



Northern Ireland
Assembly

Committee for Finance

OFFICIAL REPORT (Hansard)

Draft Budget 2021-22 and Public
Procurement Common Framework:
Construction Employers Federation

24 February 2021

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan
Mr Maolíosa McHugh
Mr Jim Wells

Witnesses:

Mr David Fry	Construction Employers Federation
Mr Mark Spence	Construction Employers Federation

The Chairperson (Dr Aiken): Mark and David, it is really good to talk to you and to see you. Unfortunately, we cannot meet in person for obvious reasons. I apologise that we are running slightly late. Thank you very much for attending. I remind Committee members that the session is being recorded by Hansard. Members are advised that the following papers are relevant to the agenda: the Committee Clerk's cover note; the submission from the Construction Employers Federation (CEF) on the draft Budget; and the consultation paper. Mark or David, please make your opening remarks.

Mr Mark Spence (Construction Employers Federation): Thank you, Chair, for the opportunity to give evidence to the Committee on the draft Executive Budget for 2021-22. I am the managing director of the CEF, and I am joined by David Fry, who is our director of external affairs. By way of background, the CEF is the certified representative body for the construction industry, which employs around 30,000 staff in Northern Ireland. We have over 800 members, ranging from microbusinesses employing a handful of people to the largest construction businesses in Northern Ireland. In total, our members account for around 70% of all construction output.

You have our briefing paper, but there are number of points that we would like to cover in this brief address. We will start off with a few headlines from our own membership survey conducted in January, which covered the second half of 2020. From the survey, we saw that 2020 was clearly a year of two halves. Two thirds of the annual turnover was completed in the second half, reflecting the recovery from the initial lockdown period during COVID. On average, turnover for the year is still down by 20% to 25% on the previous year, and the number of firms reporting a deterioration in their profit outnumbers those reporting an improvement by more than 11 to one. Members are seeing a very difficult market for new work well into this year, and that is a challenging context for the draft Budget.

That having been said, the conventional capital budget of £1.75 billion, which is a substantial uplift from 2020-21, is to be welcomed. It is worth noting, however, that this is the first capital budget of the Northern Ireland Executive since 2007-08 that has exceeded £1.7 billion. In the context of construction inflation alone in those intervening 14 years, that means that the Executive will get very much less bang for their buck than in previous years.

With a challenging commercial market in this year and likely into next year, there will undoubtedly be more competition for public work. In many ways, that should be seen as a good thing, but it must be acknowledged that that is occurring at a time when a significant number of public-sector works are being procured on the basis of price only. The absence of the evaluation of quality in tender scoring has the capacity to drive the market down to unsustainably low pricing. When you add that to the downturn in the commercial market, it creates something of a perfect storm. That storm has been exacerbated by the early-year impacts on the supply and pricing of materials. Some well-publicised issues on matters such as steel imports will likely begin to resolve themselves on the supply side. It is largely hard to gauge at this stage where the price will settle, which puts massive pressure on contractors to price appropriately for one-off projects and, more alarmingly, for longer-term arrangements, such as measured-term contracts.

In the wake of the UK's referendum on EU membership in 2016, a number of government clients faced months of pressure in getting project support on the ground owing to the understandable inability of contractors to stand over prices that had been submitted pre-referendum. Our concern is that a similar situation is now coming to pass, and, without flexibility on the part of clients, that may lead to challenges in getting contracts awarded in a timely manner and in a manner that aligns with the draft Budget plans once they become available.

On the detail, with the exception of the high-level spending allocations to each Department and some sporadic detail on specific projects, there is little information at present on how capital budgets will be spent in each Department. Although we fully appreciate that the draft Budget was published only on 18 January, we have been surprised by some clients suggesting that even indicative figures will not be published until April or perhaps May. That is a concern that we have already raised with the Department of Finance, in a meeting on 2 February. The process needs to be expedited or else we risk, for yet another financial year, real challenges in spending our capital budget in the most productive way, whilst, for our members, that creates uncertainty over the next two months over what projects they will be pricing when they come to tender. We do, of course, acknowledge that a significant element of the 2021-22 capital spend is already committed or already contractually committed.

On reinvestment and reform initiative (RRI) borrowing, our sector strongly welcomes the use of that funding mechanism, particularly as it is one stream of funding for which construction has to be its premier output. It is also significant that the Executive have earmarked that funding for two areas that are in drastic need: Northern Ireland Water (NIW) and new-build social housing.

Moving to having 1,900 new social housing starts in 2021-22 is a major statement of intent, and one that our industry will look to actively support. We caution, however, that new build social housing is increasingly dependent on waste water treatment works capacity issues, so we hope that that figure has been settled on strategically.

On Northern Ireland Water, our members are already part of a suite of contractors that will deliver a large element of the price control 2021-27 (PC21) programme. Given the scale of works required in PC21, however, it is important that there be an early understanding of how much money will be allocated to Northern Ireland Water in 2021-22. Having £70 million of RRI borrowing is a good start, but, by our estimate, the construction spend will need to be at least trebled, and likely quadrupled or more in the years thereafter, to ensure that PC21 is delivered. Even with those growing allocations, we remain of the view that Northern Ireland Water's governance and funding challenges must be urgently reassessed. There is little —.

The Chairperson (Dr Aiken): Mark, just a quick question. Do you have a figure in your head? I know that you will have looked forward at this. How much will it cost to rebuild the water infrastructure? What is the quantum that we are looking at?

Mr Spence: I will refer to David on that, who is closer to those numbers.

Mr David Fry (Construction Employers Federation): I will jump in there, Chair. For PC21, you are talking about an investment of, I think, £1.7 billion over six years, which is what the Utility Regulator

referenced in its draft determination. Even allowing for that, and even if the Department for Infrastructure were able to fund that to its absolute requirement, it would probably deal with fewer than 50 of the existing capacity constraints at different waste water treatment plants. We are already nudging about 150 plants that have constraints, so, over the next six years, we would be able to deal with only about a third of them. Of course, that does not include the other sites that would likely reach capacity over the six years for which there is currently no funding allocation. The funding that has been talked about for the coming year's Budget is welcome, but you could argue that it will not really touch the sides of the overall challenge that we face.

The Chairperson (Dr Aiken): I am just doing some quick maths on that. We are looking at Northern Ireland Water alone needing about £3 billion.

Mr Fry: I think that Northern Ireland Water originally made a bid closer to £2.5 billion over the six-year period, and the regulator took that down to closer to £1.7 billion. That is not particular to this price control. It has been going on for several price controls, and back as far as, I think, PC13. We are trying to engage with Northern Ireland Water on solution engineering at certain sites where there are waste water treatment capacity issues, but some of them will be only on a very small scale, which will not really help us deal with the fundamental problems that we all face.

The Chairperson (Dr Aiken): OK. Thanks.

Mr Spence: I will continue. It is of concern that no funding has been allocated to take forward Housing Executive reform in 2021-22, with a bid of over £3 million for transformation not being funded to date. It is important that the Department for Communities address what, if anything, it will take forward from the proposed transformation programme ahead of next year's Assembly elections.

We welcome the further allocations for the Executive flagship projects, as those allocations will ensure their further progression. In the case of the A6, the allocations will ensure that a large bulk of the works will be completed during 2021-22. We do, however, reassert a view that we have held since the flagship projects were first announced in December 2015. Looking to the formation of a new Executive after next year's election, we believe that caution needs to be exercised on the conditions for naming, or categorising a project as, a flagship project. The ring-fencing that has been applied to those projects over the past five years has worked in scenarios in which the projects are at, or close to, their construction stage. Although projects such as phase 1a of the A5 and the redevelopment of Casement Park are important and must be speedily delivered, we have seen moneys being returned for each of those projects in the January monitoring round, as neither has entered the construction phase in this financial year.

After three years of financial uncertainty for the Strule shared education campus, it is very welcome to see its funding now ring-fenced in the truest sense as a key deliverable of the £500 million over 10 years shared education element of the Fresh Start Agreement.

The Chairperson (Dr Aiken): Mark, you are talking about Executive flagship projects, yet the one thing that is missing but that is fundamental to trying to get Northern Ireland plc moving is the York Street interchange.

Mr Spence: Yes.

The Chairperson (Dr Aiken): That is a major construction project. An awful lot of effort is being put into the peripheries. The York Street interchange project is an issue for the Infrastructure Minister and all the rest of it, but, for something that large, I notice that you have not referred to it. The conversations that you and I have had over many years — it seems like many years, but it is probably the past three or four years — were about the importance of the York Street interchange and the infrastructure that needed to be built, as well as the signal that it would send to the construction industry that Northern Ireland plc could invest significantly in quite a few areas.

Mr Spence: Yes.

The Chairperson (Dr Aiken): What are your thoughts on that?

Mr Spence: As you know, the York Street interchange project is under review by the Minister for Infrastructure. That review was promised as being a fairly brisk piece of work, and we would have

expected to have heard of some progress. As a construction project, it is very welcome, and we welcome it from a logistics point of view. We understand that other issues need to be taken into consideration, but we would certainly like to see it progressed very soon and are disappointed not to have seen it be progressed up to this point.

The Chairperson (Dr Aiken): OK. Thanks.

Mr Spence: I mentioned the Strule campus. Some £28 million has been set aside for that in 2021-22, and we look forward to that project returning to procurement in the short term. We retain our long-held view, and this marries with the strategic approaches contained in 'The Construction Playbook', that that is the type of project — a campus with five separate schools — that we should consider awarding in lots rather than as one. We retain the view that had a version of that model been taken forward when the project was last in procurement in 2017-18, it would now be nearing completion. That is something that we are happy to discuss further with the Committee when it is hearing evidence on procurement next week.

The Chairperson (Dr Aiken): Yes.

Mr Spence: Financial transactions capital (FTC) has proved to be a hugely challenging pot of funding to allocate and deliver throughout its decade-long existence. Although the creation of the Northern Ireland Investment Fund gave a vehicle to deliver some of that spend, the figure has not exceeded, in total, £100 million during the fund's operation to date. It is therefore welcome that, before the commencement of the new financial year, the 2021-22 allocation has been assigned, and we can see a path towards its being spent.

Finally, looking to the future, we concur with the Finance Minister's position on getting additional fiscal flexibility for the capital budget, and specifically end-of-year carry-over. We acknowledge that the Executive were not able, as had been the plan, to set a multi-year Budget owing to the one-year comprehensive spending review (CSR), but we remain firmly of the position that that must be a medium-term goal, given the undoubted benefits for areas such as planning for new-build social housing and the effectiveness of spend from road maintenance budgets.

At this stage, and given that the next Westminster election is still three years away, we have anticipated a further CSR by the UK Government this year. That may give the Executive financial certainty, or at least a financial floor, for 2022-23 onwards, and it would be good to know what the Executive's intentions are for such figures as they enter an election period.

By way of a concluding remark, the CEF is also supportive of proposals relating to the establishment of an independent fiscal council and an independent infrastructure committee. There our comments end, Chair. We are happy to take questions from Committee members.

The Chairperson (Dr Aiken): OK. Thanks very much indeed. I think that these are interrelated, but you refer in your paper to the need for reform of governance of the Housing Executive and Northern Ireland Water to help them address deficits in infrastructure. Can you expand a bit on that?

Mr Spence: Last year, the Minister presented proposals for such restructuring of the Housing Executive. The funding to support that transformation programme does not appear to be in place, however, and that raises questions about the timescale or intent to deliver those reforms. We have long been of the firm view that, without a doubt, there needs to be significant reform of Northern Ireland Water's funding. A number of academic reviews of different models have been done, but it is not for us to decide which model is best. Certainly, from a construction point of view, and from a market point of view, what we can say very clearly is that development in this country is grinding slowly to a halt. That is not just on the residential side. It will have an impact on commercial properties, on bringing people in to live in city centres, and on schools and hospitals. Every aspect of life will be impacted on by that. From our point of view, we are looking for a champion in government to lead a review of reform for Northern Ireland Water, and that does not seem to be the case at present.

The Chairperson (Dr Aiken): Thanks, Mark.

Ms Dolan: Thank you for that, Mark. I have a question about PC21. Did you say that that has been started? If so, in which locations has it been started? Did you just say that development in the North could come to a halt because the sewerage infrastructure is not right? I may have picked you up

wrong. I am looking for clarity on that, and I would appreciate it if you could answer the one about the waste water treatment plant locations.

Mr Spence: I will answer your second question, and I will ask David to address the PC21 one.

Yes, absolutely, at this point, social housing applications and applications for commercial, retail and industrial developments are being ceased because of the lack of suitable sewerage infrastructure. That is an absolute fact, Jemma. That is the case at the moment, and it is getting worse. It has absolutely been the case for some time. I will ask David to give you a flavour of PC21.

Mr Fry: As we understand it, on the waste water side of PC21, the plans are to upgrade around 50 of the existing constraint sites over the six-year period. I am not entirely aware as yet of exactly where they are. There is a Northern Ireland Water map that has red dots and green dots, and sometimes those change. The good thing about PC21 is that, for over the six-year period, there is already a suite of contractors in place to deliver the upgrade works. The vast majority of the them will not necessarily require new procurements that could get into legal challenges. There may be some call-offs done if contractors have mini tenders against one another for projects. By and large, however, the key issue is funding. If the funding flows, the projects can be taken forward in a timely manner. Our issue with this is that, for the current financial year, Northern Ireland Water's capital budget was about £140 million. If you want PC21 to be delivered in line with what the Utility Regulator has said, you are talking about trebling that number annually in the next two or three years. That is the quantum of money that would be required. Where does DFI's budget sit if you are talking about upwards of £400 million of capital going to Northern Ireland Water alone each year? I think that DFI's entire budget for the current financial year was £550 million. If you do not look at Northern Ireland Water's governance and funding — again, we are not expressing an opinion one way or another on what we mean by that — it is very hard to see the need being met. You also have to factor in Translink, Roads and all the other elements of capital expenditure that are not construction. For any Department, you could be talking about 40% of the capital budget not going on construction.

Ms Dolan: Thank you. That is really concerning to hear about the sewerage infrastructure across the North. I honestly thought that it was just my constituency that is suffering. It is very concerning to hear that it is having such an impact that construction might be halted. Thank you very much for that, David and Mark.

The Chairperson (Dr Aiken): Mark, I know that you will be coming to talk to us next week about public-sector procurement and the rest of it. Is identifying problems in the current procurement of public-sector capital projects, which needs to be addressed and which leads to inefficiency or a lack of competitive tendering, down to the Executive's making effective use of the new Procurement Board, or do you think that there is another mechanism that we should be looking at to encourage the sector to tender sustainably and competitively?

Mr Spence: As you mentioned, Chair, I am on the Procurement Board. We have met twice, so it is early days for it. Some important decisions, however, have already been made on that board to renew existing guidance and processes to make sure that they are fit for purpose. A key role for government is to try to ease the burden for all bidding parties. I am talking not just about construction here but about all parties that are interested in working with government to provide services and goods. The process needs to be as streamlined as possible and as consistent as possible. That will mean a greater field of entries, more competition and better value, but it is very much not about driving down the price. A major concern that we have at the minute is the increasing use of price-only tendering: in other words, appointing on the basis of the lowest bid and not taking into account the quality of what may be delivered. That is a huge concern to us, especially in an economic context that is, frankly, fairly gloomy and probably will be for the next number of years. Behaviour will drive prices down to the point at which they are not sustainable. Companies will go under, jobs will be lost, and clients will be left with projects that are not completed, which is far from ideal. We are working with the Procurement Board to see whether we can reintroduce the quality aspect to all tendering and make sure that quality is maintained and that prices do not go subeconomic. That is not in anybody's interests or in the interests of a sustainable market.

The Chairperson (Dr Aiken): The situation is probably not the same, but look at what happened with the York Road campus. One of our major construction firms went under during the whole process. Do you think that any lessons have been identified from that? I will not be as presumptuous as to say "learnt". I welcome your appointment to the Procurement Board. When that board was first mooted, we

had concerns about the type of people who would be on it, but I am glad to see that industry has been brought in to bring its level of experience. We will talk a bit more about that next week.

My particular concern and question is this: are we properly identifying those problems now so that, by setting up a new structure, we will make a change?

Mr Spence: It is early days, but we have a groundswell of evidence from various projects. We have the Public Accounts Committee report and the Audit Office report on capital projects. Both identified structural and systematic failures and learning points. We would like to think that those reports are being absorbed by the Departments, and we will certainly be working with all available parties to give our input and feedback when required. It is difficult to focus on one particular project, but lessons need to be learned, I hope they will. The evidence is there to be seen. Going forward, there needs to be much greater accountability for the failure of procurements, and more explanation and feedback provided, rather than their simply being absorbed and retendered.

Mr Catney: Thanks very much, gentlemen. I second what the Chair said. It is good to know that people of that calibre from the real world are sitting on the Procurement Board. I wish you every success with it. Have you any ideas for a quick shot in the arm for our economy? From looking at the draft Budget, can the Construction Employers Federation come up with some ideas for as quick as possible a turnaround? Is there a quick win?

Mr Spence: The quick wins are about doing things right, and doing them once. That is where projects have gone off the rails in the past, with time being spent and wasted on reprocurring them. We always talk about shovel-ready projects, and they have been mentioned in this afternoon's session. Being shovel-ready is important, but it needs to be strategic. Our big concern with the Budget and how it is presented is that, even though we talk about a single-year Budget, for us in construction, it can, in reality, very often be an eight-month Budget. By the time that departmental allocations are decided and Departments come out with their lists of projects to be tendered for, we are already well into the year.

Capital budgets are fairly consistent from year to year — they do not change dramatically — so we struggle to understand why Departments, to be safe, do not take 75% or 80% of capital and say, "That's almost guaranteed and almost certain to happen. Let's plan for next year", instead of waiting to get the pounds and pennies exactly right before producing a list. It does not seem the most efficient way in which to do things. Our members will be saying to us, "Where's the pipeline? What's coming? What do we need to prepare for?", but we will not be able to tell them until we are two or three months into the year that we are talking about. That does not provide for very strategic tendering. As has been mentioned this afternoon, we have that end-of-year rush to spend the money. Nobody is going to complain that money is being spent, but is it being spent in the most effective and efficient way to sustain jobs? Probably not. The multi-year Budget is not in our gift, and it is not happening this year, but it has got to be a strong ask for following years in order to allow for efficient and effective planning. That would be the best way in which, as you say, to inject some vigour into the local economy through construction.

Mr Catney: What about the green economy? Is there a way in which we can look at all the potential that is out there? What can we, as MLAs, do to facilitate and help you with that?

Mr Spence: Construction has a very strong role to play in the green economy. In England, there is currently a well-funded retrofit strategy for energy efficiency in homes for which householders are given a significant grant towards works. We would welcome the funding of such a strategy locally. It would also provide a lot of skills for people who are perhaps transferring from other sectors that have been worse hit by COVID. That too would be welcome. People in construction could be trained on retrofitting. It would be a big ask, because, if you take into account the Housing Executive's estate, for instance, you will see that there is a significant piece of work to be done there on energy efficiency. Construction certainly could be a part of that. That could be mobilised relatively quickly if funding were made available.

Mr Catney: Thank you, Chair.

Mr McHugh: A couple of points were made. One relates to an increase in labour costs. Is that as a result of lack of supply? Is it maybe the result of the lack of training and particular skills in the labour force? What is contributing to that?

Mr Spence: Labour costs are not a particular concern at the minute. It is more of an issue and has impacted more in the GB market, where a lot of farm workers have left the country. That has not been the case here. There is always an increase in labour costs. If we have an increase in labour costs here, it tends to be due to a lack of skills. Part of that is a reflection of the industry maybe not being as sustainable in recent years. The pipeline has been variable, so if we can present a stronger pipeline — it is back to the multi-year budget question — the public sector, which is a main plank of the construction industry, can present a long window and a long-term budget with sustainable investment and can recruit people into the industry. It is always a matter of supply and demand.

Mr McHugh: You also made the point that 79% have experienced delays in the supply chain as a result of COVID and Brexit. In what way have COVID and Brexit impacted on it?

Mr Spence: To put it in context, those results are from the survey that we conducted over the new year. We do not have a more up-to-date survey, so those results are from that point in time. Our sense is that supply issues have been resolving. We are not getting as many comments from members that they are having difficulties. Certainly, in January, there was a rush of problems and various things came to light. Those are tending to resolve at the minute. COVID and Brexit became rather muddled and intertwined over the new year. We are now talking about rerouting some supply chains, and members have had to figure that out, but some are now sourcing materials from the Republic rather than from GB to avoid some of the issues there. It is our impression that the situation is improving over time.

Mr McHugh: Thank you.

The Chairperson (Dr Aiken): Are you happy, Maolíosa?

Mr McHugh: Yes. Thank you, Chair.

The Chairperson (Dr Aiken): Mark and David, thank you very much for your evidence. We look forward to talking to you again next week. Be safe and keep it steady.