate OBCs. How can you all assure us that the outline business cases that are submitted are accurate and deliver value for money? They clearly do not deliver contracts on time and on budget.

Mr Sterling: OK. I will start with that. We, like everyone in the room, regret the fact that projects did not come in on time and budget. A very helpful table in section 3.2 of the Audit Office's report sets out some of the reasons why the projects identified did not achieve their time and budget targets. I will not go through those now, but it would be useful to go through some of those factors this afternoon.

As far as business cases are concerned, this is one of many areas where we continuously seek to improve. The Department of Finance is in the process of introducing a new approach to the production of business cases. That follows agreement by the Northern Ireland Civil Service board last year that we should look at that, and the new arrangements will come into effect from 1 April. Sue will say a little about what the new process is and what it is designed to achieve.

Ms Sue Gray (Department of Finance): Thank you. We have tried to streamline the business case process. Previously, it was a 10-step business case process; we have gone to five. The old model was probably overcomplicated, with lots of appendices and everything. The new model is set out with clearly defined headings: the strategic case, the economic case, the commercial case, the financial case and the management case. Under those headings, we will ask Departments to set out their objectives very clearly and to point to where expert advice is needed. There is greater clarity on roles and responsibilities under the new business case model.

The five-step business case model is being used by the Treasury in England for all its business cases, by Scotland and Wales and internationally. We have moved to a clearer process that requires Departments to be very clear about what they are doing.

The point of making costings more accurate at the outset is valid. Sometimes, schemes go forward on the basis of cost assessments that are not as detailed as we would like. We have been doing a lot of training on that with our staff and, although we agreed this about six or nine months ago, we have been doing a lot of work behind the scenes to get everybody ready to implement the new process from 1 April.

The Chairperson (Mr Humphrey): You said that schemes went forward for which the necessary work might not have been done. That is very alarming for the Public Accounts Committee to hear.

Ms Gray: It is not necessarily that the work was not done. What we are saying is that you have to explain things very clearly, there will be expert advice if you need it and that there are stages that everybody has to go through. I would be very happy to send you the five-case model.

The Chairperson (Mr Humphrey): If you could do that, it would be very helpful. For the benefit of the Committee and the record, what schemes are you talking about? Can you give examples of schemes for which the outline business case was not precise?

Ms Gray: No, I do not have any examples with me. The new model will make sure that we have all the information that we need to make proper judgements.

The Chairperson (Mr Humphrey): It is alarming to hear that some schemes went forward without that being in place. There will now be a cost of over £700 million to the public purse in Northern Ireland. The figures in the report are dated 19 December 2019. We are now just into the third month of the new year, so that figure will be over £700 million. Your Minister, Ms Gray, said a few weeks ago in the Chamber that there could be a black hole of £600 million to the public purse in the Budget. That draws attention to the cost of the overspend, but it also makes me think of the opportunity cost and how that £700 million could have been invested in infrastructure, hospitals, roads, transportation or schools. However, it was not, because that money was not effectively and efficiently spent.

Ms Gray: I did not mean to say that. I am not saying that there was £700 million that could have been invested elsewhere.

The Chairperson (Mr Humphrey): No, but we asked the Audit Office, and we were given the figure of £700 million of overspend, or a lack of efficiency that allowed that to become the figure. It was £692 million in December, but it is now probably £700 million.

Mr Sterling: If we are looking at the reasons that underpin the £700 million figure that you quote, figure 3.2 that I referred to is helpful in identifying the reasons for cost overruns. Clearly, there is an issue with the accuracy of outline business cases. I will ask Brett to say something about the Strategic Investment Board's (SIB) experience in that regard.

If you are looking at the factors that contributed to cost overruns, there is, in our view, definitely an issue with funding uncertainty. We have not had a multi-year Budget since 2011; we have had a series of single-year Budgets. We have been in a period of austerity in which there has been little real-terms increase in our Budgets over the years.

Unforeseen planning issues arose in a number of the cases that are referred to. In that regard, I welcome the Audit Office proposal to do further work on the efficiency and effectiveness of the planning system.

Legal actions slowed the delivery of major projects. I welcome the commitment to look at lessons to be learned from judicial reviews.

We have seen quite significant tender inflation over the last 10 years. It is worth noting that, in the four years from 2010 to 2013, there was a cumulative reduction of 15% in tender prices. However, in the eight years from 2014 projected to 2021, tender price inflation is 56%. In the three years from 2015 to 2017 alone, tender inflation was 36%. That has had a very significant impact on the cost of projects as well.

Uncertainty over long-term funding and its impact on our ability to finance projects resulted in consequential difficulties for the construction sector, some of which were described to the Committee by a representative of the Construction Employers Federation last Thursday.

A different range of factors in each of these cases gave rise to the increased costs. Our view is that it is not down just to difficulties with constructing an accurate outline business case. Brett, you looked at this area. Maybe you could add something.

Mr Brett Hannam (Strategic Investment Board): The starting point has to be that these types of project — major projects — are inherently risky. They run into similar problems right across the world. They have the longest schedules, which makes them the most vulnerable to changes in requirement and scope. They are the most expensive, so they are the most vulnerable to procurement challenge by disappointed bidders. They are the most complex, so they place the greatest demand on other systems such as planning and procurement. They are the most innovative; they use non-standard designs that have not been tried before. They are the most impactful, so they are the most likely to generate local opposition from citizens who are adversely affected. There is a long list of projects in the public and private sectors in other jurisdictions that encountered similar problems.

Academic studies show, as David said, that eight or nine of 10 of that type of project have a cost overrun. The study that I have been reviewing recently shows that such overruns were found across 20 different countries, five continents and were constant for the 70-year period of the study. The

conclusion from that is that cost estimates have not improved anywhere over that time. If we should expect problems, what are the key issues? The first is obvious: how to improve the accuracy of those cost estimates. Secondly, what can be done to reduce that inherent riskiness? The starting point for why estimates are too optimistic is the incentive to underestimate costs at the evaluation stage, just to get the project started. By playing down costs and boosting benefits, projects appear more attractive in the context of competition for scarce funding. Secondly, it is in everyone's interest to get the "right" answer. Elected representatives and officials want quick results, builders and consultants want work, and taxpayers want action. This, subconsciously or consciously, incentivises those charged with creating and assessing business cases to accept optimistic estimates and lower optimism bias requirements. Finally, there is a lack of symmetry between the information held by the promoters of projects and the assessors. Misrepresentation or inaccurate estimates are often not identified because the people carrying out the assessment do not have the required information. In a number of projects, the sums allowed for optimism bias to take account of this have been demonstrably insufficient. That is to say that the amount allowed for optimism bias has not been large enough, which clearly shows that the system, across all jurisdictions, is not working properly.

I will pick up on Sue's point about how to deal with this. She explained the five-stage business case, which has been brought in in England and elsewhere, and it is improving the situation. It might be worth, if you wish, my going into a little more detail as to how that can be done. First is the expertise of the people carrying out the assessment. As I said earlier, currently, the people promoting the project possess more information than the people assessing it. Under the new arrangements that Sue described, the assessors will have access to external, independent and objective advice. That will come from experts, such as the consultants who help with the original drafting of the business case, who will not be conflicted by the hope of future work. Secondly, we will begin using reference class forecasters, which means recognising that, statistically, the best guide to the cost of a project is the cost of a similar project elsewhere. That is what is called the reference class. You would adjust that, where necessary, for differences in scope, size and other relevant factors. It produces a much more targeted form of optimism bias. At the moment, the bias is set centrally, in London, at a particular figure that does not take particular account of the specific circumstances of a particular project. This will be carried out and assessed by an entirely independent and objective assessor, free from political or any other pressure. As a result of this, we can start to capture performance data and use it for benchmarking. This can identify weaknesses and anomalies, and we can ask questions such as, "Why do we regularly underprice this part of a project, or this activity?" Once we get and can collect data that is specific to the area that we are working in, we can start making our estimates on the basis of actual, historical performance, rather than on predictions of what costs should be. The final thing that I draw attention to is the intention to evaluate the performance of forecasters and assessors. Once we have data for each project, the performance of those who write the business cases and that of those who review them can be evaluated. Those who perform well or badly can be identified. If you take those actions, together with the stages that Sue described, there is a much greater likelihood of reaching an accurate figure for the cost estimate.

The Chairperson (Mr Humphrey): Sue, you mentioned moving from 10 stages to five, and Mr Hannam set that out in more detail. You plan to put in place steps and measures. Can you assure us that those controls will prevent this from happening in the future? It was not a one-off that the finances of a project went wrong. Eleven major projects overspent at, as I said, a cost to the public purse of £700 million. How can we be certain that this will not happen again? I know that there are unforeseen and difficulties with certain projects, but people could be excused for thinking that this is systemic in large public contracts.

Ms Gray: As Brett set out, this is a robust process, and it will be transparent. You can always try to do your best. My former colleagues have done a lot of work on this in Whitehall. With the best will in the world, major projects, through unforeseen circumstances or whatever, are still coming in over budget and taking longer — we all read recently about HS2. They have put in a lot of work and strong foundations. The Infrastructure and Projects Authority works in a very good way to support Departments by providing many of the skills that they need. Still, projects will, depending on their complexity, miss targets. I am afraid, therefore, that I cannot say never. However, this will allow us, at the various stages, to make the challenge that is needed and bring in experts where needed. It facilitates that discussion and challenge function. This will allow us to do that, but, unfortunately, I cannot say never. If I did, you would not have me here again.

Mr Sterling: The key point is that it will allow for a more balanced management of risk, which is, perhaps, what was lacking in the past. We are keen that, at the outline business case stage, when people first look at a project, we make sure that they are not unduly optimistic. We want to make sure

that the assumptions made are as accurate as possible. At the same time, we do not want to create any risk aversion such that we are so worried about getting everything absolutely right at the start that we create a delay in the project, which, in itself, can lead to an increase in cost.

The Chairperson (Mr Humphrey): You talk about outline business cases and people being unduly optimistic. Could it be the case that, in some of the large contracts, a culture has built up of people being unduly optimistic and putting in tenders that are not realistic, which then cost the public purse? I see you nodding in agreement, Mr Armstrong.

Mr Des Armstrong (Department of Finance): As an observer of the system — right across the system — it is clear to me that, as well as the technical aspect, a number of cultural issues are at play. The National Audit Office came up with a number of studies that suggest factors such as entryism. That is when, if you allow a project that is not properly or realistically costed to get on to a programme, the culture does not allow you to stop it; you have to continue. That is almost cultural.

Basing a programme or project, or putting your reputation on the line, on a single-point estimate is unrealistic because the world changes as time goes on. Therefore, you have to keep going back to the assumptions that established the original estimate. That needs to be continuously looked at. There is also the issue of vested interests. Human beings and organisations can become very involved in making sure that a project goes forward and is delivered. There is a mix of factors.

On the approach to business cases, separating the commercial issues from the business case assessment will be very useful. I expect that organisations that are not involved in these projects will come in with a fresh view and start to challenge some of the numbers in play. That, in my opinion, is significant.

The Chairperson (Mr Humphrey): What we all need to come out of this report is that the scenarios that you talk about become the exception rather than what appears to be the rule — I do say "what appears to be the rule" — for these projects.

Mr Armstrong: These are large projects, and, to a certain extent, my organisation was not involved in them. Below them, however, a whole raft of other projects are carried forward quite successfully. The previous Committee looked at how the Department of Culture, Arts and Leisure (DCAL) managed its capital projects. It referred to the technical ability available in SIB and CPD to support Departments. After that review, CPD put quite a bit of effort into upskilling staff to make sure that they were professional and had the qualifications to go in to help and, to some extent, challenge organisations. That should reassure us, if we can get the commercial business case to work properly. To do so, we must recognise that major projects are different from smaller projects, which are still very important. We do that by having another system that recognises that we want to be a bit more certain about what we have committed to do and that we want to look at the estimates as the project goes forward. If we were stopped for any reason, we would really have to have a rethink because, in construction projects, although a project might stop or stall, the costs do not because inflation continues to run. Drawing out the commercial business case can assist in making sure that we get these projects to a good place.

The Chairperson (Mr Humphrey): Mr Sterling, you mentioned that planning is a problem. It is a particular problem, and all of us have encountered that in our constituency work. When we talk to investors who are coming here, they continually tell us that there is a problem with planning. Three of the projects that we are talking about — the Belfast transportation hub, Casement Park and the primary care centre at the Royal Victoria Hospital — encountered and continue to encounter difficulties with planning. I accept that none of you is the permanent secretary at the Department for Infrastructure — she will give evidence in the not-too-distant future — but is there more that we can do as Northern Ireland plc to ensure a more robust and swifter system without setting aside people's legitimate concerns? Is there a way that in which that can be done that would allow us to get to the point where people can be on-site and starting to deliver projects on time and on budget?

Mr Sterling: This is important, and, as I said, we welcome the C&AG's proposal to do further work in this area. There is no doubt that several of the projects on the list were beset with planning difficulties, as you identified, Chair. It will be useful to get some empirical evidence on whether there is anything that we are not doing here that we should be doing to make the planning process simpler. It is worth recognising that unforeseen things happen. Last week's court ruling on terminal 3 at Heathrow Airport clearly created a major issue. A large, very sophisticated organisation had not anticipated that. It will, however, have major implications for Heathrow Airport and, perhaps, many others. It goes back to my point about the need to balance risk. When looking at projects, people need to anticipate and avoid all

possible planning issues. However, we do not want people to become so risk-averse, looking to identify every potential planning pitfall, that it leads to a position where things do not move forward at any significant pace. More work on that will help to make sure that we get that balance right.

Mr Lunn: Good afternoon, everybody. My first question is for you, Mr Armstrong, and it may relate to you as well, Mr Hannam. The Construction Employers Federation was very strong in its belief that one of the problems with the procurement process is the lack of consistency across the public sector. It said that the various centres of procurement expertise (COPEs), different procurement bodies and bespoke solutions make it confusing for the industry and cause unnecessary duplication. Do you accept that point?

Mr Armstrong: I think so. I accept that we failed to be consistent in our approach to the construction industry. As a result, the industry cannot deliver the efficiencies that we want it to, and we cannot help the industry to perform as it should. We have done quite a bit of work and spent quite a bit of time trying to bring together common conditions of contract and common specifications. It is inevitable, however, that, when a number of organisations have their own board of directors and/or their own governance arrangements, they will tailor the documents to suit their organisation. That is one of the challenges. There might be a recommendation from the review that we really need to get into that space. My organisation would be very willing to look at how we could harmonise the documentation. We work with the industry quite closely to try to identify common issues and issues of mutual interest. I regularly get that feedback that we are not consistent. The industry has said that, if Government can set the standard of performance that they expect and wish to have from the industry, the industry will meet that. I would have to accept that it is a bit of a failure that we have at present.

Mr Lunn: OK. This question might be for you, Mr Hannam. Again, the federation argued very strongly that centralisation in the procurement process, to put it simply, would result in the reduction of duplication and lead to a more consistent approach across all public-sector bodies, make better use of limited resources and result in a more consistent approach to procurement policy and practice. I think that you have been on the SIB for over eight years. Is that right? You will be familiar, then, with the report on a review that was conducted by SIB in 2013. It made similar points. Sometimes, I wonder about these reviews and reports, right across the public sector. I have been on the Committee since 2007. We always come back to the point that reports do not seem to have had any real effect. Do you think that the review that you did in 2013 was acted on? If it had been, would we be talking about the same topics now?

Mr Hannam: Clearly, it was not implemented in full. The Audit Office report sets out why that was. The benefits of centralisation, which was recommended in that review, were explained to you by the CEF. The benefits include being able to concentrate scarce expertise in one place; having flexibility in deploying that expertise; taking a standardised approach to procurements, which includes having standard contracts and fewer bespoke clauses; and reducing the costs for bidders of having to go to their legal advisers. By bringing projects together across Departments, it is possible to consider the use of hubs by different government organisations that share the same premises and thus optimise land use. It makes it easier to collect and report data and benchmarks. It can avoid lumpiness in the pipeline and allow more flexibility in the use of a budget. You can use its buying power to encourage industry productivity improvements, such as promoting the use of building information modelling (BIM), modularisation and standard parts. As the CEF said, it provides a clear interface with the market and clear accountability for delivery. All those things are possible through centralisation. They are also possible without it, if it is not acceptable for one reason or another to deliver those benefits through centralisation, but they do require a lot more effort. The great advantage of centralisation, as it has happened in instances such as Infrastructure Ontario and others, is that —.

Mr Lunn: What was that one? Sorry.

Mr Hannam: Infrastructure Ontario. It is an example of an organisation that centralises the commissioning and procurement of infrastructure in the Ontario area of Canada. It has managed to deliver —

Mr Lunn: I thought that it was a code word.

Mr Hannam: — large-scale projects very quickly.

Mr Sterling: He is hoping to get a site visit. *[Laughter.]*

Mr Lunn: I think that you have made my point: all that you have just said is lifted from the 2013 review. We are still talking about the same things. It seems to be the way of government, to be honest. We do not seem to move on. I can think of reports from other Departments, and it is the same thing.

Mr Sterling: I think that, in fairness, there has been quite significant change since 2013. The proposed centralisation did not happen, and there was no ministerial agreement for that, so we can set that to one side. Certainly, with departmental restructuring, the reduction in the number of Departments in 2016 has meant that major projects tend to be handled by the Department for Infrastructure, and the Department of Finance, obviously, has assumed responsibility for health estates. That means that all health projects are being dealt with in the same way. So, whilst we have not centralised everything into one area, there is a much greater concentration of expertise in a smaller number of Departments, and I think that has had an impact. For example, Sue and I have recently been at Maghaberry Prison, where there is a very new prison which, again, was delivered by CPD at a cost of £48 million — on time, within budget. That is being done on behalf of the Department of Justice.

Mr Lunn: It can be done.

Mr Sterling: It can be done.

Ms Gray: And there are a number of health projects as well.

Mr Sterling: Absolutely. We have invested quite heavily in improving programme and project management practices. If you go back to figure 3-2, 10 years ago or more there would have been major issues with procurement practices, but they are not being cited as a major reason for the difficulties with these particular projects. Maybe, during the afternoon, we can discuss some of the detail around the improvements that are being made by CPD and SIB. There is a lot that has been done, even if that key recommendation was not implemented in full because there was no ministerial agreement to it.

Mr Lunn: OK. Thank you for that. Mr Hannam, back to you. There is anecdotal evidence that many construction firms prefer to bid for work across the water, or elsewhere from Northern Ireland, at the moment. I am thinking in particular about the Strule campus, where only one bidder came forward. Why do you think that is happening? Regarding the Strule contract, there were six schools on offer. I would have thought that developers would be queuing up for a job like that. It is six major contracts on one site, yet only two came forward and one dropped out. Why do you think that is happening? I am looking at one of your aims and objectives, and you play a role in encouraging interest in projects. It did not work on this one.

Mr Hannam: When the initial market engagement was carried out for Strule, there were five potential bidders that came forward. The next stage attracted two, and then one of those dropped out. There are a number of reasons for that. The first is the gravitational effect of the booming economies in the south-east of England and in the Republic of Ireland. It is just a fact that profit margins in those areas are higher than those that will be available in Northern Ireland. Combine that with the uncertainty over the funding for the project — which was cited by the bidder that withdrew — the long procurement times and the inevitably higher bid costs that go with public-sector work, and those factors created the situation which led to there only being a single bidder left in the competition.

Mr Lunn: We have already touched on projects delayed due to judicial reviews, so I will not ask you to go through all of that again, but the A5 still has not been resolved and I think that there is another judicial review (JR) about to start, if it has not already. Is there any merit in the argument that it is too easy to take a judicial review in this country? If you take one in the South, or the equivalent format —. I do not have the figures, but I am led to believe that, it costs a fortune down there to take a JR, and you probably will not get legal aid either. Lisburn Council has 27 judicial reviews against it at the moment. It is just too easy. Is there merit in trying to weed them out? You might actually need the legal profession for that, but it gets ridiculous at times.

Ms Gray: Des, do you want to say a little bit about what we have done or are currently doing? It does not cost very much to take a challenge here, and that is a big issue.

Mr Armstrong: Certainly, regarding a procurement challenge against a contract award, it is relatively easy in Northern Ireland to do that. The issue arises because of the change in the regulations. In

previous regulations, if a bidder felt that they had been unfairly treated, they would go to the courts and ask the courts to put in place an order to stop the award of contract. The most recent changes to the regulations mean that, if you put in a request saying that the regulations have not been followed, there is an automatic stay. In Northern Ireland, the cost of that to an agreed bidder will be something like £250 plus whatever he pays the solicitor to write the letter. We can show you back at the office a stack of letters, all of which have exactly the same wording. There is not an awful lot of intelligence needed to put that in place.

If you compare that with London, the situation there, as I understand it, is that the fee that you pay is related to the extent of damages that you wish to recover should the case be taken. To do that, and to estimate your damages, you obviously have to understand what your case is and have that presented. It is relatively easy in Northern Ireland to do that. If you are in a supplies contract or a services contract and you are an incumbent in that and you lose the contract, quite clearly it is in your interests, if you are unscrupulous, to stay in the contract because it does not cost very much to do that.

What we do now is we make it much more clear to the bidder that we will undertake a review of what we have done in arriving at the decision, and we will be clear that we feel that that decision is sound and that we will proceed to a full hearing. If we are successful in that, then we will seek recovery of costs.

Mr Lunn: I am sorry; I was thinking more of planning disputes.

Ms Gray: I am sorry; that is my fault.

Mr Hannam: Des has talked about the challenges under procurement law, but the most impactful challenges are raised under environmental law. Again, similarly, there is a very low hurdle. In fact, that hurdle has been lowered by European law — the so-called Aarhus convention — which enables challenges raised on environmental grounds to be brought at very little cost and risk to the challenger. If you look at the A5, the A6, Casement Park, Arc21, the Southern Regional College Craigavon campus, the North/South interconnector or the Rose Energy plant, all of those challenges have been raised at cost through environmental reasons.

Now it is possible, yes, as you suggested, that we could address that by looking at the way in which judicial reviews are handled. You could, for example, reduce the length of time that an objector has to raise that objection. Currently it is three months, and in other jurisdictions it stands at one month. However, it would be more sensible to look at the underlying reasons why people are objecting and see whether there is anything that can be done to address those underlying causes, rather than dealing with the symptoms, which are the JRs themselves.

Clearly, at the moment, there is a problem with compensation. People who suffer for the good of the community are not being generously compensated. They are paid the bare minimum and, unsurprisingly, they resent that, and that leads to opposition, which can be protracted and result in much higher costs than would be the case if we paid them reasonable compensation.

Secondly, as David suggests, we could, perhaps, do more in advance of moving to procurement, by way of consultation, to identify what the objections are at a much earlier stage and deal with them. The French have a system called the commission for national debate, which is an independent body that carries out research into major projects in advance of them being taken forward and gives an opportunity for objectors to raise those objections. The commission will force developers and planners to take account of those. As a result of that approach, most projects consider different options, about half of them are modified and about 10% of them are abandoned before they get to the point where huge sums of money have been spent on them. If a different approach was taken to consultation in advance of major projects, perhaps we would see fewer objectors and, thus, less costly delay.

Mr Lunn: I had better put it on the record, Chair, before the Green Party descends on me, that I was not trying to stop environment-based judicial reviews. The public and organisations with an interest must be allowed the opportunity to do those things. I just think that, frankly, some of them are too easily got and are vexatious — and that is on the record too.

I have one last question for you. Some of these projects, such as the critical care centre and the University of Ulster, suffer from construction problems, causing serious delays and increased costs. Are the constructions problems poor workmanship, bad materials or a bad specification to start with? Where do you lay the blame for those?

Mr Hannam: It is more likely to be poor workmanship and/or poor materials. However, it is important to stress that, if those are the causes, the cost falls to the contractor and not to the public.

Mr Lunn: Absolutely, and that was my next question.

Mr Hannam: It is not common, by any means. It does not happen very often.

Mr Lunn: What are the construction problems that the report refers to, then?

Mr Hannam: In the case of the hospital?

Mr Lunn: The construction problem that you have identified is faulty workmanship, and that is picked up by the contractor. However, the inference here is that construction problems add to the cost of the contract.

Mr Hannam: What can happen is that a single problem can cause a cascade of delay. That original problem may be attributable to a contractor, and he will fix it. but there may be further problems down the line that are a result of that initial problem. The project will get delayed and, as a result of it being delayed, other costs arise. So you have the cost of keeping the project team going and the opportunity cost of not getting use of the facility — all those things will increase the overall cost.

Mr Lunn: This is my last question, Chair. Do you think that the penalty clauses in these major contracts are sufficient to deter people from, let us say, underestimating the cost of the contract and relying on being able to claw the money back?

Mr Armstrong: There are difficulties in structuring penalty clauses, as we call them, because typically you cannot cover consequential loss under contract law. The more significant thing is that you make sure that, if a contractor has underperformed, you have a process in place that allows them not to tender for a period and to correct that. Some of the things that are mentioned in the report indicate a lack of technical ability in the industry, particularly around mechanical and electrical systems. That is a strategic issue for Northern Ireland. In the recession, we lost a number of firms that were of high quality and capable of self-design in those areas. That is a weakness that we are trying to address. To my mind, on a complex building, the mechanical and electrical stuff outweighs the architectural and structural issues that there can be. The industry itself has also had issues with workmanship. We had moved to self-certification in workmanship, but we need to be much clearer about inspections on sites and what project managers need to look at.

Mr Lunn: OK, fair enough. Thank you all very much.

Mr Boylan: You are all very welcome. Thank you very much for your answers so far. I have a question for everybody. David, I will start with you. I listened to what Brett said about the five-step plan and everything else. Is there an accountability mechanism built in here? If there is a delay in planning, a JR or whatever, surely there has to be accountability because that adds to the cost. How do you recover that? How is that built into the whole process? Have you given consideration to that?

Mr Sterling: Under existing arrangements, individual projects are the responsibility of the accounting officer in the relevant Department. It will be for that accounting officer to determine the best way to manage projects in that area. Through the work of the Department of Finance, our desire is that there be common approaches and processes across all Departments. The specific point of what should happen if there is a delay because somebody has taken a judicial review takes us back to the earlier conversation about how, if you get to that stage, it is almost too late. We need to focus more on trying to avoid the position where somebody is able to take a judicial review. In other words, as Brett and Des have said, we should be doing much more in the earlier commissioning phase of the project.

Mr Boylan: I appreciate that early engagement is key to all of it. If I asked you to break down the total cost of every one of those projects and who is responsible for every pound spent — I recognise the planning issue, but we need to be looking at it across government, collectively and together. That is the case I am making.

Mr Sterling: The short answer is that, for each individual project, it will be the accounting officer who is accountable for the performance of that project in each Department.

Mr Boylan: OK. Des, over to you. We had the Construction Employers' Federation in. Obviously, delays and time lags are an issue, between the outline business case, pre-qualifying, tender and award of contract. They mentioned that last week. What can we do in the process to instil confidence in the industry itself?

Mr Armstrong: We need to be a bit more transparent about our performance. When we go to tender, we should make sure that we have the funding available and that we are not asking contractors or consultants to tender on spec, on the likelihood that the funding might come later. We need to be absolutely clear. If we are going to tender, the project should have all the necessary approvals. When the tender is assessed and awarded, quite quickly after that the contract should be able to move into delivery phase. That is one of the things that we looked that as a result of the SIB study. It put a real focus on that part of the process that actually delivers the construction element of the project.

You ask who is responsible. We have issued guidance that on these projects now there will be a senior responsible owner (SRO), and they are charged with making sure that the project is started properly and has all those approvals. That commissioning phase, as I call it, is there to decide which project is going ahead and what funding is in place for it. If we handed that responsibility over properly, we could then have an SRO who could be responsible for the construction element, and that would be clearly visible. We would be organised and ready to go and we could tell the contractor to get on and construct those things.

Mr Boylan: Brett, over to you. What are your views on the level of engagement with the construction industry, and how do you think we could improve that? From what I heard last week, there are obviously concerns about the level of engagement.

Mr Hannam: There is a lot going on by way of engagement. Des chairs the Construction Industry Forum for Northern Ireland, which brings together representatives of all the areas in the industry and enables them to talk to government. The Procurement Board has been opened up more widely and has greater representation from outside government. We publish, at a level of detail that is not matched anywhere on these islands, details of forthcoming procurements to assist the industry. Underpinning all that, there is a great deal of bilateral engagement between Des and his colleagues, Sue and her colleagues and SIB staff, and the industry's representatives. There are plenty of opportunities, and they are being used.

Mr Boylan: I want to read this out because it is a specific point that was left with us. Representatives of the industry have told us that the investment strategy and procurement pipeline bear little resemblance to reality. What are your views? Is that a fair enough comment?

Mr Hannam: No, I do not think that it is a fair comment at all. The delivery tracking system, which is the pipeline, contains details of all capital projects with a value greater than half a million pounds and professional services greater than £100,000. It is freely available. It can be accessed through a website, and the detailed data can be downloaded into a spreadsheet. Reports are passed to you as MLAs, and to Departments. This provides, as I said, an unmatched picture of what is happening. The most recent criticism of the system has been that it does not cover enough and should be extended to cover supplies and services as well.

Our engagement through the Construction Industry Forum, for example, has not supported the view that it is inaccurate in any way. The industry was consulted over the design of the system. There is an opportunity at every meeting of the Construction Industry Forum for any concerns to be raised, not that it has to wait until then. We are very happy to engage on any aspect of the system and to make any sensible changes that are proposed, but those requests have not come forward over the last five years.

Mr Boylan: Those were its comments. Sue, I put generally the same question to you. At times, the industry feels that it is not listened to. We are hearing that from the industry, and I want to give you a chance to respond to it and to say how you will make that relationship better.

Ms Gray: We are really keen to have a good working relationship with the industry. Des and I spend quite a bit of our time going out to meet the industry, individually and in its groups. We can always try to do more, but we have a very good relationship. We have encouraged people, when they have issues, to pick up the phone to me or to Des or to email us, and they do. We get quite a few of them emailing and calling us. We all want to have good engagement. We will deliver better services and better projects as a result of having good engagement, so I am really up for that. We have spent quite

a lot of our time in the past year doing that. Clearly, we have more to do, and that is definitely somewhere we want to be.

Mr Boylan: Finally, it will be a bugbear if I do not clarify this. Des, if I heard you correctly, you answered it, but for clarification, there needs to be more robust accountability and more responsibility. I know that it is across Departments and may be a planning issue, but it is about value for money and public spend. We are saying that, in the future, there needs to be better and more accountability and robust responsibility built into the process.

Mr McHugh: Tá fáilte romhaibh inniu. You are all very welcome here today. In your presentation, you alluded to projects not being delivered on budget and on time and the need for independent expertise. Does that expertise exist on the island of Ireland? Where do we look for that expertise in order to reinforce the whole process? Out of that, are there lessons that we can adopt or learn from?

Mr Sterling: That is an area where, as I think I said, a lot has happened over the last number of years. We have worked very hard to improve the professionalism of our procurement and construction staff. I will hand over to Des in a second. I think, Des, you have about 169 people who have a procurement or specific construction —.

Mr Armstrong: Yes, we have invested quite heavily in staff development. Our organisation has about 340-odd folk at the moment. About 170 of those have a professional construction qualification. They will either be a registered architect or a chartered engineer. Then we have others who are professional chartered procurement people; that is the highest grade in that area. We also have 100 staff who have been put through accredited contract management training so that we can apply the contract terms fairly with contractors.

As well as that, we are linked into other skills and experiences through the Cabinet Office. We are, and I am, linked in with the commercial function of the Cabinet Office. In recent years, there has been quite a focus there on building up skills and expertise in commercialism. We recently undertook a trial that put 12 of our people through an assessment centre over a one-day thing, and they got pretty good ratings. Some of them got the highest gradings that you can get under that assessment. The issue now is how we roll that type of development out around the system.

As for bringing in expertise, we make an assessment about whether we have the expertise in CPD to do it. If we do not, we will bring it in. We will buy it in from the market, or we will go to the Cabinet Office, for example, for assistance. We need to recognise that, when you need expertise, you need to be able to stand up and ask for it

Mr McHugh: Has it been the case to date that you have had to bring expertise in?

Mr Armstrong: We have used consulting engineers or design consultants quite frequently, and, in those tenders, we allow for specialist expertise to come in on environmental matters, planning matters or whatever else to support the project.

Mr McHugh: Yet and all, we still felt that, from the presentation, the whole process was not independent enough.

Mr Armstrong: I cannot comment on the projects that are in the report, but, going forward, as I mentioned, the business case being split and having a commercial view in the business case approval process will, if they come to CPD, mean that there will be an element of independence, although we are in government. If we were looking at a case, we would bring in others to support that type of scrutiny.

Mr McHugh: Another criticism that we have heard is that Departments operate in silos and that there has not been joined-up thinking. Has there been any progress on that and on helping to break down those barriers?

Mr Sterling: Referring to the point that I made earlier, since departmental restructuring and given that CPD taking responsibility for Health estates, you can see that skills are concentrated in a smaller number of Departments. Through the work that CPD does through the Procurement Board, you are also seeing an awful lot more being done to try to make sure that people are following the same guidance. As Des described, there is still work to be done on that, but progress definitely has been

made. On that, as I said at the start, we welcome the recommendation in the report that there be a review of governance. That will allow us to see if there are better ways of structuring our organisation than we have at the moment. We think that that is a good and timely thing, and we are very happy to do it.

Mr McHugh: My next point is similar to Mr Boylan's. A lot of people are involved in the delivery of many of these large projects. To what extent is the progress of those large projects monitored at the heart of government? Is any action being taken as a result of monitoring?

Mr Sterling: Again, under the current arrangements, responsibility for project delivery rests with the accounting officer in the relevant Department. If we look at how we are structured compared with some other jurisdictions, we see that the obvious difference is that we do not have a single oversight body or an independent advisory body. Those are things that, in the governance view that has been recommended, are definitely well worth looking at. We are very open to seeing whether that would be appropriate here.

Mr McHugh: Thank you.

The Chairperson (Mr Humphrey): On that point, Mr Sterling, on a number of occasions you referred to the accounting officer in the various Departments. Who is, ultimately, the accounting officer for the whole system for the public purse in Northern Ireland?

Mr Sterling: Sorry, which system do you mean?

The Chairperson (Mr Humphrey): You are the head of the Civil Service. You have heads of the various Departments, and they are the accounting officer in those Departments. If there are issues in the Departments or across government, who is ultimately accountable?

Mr Sterling: I suppose the constitutional position is that the permanent secretary in each Department is under the direction and control of the particular Minister there. People sometimes think that, as head of the Civil Service, I can tell the other permanent secretaries what to do. Sadly, that is not the case [*Laughter.*] They are very much responsible to their Ministers. However, —

The Chairperson (Mr Humphrey): And when there is no Minister?

Mr Sterling: When there were no Ministers, again, people thought that I had some omnipotence, but, sadly, that was also not true [*Laughter.*] Without being facetious, the important point is that there is a significant role for the Department of Finance in seeking to provide guidance to which all Departments adhere. Whilst I do not have powers of direction and control over other Departments, we have a NICS board that seeks to manage the Civil Service —

The Chairperson (Mr Humphrey): Which you chair.

Mr Sterling: Which I chair. We are very keen, through the board, to work collaboratively and collectively and to have common standards as far as possible.

At the moment, one of the issues that we need to look at is that we have a Procurement Board that is responsible for producing and disseminating guidance across Departments. It is probably fair to say that our view is that it is time to look at that to see whether there is an overlap with what we are trying to do with the NICS board.

The Chairperson (Mr Humphrey): You chair the Procurement Board as well, do you?

Mr Sterling: In the absence of Ministers. The Procurement Board was set up on the basis that it would be chaired by the —

Ms Gray: Finance Minister.

Mr Sterling: Finance Minister.

The Chairperson (Mr Humphrey): OK. I do not know whether you had the opportunity to look at last week's evidence or to listen to it; I am sure that you have many other things to do. I asked the representatives of the Construction Employers Federation when they were before the Committee last week about the Procurement Board and whether they would have a desire to take a place on that board so that the private sector could feed into that process. From their response, I think that everybody would agree that they would be very keen to take that up. You indicated that you will be looking at the Procurement Board, so when you do, I suggest that you do just that and look at that body and others in the private sector who might be able to bring a different emphasis to the Procurement Board than those who are solely from the public sector.

Ms Gray: Yes. Now that we have a Minister, he will be chairing the Procurement Board. We have started a discussion about representation on the board and how often it meets, so that is very timely. I am happy to take that away.

The Chairperson (Mr Humphrey): Thank you.

Ms Flynn: I want to follow on from some of the things that David touched on. I will direct my questions to Sue, if that is OK, but I am happy if others want to come in. Sue, you mentioned the new five-step model. Brett referred to an independent assessor, who will help to assess risk. From some of your experience in Whitehall, do you know whether there are any other structural changes that are based on some of the practices there that we could bring into place here? I do not mean just necessarily those in Whitehall but those in other parts of the world. They could be things that have been tried, tested and seen to work and that we could maybe use, implement or work towards here.

Ms Gray: As I think Des mentioned, we do quite a lot of work with the Cabinet Office. It has the Infrastructure and Projects Authority and the Crown Commercial Service, and we do a lot of work with them.

The Infrastructure and Projects Authority is very interesting in how it has evolved since 2010. In 2010, it was known as the Major Projects Authority, and it tried to have more of a mandatory role with Departments. I do not think that was successful, and it has now evolved and very much provides a support role. It works on a very transparent basis. As Des mentioned, there are SROs for all the projects. Those SROs are named, and their letters of appointment are published. That comes back to the point about accountability that you talked about in that they are held to account for the project.

The Infrastructure and Projects Authority publishes on an annual basis a red amber green (RAG) rating of all the projects and shows how those RAG ratings have changed over that year. It is not afraid, and nor should it be, to have red and amber projects. That, in a way, is a very honest assessment. Green projects are very few and far between, and that is something that we are looking at. It also provides a supporting role for Departments and challenges them; it is not afraid to go into Departments, and the Departments welcome that. We have some lessons to learn, and we are looking at it to see what we can learn.

The Crown Commercial Service does a lot of things and has pushed a lot of resources into this work. We can take the best of what it is doing and tailor it for our use here, which is what we are doing. It has something called a "playbook". That does not sound like the right title for what it does, but it is a real package of all its resourcing skills and how it is upskilling its people. We are very fortunate; it is very keen to support us. We are taking everything that we can get to help to develop our people.

Mr Armstrong: One of the things with skills development is that it has a project delivery profession. One thing about government is that it gets itself involved in very strange and unique projects. In my experience, it is more difficult to do projects for government than it is to do them for private organisations. We did a bit of work to look at not only construction projects but the type of projects that are being carried forward by government. We found in a survey something like £12 billion of projects right across the system in various Departments that are ready to go. We need project managers who are interested in going from one Department to the other to do projects. We have a proposal approved through the NICS board to set up that type of thing so that, if government comes up with a project, not necessarily in construction, and wants to do something, we have people who have developed themselves and want to be professional project managers. That is some work that we have on the go as well.

Ms Gray: We also put people through the major projects leadership academy, which is run by the Cabinet Office. There is more that we can do there; I think that we can have more people going

through that academy and getting to the end. It does not pass everybody, but getting to the end and successfully completing the training is a very good thing to do. We are keen to take the best to see if we need to adapt it slightly, but we are definitely in the space of looking at what others are doing.

Ms Flynn: Thank you. It is useful to hear about the academy, which you mentioned. I know, Des, that you said earlier that some of the work on upskilling people and the process of training has already started. What is your opinion of the quality of our project management as it stands? I know that steps are being taken to try to upskill people and do further training. Do you think that too many generalists are in charge of large projects at the minute? Is that part of the problem that we are facing?

Mr Armstrong: One of the things that I admire about civil servants, not being a lifer —.

Ms Gray: You are one. *[Laughter.]*

Mr Armstrong: Yes, but I am not a lifer. What surprised me is that civil servants can move from one area to another and pick up things very quickly. I am a civil engineer by training. It took me a long time to get to that point. We are in a much more complex space now. We have less resource. If we lose resource, we lose cash and whatever, and we lose the opportunity to do other things with that. Professionalism in that case is much more important. We want to try to push that now.

Mr Sterling: But you should not be shy. We are probably ahead of the game compared with other jurisdictions in the development of a project delivery profession.

Mr Armstrong: Yes. Our friends from the South of Ireland were up yesterday. Their national development programme is starting to scare them because they realise that they probably do not have the capability to jump from very low levels of capital expenditure *[Inaudible]* the crash up to something of a much higher level. I think that last year they had about £8 billion of expenditure. When it comes to skills and having the right skills and the right people in place, it is absolutely critical that we have that review. We will always need the Civil Service as policymakers etc, but I encourage people to see a life in the Civil Service as a project manager. Some of the work that goes on is fantastic. There you go — that is the project manager in me making a case for that.

Mr Beggs: Just to develop this a little bit further, you indicated that there has been some development and training for those who actually lead the projects. Do you have a central list of people whom you consider to be well-trained and to have the expertise to lead large projects?

Mr Armstrong: The process of identifying the senior responsible owner and giving them a formal letter of appointment will start to bring us into the sort of space where we can look at developing registers in that regard. As well as giving someone the role, we have to support and assess them and make sure that they are competent in that area so that we do not throw them into the pool and ask them to swim without a lesson. We have a number of people who have gone through these courses, and we will put more people through them.

Mr Beggs: Is the course assessed?

Mr Armstrong: Yes. Training without assessment is not much use. We like accreditation.

Mr Beggs: What is the precise number of people who, at present, are deemed to have been through this specialist qualification and training, and how many are currently under way?

Mr Armstrong: I have those numbers for only my organisation, but I assume that we could ask around the system for that.

Mr Beggs: Mr Sterling, who coordinates centrally amongst other Departments?

Mr Sterling: We can get that. I thought that you had 60 or so in the developing a project delivery profession.

Mr Armstrong: We did a survey on that and got interest from 1,500-odd folk who would like to be in that space. Now, anyone who will develop or be involved in a spending project of more than £20

million will be required to go through an assessment. We could build that. Currently, in CPD, we do not have that.

Mr Beggs: My question is about how many have done that, not how many want to do it. How many people across the Civil Service have done that, and how many are in training at present?

Mr Armstrong: I do not have those numbers.

Mr Sterling: We will get you a list that covers not just CPD but all Departments and associated arm's-length bodies.

Mr Beggs: There is also trouble with staff turnover in large projects, not even just in construction. There seems to be a pattern in the Civil Service of staff turning over. How do you ever assess whether someone is good at what they are doing if you keep changing what they are doing? Potentially, nobody will become accountable for a particular project. Who will pick that up, Mr Sterling?

Mr Sterling: Are you just talking generally?

Mr Beggs: Let us talk generally.

Mr Sterling: We have an annual appraisal process; that is fairly standard. Like all appraisal processes, people always conclude that we could do it better. Appraisal processes are really only as good as the people who are doing the appraising. We are constantly looking at that and looking to improve it. As far as construction and procurement professionals are concerned, Des outlined a lot of the work that we are doing to professionalise that area to increase commercial skills. I think that we have put six people through the major projects leadership academy, and I think that we have put 12 people through the programme leadership programme. We can give you details on all those who have gone through the various other leadership development programmes that have a focus on procurement and construction. As Des said, those programmes are accredited, so, when you have completed them, you have to complete some form of assessment or exam. Professionals in the Civil Service will be subject to the annual appraisal process in the same way that everybody else is.

Mr Beggs: Mr Armstrong, do you accept that the appraisal would be a lot less subjective if it was at the end of a sizeable contract and you could actually see what happened during that contract, such as the person who was in charge of it during that time and how it went? Would that be an easier way to appraise rather than asking this subjective question about how it has gone?

Mr Armstrong: That is the role of this project review. If we establish this project delivery profession, those individuals who will be involved in projects will, by virtue of joining the profession, know that they have to be accountable as professionals. They will have areas of responsibility, and you should expect your performance to be recorded and assessed. That is a way of developing those parts of the Civil Service that are involved in projects. Professionalism, I think, comes with assessing how people perform against the standard.

The commercial function has done quite a bit of work, again in Whitehall, and we are tapping into that because we will take good ideas from anywhere. They have a standard there that assesses individuals in the procurement field. We have developed our own set of standards, so, if we have a novice coming into start to learn the profession, there is a more experienced expert there. We already have these matrices that you can assess individuals against in their development through the process.

Mr Beggs: Mr Sterling, would you accept that it would be much more objective to appraise someone based on their activity through, perhaps, the entirety of a project or at least for a very sizeable part of it rather than continually changing staff and perhaps losing information and having key knowledge not passed on by continually rotating staff?

Mr Sterling: No, indeed. In fact, if your job is to be a project or a programme manager, in some senses it is easy to determine your performance, because there would be very obvious metrics against which you can be judged, such as whether you have delivered something on budget and on time. Inevitably, those things will be part of the appraisal process, and that is only right and proper. That will be part of the way in which people whose job is to be a project manager are appraised.

Ms Gray: In the Department of Finance, we are piloting a new toolkit that allows us to see a contract, whatever it is let for — let us say, whatever the contract is awarded for — and how it is progressing at a glance. So, you get warning signs if the cost is going too high. We hope also to be able to get into the business case and to monitor all that throughout the life of the project so that we can see more information about how people are doing throughout the duration of a contract. That work is under way at the moment.

Mr Sterling: The Department of Finance has just issued new guidance that covers the appointment of SROs and is designed to make that more transparent and to increase accountability. Again, that would be quite a strong and robust improvement to its current arrangements.

Ms Gray: If you are being transparent about somebody who is going to take on an SRO role not only will we need to make sure that the individual can perform that role but they will know what they are committing to. That will also help.

Mr Beggs: In the private sector, it would be very rare to have a lead engineer swap over halfway through a project and go somewhere else unless there was a very good reason, such as a bigger project where their skills were needed. Generally, an engineer in charge of a project runs it the whole way through because they have all the information and they can be held accountable. Do you not think we should be doing something similar in the Civil Service?

Ms Gray: If you are appointing somebody as an SRO, you really are expecting them to stay for the duration of the project.

Mr Sterling: I know that Whitehall historically had a problem with high turnover of SROs. I do not know that we have the same problem here. I do not have any evidence to hand to show that.

Mr Hannam: Certainly, in the past, there was quite a high turnover of SROs, as they moved for career reasons.

Mr Beggs: I am sorry; SRO — what is the full terminology?

Mr Sterling: Senior responsible officer.

Mr Beggs: When you say "for career reasons", do you mean that they are being promoted?

Mr Hannam: They are being promoted.

Mr Beggs: Again, the Civil Service can determine whether to do that mid-project.

Ms Gray: Interestingly, in Whitehall, they have the facility to pay a recruitment and retention allowance. It is quite tough to say to somebody, "You have taken this project for three or four years, but, actually, it is now going to take a bit longer. By the way, you cannot get promoted". That would be quite a tough thing to say to somebody.

Mr Sterling: It is not good for morale.

Ms Gray: No, but in Whitehall, they pay a recruitment and retention allowance. I do not think it is called a recruitment and retention allowance, but it is the same thing. They can pay up to a significant amount of money to keep somebody on a project if that is needed and they are going to forgo promotion. They will also, perhaps, put somebody's promotion on hold for a while. There are things that they have had to do because their turnover has been far greater than what I see here.

Mr Beggs: That is happening there, so is it going to be introduced here?

Mr Hannam: All the projects that we manage will have a project manager who will stay with that project for its entire duration.

Mr Beggs: This is the SIB?

Mr Hannam: The SIB. Many of these major projects have a very long life. It is obviously desirable that, as with the SRO, the project manager stays with the project for the whole period, otherwise you will have all sorts of risks arising. In the interim period, while these new arrangements are coming forward, one of the things that the SIB insists on in the projects that we are involved with is that we keep the same project manager right the way through the project's life cycle.

Ms Gray: Out of interest, Brett, how does that happen?

Mr Hannam: We recruit on that basis. I will give you an example. Belfast rapid transit was a project where there was no local experience of bringing in something similar. So, the SIB was asked to go out and find someone who could not just bring the experience of mass transit projects but was prepared to stay with that project for its duration from inception right through to delivery. In the course of doing that, it was able to work with the relevant Department on knowledge transfer to the extent that the next stage of the project will be taken forward by the Department itself without that need for external support.

Mr Beggs: Is the idea of allowing someone to gain promotion but stay with the project being considered in Northern Ireland?

Ms Gray: As part of the work that we are doing on senior responsible owners and transparency, we will be looking at what others are doing.

Mr Sterling: One thing that we need to do on the basis of this discussion is to check whether we are losing SROs mid-project. Anecdotally, I am not aware of this being a major problem here, but we can look at that. Project managers are now located largely in either the Department of Finance or the three COPEs in the Department for infrastructure. We can look at that.

Mr Beggs: It seems that you can lose essential information, key skills and key knowledge. Although it was not a capital project, one of the issues with RHI was that key staff were moved during the project. A message that I picked up from following that was that, if you move your key staff, you risk losing key knowledge and key information may not be passed on. We might need to consider that message for wider aspects.

Turning to SIB, Mr Hannam, you have access to a whole reservoir of experts who can assist in larger projects. Do you think that the public sector is making the best use of those experts? We have a very complicated, multilayered process for finalising large projects. If you were to start with a blank bit of paper, how would you design the process to make the best use of those experts?

Mr Hannam: The way in which SIB works is that Departments will identify where they have a particular need for specific technical expertise that cannot be found and really should not be expected to be found in the public sector. I gave the Belfast rapid transit as an example of that, and there are others where we have been asked to help. It would be wrong to simply assume that it is a good idea to bring in people from the private sector in every instance because, as Des and Sue explained, an enormous amount of work has been done to professionalise the project management profession. It now constitutes a relatively small part of our work because of the beneficial impact of the initiatives that have been described. I do not think that the system is failing. We have good arrangements in place for identifying circumstances where specific specialist assistance is required. We have never turned down requests for help of that kind, nor, I hope, would we ever do so. I hope that, over time, the need for such requests would fall away.

Mr Beggs: With regard to the overall design of putting large projects together, is there a better way of integrating the skills in SIB with the Central Procurement Directorate, the Department and the whole process? Do you think that the whole process needs to be refined?

Mr Hannam: Sorry?

Mr Beggs: The SIB plays a part, along with CPD and the Department of Finance. Is there a better way of bringing it all together? Is it too fragmented at present? What are your views?

Mr Hannam: In 2013, when we wrote the report, we put forward the proposition that there would be advantages to a different, more centralised, approach. Earlier in the session, I described what those advantages were. David explained why it was not possible to do that. Setting that aside, the attention

being paid to project management, developing project-management skills, and professionalising the approach taken by the Civil Service is entirely right. As I say, over time, one of the measures of the success of those initiatives will be a reduction in the reliance on external support of the kind that SIB provides.

Ms Gray: I support Brett on that. First of all, we have a strong working relationship, we talk to one another quite a lot, and we discuss projects and what skills we might need. However, it is our aim, in the Northern Ireland Civil Service, to grow our own people and our own talents so that we can deliver much of that work ourselves. There will always be a case for the Strategic Investment Board; we will always need some of its experts. However, we are very keen, and we support one another.

Mr Beggs: I will turn to another issue, the pipeline, which is for you, Sue. The Construction Employers Federation expressed concern about the validity of the procurement pipeline and the accuracy of its figures. Could that be aggregated for all budget holders in the public sector, not just for some, so that a better, more accurate, figure would be produced?

Ms Gray: As Brett probably referred to earlier, we have started a discussion about whether we should add more supplies and services to the pipeline information. Clearly, people rely on that information and look for it. In my Department, we could use it for quite a lot of supplies and services. Of course, we now have the eTendersNI system, which also gives notice of what will come out. That is work in progress: looking at those two systems to see how we can keep going forward.

Mr Beggs: I suspect that what they are about is knowing the full scale of construction —

Ms Gray: Yes, absolutely.

Mr Beggs: — and the pressure that is on, so that you and they have the full picture. That, in turn, could influence the timing of other projects. If too much comes to the table at the one time —

Ms Gray: They may not be able to —.

Mr Beggs: — *[Inaudible]* competitive quotes.

Ms Gray: Yes, absolutely. That is definitely where we want to be. We are aiming for that transparency.

Mr Hannam: One of the problems is the single-year Budget. The construction industry needs at least six months' notice of projects that are coming down the line, but if a Budget is not agreed until several months into the actual year to which it pertains, it makes it virtually impossible for Departments to —.

Mr Hilditch: Just on that point, the CEF, when they were here last week, made the point about multi-year Budgets. What is the Civil Service's view on them?

Mr Sterling: Yes, please.

Ms Gray: We have been lobbying for them.

Mr Sterling: As I said earlier, the last multi-year Budget agreed by the Executive was in 2011. We have had a series of single-year Budgets.

The Chairperson (Mr Humphrey): So you, David and Sue, will be making those recommendations — or have made them already.

Ms Gray: Absolutely. We have knocked on the door of the Treasury, and —.

The Chairperson (Mr Humphrey): The 'New Decade, New Approach' document includes a commitment to developing a multi-year Programme for Government and Budget. One of the difficulties for the Executive has been that the Treasury has not set long-term spending plans, but there will be a spending review this summer that will, presumably, set spending totals for several years — the more, the better. That would allow the Executive to produce a Programme for Government, an investment strategy, and an underpinning budget for a longer period than we have seen for a while, and that can only be a good thing.

Ms Gray: Since our Finance Minister was appointed, we have been to the Treasury twice, and he raised this issue with them on both occasions, with two different Chief Secretaries, and received very warm responses. We are quite hopeful that we will see multi-year Budgets, not the one that —.

The Chairperson (Mr Humphrey): Talk is cheap, but it takes money to buy whiskey. *[Laughter.]*

Mr Beggs: Just a final question. On page 9 of the Audit Office report we are given the information that there was £10.6 billion over an eight-year period, which averages about £1.3 billion per year. Yet, in the next two years, we are expecting to spend £4.2 billion. Has there been a huge lift in capital expenditure? Is there the capacity to deliver that? What is happening?

The Chairperson (Mr Humphrey): Can I ask you to be brief, because we do need to make progress, as other members want to come in? If one person can answer the question.

Ms Gray: OK. I do not actually know what figure —.

Mr Sterling: Sue has all the money.

Ms Gray: *[Laughter.]* If only. Can I come back to you on that?

The Chairperson (Mr Humphrey): Yes.

Ms Gray: Thank you very much.

Mr Hilditch: You are very welcome, folks. I want to turn to the issue of previous reports and recommendations that were flying about some five, six or seven years ago. First, Mr Hannam, there was a report in 2013, initiated by the Procurement Board and undertaken by the SIB, which was fairly direct and strongly worded. There was dissatisfaction with the SIB around that time. The SIB identified, at paragraph 2.11.f, the need to:

"remove inefficient, wasteful and bureaucratic processes"

Can you provide us with a bit more detail about what the report was referring to at that stage?

Mr Hannam: It is referring to many of the things that we have referred to today as having been addressed. The problems in those days were with sclerotic processes that were holding up the approval, for example, of business cases, overlong internal assessments in Departments, planning issues — some of which still pertain, others of which do not. It was not one single cause but many issues that the report, which made 72 recommendations — many of them very detailed — sought to address. As we have heard this afternoon, a great deal of work has gone into doing that.

One of the recommendations has to do with the continuity of senior responsible officers, another has to do with the continuity of project managers, and yet another with the professionalisation of the project-management profession.

So it would be difficult to say that the same factors that pertained in 2013, in their entirety, still pertain today, because that would not be true. It is a very different —.

Mr Hilditch: Are there any wasteful processes that you would identify today that should be dealt with?

Mr Hannam: There are always improvements that could be made. The big one that we have been talking about from the outset has been the new business-case process that will provide an external view to match the one being presented by the projects promoted. I think that that represents a step change in the assessment of business cases and should lead to far more accurate cost estimates, which is what we are trying to arrive at.

Mr Hilditch: Thank you. Mr Sterling, paragraph 2.9 sets out very detailed weaknesses identified by the SIB, with recommendations, of course, to improve the situation. Do you agree with the recommendations made by the SIB in the 2013 report?

Mr Sterling: At the time, the Procurement Board oversaw the handling of the report. As I highlighted earlier, there was not ministerial agreement at the time to the key recommendation about the need for greater centralisation.

What we have tried to do, and we set this out this afternoon, is progress things as far as possible. Without rehearsing everything that we said before, there has been significant progress: the incorporation of Health estates into construction and procurement division, the improvements to business cases, the introduction of the delivery tracking system, the improved programme and project-management processes, the development of the project delivery profession, increasing professionalisation of procurement and contract staff, the way in which we are now changing the appointment of senior responsible officers and the improved gateway guidance.

An improvement that I did not mention before is that, to deal with some of the issues with the planning system, the Department for Infrastructure recently set up a cross-government planning forum for all Departments that have a responsibility for statutory consultees. That forum will meet regularly to ensure that the way in which statutory consultees play their part in the planning system is better coordinated and managed. That should help to address some of those things.

Whilst the big centralisation recommendation was not put in place, there has been a lot of change. I am repeating myself, but we welcome the recommendation in the Audit Office report, and we will look again to see whether there is a better business model for this whole thing. It is timely that we look at that.

Mr Hilditch: You have chaired the Procurement Board since 2017. In your assessment of that period, do you feel that you have done enough to bring those recommendations through or is there much more work to be done?

Mr Sterling: All the issues that I mentioned have been done in recent years. Obviously, in the absence of Ministers, we were not in the position to introduce any significant changes to strategy or policy. It is great that we have Ministers back, and we will be able to look at and refresh some of those things.

Mr Hilditch: Mr Sterling, you sit on the Procurement Board and the Civil Service Board. There are formal monitoring reports for flagship projects. Can you tell us a wee bit about that monitoring?

Mr Sterling: We acknowledged earlier that we do not have a central oversight process for major projects. That is something that should be looked at now. Would such a thing have stopped the cost and time overruns in the projects featured in this report? That is a moot point. Nonetheless, other jurisdictions have such arrangements in place and they seem to think that they work well, so it is definitely something that we should be looking at.

Mr Hilditch: You take that on board. How are individual accounting officers overseeing progress on the projects? Do they play a major part in that?

Mr Sterling: At the moment, individual accounting officers are responsible for the projects in their areas. One of the things that we agreed, as part of a development process that all permanent secretaries and I underwent last year, was that we all need to devote more energy to overseeing projects in our Departments. We agreed that, individually, we would spend more time doing that.

Given that each of us has a different level and number of projects, that is being done in different ways. For example, the Department for Infrastructure has — I have forgotten what it is called — a committee that oversees all the projects in the three centres of procurement expertise (COPEs), covering the Department, Northern Ireland Water and Translink. In my Department, there is a small number of projects; we have no major ones. However, I meet the accounting officer in the Department once a month and we review all the projects. My understanding is that individual permanent secretaries do similar things in their Departments.

Mr Hilditch: Mr Armstrong, paragraph 2.22 of the NIAO report says that:

"The OECD identified 'aversion to risk'"

as one of the key factors slowing "process innovation" in procurement. Do you agree that the general aversion to risk is still hampering innovation?

Mr Armstrong: Again, that is down to improving the project-delivery profession, because, then, you are better able to understand risk and how you might manage or remove it. The aversion to risk comes from the problem that, when we put procurements out to the market, any innovation may increase the risks of legal challenge, and that sort of stymies innovation. On risk aversion, we need to put the right people in place, understand what risks there are in the project, and then produce proper risk assessments and put risk-control measures in place to make sure that they are followed through.

Mr Hilditch: As a subsidiary, I want to talk about a couple of points that were raised earlier. When contracts are being drawn up — there is a culture of it all being about penalty clauses and various things — is anything included to incentivise contractors in Northern Ireland? I spoke this morning to a contractor who is home after doing some work on a European project. They work in a system whereby they can be incentivised to deliver on time and within budget and, potentially, get a percentage payment for doing so. Is anything like that involved?

Mr Armstrong: We have looked at that model of early contractor involvement and producing an incentive whereby, if the contractor can work with engineering solutions that reduce the price, they get some money back. That process is well established. I think that the water industry may have used it in the past. It is a feature of the water industry in that, when you bring in contractors, you incentivise them to earn more money by thought process than by sweat. That is a good thing.

Mr Hilditch: Should it be used more, then?

Mr Armstrong: We believe that, in some projects, you should be doing that type of thing. The prison project that we went on to includes open-book arrangements. It is about sharing the risk with the contractor in how the project might be delivered, particularly when you want something that has to be done in a particular time. Driving tenders on lowest price all the time has, over time, negative consequences. We are open, as part of this review, to looking at all the ways that we can engage, depending on the project.

Mr Hilditch: I am looking at the optimism bias that was mentioned earlier. I think that you indicated that it came from a Whitehall equation, or something along those lines, and was set by somebody in London for contracts. Again, in other places, optimism bias seems to be around 2% to 5%. A lot of the contracts here seem to be around 8% to 10%. Is that just an opportunity to hide further moneys that probably will be used but which do not appear in the business case? Am I right in saying that?

Mr Armstrong: It goes back to the single-point estimating that gets the project off. The danger with that approach is that it becomes the level that you can spend to. It is designed as a way of taking a project forward when you do not have all the relevant information, but, as you go through the project —

Mr Hilditch: Why is it so high in Northern Ireland or the UK, yet, in Europe, you are probably talking about half that percentage?

Mr Armstrong: It may need, again, as part of the process —

Ms Gray: Yes, the new business case process will help with a lot of that. I do not know why it is higher here than in other places.

Mr Hilditch: It is extremely high.

Ms Gray: I think that the new business-case process definitely will help with that. The work that will go on to get the costings right at the outset will reduce all that.

Mr Hilditch: Reduce the optimism bias.

Ms Gray: Yes. On your point about incentivising contractors, the Crown Commercial Service (CCS) in the Cabinet Office regularly uses incentivisation in contracts, particularly when a contract cannot be

extended in time or in money. We are looking at that with the service to see what we can take from what it is doing.

Mr Hilditch: Again, planning was mentioned as a cause of delay. There are only three in the list where planning was a cause. I take it that there is now a format of pre-planning consultation that takes place. A long lead-in to the application is submitted to try to make a shorter turnaround time. Has that been happening, or is it fair to say that that is what should be happening?

Mr Armstrong: Regarding the projects that CPD support, we have had good success by being in early and talking to the planners about particular issues. That is built into our project-management processes in order to recognise planning issues and to speak to planners as soon as possible.

Mr Hilditch: I understand that probably those three, and particularly Casement, had more complicated issues that emerged during that process. Thank you for your answers.

The Chairperson (Mr Humphrey): Following on from the line of questioning that Mr Hilditch has been pursuing, last week we heard the Construction Employers Federation put considerable emphasis on the slow process, time lags regarding outlined business cases, and tenders being awarded. Given that Mr Armstrong and his organisation is accountable to you on these issues, what targets have you set to ensure that this is delivered more efficiently and effectively?

Ms Gray: This is work in progress. We accept that there is something about us being more transparent about the times that we will deal with things, setting targets and being transparent about them. We have not done that up until now, but it is work that we have got under way and which we have been talking about. I think that, with regards to public contractors, or whoever is dealing with us, there will always be some exceptions and some things will take a bit longer. However, people should have an expectation of the time it will take — and hold us to account — if we do not deliver within those time scales. That is work that we have under way.

The Chairperson (Mr Humphrey): Following on from that, Mr Sterling, I want to be absolutely fair that these large contracts are complex and high-risk. We accept that. What are the top three things that you have taken out of this process to ensure that we do not arrive at this point again?

Mr Sterling: The top three things that would reduce the risk of cost and budget overruns in the future would be: let us get multi-year budgets and secure long-term funding; let us make sure that we enshrine the new business-case process so that we have a much more robust approach to forecasting the cost of projects at the outset; let us continue to professionalise the project management, procurement and construction professions, and, if I am allowed a fourth, I look forward to seeing the C&AG's report on the judicial review and planning processes. *[Laughter.]*

The Chairperson (Mr Humphrey): I think we all look forward to seeing that.

Mr Harvey: Ms Gray, you are relatively new to the various issues in Northern Ireland and are seeing things with fresh eyes, which is exciting. What is your view on the reports from SIB, CBI and OECD and do you agree with their conclusions?

Ms Gray: First of all, I am loving being here and I am loving the job. I have learnt an awful lot by being here. There is a bit of a common theme throughout those reports: they are all issues that we have touched upon today. I am in a very fortunate position, in that I have colleagues in Whitehall who are keen to support us here and I can tap into that. At the same time, there are good things that we are doing here that we can show them as well. We are also working with them. We are a bit smaller here and we can trial and pilot some things for them and work with them. A lot of the work that we are doing is responding to those reports. I feel very excited, actually, about the work that we are doing and where we are going. I think that there are good things going on here as well, and I think that we should not lose sight of that. We can never stop learning.

Mr Harvey: Thank you. One of the key issues for the Civil Service and Whitehall is to improve the pace and the way that it works. Do you think that there is a problem in the Civil Service here with the pace of work? What ideas do you have to improve the pace of delivery of these projects?

Ms Gray: We all want to see pace; we need to deliver at pace. Some of the issues that we have outlined today, including the issue of senior responsible owners, transparency around what they are

required to do, and the targets that you have suggested that we look at, will drive pace. I think that all of us, and, to be fair, people in the NICS as well, want to see us delivering at pace. I do not think that any of us do not. One of my former bosses, a guy called Gus O'Donnell, now Lord O'Donnell, introduced the four Ps when he was the Cabinet secretary. They were pace, professionalism, pride and I cannot remember the fourth one.

Mr Sterling: Passion.

Ms Gray: Passion. I think that that is what we feel. The four Ps are very appropriate to us, as they are four very good descriptors of where we want to be in the NICS today.

Mr Sterling: Absolutely. Mr Lunn very helpfully pointed out that Lisburn council has 27 or so live judicial reviews.

Mr Lunn: At the last count. There may be a couple more.

Mr Sterling: We just need to make sure that, as we manage risk, we do not become risk-averse and lose pace. That has to be key to everything that we do.

Mr Harvey: Thank you very much.

Ms Gray: I am just loving it.

Mr Harvey: It is great to have you.

Ms Gray: Thank you.

The Chairperson (Mr Humphrey): Thank you very much for the time that you have taken today. We accept and we agree, Ms Gray, that there are good things going on here. We want to see that continue and at pace as well. This session is not about giving a kicking to the Civil Service or public bodies. We want to see the efficiency, the energy and the passion that you talk about coming into the expenditure of public moneys to deliver value for money, and we want to see large projects being delivered on time and on budget so that we minimise loss.

Having said all that, and reiterating that we are on the same page, on the matter of making Northern Ireland plc the place that we want it to be and the success that we want it to be, we remain deeply concerned about the figures that we heard earlier. There are ongoing, live issues with some of the projects under construction, and, at the conclusion of this session, I want to say that we hope that lessons are being learnt on these issues and that, perhaps when you come back at a future point, we will be looking at a different scenario. We urgently need to deal with these delays and the processes that lead to them so that we can eradicate or reduce the overruns and the overspends and deliver absolute value for money for the taxpayer. You may not be in position the next time we do this.

Mr Sterling: No.

The Chairperson (Mr Humphrey): That is what you are hoping. Thank you very much indeed, all of you.

Ms Gray: Thank you all.