



Northern Ireland Audit Office

# Belfast Metropolitan College's Titanic Quarter PPP Project



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
25 March 2014





Northern Ireland Audit Office

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Northern Ireland Audit Office

Comptroller and Auditor General

25 March 2014

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# Abbreviations

BIFHE	Belfast Institute of Further and Higher Education
BHC	Belfast Harbour Commissioners
C&AG	Comptroller and Auditor General
DEL	Department for Employment and Learning
DFP	Department of Finance and Personnel
ETI	Education and Training Inspectorate
FTE	Full Time Equivalent
ICL	Ivywood Colleges Limited
IT	Information Technology
NPC	Net Present Cost
NPV	Net Present Value
NI	Northern Ireland
NIAO	Northern Ireland Audit Office
OFMDFM	Office of the First Minister and Deputy First Minister
OJEU	Official Journal of the European Union
PER	Project Evaluation Review
PPE	Post Project Evaluation
PFI	Private Finance Initiative
PPP	Public Private Partnership
RDD	Reviewable Design Data
SOA	Schedule of Accommodation
SIB	Strategic Investment Board
TQ	Titanic Quarter
TQL	Titanic Quarter Limited
UK	United Kingdom
VAT	Value Added Tax
VFM	Value for Money

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## Glossary of Terms

<b>Facilities Management</b>	Soft Facilities Management (FM) services are those services which are required for the operation of the building or facility. They include services such as cleaning, catering, porters, security and reception. Hard FM services are those services responsible for the maintenance of the building or facility.
<b>Gateway Review</b>	A Gateway Review examines a programme or project at critical stages in its lifecycle. The review is designed to provide assurance that it can progress successfully to the next stage and is on track towards successful delivery. There are five key decision points or "Gateways" in a project lifecycle – 1. Business Justification; 2. Delivery Strategy; 3. Investment Decision; 4. Readiness for Service; and 5. Benefits Realisation. Reviews are carried out by a small team of experts who are independent of the project. In July 2009 the Comptroller and Auditor General published " <i>A Review of the Gateway process</i> " (NIA 175/08-09).
<b>Head Lease</b>	A Head Lease is a lease between the owner and an entity (tenant). A person holding property freehold (a landlord) may grant a lease under which another person (the tenant) occupies the property for a certain time. When the lease expires, the property reverts to the landlord. The tenant might in turn transfer the whole or any part of his interest in the property by granting a sub-lease under which he allows another person (a sub-tenant) to occupy the property for part of the term of the lease. This interest is called a sub-lease.
<b>Net Present Value</b>	Net Present Value (NPV) is a primary investment decision criterion. NPV is defined as the difference between the present value of a stream of benefits and that of a stream of costs. A positive NPV occurs when the sum of the discounted benefits exceeds the sum of the discounted costs. A negative NPV is usually called a Net Present Cost (NPC). The decision rule is to select the option that offers to maximise NPV, or minimise NPC. This is subject to assessment of those impacts that cannot be valued in money terms. NPV takes account not only of social time preference through discounting, but also, by combining capital and recurrent cost and benefits into a single present day value indicator, enables direct comparison of options with very different patterns of costs and benefits over time.

## Glossary of Terms

<b>Private Finance Initiative</b>	<p>Private Finance Initiative (PFI) projects are a type of Public Private Partnership (PPP) used to fund major capital investments. PPPs refer to a wide range of different types of collaboration between public and private bodies. They cover a range of business structures and partnership arrangements, including joint ventures, the sale of equity stakes in state-owned businesses and outsourcing where private sector operators use existing public sector assets, as well as PFI itself. PFI contracts transfer risk from the public sector to the private sector, relating to the design, construction, maintenance and/or operation of assets. In return, the Government pays an annual unitary charge over the lifetime of the contract, which is typically 25-30 years.</p>
<b>Public Sector Comparator</b>	<p>A Public Sector Comparator (PSC) is the term for a costing of the option of procuring services using traditional public sector procurement methods rather than by PFI or another form of PPP.</p>
<b>Shadow Bid Model</b>	<p>A Shadow Bid Model (SBM) provides a benchmark to confirm value for money and affordability by estimating what it will cost the private sector to bid for a particular project or service. Usually developed by financial advisers appointed to the project based on their knowledge and experience of what the private sector is likely to deliver.</p>
<b>Unitary Charge</b>	<p>A Unitary Charge is the amount that the public body contracts to pay each month for the service being delivered. It will cover all costs associated with financing, construction, operations, lifecycle and maintenance costs, on a whole life basis. There are three key elements: the service element to run the project (which could include cleaning, catering, maintenance and security), repayment of the capital asset built and interest on the capital.</p>

## Key Facts

- June 1999 – the need to replace the facilities at Brunswick Street and College Square East was first identified
  - July 2006 – Ivywood Colleges Limited (ICL) appointed preferred bidder
  - Negotiations with preferred bidder extended from a planned 12 months to 30 months
  - April 2009 – Belfast Metropolitan College entered into a 25 year Public Private Partnership (PPP) agreement with ICL to design, build, finance and operate a new campus in the Titanic Quarter
  - August 2011 – ICL delivered the new campus by the construction completion target date
  - The current annual unitary charge is £5.6 million
  - The deal required an upfront capital contribution by the College of £5 million in April 2009 to acquire the Titanic Quarter sublease
  - An additional £15 million capital contribution was also required and paid by the College in September 2012
  - The sale of the College's Brunswick Street and College Square East properties was intended to cover these capital contributions. These properties remain unsold.
  - Additional costs of £13 million, including £5 million for the sublease of the site, have been incurred on the project outside of the PPP agreement
-



# Executive Summary



# Executive Summary

## Introduction

1. Belfast Metropolitan College (the College<sup>1</sup>) is primarily funded by the Department for Employment and Learning (the Department). In 2012-13, it had 26,000 enrolments on full-time and part-time courses making it the largest Further and Higher Education College in Northern Ireland, and one of the largest in the UK. It employs over 830 staff and its annual budget is some £58 million.
2. In April 2009 the College entered into a 25 year Public Private Partnership (PPP) agreement with Ivywood Colleges Limited (ICL) to design, build, finance and operate a new campus in the Titanic Quarter, Belfast to replace existing facilities at College Square East and Brunswick Street in Belfast City Centre. The annual unitary charge (currently £5.6 million<sup>2</sup>) covers the cost of acquiring the building and fully servicing and maintaining it over the 25-year term of the agreement. The value of the agreement (net present cost) was £49 million<sup>3</sup>.
3. The College has achieved many satisfactory outcomes from the delivery of the new campus, including a high level of staff, student and employer satisfaction. However prior to contract signature, in April 2009, it encountered many challenges and difficulties through the initiation, planning and negotiation phases of the project. These issues, many of which were driven by significant economic changes and a highly volatile property market, through an extended procurement process, had a significant impact on its delivery and its value for money and are the subject of this report. It is important to note that many of these issues pre-date the College's current management team who, to a large extent, were responsible for the successful turnaround of the project. Whilst a satisfactory outcome has been achieved there are important lessons for similar large scale projects.
4. Following the signing of the agreement, in April 2009, ICL delivered the new campus by the construction completion target date defined in the agreement. It opened in August 2011, moving Further Education facilities from College Square East and Brunswick Street in Belfast city centre to modern facilities in the Titanic Quarter in Belfast. The building offers 22,000 square metres of space with a capacity for 2,500 full-time students and around 250 staff. It provides a wide range of courses<sup>4</sup> as well as a multifunctional management training suite, and conference facilities. The design of the build met a BREEAM "Very Good" rating<sup>5</sup> and has, to date, delivered a high level of staff, student and employer satisfaction. It has won a number of awards for building design and high environmental standards.

1 For the purposes of clarity, references to "the College" throughout this report will refer to the Institute or College that was charged with delivering the project. All matters pre April 2007 relate to Belfast Institute of Further and Higher Education (BIFHE). BIFHE and Belfast Metropolitan College are separate and distinct legal entities with differing governing bodies and accounting officers.

2 The Unitary Charge payment is split between the College (£1.9 million) and the Department (£3.7 million).

3 Representing £211 million in cash terms over its 25-year term.

4 The College provides courses in curricular areas such as: Hospitality and Catering; Business and Management; A Levels and GCSEs; Professional Training and Counselling; Information and Communications Technology; Hairdressing and Beauty; Fashion & Textiles; Science; Access to University; and Sport and Leisure.



## There were significant delays leading up to the signing of the PPP agreement but the Department and the College sought to ensure that the public sector interest was protected

5. Whilst changes to a timetable are inevitable, good project management should ensure that a realistic timetable is agreed at the outset, changes are mitigated, and achievable with the minimum of delay. The timetable for the project was subject to constant change and there were significant and numerous failures to meet project milestones. The repeated failure to deliver to timetable is indicative of poor identification and assessment of risks and weaknesses in project management.
6. The need to replace the facilities at Brunswick Street and College Square East was first identified in 1999. However, an initial major contributory factor in delaying the project was the College's<sup>6</sup> involvement in a joint venture with the University of Ulster scoping the potential development of the Springvale Educational Village in West Belfast. Work on this potential project was halted in October 2002 due to concerns about its affordability. The Springvale Project was the subject of a 2006 report<sup>7</sup> by the Comptroller and Auditor General and subsequent Public Accounts Committee report in 2007<sup>8</sup>.
7. ICL was appointed as the preferred bidder for the project in October 2006. However, the protracted negotiations between the College and ICL that followed extended the timetable to contract signature from a planned 12 months to 30 months. This was largely because of issues related to: the complex leasing arrangements for the site at Titanic Quarter; and ICL's proposal to provide an underground sub-basement car park that did not form part of the College's requirements or ICL's original bid but were part of its planning application<sup>9</sup>; and negotiations about the cost of building and running the car park. These issues were resolved by November 2008.
8. The College and its sponsor Department, the Department for Employment and Learning sought, through negotiations with ICL, to protect the public sector's interest through ensuring that leasing arrangements did not contain restrictive clauses on the use of the site for the campus. In addition, to resolve the car park issue, the College entered into a separate agreement in June 2008, outside the PPP contract, with a company connected to ICL - Ivywood Car Parks Limited. Under this agreement Ivywood Car Parks Limited constructed, at its own cost (£5.3 million), a sub-basement car park which it is entitled to operate for 40 years, after which it reverts to the

5 BREEAM is an environmental assessment method and rating system for buildings, which uses recognised measures of performance, set against established benchmarks, to evaluate a building's specification, design, construction and use.

6 Then BIFHE

7 NIAO Report: *Springvale Educational Village Project*: 30 November 2006: HC 40

8 Public Accounts Committee Report: 20 September 2007 Report: 4//0708R

9 Under PPP arrangements it is the private sector operator that, after the appointment of Preferred Bidder status, fully develops its concept plans and makes the planning application. The planning application was submitted in January 2007 and approved in February 2008.

## Executive Summary

College at no cost; the College is also entitled to income of £10,000 each year<sup>10</sup> and there is also a profit share in place to ensure that the College shares in any profits beyond the stage at which the Car Park company recoups its expenditure.

### **The College and the Department hoped to realise £20 million from the sale of its College Square East and Brunswick Street properties. However the estimated value of these properties has fallen significantly.**

9. The College had two existing city centre buildings (paragraph 2). It determined, ahead of the procurement process, that either the existing Brunswick Street site or an alternative city centre location would be suitable for the new facility. In the event that a new location was chosen by the College, then both of the existing buildings could be made available for redevelopment by the successful contractor, conditional on their financial proposals guaranteeing the College full open market value for the properties. During the period of the negotiations with ICL the property market was extremely volatile. This, combined with obtaining planning approvals for developing the two surplus sites, resulted in valuations rising from £8.8 million in 2005 to £22.5 million in 2008 for the two properties.
10. It was the nature of this PPP arrangement that the particular properties would become surplus only when the new

accommodation had been delivered. Two months after ICL's appointment as the preferred bidder in October 2006, the College sought to remove the transfer of the surplus properties from the deal, substituting them with a capital contribution of £10 million, subsequently increased to £15 million. The decision was made at a time when the value of property was rising dramatically and they felt that removing them was the best way of achieving open market value. However, the agreement to these terms transferred back to the public sector the risk of movements in property values.

11. In September 2008, just months before signing the PPP agreement, ICL's funding bank advised that, due to the uncertainty in the financial markets at the time, the appetite to provide the entirety of the funding required for the project was significantly reduced. The funding bank and ICL sought potential co-funders but this was unsuccessful. In order to find a solution to the funding situation an increase in the public sector capital contribution to the project from £10 million to £15 million<sup>11</sup> was negotiated and agreed between the Department and College and ICL. This was then paid in September 2012, one year post-operation of the campus. The Department told us that it did not impact adversely on value for money because the additional payment had the effect of reducing the annual unitary charge payable by the College to the contractor. In total the public sector contributed £20 million capital to the project as it also agreed to pay £5 million for the sub lease of the Titanic Quarter site -

<sup>10</sup> Payment is indexed linked.

<sup>11</sup> Figure excludes VAT. In terms of the funding provider this is in effect an accelerated debt repayment.

£2.5 million each to Belfast Harbour Commissioners (BHC) and Titanic Quarter Limited (TQL)<sup>12</sup>.

12. It was intended that the proceeds from the sale of the surplus city centre properties would fund the public sector's £20 million capital contribution to the project. The Department agreed that, in the event of the sale not realising the full £20 million, it would make up the shortfall<sup>13</sup>. In August 2011 the Titanic Quarter campus was handed over to the College and Brunswick Street and College Square East, which were now surplus, became available for disposal<sup>14</sup>. Currently, these remain unsold and the decline in the property market means it is likely to result in a large shortfall in the capital receipts to fund the capital contribution.

statements in each of the five years since its formation in August 2007, highlighting concerns surrounding irregular expenditure and the significant financial challenges faced by the College including incurring year on year unplanned trading deficits. The Public Accounts Committee<sup>15</sup> also raised concerns that the Department was unable to provide it with information about the College's financial position, or a basic explanation of what had gone wrong at the College.

14. Following a significant operating deficit in 2007-08, an Efficiency Review<sup>16</sup>, required by the Department, was conducted to investigate the financial and governance arrangements at the College. The Efficiency Review findings published in January 2010 contained 72 recommendations, and key issues identified included:

- weaknesses in the performance of the senior management team;
- a significant number of weaknesses in financial controls;
- poor management information;

## The College's finances and governance arrangements at the time of the procurement were weak

13. The Comptroller and Auditor General reported on the College's financial

12 BHC is freeholder and leased the site to TQL under a 250 year lease. TQL subleased the site to the College, for 250 years, who in turn paid a premium of £5 million for the lease, which Land and Property Services (LPS) valued in October 2007 to be worth £7.5 million.

13 In the event the £15 million bullet payment fell due before the buildings were sold. Therefore the Department fully funded the bullet payment. The treatment of the proceeds will be dealt with in line with governing legislation - FE Order (NI) 1997. The College shall pay to the Department the proceeds for the disposal, after deduction of such expenses reasonably incurred in the disposal, as the Department may, after consultation with the Governing Body, determine.

14 Brunswick Street was vacated in August 2011. The College continued to use College Square East building as the College's IT Network Support Unit still occupied some office space on the ground floor until the end of October 2013 when they moved to Titanic Quarter.

15 Report: 41/08/09R Public Accounts Committee – *Review of Financial Management in the Further Education Sector in Northern Ireland and Governance Examination of Fermanagh FE College – Thirteenth Report, Session 2008-09, dated 18 June 2009.*

16 An Efficiency Review is undertaken in accordance with Article 18 of the Further Education (Northern Ireland) Order 1997 – "The Department may arrange for the carrying out (whether as part of an inspection under Article 102 of the 1986 Order or otherwise) by any person of studies designed to improve economy, efficiency and effectiveness in the management or operation of an institution of further education".

## Executive Summary

- little synergy within strategic planning, between corporate planning, curriculum, estate and financial planning, and absence of a comprehensive Estates Strategy; and
- delays in implementing audit recommendations.

15. In response, the College completed a comprehensive College Improvement Plan covering the areas of Finance, Estates, Curriculum and Staffing in October 2010. This set out how the college intended to deliver efficiencies and return to financial stability within a three year period by 2013. It established a revised strategic and financial plan, the range of actions required to stabilise the College's financial position, and set targets and performance indicators against which progress could be assessed.

16. Our audit of their 2012-13 accounts noted that the College has improved its financial position through the development and implementation of the College Improvement Plan. Specifically on financials, the accounts for the year ended 31 July 2013 show: a historic cost surplus of £167,000; a College cash balance of £6.1 million; and income and expenditure reserves (excluding pension reserves) of £1.6 million. Furthermore, the College Development Plan forecasts small historic cost surpluses for the three financial years to 2015-16. As a result, in October 2013, the Department removed the

special measures and monthly scrutiny which were in place during the College Improvement Plan, and the College reverted to the routine quarterly monitoring arrangements which are in place across the sector.

17. Governance arrangements operating in the College at the time of the procurement of the new Titanic Quarter campus were also weak. We found the audit trail in certain areas poor, particularly surrounding the determination of accommodation needs and estimation of the number of student Full Time Equivalent (FTE) (this was primarily based on historic attendance). The College did not have a robust Estate Strategy in place; accordingly strategic objectives for the new City Centre Project were not clearly defined and lacked pre-implementation baselines to assess the benefits from the project. At the outset of the project there was a lack of clear links between the project and the organisation's key strategic priorities, including agreed measures of success. It was not until 2011 that a Benefits Realisation Plan was finalised.

18. The importance of a Benefits Realisation Plan was previously recognised by the Public Accounts Committee (PAC) in their report on Shared Services<sup>17</sup> which recommended that departments must ensure that Benefits Realisation Plans are developed at the outset and clearly show what will happen, where and when the benefits will occur and who will be responsible for their delivery. In

addition, through a tracking system, there should be evidence of realisation of actual benefits. Whilst the measurement of benefits may be difficult it is vital that a Benefits Realisation Plan is in place from initiation throughout each stage of any project in order to drive the achievement of objectives. Targets must be developed to help progress meeting objectives in terms of producing outputs and delivering outcomes.

19. Ensuring the right skills, capacity and experience are in place to assess whether complex major projects represent a good deal over the life of the contract is key to the delivery of value for money. The benefits to the inclusion of practical PPP contract delivery and management skills on the Project Team can be significant. The lack of these, especially commercial skills to match those of the private sector, can put the public sector at a disadvantage when managing contracts and negotiating contract variations. This can result in opportunities for securing better value for money being missed and risk may not be managed effectively. In this project the delays in the early stages leading up to contract signature are in stark contrast with the successful management of the construction phase, (delivered within time, cost and quality). This was largely due to the skills and experience of the project team benefiting from detailed PPP contract delivery and management experience within Estate and Facilities Management from 2008-09 onwards.

### The College is unable to assess the final value for money of the overall project until the surplus properties are sold

20. Over the period of the contract (25 years after construction) the College calculates that £211 million in cash terms (£49 million in Net Present Value terms) will be paid to ICL. It is not unusual for procuring authorities to make both additions and reductions to the project scope during preferred bidder negotiations. However, the more changes there are the more likely it is that value for money will be at risk, even if the changes cancelled each other out to some extent in terms of their impact on the unitary charge.
21. We found that the value for money margin expected from the delivery of this project, compared to the College's predicted cost of using PPP (as measured by their Shadow Bid Model<sup>18</sup>), eroded during preferred bidder stage from a margin of 11.4 per cent at the appointment of preferred bidder to 3.2 per cent at contract signature. Meanwhile the saving, using PPP as opposed to a conventional procurement (as measured by the Public Sector Comparator<sup>19</sup>), was marginal - falling from 11 per cent in the original business case to only 0.9 per cent at contract signature (**Appendix 6**). The Department's view is that this margin demonstrates an advantage

18 A Shadow Bid Model provides a benchmark against bid costs to confirm VFM and affordability by estimating what it will cost the private sector to bid for a particular project or service. It is usually developed by financial advisers appointed to the project based on their knowledge and experience of what the private sector is likely to deliver.

19 A Public Sector Comparator essentially considers the option of procuring services using traditional public sector procurement methods (a conventional procurement solution) designed to achieve the same output specification as the private sector bids rather than by PFI or another form of PPP.

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in going down the PPP route. They and the College also considered that the bid remained *"the most economically advantageous taking both qualitative and quantitative factors into consideration"*. However, it is important to consider the sensitivities of the financial modelling used in determining value for money margins. In this case the movement from a negative value for money position in March 2009 (-1.0 per cent) to a positive outcome in April 2009 (0.9 per cent) was primarily down to a favourable movement in interest rates prior to financial close **(Appendix 6)**<sup>20</sup>

22. Since contract signature the College estimates that the value for money position has further reduced<sup>21</sup>. The £49 million net present cost of the ICL bid assumed that the bullet payment of £15 million in 2012 would be fully met from capital receipts. However, the estimated shortfall in capital receipts has increased the net present cost of the project<sup>22</sup> **(Appendix 6)**. Since contract signature the College has completed a working paper to assess the overall cost of the project. This was completed without recourse to the detailed financial models (including the bidder's model as referred to in Para 4.31) and in the absence of the proceeds from the disposal of the surplus properties. These initial workings identified an estimated proceeds shortfall of £7.7 million in net present cost terms.

The final financial outturn of the project cannot be assessed until the surplus properties are sold.

23. The Department pointed out that the College's Final Value for Money paper, dated April 2009, identified a 3.2 per cent value for money margin. It had integrated fully the quantum of the capital receipt payment (£15 million) into the final Financial Model, and its impact on the project costs and unitary charges were identified in the value for money assessment. Likewise the Information and Communications Technology (ICT) business case identified a value for money option and both parts of the project came in under the budget costs forecast in the business cases.
24. We also found that significant expenditure, approximately £13 million, has been incurred outside of the PFI contract to deliver the new campus project. The College paid £5 million to acquire the sub lease of the site (funded by the Department) and it incurred £1.8 million costs on technical and professional consultancy fees. Furthermore, information technology, multimedia, and telephony costs (procured through a procurement framework agreement) will cost an additional £4.9 million in the first ten years. There is also ongoing expenditure involved in managing, securing and marketing the surplus sites estimated at almost £1.1 million to

20 The College bore the risks and rewards of interest rate movements, governing the funding of construction costs, up to the date of financial close. In this case the rate reduced from 4.13 per cent (3 March 2009) to 3.9175 per cent at financial close (3 April 2009).

21 September 2012 working paper updating the Full Business Case. Comparison to the bid is outstanding until the financial model is re-run.

22 Downward revisions in surplus asset values increases the net present cost of the project. Surplus asset values have fallen from an assumed £15 million at financial close in April 2009.

January 2014. Internal costs on the project, although not quantified by the Department or the College, are also likely to be significant given the extended preferred bidder negotiations.

25. The Department also contends that, as the surplus properties were removed from the PPP deal, there is no value for money link in the business between the new project at Titanic Quarter and the holding of the surplus properties. We disagree. When the decision was taken to remove the properties from the deal the public sector not only took on the risk of movements in property values, it also took on responsibility for the costs of maintaining, securing, and marketing them. These costs and the long term liabilities of holding the surplus properties may be substantial. Whilst it was initially assumed that the bullet payment of £15 million and the £5 million cost of acquiring the Titanic Quarter site lease would be fully met from capital receipts in 2012, it is likely that there will be a large shortfall in the capital receipts to fund the capital contribution.

## Value for Money Conclusion

26. Our reports on PFI and other major capital projects continue to highlight that the public sector needs to act as a more intelligent customer in the procurement and management of such projects. In this project the College has achieved many satisfactory outcomes from the delivery of the new campus. However, we have a number of concerns about the procurement process, in particular
27. the identification, assessment and management of risks and their impact on the value for money of the project.
27. The leasing and planning issues relating to the site and the provision of underground car parking; their impact on negotiations; and changing economic conditions, resulted in the VFM margin eroding. At contract signature it was marginal (ranging from minus one to plus one per cent in March/April 2009 compared with conventional build (the Public Sector Comparator). The deal also required capital contributions of £20 million by the public sector, including £5 million upfront for the sublease of the Titanic Quarter site. The value of the surplus properties at Brunswick Street and College Square East, which were to be sold and proceeds used to fund these capital contributions, have fallen from an assumed £15 million at contract signature in April 2009. They remain unsold and the College continues to meet the cost of maintaining and securing the properties. These must be factored into any meaningful assessment of the project's overall value for money.
28. Given the significant capital payments made by the Department and the additional costs associated with PPP procurement, there was no clear advantage of going down the PPP route for this project. On that basis and because of other additional costs, we cannot conclude that the overall project has delivered value for money. The wider lessons emerging from this project are not new. However, they serve as

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a useful reminder and their application should help ensure that value for money is achieved in other public sector projects.

29. The Department disagrees that this was simply a VFM issue as the project was delivered within the business case parameters which had identified a VFM of 3.2 per cent. The Public Sector Comparator also identified a marginal advantage in adopting the PPP route. Rather the issue centred more on affordability that would have had to be addressed however the project was delivered.

### Recommendation 1

The negotiation period between the selection of a preferred bidder and signing of deals must be kept to a minimum. As demonstrated in this project unresolved issues ahead of appointing the preferred bidder, and changes to proposals after their appointment can: lead to an extended negotiation period; result in the loss of any realistic competitive tension from reserve bidders; and require significant changes to bidder's proposals and erode value for money.

**We recommend that ahead of appointing a preferred bidder public bodies must ensure that bidder's proposals demonstrate a strong case for the deliverability of their proposals and that they have adequately addressed all specific site issues with appropriate mitigation actions prepared.**

### Recommendation 2

When a public body is considering major investment in new accommodation and services it is essential that the full scope of their

requirement is properly defined from the outset. Ahead of preparing a business case for its new City Centre project the College had put in place a draft Estate Strategy. However it was a broad document, based on replacing buildings that the College had identified as substandard with new, purpose-built facilities and not a curriculum-led Estate Strategy. **We recommend that public bodies must have robust Estate Strategies in place that are appropriately linked to their strategic planning processes, and fully reflect the implications arising from the significant changes both emerging and planned. This is particularly important ahead of investing significant public funds.**

### Recommendation 3

Significant expenditure has been incurred outside of the PPP contract in order to deliver the new campus. In addition there is a significant potential risk that the long term liabilities of holding the surplus properties may be substantial and impact significantly on the overall value for money of the project. **We recommend that the Department and College, as part of their post project review, conduct an appraisal taking account of all the associated costs arising; they are interdependent and must be appraised together in order to assess that the total resource impact and a full assessment of whether the project achieved overall value for money. It is important that relevant lessons learned are communicated to other public bodies.**

### Recommendation 4

The College has the benefit of access to a campus at Titanic Quarter with a flexible design and state of the art facilities. It has now taken the opportunity to transfer other courses from



property it currently rents to the new campus. Whilst these transfers had not been envisaged in the original business case, they have resulted in direct cash savings and increased the efficiency of the Titanic Quarter (TQ) building.

**We recommend that, as part of its ongoing estate strategy development, that the College develops a common set of metrics to analyse the performance of its estate. Effective use and analysis of data should include examining utilisation rates for accommodation with the TQ building and consider the scope for increased rationalisation opportunities across its whole estate. At a regional level, the Department should also ensure that Further Education colleges apply similar methodologies.**

#### Recommendation 5

The provision of IT equipment, including multimedia and telephony, outside of the PFI contract, was a key issue as it had the potential to affect the contractor's building schedule and ultimately the availability of the building. A business case covering this equipment was not submitted to the Department until April 2011, four months before the handover of the new building. **We recommend that when a public body is considering a major investment in new accommodation and services it is essential that the full scope of its requirements are fully defined, costed, and a robust assessment of affordability from the outset. Sufficient lead-in times must also be established to enable consideration of all procurement options and facilitate timely and appropriate approvals.**

#### Recommendation 6

Insufficient commercial and technical skills often leave public bodies over-reliant on advisers

who may be expensive and are not always incentivised to deliver projects more quickly. It is important that procuring authorities clearly communicate to advisers the standard and quality of service they expect to receive, and incentivise them to provide a more effective service. **We recommend that at the outset of a project it is important to define the outcomes and benefits public bodies expect to receive from the use of advisers, and the framework to be used to assess their performance. Where possible, more use should be made of incentive-based and fixed price contracts. In addition arrangements must be put in place to ensure full transfer of knowledge.**

#### Recommendation 7

At the outset of the project there was a lack of clear links between the project and the organisation's key strategic priorities, including agreed measures of success. It was not until 2011 that a Benefits Realisation Plan setting out what the project is expected to achieve and how this will be measured, was finalised. Whilst the measurement of benefits may be difficult it is vital that the Benefits Realisation Plan is central from initiation and throughout each stage of any project in order to drive the achievement of objectives. Clearly owned, agreed and measured benefits, are essential for all programmes and projects.

**We recommend that Departments must ensure that benefits are managed strategically and dynamically throughout a project and beyond. Early collection of baseline data and a detailed Benefit Realisation Delivery Plan must be developed at the outset and be a key focus of the Business Case.**



## Part One:

The new Titanic Quarter campus replaced two Further Education facilities in Belfast City Centre



## Part One:

The new Titanic Quarter campus replaced two Further Education facilities in Belfast City Centre

### Key Findings

- Following the signing of the PPP Agreement in April 2009, the Titanic Quarter campus was built to a high standard, delivered on time and within budget and is acknowledged by its end users as being fit for purpose;
- The need for replacement of campuses in Belfast City Centre, Brunswick Street and College Square East, was first identified in 1999;
- Up to the signing of the PPP Agreement, there were significant delays in delivering a new 'City Centre' campus;
- The College faced significant financial challenges and governance arrangements operating at the time of the procurement were weak;
- The process for determining the Schedule of Accommodation for the project was not clearly evidenced;
- The College did not have a robust Estate Strategy in place; accordingly strategic objectives for the new City Centre Project were not clearly defined and lacked pre-implementation baselines to assess the benefits from the project; and
- A Benefits Realisation Plan was not finalised by the College until 2010-11.

## Background

1.1 The Belfast Metropolitan College (the College<sup>23</sup>) was formed in August 2007 following the merger of the Belfast Institute of Further and Higher Education (BIFHE) and the Castlereagh College of Education. The College is sponsored by the Department for Employment and Learning (the Department). Currently its estate includes five main sites<sup>24</sup> across Greater Belfast (**Figure 1**), with over 100 additional community locations, of which Whiterock is the largest.

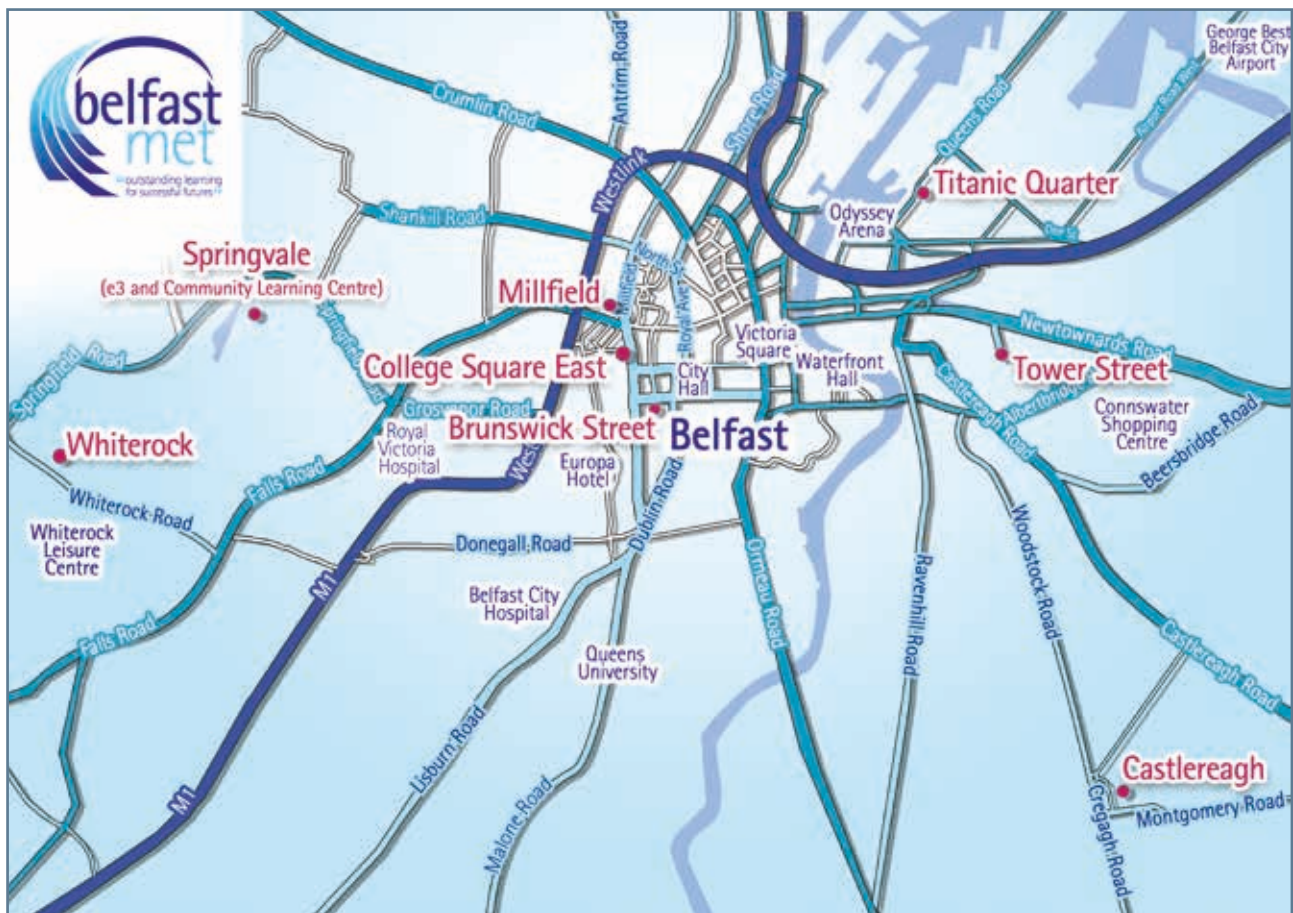
1.2 In April 2009 the College entered into a 25 year Public Private Partnership (PPP) agreement with Ivywood Colleges Limited (ICL<sup>25</sup>) to design, build, finance and operate a new campus in the Titanic Quarter in Belfast. A timeline of the delivery of the project is at **Appendix 2**. The value of the agreement (at net present cost) is £49 million, representing £211 million in cash terms paid through annual unitary payments over its 25-year term (**Figure 2**). The annual unitary charge (currently £5.6 million<sup>26</sup>) covers the cost of acquiring the building, and

23 For the purposes of clarity, references to "the College" throughout this report will refer to the Institute or College that was charged with delivering the project. All matters pre April 2007 relate to BIFHE. BIFHE and Belfast Metropolitan College are separate and distinct legal entities with differing governing bodies and Accounting Officers.

24 Belfast Metropolitan College operates sites at Titanic Quarter, Millfield, Castlereagh, Tower Street and e3 (Springvale).

25 Ivywood Colleges Limited is a subsidiary of Titanic Quarter Limited. Ivywood Colleges Limited work in partnership with service providers including: Patton Construction (the construction sub-contractor); Amey (Facilities Management sub-contractor); and Todd Architects. Ulster Bank is the project funder.

Figure 1: The College currently operates out of five main sites and other community locations



Source: Belfast Metropolitan College

fully servicing and maintaining it over the 25-year term of the agreement. This includes the cost of caretaking, cleaning, security, portage, general maintenance, lifecycle maintenance etc over the contract term<sup>27</sup>. It also includes

a £15 million<sup>28</sup> capital "bullet payment" made to ICL in September 2012. The events leading to the decision to include this capital payment are examined further in **Part Two**.

26 The unitary charge payment is split between the College (£1.9 million) and the Department (£3.7 million).

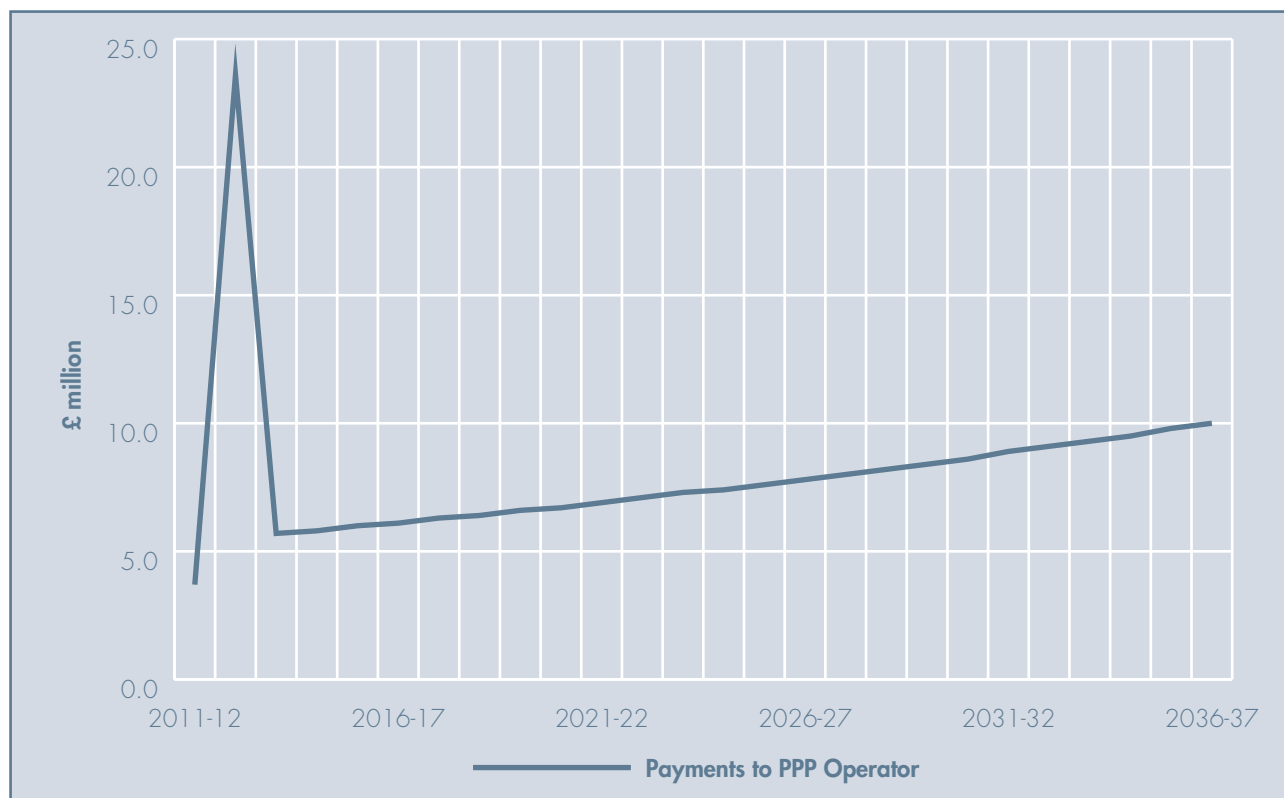
27 All staff previously performing these functions in College Square East and Brunswick Street campuses transferred to the private sector operator.

28 Figure excludes VAT.

## Part One:

The new Titanic Quarter campus replaced two Further Education facilities in Belfast City Centre

**Figure 2: Under the PPP Agreement £211 million will be paid over 25 years**



Source: HM Treasury's PFI Project data reporting system December 2012

1.3 The contractor delivered the new campus by the target date stipulated in the signed agreement and it opened in August 2011, moving Further Education facilities from two locations in Belfast city centre<sup>29</sup> to modern facilities in the Titanic Quarter in Belfast. The building offers 22,000 square metres of space with a capacity for 2,500 full-time students and around 250 staff. It provides a wide range of courses<sup>30</sup> as well as a multifunctional management training suite, and conference facilities. The design of the build met a BREEAM

"Very Good" rating<sup>31</sup> and won the Sustainability Ireland Award, 2011.

**The possibility of a new build, single city centre site, replacing the campuses at Brunswick Street and College Square East was first considered in 1999**

1.4 In 1999 the College commissioned an economic appraisal of its two main college buildings in Belfast city

29 The Titanic Quarter campus replaced two buildings in Belfast city centre - College Square East and Brunswick Street.

30 The campus provides courses in curricular areas such as: Hospitality and Catering; Business and Management; A Levels and GCSEs; Professional Training and Counselling; ICT; Hairdressing and Beauty; Fashion & Textiles; Science; Access to University; and Sport and Leisure.

31 BREEAM assessment uses recognised measures of performance, set against established benchmarks, to evaluate a building's specification, design, construction and use.

centre (College Square East and Brunswick Street), the primary objective being to provide new purpose-built accommodation and related support services in a single city centre site.

In 2001, the Department and the Department of Finance and Personnel (DFP) approved an Outline Business Case authorising the College to initiate a Private Finance Initiative (PFI) process to replace these two buildings. Instructions to tenderers issued in May 2002, for consultancy services, envisaged a single multi-storey building at a location not more than a one kilometre radius from the City Hall. The vision for the project embodied a partnership between further education and the retail/commercial sector; the Department had stated that the project must be largely self-financing through the sale of the surplus sites in Brunswick Street and College Square East and the inclusion of retail development space. The target date for completion of the Belfast Institute City Centre PPP Project was 2006.

1.5 PPP and PFI have played a significant role in the Further Education sector's investment programme (**Appendix 3**). In 2000 the College (then BIFHE) was involved in two other major projects to enhance its estate:

- a PFI project to replace the existing buildings at the Millfield Campus<sup>32</sup> with a purpose built educational facility; and

- a joint venture with the University of Ulster, scoping the potential development of Springvale Educational Village in West Belfast<sup>33</sup>.

However, uncertainty over the Springvale site delayed the Belfast Institute City Centre PPP Project.

### In 2004 an optional appraisal process concluded that the preferred option was a single City Centre site

1.6 In 2004 the Department and DFP agreed that the replacement of the two city centre campuses at Brunswick Street and College Square East was a priority project and the Department and the College then moved it forward with the assistance of the Strategic Investment Board (SIB). The College submitted a refreshed Outline Business Case in August 2004, updating its proposed Schedule of Accommodation, strategic case, costs and values. Four options were considered. With the exception of the 'Do Minimum' option, the quantifiable differences between them were small (**Figure 3**).

32 The Gerald Moag Campus at Millfield opened in September 2002.

33 In October 2002, nine years after it was first proposed, the University withdrew from the Springvale project due to concerns about its affordability. The Springvale Project was the subject of a Public Accounts Committee report 20 September 2007 Report: 4//0708R.

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**Figure 3: The College considered four options to replace the campuses at Brunswick Street and College Square East**

Option	Description	Net Present Cost (2004 Prices) £m	Non-Monetary Benefits Score
1	Do Minimum	36.2	66
2	Refurbishment of existing College Square East accommodation; provide new replacement accommodation (on alternative site) for Brunswick Street accommodation.	54.8	116
3	Refurbishment of existing Brunswick Street accommodation; provide new replacement accommodation (on alternative site) for College Square East accommodation.	48.0	120
4a	Provide new replacement accommodation on new site for BIFHE.	45.3	170
4b	Provide new replacement accommodation on new site for BIFHE as part of multi-user development	44.8	

Source: 2004 Refresh of 2001 Outline Business Case City Centre PPP Project: August 2004

1.7 The preferred option, as in the 2001 Outline Business Case, was the provision of new facilities on a single site within the confines of Belfast City Centre that may be part of a multi-user development. The College did not consider purchasing an alternative site as it already had Brunswick Street, which it considered acceptable. In the event, the proposal from the Preferred Bidder (ICL) was on a site at the Titanic Quarter, which falls just outside the Planning Service's definitions of the "City Centre". Issues surrounding

the leasing arrangements for the site selected, the planning conditions specific to the site and the solution provided by the bidder<sup>34</sup> (including the revised proposal of the provision of sub-basement car parking) resulted in protracted negotiations with the Preferred Bidder (examined further in **Part Three**).

1.8 The College used a Shadow Bid Model<sup>35</sup> as the value for money benchmark and to provide it with greater certainty about the unitary charge

34 Under most PPP arrangements it is the private sector operator that, after the appointment of Preferred Bidder status, fully develops its concept plans and makes the planning application

35 A Shadow Bid Model is a reference model that provides a benchmark against bid costs to confirm VFM and affordability by estimating what it will cost the private sector to bid for a particular project or service. Usually developed by financial advisers appointed to the project based on their knowledge and experience of what the private sector is likely to deliver.



likely to be sought by bidders and for assessing affordability. It also constructed a Public Sector Comparator<sup>36</sup> to determine if PPP was the optimal procurement route. These models indicated that a PPP solution could provide better value for money. The initial estimated annual unitary charge, over 25 years, was £4 million a year. On the basis of the revised submission, the Outline Business Case was approved by DFP in February 2005.

### The decision to invest significant funding into the new campus at Titanic Quarter was not supported by a robust Estate Strategy

1.9 We found no evidence of the Department ensuring that the College complied with its guidance requiring it to have a fully integrated Estate Strategy that was firmly based in its Academic Plans. The guidance required proposals to develop the estate to be fully supported by evidence and documentation including detailed curriculum development plans, rigorous space utilisation analyses, and a coherent, integrated and comprehensive estates services strategy. The College is also required, under its Financial Memorandum agreed with the Department, to prepare and regularly review its Estate Strategy. A clear and documented Estate Strategy is essential in major investment decisions and

Departmental guidance issued in 2004<sup>37</sup> required college estate strategies to be:

- linked to College Development Plans; and
- provide evidence of linkage to key criteria including key estate objectives; planned maintenance programmes and schedules; detailed condition surveys; accommodation utilisation surveys; running cost analyses; financial profiles; and benchmarking exercises.

This issue was also identified by the Efficiency Review (paragraph 14) which highlighted the need for a curriculum-led Estate Strategy.

1.10 In preparing the refreshed Outline Business Case in 2004, the College conducted a high level review of government policy on the provision of educational accommodation. Condition surveys<sup>38</sup> were completed on the fitness for purpose of the two existing properties. The College also gathered information through interviews with senior members of staff on the quality and fitness for purpose of the existing colleges at Brunswick Street and College Square East.

1.11 In November 2003, the Governing Body of the College (then BIFHE) approved an Estates Development Strategy that set out, in broad terms, a vision over the period 2004 to 2029

36 A Public Sector Comparator essentially considers the option of procuring services using traditional public sector procurement methods (a conventional procurement solution) designed to achieve the same output specification as the private sector bids rather than by PFI or another form of PPP.

37 DEL FE Circular 03/04 – FE Estate Strategy

38 Using Royal Institution of Chartered Surveyors best practice

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for four major capital projects, including the Belfast City Centre Project. An update to the strategy paper was approved by the Governing Body in 2005; however it was a broad document, focusing on replacing buildings that the College had identified as substandard with new, purpose-built facilities. For example, there was no analysis to allow for the incorporation of other sites such as Tower Street and Parkmore. The curriculum delivered at those sites, such as Performing Arts, was not considered as part of the City Centre Project even though the need to move had been identified.

- maximising space utilisation and space allocation via timetabling to optimise the efficient use of space and derive full value from the PPP agreement;
- redeveloping curriculum provision and transferring facilities and programmes; as well as
- maximisation of income streams (traditional and new as permitted by Project Agreement) to provide resource to accommodate financial commitments.

1.12 In 2011, the first Estate Strategy for the Belfast Metropolitan College was developed in line with departmental guidance and approved. The Strategy considers a 5-10 year timeframe and provides a link between the curriculums, the College Improvement Plan, the College's financial plans, and considers the opportunities for development and rationalisation. The challenge and opportunity for estate management across the College and in particular at Titanic Quarter, where they are committed to a 25 year PPP deal, will be in maximising benefit realisation through:

### The process of determining the Schedule of Accommodation for the project was not clearly evidenced

1.13 Departmental guidance stipulates that requests for new accommodation will not be considered without a full and detailed analysis across all curriculum areas and facilities and a Schedule of Accommodation that complies with Education and Training Inspectorate (ETI) guidance<sup>39</sup>. As part of this process the College carried out an analysis of space available in the Brunswick Street and College Square East campuses and how that space was being used by curriculum departments<sup>40</sup>. This highlighted a

39 The Department's publication "*Schedule of Accommodation for Colleges of Further Education, 1996*" is a document which provides guidance on determining the Schedule of Accommodation needs. It sets out in detail a College's entitlement to accommodation facilities based on student FTE, and applying a formula based on combining enrolments with taught course hours and teaching, learning accommodation capacities, and utilisation targets. Curriculum spaces across departments in the Further Education sector are determined using the Departmental guidance e.g. the number and area of general classrooms, IT classrooms, science labs etc. These are then used to estimate other accommodation such as central administration, study areas, social areas etc. At the time, and currently, the Department has not specified targets for space utilisation.

40 Due to a lack of management information available, the Institute decided to use a method of calculation based on the "*Management of Space in FE in Wales*" as a template for the calculation of "Space" FTE's, based on counting student numbers present over a fixed time period. However, using fixed values for Frequency and Seat Occupancy (as in the ETI schedule) is likely to result in an over estimation of space requirements.

significant under-utilisation of rooms at both sites, with space being used only 30-35 per cent of the time, against ETI's standard of 70 per cent<sup>41</sup>. Following consultation with the various Heads of Departments and senior staff in the College Square East and Brunswick Street colleges the Schedule of Accommodation allowed for 2,268 Full Time Equivalent (FTE), requiring 17,022 m<sup>2</sup> of accommodation, was agreed and approved by the Department and ETI in October 2007 after contract negotiations had begun (**Appendix 4**).

1.14 Although we were provided with a significant volume of documentation, for example on the calculation of space FTEs, the College was unable to provide a clear audit trail setting out how the accommodation needs of the proposed new city centre campus were determined or the evidence provided to support decisions. In particular, we found little clear contemporaneous evidence of:

- management information reports supporting the number of Full Time Equivalent (FTE) students across curriculum areas;
- clear projected student numbers across each of the curriculum areas/ departments to be delivered at a new campus used in support of the business case; and
- benchmarks or baselines established at approval stages against which delivery could be measured.

1.15 Accommodation requirements were further increased following the appointment of the preferred bidder who struggled to produce a functional design with a 35 per cent Balance Area<sup>42</sup> as set out in the ETI guidance. The College sought and obtained Departmental approval to increase the Balance Area by 50 per cent. This was to allow for a number of factors including building regulations and provision for the Disability Discrimination Act; advances in Information Technology; acoustics; the Low Carbon Design Initiative; the height of the building and internal accommodation; and the mix of workshops to traditional teaching spaces. This resulted in the overall space requirement area increasing from 17,000 to 20,000 m<sup>2</sup>.

### **Project objectives were not clearly defined and lacked baseline information to assess the benefits from the project**

1.16 The College's stated strategic objectives for the project, as contained in the Outline Business Case, are recorded at **Appendix 4**. The decision to proceed with a project should be based on demonstrable business drivers and clear benefits. Project outputs, such as new buildings are not benefits in their own right, nor do they necessarily deliver benefits to the business. In our view, undue attention was given to the delivery of a building, in the strategic objectives,

41 Department for Employment and Learning "Schedule of Accommodation for Colleges of Further Education, 1996"

42 The Balance Area is the floor area provided to enable the building to function e.g. Corridors and other circulation areas; Internal open-sided balconies or similar; Internal structural walls, walls enclosing excluded areas, stairways and stairwells; entrance; foyers etc

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when in practice the benefits to be derived from the Titanic Quarter (TQ) project are largely related to the delivery of the College's business and its customers. To make an accurate assessment of potential project benefits, it is essential to identify them as early as possible in a project and define them in measurable terms. The objectives in our view were not clearly explained or defined, appropriately focused and expressed in "SMART"<sup>43</sup> terms. In addition there were no pre-implementation baselines to assess the benefits from the project. The Department disagrees.

- 1.17 Since 2003, public bodies in Northern Ireland have been required<sup>44</sup> to include a Benefits Realisation Plan in support of business cases. This serves as a management tool to monitor, track and manage the collective set of benefits associated with a project. In June 2005, a Gateway 2 review<sup>45</sup> on the project reported that the business case was "*deficient in terms of Benefits identification, measurement and realisation planning*". It recommended that the project team should initiate preparation of a comprehensive Benefits Realisation Plan. The follow up Gateway 3 review in July 2008 also recommended that the Benefits Realisation Plan should be upgraded to show clear linkages with Government Policy, the overall Belfast Metropolitan

College vision and business objectives as well as the opportunities presented by the new building.

- 1.18 In response to this, the College developed a Benefits Realisation Plan, which it updated during 2010-11. In June 2011, a Gateway 4 review considered its preparation to be comprehensive, providing a sound basis for monitoring and measuring of project benefits through the operational phase. However, while the plans identified benefit factors such as "increased efficiency of operations", we found little evidence that the College established baselines at appropriate points to enable them to measure financial and non-financial outcomes. The final Gateway 5 Review (Benefits Realisation) is due to be completed in 2014 (see paragraph 4.17). In the interim however a first report on benefits was completed in May 2013 (see paragraph 4.18 to 4.20).

43 Specific, Measurable, Agreed, Realistic and Time bounded

44 *The Northern Ireland Practical Guide to the Green Book*: Department of Finance and Personnel 2003

45 The Gateway Review process ensures Projects are reviewed at five key decision points or "Gateways" in their lifecycle – 1. Business Justification; 2. Delivery Strategy; 3. Investment Decision; 4. Readiness for Service; and 5. Benefits Realisation. Reviews are carried out by a small team of experts who are independent of the project. In July 2009 the Comptroller and Auditor General published "A Review of the Gateway process" (NIA 175/08-09).

## Part Two:

The College paid £5 million to sublease the Titanic Quarter site and committed to capital payments of £15 million which it intended to recover from the sale of surplus assets



## Part Two:

The College paid £5 million to sublease the Titanic Quarter site and committed to capital payments of £15 million which it intended to recover from the sale of surplus assets

### Key Findings

- *Two months after the formal appointment of the preferred bidder, the College sought to remove the transfer of surplus properties from the deal, substituting this with a capital contribution of £10 million based on expected proceeds from the sale of the surplus properties;*
- *In order to ensure that the preferred bidder's funding bank was able to fund the debt requirement for the entire project, the College increased its capital contribution from £10 million to £15 million;*
- *In addition, the Department funded an up-front £5 million payment to sublease the Titanic Quarter site which it also intended to claw back from the disposal of surplus assets;*
- *The decline in the property markets has resulted in a large shortfall in the expected receipts to fund the initial capital injections made by the College to the project.*

### Ivywood Colleges Limited was selected as the preferred bidder and proposed the construction of a new campus on a site in the Titanic Quarter

2.1 In July 2006, the Governing Body selected Ivywood Colleges Limited (ICL) as the 'Preferred Bidder', subject to satisfactory clarification on a number of issues. The preferred option (see paragraph 1.7) was for the provision of new facilities on a single site, with the two existing properties potentially being made available to the successful contractor for redevelopment, on the condition that the bidder's financial proposals guaranteed full open market value for the properties<sup>46</sup>. Since planning permission had not yet been approved for the properties, the College sought confirmation that the £10 million valuation in the preferred bidder's

financial model (Brunswick Street £5.9 million; and College Square East £4.1 million) could be "discussed and negotiated". This was accepted by the bidder. On this basis, the College initially agreed to transfer the two sites to ICL. The ICL bid proposed the construction of a new campus on a site in the Titanic Quarter. In October 2006 Ministerial approval for the appointment of ICL as preferred bidder was granted.

### The College decided to remove the surplus properties from the PPP deal and sell them on the open market. Instead, the College committed to a capital contribution of £10 million to the project.

2.2 In December 2006, the College informed ICL that the surplus properties would not be transferred to ICL but sold

46 £3.8 and £5 million for Brunswick Street and College Square East respectively. These values were determined by an independent commercial valuation undertaken in November 2005 by a private sector agent. A corresponding Land and Property Services' valuation put a value on the two properties in June 2005 at £7.5 million.

on the open market when they became surplus. Instead, the College and the Department committed to a capital payment of £10 million to ICL (a "bullet" accelerated debt repayment). It was the intention that the sale proceeds from the disposal of the two surplus assets would fund the project and would be used to offset the cost of the PPP deal, resulting in lower annual unitary payments. In effect, this proposal resulted in the transfer of the risk of movements in property market value back to the public sector from ICL. The Department told us that in 2006 all the indicators were that the value of property was likely only to increase, and that the strategy to sell the two surplus properties on the open

market at the date they become surplus is, in their view, the only defensible way of obtaining open market value, which is what it is charged to do. Whilst the projected sale sums might not be achieved, the Department bore the risk.

2.3

During negotiations with the Preferred Bidder in 2007, land prices in Belfast had been increasing considerably. Valuation of the surplus properties at Brunswick Street and College Square East increased from £8.8 million in 2005 to £22.5 million by December 2007 (**Figure 4**), due both to the sites being awarded planning permission and to significant market growth.

**Figure 4: Valuation of the surplus properties at Brunswick Street and College Square East increased from £8.8 million in 2005 to £22.5 million in 2007 and then fell significantly**

Property Name	Valuation <sup>a</sup>				
	November 2005	November 2006	February 2008	March 2009	April 2010
	£m	£m	£m	£m	£m
Brunswick Street	3.8		13.0	6.0	2.7
College Square East	5.0	6.3 <sup>b</sup>	9.5	4.0	1.9
<b>Total</b>	<b>8.8</b>	<b>-</b>	<b>22.5</b>	<b>10.0<sup>c</sup></b>	<b>4.6</b>

Source: NIAO based on review of documentation

Notes: a) Valuations in November 2005 and November 2006 were independent commercial valuations provided by a private sector agent. Other valuations were provided by Land & Property Services (LPS)

b) The November 2006 valuation reflected planning consents allowing change of use to residential and/or offices along with listed building consents for alterations.

c) LPS valuation at March 2009, ahead of signing agreement was not a formal market valuation; it was an update of the February 2008 valuation and a considered view of an LPS valuer premised on the £10 million value in the financial model rather than an objective valuation of the properties in the prevailing market conditions.

## Part Two:

The College paid £5 million to sub lease the Titanic Quarter site and committed to capital payments of £15 million which it intended to recover from the sale of surplus assets

2.4 With indications of a downturn in the property market in Northern Ireland, the College considered it prudent to value the properties at £15 million (based on a February 2008 valuation) as a basis for deciding the value of its capital contribution to the project. However, as the College was now paying £5 million to sub lease the site (see paragraphs 2.5 to 2.7), it was agreed that the capital contribution to the financial model would be reduced from £15 million to £10 million.

### The Department agreed to fund the £5 million acquisition of the sublease of the Titanic Quarter site

2.5 Under the original proposal, site acquisition costs were to be funded by the bidder over the term of the project agreement (25 years), through the annual unitary charge. A valuation of £3 million was included in the financial model, to cover this acquisition. However, in August 2007, ICL formally requested an increase in the site valuation to £7.7 million<sup>47</sup>. It considered that the impact of removing the surplus properties from the financial model meant that it had lost the opportunity for growth in their value between financial close and the properties being vacated. As a result, it considered that it needed to obtain fair value for the Titanic Quarter site.

Following a meeting with the College, its advisors and representatives from the Department and Strategic Investment Board, ICL revised its position in September 2007, requesting £5 million for the site – an increase of £2 million on the value included in its original bid.

2.6 In considering the decision to accept ICL's revised proposal, the College sought independent legal advice and the view of DFP's Central Procurement Directorate on the risk of a legal challenge from other bidders<sup>48</sup>. The advice was that the chance of a legal challenge being successful was low. The College's advisors also completed an analysis which indicated that, although value for money was reduced by this revised proposal, the Preferred Bidder's bid was still the most economically advantageous.

2.7 In July 2008, the Department proposed that it would make an upfront payment (outside the PPP agreement) for the site, thus avoiding Stamp Duty Land Tax and the double payment of VAT (by the College and ICL)<sup>49</sup>. It was also expected that this would be funded from the sale of surplus properties. The Department considered that there was sufficient slippage on its other capital projects to enable it to make this payment, rather than surrender the money. As part of the overall approval for the project in April 2009, DFP approved the upfront purchase of the

47 Reflecting the recent price agreed with the public sector for the site for the new Public Records Office (NI) in the Titanic Quarter.

48 A key requirement which formed part of the evaluation of the bid was that, where financial close is delayed, only construction costs can increase, in line with appropriate indices.

49 By purchasing the site outside the PPP contract the College avoided Stamp Duty Land Tax (the College qualified as a charitable organisation) and paying VAT on an input to the financial model that would also have incurred VAT.



sublease of the Titanic Quarter site for £5 million (excluding VAT), paid in April 2009.

### The College increased its capital contribution to the project by £5 million when ICL's funder advised that it was unable to fund the Project in its entirety

2.8 In September 2008, just months before signing the PPP agreement, ICL's funding bank advised that, due to the uncertainty in the financial markets at the time, the appetite to provide the entirety of the funding required for the project was significantly reduced. In addition, there were additional interface risks with the Project, due to the fact that there was an underground car park proposed, that sat outside of the Project. This meant that the project risks could not be controlled as tightly as would normally be the case. The funding bank and ICL sought potential co-funders for the project but this was unsuccessful. In order to find a solution to the funding situation, an increase in the public sector capital contribution (a "bullet" accelerated debt repayment) to the project from £10 million to £15 million<sup>50</sup> was negotiated and agreed between the Department and College and ICL. This was then paid in September 2012, one year post-operation of the campus (paragraph 2.2).

### There is a large shortfall in the expected receipts to fund the capital injections made by the College to the project

2.9 As set out in paragraph 2.7, the College paid £5 million for the sublease of the Titanic Quarter site upfront (outside the PPP agreement) split equally between the Belfast Harbour Commissioners and Titanic Quarter Limited. The College's capital contribution under the PPP agreement was a further £15 million (paid over in September 2012). It was intended that the proceeds from the sale of the surplus city centre sites would fund this £20 million commitment. In March 2009 the College obtained a valuation of £10 million for the two surplus properties from Land and Property Services (**Figure 4**). Ahead of contract signature in April 2009, the Department agreed that, in the event of the sale of the properties not realising the full £20 million, it would make up the shortfall. The contract required the payment of the £15m bullet payment by September 2012. The importance of maximising the value and disposing of the surplus properties in advance of that date was acknowledged in the Department's submissions to DFP seeking approval to the arrangements.

2.10 In the event, the bullet payment fell due before the buildings were sold so the Department fully funded the bullet

50 Figure excludes VAT

## Part Two:

The College paid £5 million to sublease the Titanic Quarter site and committed to capital payments of £15 million which it intended to recover from the sale of surplus assets

payment. Once the surplus properties are disposed of the College will pass back to the Department such portion of the proceeds disposal, after deduction of such expenses reasonably incurred in their disposal.

- 2.11 Neither of the properties has yet been sold. Any income from the sale of these assets will fall significantly short of covering the total £20 million capital contributions made by the public sector - £5 million sublease acquisition paid at contract signature in April 2009 and the £15 million capital payment made in September 2012. To date, approximately £310,000 has been spent preparing the College Square East and Brunswick Street sites for disposal. Costs include resolution of covenant and site access issues, obtaining planning permission for the sites, and marketing and agent's fees. In addition the cost to September 2013 of maintaining and securing the sites since the Titanic Campus was opened in 2011 has been £770,000.

## Part Three:

There were significant delays because of issues that arose after the appointment of the Preferred Bidder which had an adverse impact on the project's value for money



## Part Three:

There were significant delays because of issues that arose after the appointment of the Preferred Bidder which had an adverse impact on the project's value for money

### Key Findings

- *There were unresolved issues with the proposals contained in the bid submitted by the preferred bidder;*
- *Leasing arrangements for the site at Titanic Quarter were complex and were not finalised until two years after the appointment of the preferred bidder;*
- *An arrangement was negotiated with the preferred bidder that they would absorb the cost of building and running an underground sub-basement car park;*
- *Value for Money eroded during Preferred Bidder stage.*

### ICL was appointed as the preferred bidder following a bid evaluation process

- 3.1 Appointment of a preferred bidder is the final stage in the procurement process before financial close and contract signature. It follows a process of selection that formally began when the College issued an OJEU<sup>52</sup> Contract Notice, seeking expressions of interest, and the receipt and evaluation of bids. While four of the five bidders were shortlisted, two bidders withdrew from the process after Invitations to Negotiate were issued.
- 3.2 The remaining two bidders submitted their bids in March 2006 and entered the bid development phase, during which the College conducted bidder liaison meetings. Through this process all parties had the opportunity to seek clarification on the detail of the Invitation to Negotiate documents and bids.

Both bids were then evaluated against pre-determined criteria set by the College. In July 2006 an overall 'Bid Evaluation Summary Report' was presented to the Governing Body, recommending ICL as the Preferred Bidder. The ICL bid proposed an alternative site at Titanic Quarter, while the other remaining bid<sup>53</sup> proposed the redevelopment of the Brunswick Street site.

- 3.3 The Governing Body awarded ICL 'Preferred Bidder' status, in July 2006<sup>54</sup>, subject to satisfactory clarification on a number of issues. These included issues such as: site infrastructure; alternative car parking provision; bus transportation; maintenance and lifecycle costs; and capital contributions from surplus properties. The College appointed the remaining bidder as "reserve bidder" for a period of six months following ICL's appointment as preferred bidder in October 2006.

52 The Official Journal of the European Union (OJEU) is the gazette of record for the European Union (EU). This is the publication in which all tenders from the public sector which are valued above a certain financial threshold according to EU legislation, must be published.

53 The reserve bid was from Belfast Education Partnership

54 Ministerial approval was granted four months later in October 2006

## The proposed deal changed after the preferred bidder had been appointed and negotiations delayed contract signature by three years

- 3.4 Generally, the ideal time to appoint a preferred bidder is when there is little risk that the finalisation of contract terms details, due diligence and funding arrangements (and, when required, negotiations with employees and/or detailed planning clearance or other statutory consents) will lead to any material change to the proposed deal. In this respect it is important that the bid evaluation process is a well-defined and open and transparent process to ensure full disclosure of all factors relevant to the contract. While certain elements of the contract will always remain to be negotiated in the period between appointment of the preferred bidder and financial close, it is important that a potential preferred bidder accepts, and the price reflects, the key contractual terms that form the basis of the agreement between the parties.
- 3.5 In our view, there were key issues with the preferred option (a new site on the Titanic Quarter in Belfast) such as: leasing arrangements; unresolved planning requirements; and funding for car parking, which should have been clarified and the associated risks and

impacts assessed before the appointment of the preferred bidder. Potential risks could have been mitigated and managed by the College during the preferred bidder process rather than after their appointment. We consider that many of the issues that arose later in the process could, and should, have been avoided if the suitability of the Titanic Quarter site had been more rigorously assessed. These issues caused significant delay (a total negotiation time of 30 months) and fundamental changes to the Preferred Bidder's original proposals including funding (**Figure 5**). Delays inevitably have a cost implication and may adversely affect the value for money assessment.

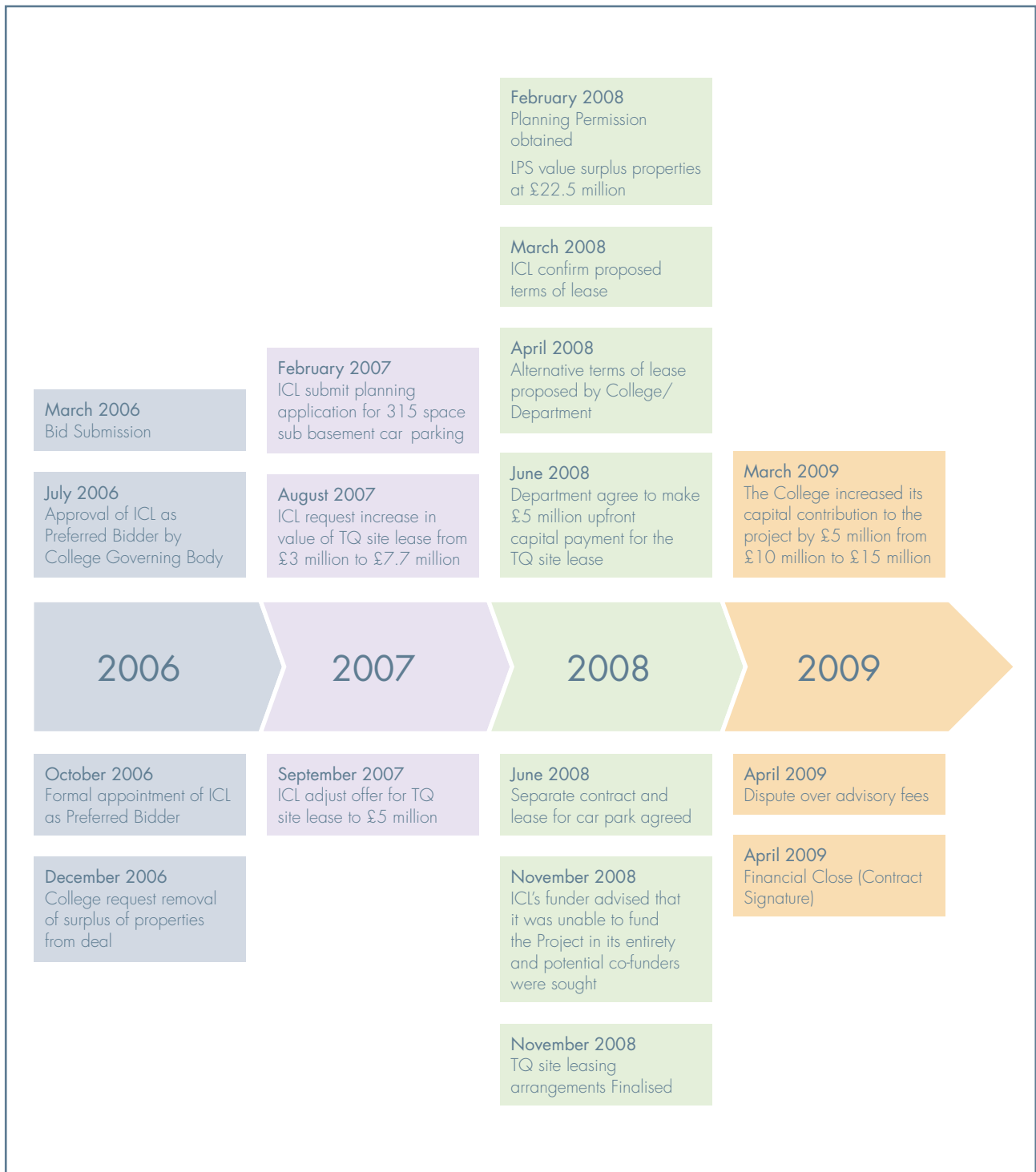
## Leasing arrangements for the site at Titanic Quarter are complex and were not finalised until two years after the appointment of the preferred bidder

- 3.6 The leasing arrangements for the Titanic Quarter site were complex due to the number and relationship of the parties involved, i.e. the College, ICL, the Belfast Harbour Commissioners (BHC) and Titanic Quarter Limited (TQL) (**Figure 6 and Appendix 5**). The ICL bid in March 2006 set out a proposed leasing structure and indicated that these were still under negotiation. BHC's

## Part Three:

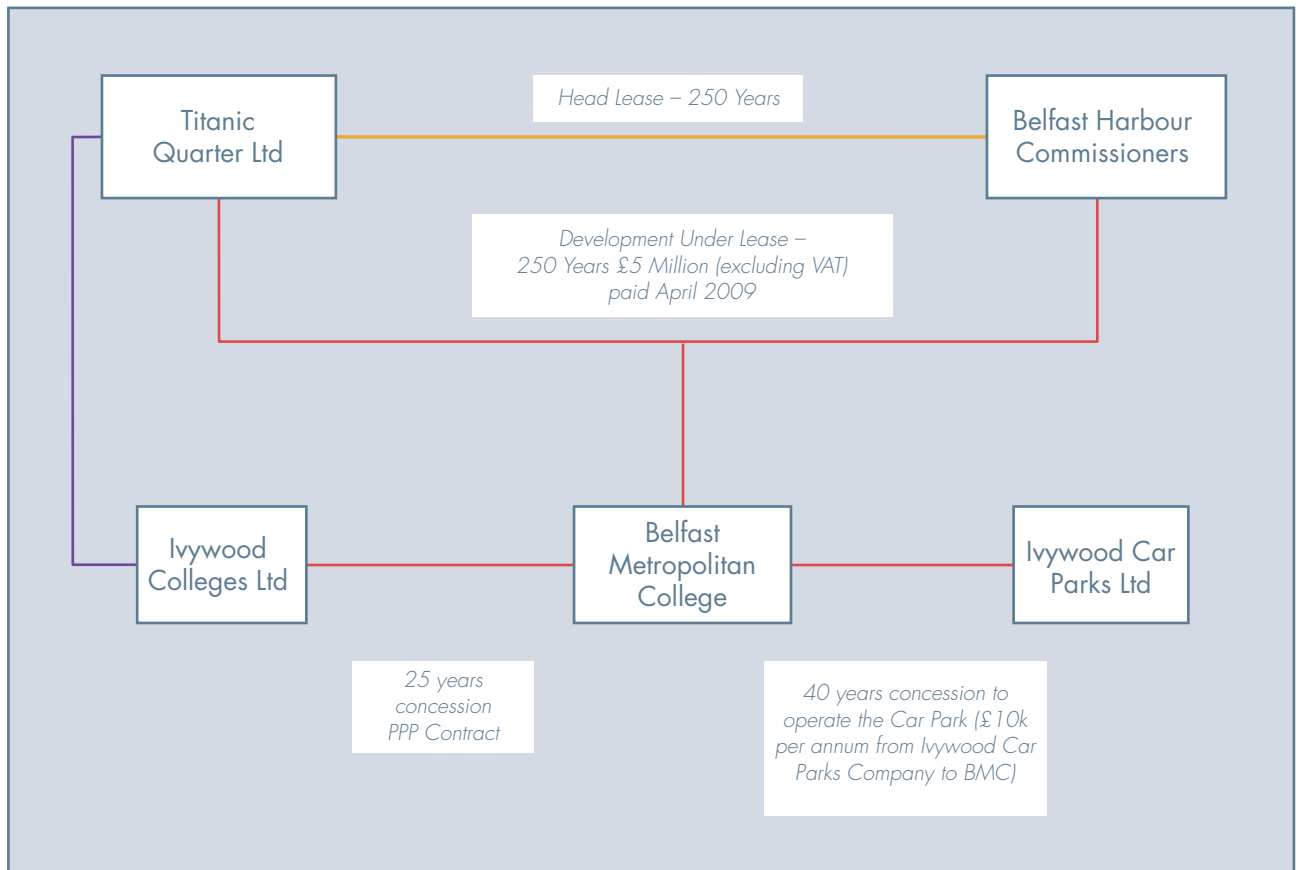
There were significant delays because of issues that arose after the appointment of the preferred bidder which had an adverse impact on the project's value for money

**Figure 5: Negotiations on the terms of the Agreement took nearly three years**



Source: NIAO based on Belfast Metropolitan College papers

Figure 6: Lease arrangements agreed for Titanic Quarter campus site



Source: Belfast Metropolitan College

position from March 2006 was that the lease would be granted for a specific "educational use". The Department told us that they only became aware of these issues in November 2007. The leasing issues were resolved and approved by the College's Governing Body in November 2008. BHC is the freeholder and leased the site to TQL under a 250 year lease. TQL subleased the site to the College, for 250 years, who in turn paid a premium of £5 million for the lease (£2.5 million each to BHC and TQL). The College

then sublet the car park to Ivywood Car Parks Limited for 40 years. This was a major factor which contributed to financial close being delayed until April 2009, undermined the whole process, and could have put the whole project in jeopardy. In our view, the status of the lease should have been clarified as part of the bid evaluation process. The Department does not accept this view as it is of the opinion that getting the various parties to engage in detailed discussions, involving expensive legal teams, would not have happened until

## Part Three:

There were significant delays because of issues that arose after the appointment of the preferred bidder which had an adverse impact on the project's value for money

here was the real prospect of a contract being signed, and this would only have occurred post preferred bidder stage.

### The preferred bidder's proposals for the provision of car parking at the Titanic site were revised after their appointment

3.7 As part of the procurement process, bidders must demonstrate a strong case for the deliverability of their planning proposals and that they had adequately addressed all specific site issues, with appropriate mitigating actions prepared. The Invitation to Tender issued to bidders, in August 2005, set out the College's user requirements for 12 car parking spaces, based on the facility being in the City Centre<sup>55</sup>. Whilst the bidding process enabled bidders to propose their own site, this option was to be supported with the bidders' evaluation of the site's suitability.

3.8 The bid submitted by ICL in March 2006 and carried into the preferred bidder stage, proposed a Titanic Quarter site and provision for 568 surface car parking spaces as follows:

- 18 spaces for the mandatory bid;
- 250 spaces adjacent to the new building (for first 10 years); and
- 300 spaces at the Odyssey car park secured at discounted rate for College users.

The Department told us that they clarified with the Planning Service that ICL's bid proposal was deliverable. Prior to appointing ICL as preferred bidder the College considered an alternative car parking provision proposal from them (sub-basement car park) but decided to proceed on the basis of the proposals contained in the original bid submission. ICL decided post tender evaluation that they did not wish to proceed with their tendered proposal. The Department told us that they could not have predicted this.

3.9 In February 2007, four months after its formal appointment as Preferred Bidder, ICL submitted a planning application for a 315 space sub-basement car park removing the adjacent car parking that had been included in the original bid. The need for car parking was a condition of Planning Service approval. However, it was considered that the cost of meeting the planning requirement had "the potential to break the deal". Negotiations between the College and ICL to resolve the issue were extremely difficult and complex and was another factor contributing to the delays in the delivery of the new campus at Titanic Quarter. This also meant that there were additional interface risks with the project, due to the fact that the sub-basement car park sat outside of the project (paragraph 2.8).

3.10 The issue was finally resolved in June 2008 when the College entered into an agreement with a company connected to ICL - Ivywood Car Parks Limited – which

<sup>55</sup> Planning policy for the area of central Belfast designated under the Belfast Metropolitan Area Plan restricted the level of car parking to be provided for public buildings.



would see the company construct, at its own cost (£5.3 million), a sub-basement car park which it is entitled to operate for 40 years to gain a satisfactory return for its investment, after which it reverts to the College at no cost. Under this contract, which is separate to the PPP contract, the College is entitled to income of £10,000 each year<sup>56</sup>. Furthermore, to protect the public sector from the operator making 'super-profits', a profit share deal was agreed with the College.

- 3.11 Planning risks associated with the new site at the Titanic Quarter were allocated to the contractor, so there should have been no additional risk or cost to the public sector. While ICL's bid stated that sub-basement car parking was a likely requirement for development at the Titanic Quarter site, it was not part of its costed base bid. Before appointment as preferred bidder, ICL asked if the College could subsidise a portion of the cost of a sub-basement car park. However the College declined. The College told us that, apart from the fact that the preferred bidder had accepted planning risk in their initial bid offer, under the applicable rules of (European) procurement it did not have the authority to decide to subsidise car parking.
- 3.12 Whilst we accept that testing of the site with regards planning approvals was at the contractor's risk, in our view, the College should have ensured that the contractor understood and was prepared to deal with the responsibility of that risk. In addition, whilst the risk of planning

may be transferred there is still the need to robustly manage any potential or actual risks to the deliverability of the project if proposals are amended, or likely after preferred bidder stage. Planning Service approval was granted within 12 months of submission. However the negotiation and resolution of issues, by the College and ICL, linked to planning and the provision of car parking at the site such as leases, contracts, and funding took over two years to resolve.

### Value for money eroded during negotiations with ICL as preferred bidder

- 3.13 The College appointed the second bidder as reserve for six months (paragraph 3.3). The aim of this appointment was to help retain competitive tension in the PPP project. However, the effectiveness of this strategy is likely to diminish with the passage of time, particularly if a deal is perceived as suffering from endless negotiating drift. This will usually result in the reserve bidders, or other shortlisted candidates, losing interest in the project and thus no longer providing a credible negotiating alternative. Value for money is most at risk during the final stage of negotiations with a single, preferred bidder, after the competitive process has finished. Negotiations with ICL to financial close extended to 30 months, considerably in excess of the 12 months envisaged in the business case. This is

## Part Three:

There were significant delays because of issues that arose after the appointment of the preferred bidder which had an adverse impact on the project's value for money

also considerably longer than is normally expected for this stage e.g. in its report *Improving the PFI Tendering Process* (2007) the National Audit Office found that the average for projects in England was 15 months<sup>57</sup>.

3.14 As discussed in paragraph 1.8, the College constructed two financial models - a Public Sector Comparator and a Shadow Bid Model - to measure the value for money of the deal against an appropriate benchmark at the Outline Business Case stage. **Figure 7** sets out the value for money analysis comparing the position at the appointment of the preferred bidder against that at Financial Close<sup>58</sup>. The value for money expected from the delivery of the project using PPP eroded during preferred bidder negotiation phase (**Appendix 6**):

- an expected 11.4 per cent value for money margin at the time of the appointment of ICL against the Shadow Bid Model had reduced to 3.2 per cent at financial close in 2009; and
- at Financial Close the gap between the ICL bid and the Public Sector Comparator was marginal (-1 per cent in March 2009 and 0.9 per cent in April 2009).

3.15 After preferred bidder appointment a number of material changes to the bid took place, for example: the car parking issue; the increase in the value of the site at the Titanic Quarter; and the College's decision to retain surplus assets and sell

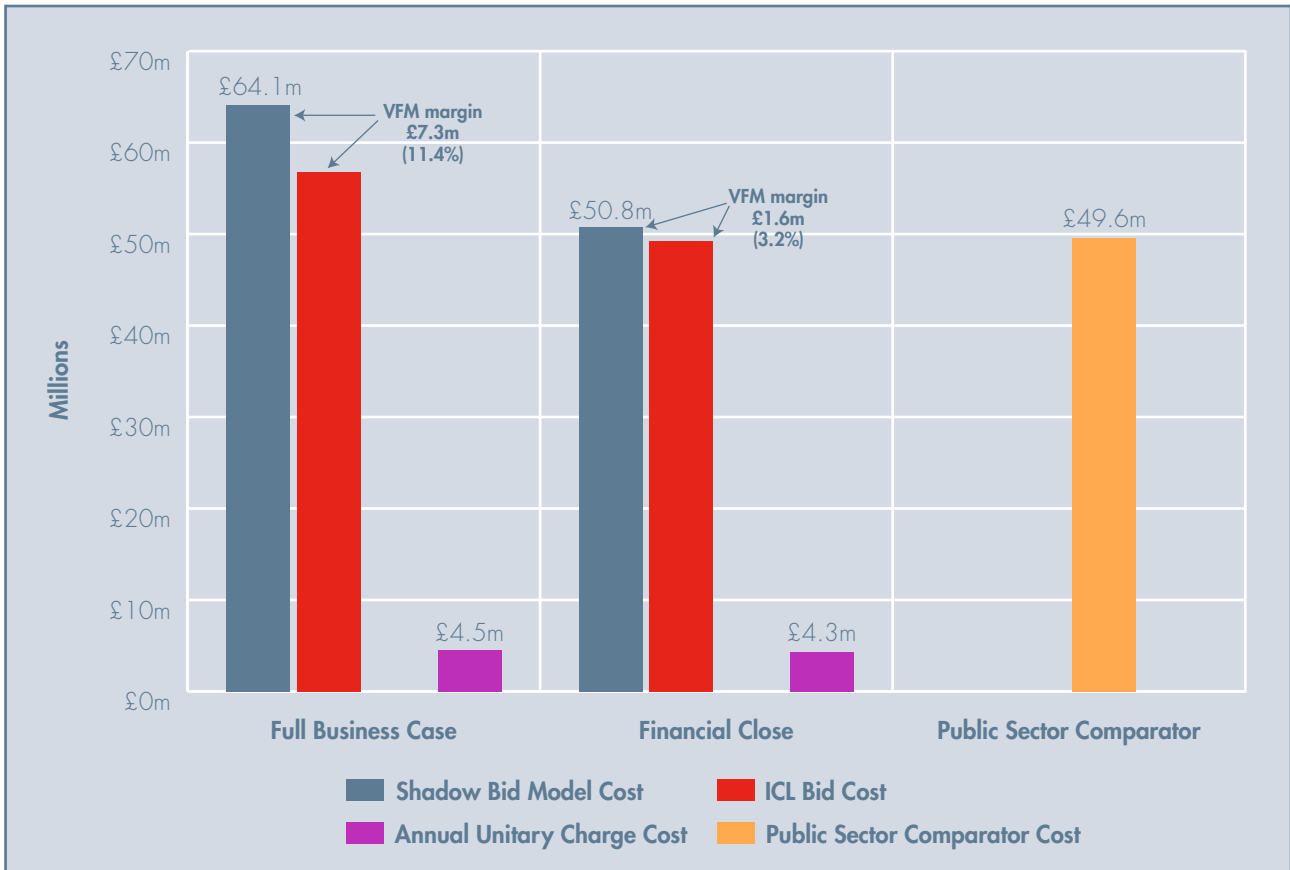
them on the open market. Guidance on the effective management of a PPP process indicates that, if at any point, an assessment suggests that the VFM case is being eroded, the project team must consider whether the PPP procurement should continue or be halted. VFM assessments were made at September 2008 and March 2009 and a Public Sector Comparator was constructed prior to contract signing (March 2009 and April 2009) which showed an estimated saving of -1 per cent and 0.9 per cent respectively (**Appendix 6**).

3.16 In July 2007, around the time of the discussions over the value of the Titanic Quarter site (paragraph 2.5), ICL had threatened to walk away from the process. The College's view at that time was that: it had two properties that were not fit for purpose; did not meet the standards for the delivery of a modern curriculum; were at risk from Statutory Compliance challenges; and would require substantial investment to meet even minimum standards. In addition, while the offer that ICL had on the table, to replace them, was proving difficult to get to contractual closure, that offer still provided the best prospects of achieving a value for money replacement strategy. To abandon the process before all potential was exhausted and lose all that had been invested in it to that time was not considered the best option.

57 NAO Report: *Improving the PFI tendering process*: March 2007 HC 149 2006-2007

58 In order to ensure consistency in the comparison of Net Present Values, the base date that has been used to calculate the values presented is 1 January 2007

Figure 7: Value for Money eroded during preferred bidder stage (stated at January 2007 prices)

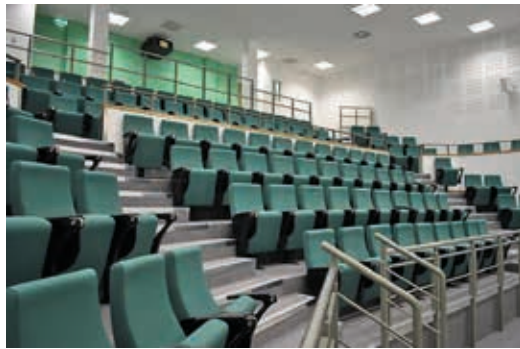


Source: Adapted by NIAO from Belfast Metropolitan College VFM Affordability Analysis June 2009



## Part Four:

Weaknesses in project management arrangements were improved as the project moved into operational phase



## Part Four:

Weaknesses in project management arrangements were improved as the project moved into operational phase

### Key Findings

- *There were numerous and significant failures in meeting key Project Milestones;*
- *All aspects of the final contract costs – capital, lifecycle, and facilities management - were below contract signing figures.*
- *The College has calculated the overall cost of the project to service commencement but cannot make a final VFM assessment until the surplus properties are sold;*
- *The Information Technology for the new College was provided through framework agreements at an additional cost of £5 million;*
- *There have been delays in agreeing invoice deductions and the re-run of the Financial Model to take account of any post-signing contract variations.*

### A clear and realistic timetable for tendering was not put in place and there were significant and numerous failures to meet project milestones

4.1 As highlighted by the Public Accounts Committee report<sup>59</sup> and the Comptroller and Auditor General's report on Shared Services,<sup>60</sup> the development and management of a challenging yet realistic procurement and implementation timetable for a project is a key factor in its successful delivery. It is also important that public bodies have a well resourced project team in place with a robust and realistic procurement process. Whilst changes to timetables are inevitable, good project management should ensure that a realistic timetable is agreed at the outset and that changes are minimised. **Appendix 7** provides an analysis of project time lag from the publication of the OJEU contract notice which shows a three year slippage from the projected date for Financial Close included in the

2004 Outline Business Case. However, whilst there were significant delays following the appointment of ICL as the preferred bidder, after the agreement was signed in April 2009, the College and ICL met their targeted service commencement date enabling the new campus to open by August 2011.

4.2 We found that timetables produced for the delivery of the new campus were unrealistic and subject to constant change. For example:

- the time taken from the Invitation to Negotiate to the evaluation of tenders was estimated to be four months. It took 11 months;
- a key milestone included in the 2004 and 2007 Business Cases was for the College to reach financial close 12 months following the appointment of the preferred bidder. This process took 30 months; and

59 Public Accounts Committee printed 11 December 2008: *Report on Shared Services for Efficiency – A Progress Report*: Report: 21/08/09R

60 NIAO Report: *Shared Services for Efficiency – A Progress Report*: 24 July 2008

- construction of the new campus was completed 39 months later than originally estimated.

4.3 The repeated failure to meet project milestones is indicative of poor identification, assessment and mitigation of risks, and weaknesses in project management. It is difficult to make sound decisions in such an environment. While the timetable was constantly revised and deadlines missed, we found little evidence of concerns being raised by the College or the Department, or of real pressure being applied to achieve timetabled dates.

### There were weaknesses in the governance arrangements supporting the project

4.4 The 2009 Efficiency Review (paragraph 14) found that whilst *"it was evident that the Governing Body did spend significant time and resource on the TQ project, there were shortcomings in terms of the underlying governance arrangements"*. The College's Internal Auditors also identified similar weaknesses in the governance structures operating and supporting the management of capital projects<sup>61</sup>.

4.5 Details of the management and governance arrangements in place for the project are at **Appendix 8**. Key

roles in the successful delivery of major projects include that of the Senior Responsible Owner, who has overall responsibility and accountability for delivering the business objectives and realisation of business benefits of the project. The Department's role is to manage the approval process and to act as the overall project Investment Decision Maker<sup>62</sup>. In this case the Investment Decision Maker formed part of the Project Board and was responsible for approving investment in the project at a strategic level and ensuring that the decision to invest and the successful delivery of the project met the Department's overarching strategic objectives.

4.6 As the key decision maker, the Senior Responsible Owner (the Director/Chief Executive of the College) must ensure that appropriate Project Management skills and experience are in place. For these reasons it is important that, as far as possible, there is continuity throughout the duration of the project or programme. However, there were many changes in the College's senior management team and Capital Project Board within the later stages of the project (**Appendix 8**). Most notably, due to sick leave and retirements, in the year leading to the finalisation of the contract, there were three different Senior Responsible Owners. The Project Sponsor also retired.

61 An Internal Audit review in 2006 provided Capital Projects a "Full Assurance" rating in 2006. However, in 2009 an Internal Audit review of the arrangements for the Management of Capital Projects gave an "Unacceptable" assurance rating. After two follow-up reviews of issues raised in the internal audit review to ascertain the level of work performed by the College in response to internal audit recommendations, the assurance rating was revised to "Satisfactory" in 2010.

62 Responsibility of the Grade 7 in the Department's Further Education Estates Branch.

## Part Four:

### Weaknesses in project management arrangements were improved as the project moved into operational phase

- 4.7 Whilst a risk register and issues logs had been established in 2005, this was not comprehensive. Indeed a 2005 Gateway Review recommended that *"a more comprehensive risk management approach would greatly enhance the potential for success and provide greater reassurance to the Board and Department"*. Concerns remained at the next Gateway Review in 2008. However, after the agreement was signed in 2009, there were significant improvements and a 2011 Gateway Review found the current risk management arrangements to be fit for purpose.
- 4.8 We found that the audit trail supporting identification of issues and assessment of associated risks was weak. It is imperative that appropriate supporting information is made available to decision-makers and that this is documented and retained, together with evidence of the decisions taken. Without such evidence it is difficult to assess whether decisions are based on complete accurate and timely information or that they were subject to sufficient challenge. As set out in Parts Two and Three there were clear risks to the delivery of the project including: leasing arrangements; planning requirements for the site<sup>63</sup>; car-parking provision; the continued viability of the equity partners; and keeping the bid alive. During our audit we found little clear evidence that such issues and their associated risk had been clearly identified, with their potential impact on the project assessed and recorded and contingencies fully documented.
- The College failed to adequately manage the consultancy contract<sup>64</sup> putting the project completion in jeopardy**
- 4.9 Following original approval of the project in 2001 (paragraph 1.4) the College identified the need for technical and professional assistance during procurement. The Department agreed to fund 90 per cent of the cost of fees. In June 2002, a three-year contract was awarded to a consortium of advisors, for a fee capped at £300,000<sup>65</sup>. The terms included an option to extend for a further two years on an annual basis, which would enable the contract to potentially run until June 2007.
- 4.10 We found little evidence that procurement costs incurred by the College internally or by their appointed advisors were monitored or adequately controlled. Regular and detailed invoices for lead advisor fees were not provided during the project. The consultancy contract was extended significantly with no formal process in place for renewing, extending or re-letting contracts to cover the additional time period. As a result, the consultancy

63 Planning Service approval was granted in February 2008 - within 12 months of date of application.

64 The C&AG has already expressed concern at the large contract overruns and qualified his opinion on the College accounts for both 2007-08 and 2008-09 based on the irregular expenditure on consultancy fees. The issue has also been included in the C&AGs General Reports of 2009 and 2010. NIAO also reported on the excessive use of consultants in 2004.

65 The consortium of advisors included project managers, legal advice and financial advice. This was a fixed price contract but did allow for legitimate variations not of the advisors making.



project was allowed to exceed budgeted costs by significant margins.

- 4.11 In December 2008, three months before contract signature, the College's advisors told the College that the final cost of the consultancy advice was likely to be in the region of £2.2 million. The contract agreement relied upon funding from the Department and the issue threatened to derail the project as the dispute over the fees escalated to the point where the advisors would not proceed to project close until they had confirmation, in the form of an undertaking from the College, that issues were resolved and payment would be made.
- 4.12 The consultancy contract was terminated after the project contract was signed in April 2009. Through a detailed examination, and negotiation, the College and the Department agreed to pay fees to the consortium of advisors up to £1.5 million<sup>66</sup>. The Department completed a detailed review and produced a report outlining a number of recommendations for engaging consultants in the future including: the appointment of internal project management; the use of a standardised contract; and implementation of clear cost control measures.

### **As the project moved into the operational phase the governance and contract management arrangements improved enabling the project to be delivered on time, within the final budget, and to specified quality**

- 4.13 Ahead of the construction phase of the project, the College took the decision to stand down the external advisors and all contractual matters were managed internally by the Head of Estate and Facilities Management. We found that, following contract signature in April 2009, the pre-operational stage of the project (up to the delivery and transfer of the building in August 2011) was well managed and targeted service commencement milestones were met, enabling the project to be delivered on time, within the final budget and to specified quality. This was a significant turnaround from the position in July 2008 and reflects: a focused approach to project and contract management; a working Project Board and Project Team; communications and stakeholder engagement. This was reflected in a delivery confidence assessment of "Amber/Green" in June 2011 as part of the Gateway 4 (Readiness for Service) review. A number of keys to the successful management of the construction phase have been included at **Appendix 9**.

<sup>66</sup> In 2007-08 and 2008-09 the accounts of the College were qualified in respect of advisory fees.

## Part Four:

### Weaknesses in project management arrangements were improved as the project moved into operational phase

4.14 A Titanic Quarter Project Board superseded the Capital Projects Board in 2009 and the Head of Estate and Facilities Management, who managed the construction phase, remained as Project Sponsor. Arrangements are now in place to ensure that service levels contained in the contract meet business requirements and a full time Contract Manager has been appointed. A Liaison Committee Group has been set up, with representatives from both the College and ICL. The College also developed a good practice guide to act as an operational manual for the Contract Management team and this was published in October 2013.

#### **The first report on progress against the Benefits Realisation Plan was completed in May 2013 but an evaluation of the success of the project's procurement has not yet been finalised**

4.15 Departments are required to conduct project evaluations<sup>67</sup> and collect and communicate relevant lessons learned. The results obtained should generally lead to recommendations for the future and efforts should be made to disseminate results widely. For example, changes in procurement practice, improvements to methods for estimating costs or benefits, changes to management procedures, or the continuation, modification or replacement of a project.

4.16 To date an evaluation of the project's procurement stage has not yet been finalised and approved by the Department or DFP. Such a review should evaluate the success of the process and examine areas such as: the staffing for the procurement; the quality of the support provided by the external advisers; the value for money of the fees paid; the construction phase; and any lessons emerging for wider learning. The Department told us that a Post Project Evaluation has been completed which it is assessing prior to submission to DFP. The College ran a workshop in early September 2013 including a complete review of the procurement stage. This was chaired by an experienced person not associated with the delivery of the project.

4.17 The Titanic Quarter Project Team and Project Board agreed that a 12 month period of service was required before the benefits attributable to the project could be fully and effectively evaluated. This will be completed as part of the final Gateway review (Gate 5 – Benefits Realisation), which was initially scheduled for completion in April 2013. The College explained that a Gateway 5 review has not yet been completed because it was awaiting the final re-run of the financial model (paragraph 4.31).

4.18 In the interim, the College completed a "TQ Post Project Evaluation" report in May 2013. This provided an update on progress after the first year of operation, against performance

<sup>67</sup> In accordance with the Post Review section of the Successful Delivery (NI) website and PRINCE2 procedures evaluations should be conducted in two stages: Firstly a Project Evaluation Review (PER) assessing management effectiveness, conducted at project closure this should result in an End Project Report and a Lessons Learned Report; Secondly a Post Project Evaluation (PPE) compares outturn against estimated costs and benefits, and generally reviews success in achieving objectives - conducted within 12 months.

indicators in the Benefits Realisation Plan. It is clear that it will take a number of years for the campus to achieve the desired level of impact across all the performance indicators.

4.19 Although completed in the very early operational stage of the Titanic Quarter campus, the evaluation found that it was operating effectively and that significant progress had been being made against the performance indicators, especially in terms of meeting the needs of its customers and stakeholders such as:

- enhanced public image;
- strengthening external partnerships;
- enhanced student and staff morale;
- improved learning environment; and
- enhanced student experience

4.20 The 2013 report noted a number of lessons learned from this project which the Department and College have acknowledged. These mirror our findings. The principal lessons learned by the College with regard to the delivery of new campus, and the creation and management of a PPP contract specifically, are at **Figure 8** below. It also noted a number of actions, which if undertaken, would deliver increased benefits, including the on-going monitoring and updating of the Titanic Quarter Benefits Realisation Plan.

#### Figure 8: Lessons learned from Titanic Quarter PPP project

- The need for strong effective project management, underpinned by effective, fit for purpose governance structures, which will result in a comprehensive audit trail;
- The need for careful management of project advisors, supported by appropriate contract terms;
- The importance of creating a project team, which includes individuals with direct experience of developing, delivering and managing PPP projects;
- The financial and operational benefits of designing a workable deductions model within the PPP contract, which incentivises the resolution of issues as quickly as possible; and
- The retention of the project team, from the development and delivery phases, through to that relating to the management of the project.

Source: Belfast Metropolitan College

#### The total cost of the overall project is likely to be in excess of £70 million

4.21 Over the period of the contract (25 years after construction) the College calculates that £211 million in cash terms (£49 million in Net Present Value terms) will be paid to ICL, including £15 million capital bullet payment made in September 2012, one year after hand

## Part Four:

### Weaknesses in project management arrangements were improved as the project moved into operational phase

over (paragraph 2.9). In addition, significant expenditure has been incurred outside of the PPP contract in order to deliver the new campus:

- in the first ten years, the College is committed to an estimated £5 million costs for IT, multimedia, and telephony (paragraph 4.26);
- £5 million site lease acquisition fee (excluding VAT) paid in April 2009 (paragraph 2.7);
- £0.3 million expenditure on maximising the value of the two campuses at Brunswick Street and College Square East such as: covenant buy-out clause, planning applications and renewals, and marketing costs (paragraph 2.11);
- £0.8 million costs of maintaining these two buildings which are now surplus assets (paragraph 2.11);
- consultancy and advisory costs of £1.8 million (paragraph 4.12); and
- internal costs of the project incurred by both the College and the Department (not available).

4.22 Whilst the project financial model of the ICL bid, at contract signature in April 2009, showed a Net Present Cost of approximately £49 million (**Appendix 6**), based on this additional expenditure, and the potential shortfall in receipts due to a reduction in the value of surplus

assets, the total project cost is estimated at approximately £70 million<sup>68</sup>. All of these costs must be considered if a full value for money assessment of the total project is to be made. Any project value for money and affordability considerations must consider all costs rather than focusing on budgets and funding streams. Previous Gateway Reviews - in July 2008 and in June 2011 – recommended that a complete refresh of the Full Business Case in the light of all the changes that have taken place since 2007 was needed to provide a comprehensive picture of the project. The Department and the College have not yet finalised an update to the Business Case as recommended in the Gateway Review as it is awaiting the final re-run of the financial model and the final sale values for College Square East and Brunswick Street (paragraph 4.31).

### The Information Technology for the new College in the Titanic Quarter was provided through framework agreements at an additional cost of £5 million over the next ten years<sup>69</sup>

4.23 In line with guidance<sup>70</sup>, the College did not include the provision of Information Technology (IT) in the PPP project agreement for the Titanic Quarter. The provision of this equipment, including multimedia and telephony, outside of the PPP contract, was however a key issue as it affected the contractor's building schedule and ultimately the availability

68 Downward revisions in surplus asset values increases the net present cost of the project. Surplus asset values have fallen from an assumed £15 million at financial close in April 2009.

69 Net Present Cost at 2011

70 2003 HM Treasury document "PFI: Meeting the investment challenge" - the PFI procurement route is not considered to be appropriate for individually procured projects with capital expenditure under £20 million or for IT/ICT procurements.

of the building. Consequently, its timely procurement was considered to be "Critical" on the Risk Register.

- 4.24 However a formal separate business case for this equipment was not submitted to the Department until April 2011, four months before the handover of the new building. This was approved by the Department the following month noting that Central Procurement Directorate would support the project and provide procurement advice. The planning, preparation, and completion of the business case was delayed due to deficiencies in management and leadership within the College as well as issues with key skills and resources. During this period the College was implementing a College-wide efficiency review and recovery plan (paragraph 14). No permanent qualified accountants or personnel with experience in the completion of large business cases were in place in the College to oversee this project prior to February 2011.
- 4.25 Separate DFP approval was required for the expenditure as the IT procurement exceeded departmental delegations and was outside the Titanic Quarter PPP agreement. Although the Department did consult DFP in May 2011, DFP's advice was not acted upon and its approval was not sought. We queried this and as a result the Department applied for, and was granted, retrospective approval by DFP in November 2012. DFP noted that its

experience of this project indicated that the systems, whereby the Department satisfies itself that appropriate approval requirements are identified and approvals then sought, had been inadequate.

- 4.26 Given time constraints and the risk to the availability of the building it was decided where possible, to utilise current Government procurement frameworks to minimise the procurement time-frame. The estimated capital cost of all IT equipment, including multimedia and telephony for Titanic Quarter, was £5.2 million over ten years - £2.9 million in the first year 2010-11 with a refresh of hardware items in years 2, 5 and 7. In addition, support and maintenance costs totalling £1.6 million were estimated over the ten year lifecycle. The College told us that actual spend came in under estimates to provide a cost over 10 years in NPV terms of £4.9 million.
- 4.27 In order to meet these costs financial support of £2 million was provided by the Department. At this time the College was implementing a recovery plan aimed at ensuring its longer term financial stability. As part of that process there was a short-term cash requirement that required an injection of working capital. The Southern Regional College made available the use of surplus reserves to a value of £2 million to help the College support the implementation of its recovery plan. The remainder of the capital expenditure and associated resource costs are being met by BMC

## Part Four:

Weaknesses in project management arrangements were improved as the project moved into operational phase

from College reserves. This is considered affordable by the College. The TQ Project Team worked with ICL and IT suppliers to ensure that the equipment was installed in time for the College opening.

### The College has experienced difficulties agreeing unitary payments and deductions

4.28 In a conventional procurement project, capital would be funded up front by the Department and the building is maintained by the College. However, in PPP arrangements these charges are combined into a unitary charge which includes facilities management services such as security, cleaning, grounds maintenance etc. Currently the Department meets approximately 65 per cent of the monthly Unitary Charge, approximately £470,000 including VAT (£5.6 million a year<sup>71</sup>). This reflects the capital cost that the Department would have funded in a conventionally procured project. The Department told us that payment mechanism negotiations seek to achieve a balance between bankability, cost and incentivisation to deliver good performance. While deductions may initially appear low there are also ratchet mechanisms, step in powers and ultimately contract termination powers which penalise persistent poor performance.

4.29 Whilst relationships and arrangements are in place at the operational level between the College and ICL staff,

there have been difficulties in agreeing invoices, and performance standards. Since the first invoice was issued in September 2011 the College's Contract Manager has identified and made a number of deductions each month from the unitary charge. The College told us that up to November 2013 £106,000 deductions had been accrued. This figure represents half the deductions proposed and is likely to increase significantly when the final figures for 2011-12 and 2012-13 are agreed. The College is escalating the issue in line with the terms in the contract but as at December 2013 all deductions had not yet been agreed. The College commenced a process with ICL to address these outstanding deductions and the August 2011 deductions have now been agreed. The College is currently in the process of agreeing September 2011 and all remaining deductions.

4.30 A key finding from the College's Lessons Learned report (paragraph 4.20 and Figure 8) was the requirement to fully assess the practical application of the deductions model on the operation of the contract. The deductions model allows for initial issues to be noted with small penalties, which seek to encourage the provider to address these as soon as possible. However in practical terms the escalation procedures within the contract are not sufficiently punitive to force issues to ensure their timely resolution. Indeed, in some cases it costs the contractor less for non provision of a service.

71 The Unitary Charge payment is split between the College (£1.94 million) and the Department (£3.66 million)

4.31 Following hand-over to the College the contractor was required to re-run the financial model to take account of any post-signing contract variations. All aspects of the final contract costs – capital, lifecycle, and facilities management - were well below contract signing figures. The re-run of the financial model may result in changes to the unitary payment. We would have expected the model to be updated and changes applied within a few months of the satisfactory completion of construction and hand over to the College. However, over two years later this has yet to be done. The College explained that the final re-run of the financial model had not been completed due to difficulties experienced in tidying up the “snagging list” which was impacted by the liquidation of one of the PFI sub-contractors<sup>72</sup>.

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72 Ivywood Colleges Limited (a 100 per cent subsidiary of Titanic Quarter Ltd) work in partnership with service providers including: Patton Construction (the construction sub-contractor), Amey (FM sub-contractor) and Todd Architects. Ulster Bank is the project funder.







## Appendix 1: Audit Methodology

The examination primarily focused on Belfast Metropolitan College (BMC), but also looks at the role of the Department (DEL) as sponsor department. The study focused on the first four stages of the PFI lifecycle from project inception through to the construction of the College. The review is based on the NAO framework for evaluating the implementation of PFI projects (2006) and considers a number of PFI project management themes:

- Before committing to invest, did BMC produce a scope for the project and determined that PFI was the best procurement option? **(Strategic Analysis)**
- Based on the decision to use PFI, has the outcome of the tendering process been a preferred solution that offered BMC a VFM solution? **(Tendering)**
- Has BMC managed the process from preferred bidder to financial close well? **(Contract Completion)**
- Having committed to construct, did BMC manage the contract to operational service well? **(Pre-operational implementation)**

We derived our main evidence from examining documents held by BMC and DEL and through interviews with relevant staff within those bodies. We also consulted with, and received comments from, relevant third parties which are reflected in the report.

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## Appendix 2: Paragraph 1.2

### Time line of the delivery of the new City Centre campus (Titanic Quarter)

STAGE OF PROCESS/EVENT	DATE
Statement of Vision	June 1999
Approval of the Outline Business Case by DFP and Department	May 2001
Issue of Invitation to Negotiate for Consultancy Services for the City Centre Project	May 2002
Appointment of Project Consultants	June 2002
Issue of Refreshed Outline Business Case	August 2004
Approval of Refreshed Outline Business Case by Department and DFP	February 2005
Publication of OJEU Notice seeking expressions of interest	March 2005
Issue Invitation To Negotiate	May 2005
Bid Submission	March 2006
Approval of selection of Preferred Bidder by Governing Body of BIFHE (Titanic Quarter campus).	July 2006
Governing Body acknowledge car parking as a significant issue - likely that planning authorities would block the building unless there was significant car parking facility.	October 2006
Ministerial approval and appointment of Preferred Bidder	October 2006
Formation of Belfast Metropolitan College, previously BIFHE	August 2007
Application from Preferred Bidder to increase cost of Titanic site from £3 million to £7.7 million.	August 2007
Letter of offer from Preferred Bidder for new site cost at £5 million	September 2007
Letter to ICL from Governing Body raising serious concerns about delays in progressing the project	January 2008
Submission of June 2007 Full Business Case	February 2008
Full Planning permission achieved	February 2008
Sub-basement Car Park – overview of key commercial principles and terms agreed between the College and Titanic Quarter Limited	June 2008
Development put on hold as Governing Body express concerns about affordability; future enrolment numbers; and the high cost of professional fees	June 2008

## Appendix 2: Paragraph 1.2 Time line of the delivery of the new City Centre Campus (Titanic Quarter)

STAGE OF PROCESS/EVENT	DATE
Agreement of sub-basement Car Park terms and conditions	June 2008
ICL advised that their funding bank might not be able to fund the project in its entirety	November 08
Leasing arrangements for Titanic Quarter campus site agreed	November 08
Capital contribution (bullet accelerated debt repayment) increased from £10 million to £15 million	March 2009
Approval to proceed with Project from Department	April 2009
Financial Close (contract signature)	April 2009
Payment for site - £2.5 million plus VAT each to Titanic Quarter Limited and Belfast Harbour Commissioners	April 2009
Construction completed and campus operational	August 2011
Capital contribution (bullet accelerated debt repayment) of £15 million made	September 2012

Source: NIAO

# Appendix 3:

## PPP/PFI projects in the Further Education sector

### Paragraphs 1.5

College	PPP/PFI Project	Outline Business Case date	Preferred Bidder (PB) Appointed	Contract signature date	Time taken from PB to Contract Signature (months)	Operational date (Note 1)	Time taken from PB to Operational (months)	CAPITAL COST	Current Unitary Charge Rates (Note 2)			m <sup>2</sup>
									Department Contribution £m	College Contribution £m	TOTAL UNITARY CHARGE	
Belfast Metropolitan College	Millfield	1996	est 1998 (Note 4)	01-Jul-00	24 months	2002	48 months	20	2.8	1.4	4.2	20,500m <sup>2</sup>
									3.6	1.9	5.5	22,000m <sup>2</sup>
South Eastern Regional College	Lisburn	Jan-04	Apr-06	01-Apr-08	24 months	Apr-10	48 months	20	2.4	1.0	3.4	14,240m <sup>2</sup>
									3.4	1.3	4.7	15,243m <sup>2</sup>
												1,071m <sup>2</sup>
652m <sup>2</sup>												
North West Regional College	Northland Building	1996	est 1997 (Note 4)	01-Aug-99	24 months	Feb-01	43 months	10	1.6	1.1	2.7	7,500m <sup>2</sup>
									2.9	0.6	3.5	11,792m <sup>2</sup>
South West College	Dungannon	Mar-01	Jun-02	09-Sep-03	15 months	Nov-04	30 months	24	3.1	0.7	3.8	13,845m <sup>2</sup>
South West College	Omagh	Mar-01	Jun-02	09-Sep-03	15 months	Oct-05	39 months	16	19.8	8.0	27.8	
								158				

Note 1: In a number of cases the Service Commencement is phased over a range of dates.

Note 2: Unitary Charges do not align to financial year dates. Generally re-indexation occurs on anniversary of date of service commencement.

Note 3: The South Eastern Regional College project included three campuses at Downpatrick, Newcastle and Ballynahinch

Note 4: Millfield and Northlands contracts were procured through DE. The Preferred Bidder appointment dates are therefore estimated

## Appendix 4:

## Paragraphs 1.13 and 1.16

The College undertook a process to identify need and quantify the accommodation requirements

The strategic objectives of the City Centre Project in the Business Case were:

- Welcoming learner centred environment through the provision of the appropriate level of accommodation and facilities to meet the long term needs of 2,266 Full Time Equivalent Students in the City Centre of Belfast;
- Facilities that are designed for greater inclusion with accessibility, lighting and acoustic environments, materials and colour fully integrated to meet the needs of all;
- The provision of facilities in a manner that is affordable, facilitates the raising of educational standards, and represents best Value for Money;
- Accommodation that meets current and future requirements on Health and Safety and access for persons with a disability; and
- Facilities that are viewed by employers and sectoral bodies as industry standard.

The College undertook a process to identify need and quantify the accommodation requirements to deliver the curriculum i.e. determine a Schedule of Accommodation (SOA) in line with Education and Training Inspectorate guidance (ETI)<sup>73</sup>. The ETI guidance is not prescriptive, given the elements of professional judgment required in assessing accommodation needs. The SOA then provides the specification to allow the procurement process to proceed.

The Department's SOA is a document which sets out in detail a college's entitlement to accommodation facilities based on an agreed number of student Full Time Equivalent (FTEs) applicable to various curriculum areas. These FTE figures are based on learning accommodation capacities for typical FE/HE courses, and utilisation targets based on frequency of room use and seat occupancy. The FTEs applied are set out in the ETI guidance and are used to help establish a college's entitlement to accommodation facilities. They are the basis on which curriculum spaces such as numbers of general classrooms, IT classrooms, science labs etc across curriculum areas/departments are determined in relation to the Further Education sector. In effect, an SOA enables the college to "buy" teaching space e.g. on a very basic level the guidance suggests that you should have 33 Business & Finance Student FTEs to have one classroom with a capacity of 24. These are then used to estimate other accommodation such as central admin, study areas, social areas etc.

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<sup>73</sup> The Department's publication "*Schedule of Accommodation for Colleges of Further Education, 1996*" is a document which provides guidance on determining the Schedule of Accommodation needs. It sets out in detail the college's entitlement to accommodation facilities based on FTE and applying a formula based on combining enrolments with taught course hours and teaching, learning accommodation capacities, and utilisation targets. Curriculum spaces across departments in the FE sector are determined using the DEL guidance e.g. the number and area of general classrooms, IT classrooms, science labs etc. These are then used to estimate other accommodation such as central administration, study areas, social areas etc.

To assist in determining and agreeing the accommodation needs of various curriculum areas with the various Heads of Departments the College also used a model presented in the document "*Management of Space in FE in Wales*". The space calculations for this project were initially based on the enrolments for the year 2002 – 2003 in the curriculum areas expected to transfer to the new city centre building. These were based on students using the building from 9am to 5pm each day, Monday to Friday. These statistics were then entered into a formula that took account of typical room sizes, the frequency any room is used, the seat occupancy at any given time and the taught hours allowed at that time (21 hours) for typical FE/HE courses. Having established attendance patterns and the utilisation rates at Brunswick Street and College Square East these were presented to and discussed with each Head of Department.

The table below sets out the College's calculations of its space requirements through the various iterations of business cases supporting the project and the final provision at the Titanic Quarter site. The accommodation schedule included in the refreshed Outline Business Case (approved February 2005) was signed off by the Department and ETI in July 2004. However, two years later in 2006, after the appointment of the Preferred Bidder, a Full Business Case needed to be completed and the Schedule of Accommodation refreshed. Unfortunately, the College's management information systems could not provide this information and the only way to gather the data required was another resource intensive room-by-room survey between the hours of 09.00 am and 5.00 pm for a week, followed by discussions between Heads of Departments and the project consultants. The SOA requirements were approved by the Department in October 2007 after the Full Business Case had been approved and contract negotiations had begun.

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## Appendix 4:

Paragraphs 1.13 and 1.16

The College undertook a process to identify need and quantify the accommodation requirements

### Schedule of Accommodation

	2000 Outline Business Case			2004 Refreshed Outline Business Case	2007 Full Business Case	Titanic Quarter Site
	College Square East	Brunswick Street	Combined Site	Single Site	Single Site	Single Site
<b>Room Capacity</b>	1,324	928	2,252	1,826	1,826	1,792*
	<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>
<b>Teaching Space area</b> (includes: classrooms, lecture halls, IT suites, as well as associated storage areas)	5,239	4,841	<b>9,602</b>	<b>9,093</b>	<b>9,307</b>	<b>8,817</b>
<b>Large Space area</b> (includes: central hall; library; study and staff study and social areas; careers and counseling; canteen; central administration; and Head of Department accommodation.)	2,864	2,080	<b>4,618</b>	<b>3,887</b>	<b>3,780</b>	<b>3,682</b>
<b>Balance Area</b> (The floor area provided to enable the building to function e.g. Corridors and other circulation areas; Internal open-sided balconies or similar; Internal structural walls, walls enclosing excluded areas, stairways and stairwells; entrance; foyers etc).	2,297	1,846	<b>4,021</b>	<b>4,042</b>	<b>4,124</b>	<b>10,008</b>
<b>TOTAL</b>	<b>10,400</b>	<b>8,767</b>	<b>18,241</b>	<b>17,022</b>	<b>17,211</b>	<b>22,507</b>

\* Includes Student Conference Centre, Central Hall and Lecture Theatre.



## Appendix 5: Leasing arrangements for the Titanic Quarter site

### Paragraph 3.6 and Figure 6

<p><b>March 2004</b></p>	<p>In March 2004 Belfast Harbour Commissioners (BHC), Titanic Quarter Ltd (TQL), and Fred Olsen Energy ASA entered into a Master Agreement setting out the obligations of BHC and TQL in respect of the development of the Titanic Quarter. Under the terms of the Master Agreement, BHC and TQL must agree a series of master plans (as defined in the Master Agreement) with the objective of maximising any premium on the letting of any part of the Titanic Quarter. The College's Titanic Quarter campus site fell within the scope of this Master Agreement.</p> <p>The Master Agreement envisaged that BHC would grant head leases to TQL who would in turn grant underleases of each part of Titanic Quarter as it was developed. Thus the intention was that BHC would grant a head lease and TQL grant a sub-lease to the College. However, having TQL as an intermediate landlord would require all consents under a sub-lease to be obtained from TQL and BHC, rather than just BHC. This left the College in a position where it could potentially be in breach of an obligation under its lease to procure construction of the new building, notwithstanding that any failure to comply with that obligation had arisen as a consequence of a failure on the part of Ivywood Colleges Limited<sup>74</sup> (ICL).</p>
<p><b>October 2006</b></p>	<p>The land issues and leasing arrangements were detailed in ICL's bid documentation, including that the head lease was under negotiation with BHC. ICL were granted Preferred Bidder status in October 2006. However, the timescales in the lease were not agreed until August 2007.</p>
<p><b>November 2007</b></p>	<p>BHC's position from March 2006 was that the lease would be granted for a specific "educational use". The Department told us that they only became aware of this in November 2007. Such a restriction would not only impact on the value of the site but would severely restrict the College's options during and at the end of the 250 years. Because of the impact on valuation, it also had a direct impact on any business case submission to DFP, as the site valuations were used to underpin submissions and were based on an unrestricted site.</p>
<p><b>February 2008</b></p>	<p>In February 2008, the agreed preferred option was a 250 year lease with an open user clause and profit sharing with BHC and ICL, on the basis of a formula set out in the lease, if the leasehold interest was sold on by the College for commercial redevelopment. ICL wrote to the College in March 2008 confirming the proposal in regard to title for the site.</p>
<p><b>April 2008</b></p>	<p>In April 2008, an alternative proposal for the renegotiated lease to be granted directly to the College from BHC was put forward.</p>

<sup>74</sup> Ivywood Colleges Limited (a subsidiary of Titanic Quarter Limited) work in partnership with service providers including: Patton Construction (the construction sub-contractor); Amey (Facilities Management sub-contractor); and Todd Architects. Ulster Bank is the project funder.

## Appendix 5: Leasing Arrangements for the Titanic Quarter site

### Paragraph 3.6

#### November 2008

In November 2008, a provisional list of documents, including the development under-lease and a related supplemental deed were presented to the College's Governing Body, as contracting authority. The terms of the documents were approved at this meeting. The agreed leasing arrangements are as follows.

- BHC is freeholder and leased the site to TQL under a 250 year lease;
- TQL subleased the site to BMC, for 250 years, who in turn paid a premium of £5 million for the lease (£2.5 million each to BHC and TQL);
- the College appointed ICL (a subsidiary of the TQ Grouping) to design, build, finance and operate the new college campus under a 25 year PPP contract, therefore ICL have a licence for operations on the site;
- the College sublet the car park to Ivywood Car Parks Limited for 40 years for £10,000 per annum with a five per cent per annum uplift;
- the agreement includes a profit share in the lease which entitles the College to a share of the profits if they reach specified levels; and
- there is also a Supplemental Deed which for the 25 years of the PPP contract steps TQL out of the enforcement obligations in the underlease (the Supplemental Deed protects the College against the issues highlighted in the second paragraph of this Appendix).

## Appendix 6: Paragraphs 21, 22, 3.15 and 4.22 Summary of Financial Models\* relating to Project Bid at various key points

	2004 Outline Business Case £'000	2007 Full Business Case £'000	March 2009 VFM paper £'000	April 2009 Financial Close £'000	September 2012 Estimate*** £'000
Shadow Bid Model - NPV		64,087	51,402	50,792	58,492
ICL Bid - NPV		56,768	50,154	49,153	
<b>Saving</b>		<b>7,319</b>	<b>1,248</b>	<b>1,639</b>	
<b>VFM %</b>		<b>11.42%</b>	<b>2.43%</b>	<b>3.23%</b>	
Public Sector Comparator NPV	49,552		49,631	49,591	
Estimated Cost at 2004	44,147				
<b>Estimated PSC Saving %</b>	<b>10.91%</b>		<b>-1.05%</b>	<b>0.88%</b>	
<b>Annual Unitary Charge</b>	<b>3,037</b>	<b>4,474</b>		<b>4,306</b>	<b>5,774**</b>
BMC Contribution		1,385		1,540	1,941
DEL Contribution		3,089		2,766	3,833
<p>* At 2007 prices  ** Actual charge  *** Source: A working paper undertaken in September 2012. This has not been formally approved by the College as it is based on incomplete information. The working paper has been completed without full analysis of detailed financial/economic models (including the bidder's financial model) and includes estimates of proceeds from properties still to be sold so proceeds from disposals are not yet known.</p>					
<b>Summary of Key Changes</b>	Original Business Case included the arrangements to transfer the surplus buildings.		Reflects the College's decision to remove the surplus buildings from the project. Site Acquisition costs increased by £2m and upfront payment for site included; capital contribution increased from £10m to £15m; delays in timetable; changes to financial close date.	Changes in financing terms; decrease in swap rates and incorporation of additional savings identified during the model audit process.	NPV adjusted as assumption at financial close, in April 2009, was that the bullet payment of £15m in 2012 would be fully met from capital receipts. Downward revisions in surplus asset values increases the net present cost of the overall project by approximately £7.7 million in Net Present Cost terms.

## Appendix 7: Analysis of Project Time Lag

### Paragraph 4.1

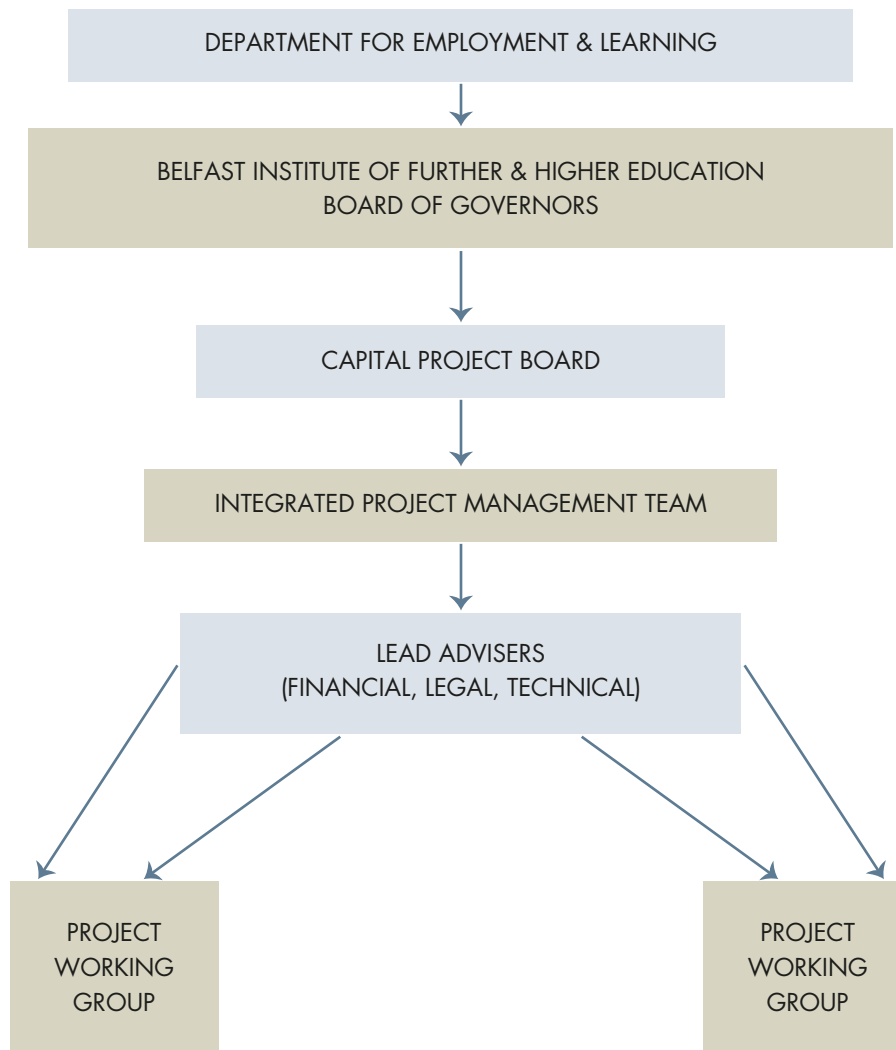
Key Stage	Outline Business Case (2004)	Full Business Case (2007)	Date Achieved	Project Time Lag (Months)
Publication of OJEU Contract Notice	August 2004	–	March 2005	7
Short-listing of bidders agreed	November 2004	–	May 2005	6
Invitation to Negotiate	November 2004	–	August 2005	9
Bid Submission	February 2005	–	March 2006	13
Selection of Preferred Bidder	March 2005	–	July 2006	15
Approval/formal announcement of Preferred Bidder	March 2005	–	October 2006	19
Submission of Planning Application for new facilities by Preferred Bidder	June 2005	February 2007	February 2007	20
Conclusion of negotiations with Preferred Bidder	Aug 2005	March 2007	April 2009	20
Submission of Full Business Case	April 2005	February 2007	June 2007	26
Approval of Full Business Case	June 2005	April 2007*		
Date for receipt of planning approval for new facility (including any judicial review)	April 2006	October 2007	February 2008	25
DFP approval of final VFM paper	n/a	July 2007	March 2009	-
Financial Close	April 2006	December 2006	April 2009	37
Start of Construction	April 2006	January 2007	May 2009	36
Construction completed	June 2008	September 2009	August 2011	39

\*The Full Business Case was submitted to DFP in February 2008 and there were two subsequent updates in September 2008 and March 2009

## Appendix 8: Governance and Project Management Arrangements

Paragraphs 4.5 and 4.6

The management structure for the "City Centre project" was established at the first Project Board meeting on 24 October 2001 - the management structure is summarised by the following diagram:



The Capital Projects Board consisted of representatives of the Governing Body and Senior Management Team of the College and was chaired by the Senior Responsible Owner – the Director of the College. It was:

- responsible for the overall strategic direction and control of the procurement of new accommodation and related services including City Centre Project (other projects included E3/WED Project; Student Accommodation Project; Theatre/Sports Complex; East Belfast Project); and
- the approving authority for all submissions made to the Governing Body of the College and the funding department (DEL).

## Appendix 8: Governance and Project Management Arrangements

### Paragraphs 4.5 and 4.6

Other interested parties attended meetings of the Board as and when necessary, including representatives from the Department (including the Education and Training Inspectorate), the Central Procurement Directorate, SIB and appointed consultants.

The Capital Projects Board met at least once per academic term and more frequently as necessary to specifically oversee progress on the procurement of the City Centre PPP project and to make decisions on matters referred to it by the Senior Responsible Owner and the Integrated Project Team, in accordance with the Board's remit.

Below this sat the Integrated Project Management Team, formed in 2002. It was responsible for the routine management and performance of the City Centre Project procurement process and dealt more directly with the consultants, other advisors and users. The Project Management Team consisted of both in-house staff and external consultants (including legal, financial and technical consultants) under the chairmanship of the College's Assistant Director/Head of Capital Projects. In addition the Department was represented. A post of Project Manager was trawled internally.

The Integrated Project Board had authority delegated by the Board of Governors of the College to make operational decisions vis-à-vis the routine management of the process. All strategic decisions required the approval of the Board of Governors and Department approval was sought at all stages of the PPP procurement process.

Project Working Groups were established as and when the need arose and membership would have included senior staff from the College, representatives from the Department of Education and the Department for Employment & Learning, and representatives from the external consultants.

<b>Senior Responsible Owner - SRO: (Chief Executive/Director/ Board Chair)</b>	
SRO 1 (Director)	2001 - August 2002
SRO 2 (Acting Director)	September – December 2002
SRO 3 (Director)	January 2002 - October 2008 (Sick Leave Jan - Oct 2008; retired at that time)
SRO 4 (Acting Director)	April – June 2008
SRO 5 (Interim Director)	July 2008 – October 2010
SRO 6 (Principal/Chief Executive)	November 2010 – present.

<b>Project Sponsor: (Board Deputy Chair, Chair Project Team)</b>	
PS 1	2001 – March 2008
PS 2	April 2008 – February 2011
PS 3	February 2011 – Present

<b>Project Manager – PM</b>	
PM 1	2001 – Mar 2008
PM 2	April 2008 – Present (From February 2011 dual role as PS/PM).

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## Appendix 9: Keys to the successful management of the construction phase

Paragraph 4.13

### **Determining Project Management Objectives**

The review of the Schedule of Accommodation highlighted numerous issues with regards to configuration and type of accommodation. Significant changes were required to deliver a fit for purpose facility which reflected the College's current structure and best practice in relation to the provision of IT infrastructure and services.

### **Successful Project Management**

A strategic plan for the management of all elements of the Project Agreement was set in place. A key driver was to create pre-emptive scenarios based on forecasting and anticipating events rather than reacting to the contractors programme and demands and provide key decisions on time or before the contractor's critical path. This allowed the College to control the project management process mitigating all potential compensation claims for delay whilst ensuring the risk and associated pressures remained with the contractor throughout the process.

### **Change Control**

In order to control and manage the change control programme and process, procedures were put in place to underpin the objective of minimal change unless mission critical. This included agreeing all potential changes with the Department before any potential change was muted to the contractor.

### **Reviewable Design Data (RDD)**

The Review of Design Data (RDD) process was initiated in May 2009 and involves detailed review and assessment of all design drawings and specifications. The effective management of the Reviewable Design Data process was critical in establishing agreement of standards contained within the Project Agreement. A RDD execution plan to ensure an effective tracking of change and development against control documents was developed. This allowed the College to hold the contractor to account and negotiate the maximisation of opportunity with respect to knowledge of Statutory Compliance, Industry Standards and Best Practice. When the contractor issued RDD packages this was taken as a further offer beyond the user requirements and contractors proposals. This enabled the College to determine the most onerous condition within the contract and thereby deliver measurable quality, increases in specification and quantity.



The RDD schedule contained within the project agreement stated that no document within the Project Agreement would take precedence. It articulated the contractor's obligations with regards to information quantity and quality throughout the process and required them to clearly set out any variance from the Project Agreement to RDD. The inclusion of these clauses within the project agreement placed considerable onus on the contractor with regards to due diligence and compliance.

The College were able to utilise the contractual mechanisms to highlight contractor compliance issues and maximise to the Authority's advantage all fluctuations translated by the contractor into contractor variations (CPVs) for consideration by the Authority. The need for authority approval placed the advantage with the Authority and facilitated a strong bargaining position with respect to product upgrade, product output and quantity. As the majority of CPVs result from the contractor's failure to comply with the Project Agreement then in order for the SPV to maintain their programme Authority agreement was critical or abortive works and remedial action was unavoidable.

## Control of Programme

Having an authority programme intrinsically linked to the contractor's master programme facilitates maximisation of product outcome without cause to delay to the contractor. The successful control of programme including information flow, request for information, approval protocols and issue of non-compliance correspondence is key to achieving control of the RDD programme which determines the rate of production information for the contractor's design and construction teams. Control of this process is critical to ensure delivery to contractual obligations whilst maximising the timeframes within the Project Agreement to allow full mitigation and exploration of multiple options to maximise the potential of the Project Agreement.

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