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Northern Ireland Audit Office

Transforming Land Registers: The LandWeb Project

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Transforming Land Registers: The LandWeb Project

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Comptroller and Auditor General

Northern Ireland Audit Office
18 June 2008

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Abbreviations

ACR	Agreement Change Request
BT	British Telecom
C&AG	Comptroller and Auditor General
CFR	Compulsory First Registration
DFP	Department of Finance and Personnel
DSO	Departmental Solicitor's Office
EU	European Union
FBC	Final Business Case
GIS	Geographical Information System
ICT	Information Communications Technology
IT	Information Technology
LRNI	Land Registers of Northern Ireland
NAO	National Audit Office
OBC	Outline Business Case
OGC	Office of Government Commerce
OJEU	Official Journal of the European Union
OSNI	Ordinance Survey of Northern Ireland
PAC	Public Accounts Committee
PFI	Private Finance Initiative
PPP	Public Private Partnerships
SCR	Service Change Request
SLA	Service Level Agreement
VFM	Value for Money

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Introduction

1. Land Registers of Northern Ireland (LRNI)[1] is organised into three registries: the Land Registry; the Registry of Deeds and the Statutory Charges Register. It plays a key role in the conveyancing process when property is exchanged and records updated, and is responsible for registering estates throughout Northern Ireland. This requires LRNI to hold hundreds of thousands of records proving ownership of property and land with precise boundaries and rights. LRNI charges fees for its services, as required under the provisions of the Land Registration Act (NI) 1970. The fees are set on the basis of achieving full-cost recovery in line with HM Treasury and Department of Finance and Personnel (DFP) guidelines.

2. To improve efficiency and customer service, LRNI signed a Concession Agreement[2] (the Agreement) for the 'LandWeb' project with British Telecom (BT) in July 1999. The Agreement period was seventeen years (two years development and fifteen operational years) with a break option at year twelve. The potential value of the Agreement, which is dependent upon the number of transactions successfully processed, was assessed at £46 million (at 1999 prices), with BT responsible for the development, installation, testing, operation and maintenance of an Information Computer Technology (ICT) infrastructure and managed service. A key driver for using the Private Finance Initiative (PFI) was the lack of alternative public funding, which was made clear to LRNI during its options appraisal process by both its parent department (at that time the Department of the Environment) and DFP.

3. The Agreement between LRNI and BT was one of the first financially free standing Information Technology projects in the Private Finance Initiative (PFI) / Public Private Partnership (PPP) field as it required no public sector funding to enable it to progress. BT financed the design, build, data conversion and operation of the service, recovering their costs entirely by receiving a set transaction fee, forming part of the charges made by LRNI directly to its customers. Both LRNI and BT have stated that in their opinion the project has been a great success, winning a coveted prize in the 'IT Winner' category at the PFI Awards 2000, the industry's benchmark, recognising innovation and excellence in the Private Finance Initiative. More recently 'LandWeb Direct' (LRNI's internet portal) won the Best Project Government to Business category at the Government Computing BT Awards for Innovation in 2006; was a nominated finalist at the UK e-Government National Awards in both 2005 and 2007 and was nominated finalist at the Inspire IT Award in Dublin in 2006.

The LandWeb project has delivered significant improvements to LRNI's operations and benefits to its customers

4. The project has delivered significant improvements to LRNI's operations and benefits to its customers, particularly against the challenging backdrop of an extremely

1 On 1st April 2007, Land & Property Services was established as an executive Agency within the Department of Finance and Personnel for Northern Ireland. The Agency was established initially from the merger of the former Rate Collection Agency and the Valuation and Lands Agency; the addition of Land Registers of Northern Ireland and Ordnance Survey of Northern Ireland followed on 1 April 2008.

2 A concession agreement is a PPP/PFI contract where the general public pays Service Fees in the form of tolls, fares or other charges for using the facility.

buoyant property market and a significant increase in the level of conveyancing associated with the re-mortgaging of property. The number of applications received for registration is now 174 per cent higher, than in 1999, the year the project commenced. Despite these external pressures LRNI has reduced its turnaround times, with 86 per cent[3] of all applications for registration being completed within the target time in 2006-07, as opposed to 52 per cent in 1999-2000. LRNI has processed in excess of three million transactions since the Agreement was signed. BT, in commenting on the report, indicated that the reason for the success of the Project is that it has found the right balance between the public and private sectors strengths and weaknesses, underpinned by a strong business partnership in which each partner is driven to ensure the successful outcomes for the other.

5. Appendix 1 illustrates how, over the last five year period, LRNI has met or exceeded all its ministerial targets[4]. One of the key drivers behind the Agreement was the implementation of Compulsory First Registration (CFR)[5] across the whole of Northern Ireland by June 2001. This was to meet a commitment made by LRNI following scrutiny by the Cabinet Office Efficiency Unit in 1989 and an enquiry by the Westminster Public Accounts Committee (PAC) in 1990[6]. LRNI explained that the roll-out was not completed until May 2003, due to the need to resolve a number of obstacles encountered during the system development and data conversion phase. Typically these obstacles related to the map conversion programme which resulted in data being delivered on a county by county basis and the requirement to complete a programme of catch-up, i.e. data update of those map records which had been active in the paper environment during the conversion period (prior to making the electronic records live). The introduction of the LandWeb system has significantly reduced the average time taken to complete first registrations from over 100 days in 2000 to 27 days in 2007.

6. One of the most successful aspects of the Agreement has been 'LandWeb Direct', LRNI's internet portal, available to registered business users both in Northern Ireland and the UK. The service went live in September 2004. It has over 1,000 registered users, e.g. legal practices, and processed over 620,000 land information transactions in 2006-07.

7. Incomplete or inaccurate applications submitted by the legal profession lengthen the conveyancing process and impact on LRNI's performance. This long standing problem was highlighted by the Comptroller and Auditor General (C&AG) in his 1989 report[7]. However, LRNI has been pro-active in trying to improve the quality of submitted applications through information seminars and presentations to the profession, resulting in an encouraging reduction in the number of rejected applications.

8. To date (over four years after the full implementation of Compulsory First Registration and over three years since the

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3 Source: LRNI Annual Report and Accounts 2006-07
4 Validated annually by DFP Internal Audit
5 Compulsory First Registration (CFR) will result in the state guarantee of title being extended to previously unregistered properties that are currently being dealt with within the Registry of Deeds (enabled under the Land Requisition Act (NI) 1970).
6 Northern Ireland Department of Finance and Personnel memorandum on the 26th Report from Committee of Public Accounts, session 1989-90.
7 *Report by the Comptroller and Auditor General for Northern Ireland: Economy, Efficiency and Effectiveness Examination of Certain Matters*. 14 December 1989 HC31

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service commencement date), despite commitments in the business case to do so, a post-implementation review remains to be completed. LRNI explained that the final elements of the Agreement (e-registration and public access) are not yet in place and that a full review would be premature. It did however, point to a 2004 review of the full business case for the project which measured costs and benefits against the initial business case (February 2001). The review, which was carried out by LRNI's financial consultants, considers that LRNI can demonstrate significant benefits from the PFI contract, particularly in respect of efficiencies that have helped it deliver transaction levels nearly twice that before the contract with only a 16 percent increase in staff numbers, along with the flexibility to contract additional casework assistance as required to cope with increased backlog. It also identified that computerisation of services allowed LRNI to provide greatly enhanced levels and types of service via a direct access service over the internet. However, in our view, it is important that LRNI, as a matter of urgency, undertakes a full benefits realisation to inform key stakeholders of the tangible benefits of the computerisation project. As a first step a post-implementation review will provide a necessary internal assurance for the Senior Responsible Officer, confirming that the investment in the PFI Agreement and associated changes were justified and that lessons learned have been captured and shared with the wider public service.

One of the key drivers for the LRNI computerisation process was to achieve significant reductions in the fees charged for its Services.

9. LRNI calculates that, based on an analysis of transactions processed since the inception of the project and applying rates set in the 2000 Fees Order to applications processed since 2000, fees orders have resulted in £4 million being passed back to customers by way of reduced charges[8]. In addition, it estimates that the introduction of new services has reduced customers' overheads by around £4.9 million[9]. The C&AG has recently reported on LRNI's surplus income levels (see Appendix 2) which have steadily increased since 2004-05 to £8.6 million at 31 March 2007, representing 34 per cent of total fee income. The C&AG's report raised concerns over the delay in introducing the 2007 Fees Order. LRNI estimate that the Order, introduced in April 2007, will reduce fee income levels by 32 per cent. However, despite reductions in fee levels, a further surplus is expected in 2007-08. A robust Service Level Agreement with the Departmental Solicitors Office needs to be in place, setting out realistic and tight deadlines to ensure the timely delivery of future fees orders. LRNI told us that, despite the new fees orders having been based on its expectation that there would be a correction in the market and that percentage house price rises would moderate, the continued buoyancy of the property market has been a major factor in sustaining the rise in the level of surpluses.

8 This is based on an LRNI calculation that applies average fees payable in 2000 against transactions processed up to 2007 and compares the results to actual income from fees over the same period.

9 LRNI calculate that, since 2004, there have been in excess of 274,000 daily user sessions on LandWeb Direct (a daily session is a user having accessed LandWeb for one or more sessions during a single day). Based on an average return journey cost of £10; a return journey time of one hour; and an hourly wage rate of £8, LRNI estimate that this would produce a total saving for the customer of £4.9 million.

10. It is also important that excessive surpluses are not generated as this indicates that LRNI customers are paying too much for the service provided. Indeed these excessive surpluses could be viewed as a form of taxation. The 'ad valorem' fees structure[10], which is based on the value of the property being transferred, is the main driver for the level of income generated. The unprecedented rate of growth in the value of housing in Northern Ireland in recent years has contributed to the generation of these excessive surpluses as more land and property falls into higher fee bands. LRNI informed us that its fees levels are below its Scottish and Irish equivalents and only marginally more expensive than England and Wales. It added that, to use a system based on any other mechanism other than 'ad-valorem', would almost certainly penalise those at the lower end of property transactions where fees would be increased to cover costs to enable reductions to be made at the top end of the market. However, given that LRNI's primary financial objective is the recovery of the cost of delivering its services (as defined in legislation), we recommend that DFP and LRNI re-examines the fee structure currently in place to ensure that its impact does reflect the cost of delivering the service.

The scope of the project and services delivered by LRNI's strategic partner have been extended

11. The increase in business, along with problems encountered post-tender and other business change priorities, have resulted in extensions to the original Agreement. The implementation phase of the project increased from two to five years, and the total cost of the Agreement has increased from an estimated £46 million at contract signature (1999 prices - £51 million current equivalent) to current reported estimates of £78 million. BT retained responsibility for development and maintenance of the service. Our review has identified over 300 Change Requests[11] initiated from contract signature up to July 2007. LRNI explained that the majority of these Change Requests have either been processed as a result of agreement between LRNI and BT, fall within the scope of the project and attract a nil cost, or are as a result of external factors over which LRNI has no control. BT in its written response indicated that of these 300 change requests, only 77 are of any significance, which in a project of this size and complexity is well within their expected range. The more significant Agreement Change Requests we identified have resulted in an additional £19.2 million, representing 42 per cent of the original estimated cost, being paid to BT up to the end of July 2007. DFP calculate that £14 million of this figure relates to expenditure which LRNI would have had to incur in its normal line of business. This includes £10 million for casework assistance (see paragraph 13); additional personal computers to cater for increased workloads; and transaction charges for Registry of Deeds[12] work pending the introduction of a new fees order. DFP acknowledge that, while the change request mechanism was used, this was purely a pragmatic approach to maintaining the day to day business.

10 A tax, duty, or fee which varies based on the value of the products, services, or property on which it is levied.

11 There are effectively two types of Change Requests – Agreement Change Requests that require amendments to the terms of the original Agreement signed in 1999, and Service Change Requests which are more minor amendments to the scope of the services.

12 Registry of Deeds records the existence and priority of deeds relating to unregistered land but does not guarantee the validity of the deed. It also provides official searches and facilities for customers to search its archives.

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Expected transaction payments to BT over the same period total £19.3 million.

12. The original decision to run a separate pilot programme outside the scope of the Agreement for Registry of Deeds did not fully consider the extent of integration required between the two systems. In our opinion this was a mistake in the original scoping of the project. Furthermore, by including the integration of Registry of Deeds, at an estimated cost of £3.5 million, in the Agreement at such a late stage in the negotiation process, LRNI effectively found itself negotiating with a monopolist supplier. LRNI contend that, in this instance, dealing with its partner had significant advantages e.g. reduced risks, costs and time savings.

13. In February 2002, LRNI decided that BT would provide casework assistance staff initially to clear less complex backlog cases. LRNI explained that at that time, resources had been diverted to project development, change management and training programmes, resulting in work stocks rising to critical levels. LRNI considered that allowing this situation to continue would have had serious implications for the overall project timescale, for customer service and for the property market. In addition it did not have the in-house resource available to do this work and would not have been able to recruit the requisite number of staff within an acceptable timescale. To date over £10 million has been paid to BT for this support. The option appraisal included in the business case approved by DFP in November 2001, did not include the option of outsourcing to a contractor other than BT. DFP and BT explained that there was an urgent problem which needed to be resolved and the costs for casework assistance should be considered in this context. Casework assistance was, for example, benchmarked against the in-house equivalent, and costs were no more expensive than in-house provision (had the resources been available). BT has stated that it may have been possible to tender for casework assistance sooner. However, the pressures of ensuring that backlog issues were addressed or were not permitted to return, due to growth in the number of cases, meant that this was not easy to achieve. LRNI has now prepared a business case to support a procurement for casework assistance. A separate Change Request for additional training services did involve an initial outline market interest circular (on the suggestion of LRNI legal advisors) to three of the largest potential bidders. However, it was made clear to LRNI that, due to the terms of the Agreement, which secured intellectual property rights for BT, it would be cost prohibitive for a third party provider, as they would have to secure permissions from BT.

14. While there is no evidence to suggest that BT would have placed a premium on its service charges to allow for the transferability of intellectual property rights, the lack of transferability of the intellectual property rights in the LandWeb Agreement is, in our opinion, placing LRNI in an over-dependant position with BT. Public bodies must be alert to the risk of over-dependency in a contractual arrangement. Failure to identify and act on issues of over-dependency can have adverse effects, including risks to successful contract

completion, reduced competition and less innovation in the market. To address over-dependency, specific strategies cited in Office of Government Commerce (OGC) guidance include extending dialogue with the market and insisting on the transferability of intellectual property rights, especially in relation to ICT contracts. It is important that, going forward, these risks are effectively managed by LRNI.

Project management arrangements were defined in the Agreement but key decisions were not presented to, or approved by, the Project Board

15. A key responsibility for the Project Board was the review and approval of the various rules, manuals and other documents prepared as the Project progressed. These were to govern the operation of the Project but would only bind the parties once they had been approved by the Project Board. Our review of Project Board minutes noted significant gaps between meetings. During these gaps important changes to the Agreement dealing with back conversion[13], map reconstruction and casework assistance were signed off by both parties. For example we found that minutes of some Project Board meetings do not record key decisions and approvals for significant contractual changes. Furthermore, it was September 2005 before LRNI put in place formal, written procedures for approving expenditure on PFI Agreement Change Requests. Whilst the procedures record that all "major" change requests are subject to discussion and approval of the LRNI Project Board, the criteria for referral to that Board in terms of value or nature of change is not clearly defined.

16. At contract signature in 1999, in line with a Treasury standard template at that time, a risk profile table, allocating risks between the two parties, was agreed after quality assurance by LRNI's advisors. However, by applying a more business specific approach to risk identification at the planning stages, an approach which we acknowledge was embryonic at this time, the backlog problem and its potential impact, later dealt with through the change request process and the Registry of Deeds simple search mechanism, may have been identified and could have been built into the solutions expected from potential bidders.

LRNI continues to use its financial and technical advisors but specific legal advice has not always been obtained

17. LandWeb was one of the first PFI schemes and LRNI was a relatively small organisation mainly staffed with Land Registry specialists. Exposure to PFI projects within the Northern Ireland public sector at that time was also limited. As a result financial, legal and technical advisors played a key role in progressing the project through the procurement and implementation phases, including negotiations with BT relating to Change Requests. This support has cost £1.5 million up to March 2007. Although LRNI has substantially reduced the use made of consultancy support in recent years, external financial and technical support is still ongoing. LRNI explained that it sought DFP approval (a key requirement for regularity) for the use of consultants up to the

13 Back conversion involved the conversion of paper folio and map records, some over 100 years old, to electronic format through scanning existing Land Registry title and charges documentation in order to provide a version of the document, suitable for the System.

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award of contract and for their engagement through the implementation phase. However, we found that approvals were sought and provided by DFP retrospectively in November 2004 for expenditure of up to £1.46 million. LRNI advised us that it has significantly reduced its need for support from external advisors.

18. Changes to the Agreement for the Registry of Deeds extension and the subsequent Agreement change for the provision of caseworker support by BT were significant in terms of the original PFI Agreement. In making a judgment about the validity of the extension of the contract for caseworker support, LRNI concluded that, based on previous advice from one of its legal advisors in relation to the computerisation of the Registry of Deeds function, such action was valid under EU procurement regulations. LRNI advised us that it considered the earlier legal advice on a similar issue to be very clear and it still pertained in this instance, therefore it was unnecessary and would have been costly to seek this advice. However, given the complexity of those changes and their potential impact in terms of potential costs to LRNI and the extension of the contractual relationship with BT, we would have expected LRNI to have sought specific legal advice. Indeed, Westminster PAC raised the importance of seeking such advice in their July 2000 Report on the PFI Contract for the Defence Telecommunications System[14], recommending that departments must be in an informed position when they approach the development of a PFI contract and subsequent negotiations.

The agreement precludes LRNI from obtaining information on the make-up of BT's charges, costs, overheads and profits

19. Under the terms of the Agreement, which was awarded following an open competition, LRNI secured certain access to BT's Service Records. However, the Agreement specifically excludes LRNI from obtaining information on *"the makeup of the charges including, without limitation, BT costs, overheads and profit"*[15]. In our view, this lack of transparency makes it difficult to assess whether LRNI is obtaining value for money. BT has stated that it does not see access to the cost base of a supplier for an end to end business services contract as a secure means of ensuring value for money, particularly as BT took (and continues to do so) a significant commercial risk in entering this partnership. BT consider LandWeb not just to be a pure ICT project and has cited National Audit Office (NAO) guidelines on evaluation of value for money from PFI Contracts which focus on other mechanisms such as benchmarking *("A Framework for Evaluating the Implementation of Private Finance Initiative Projects Volume 1 & 2 - NAO May 2006").*

20. We note that benchmarking is one aspect and strongly encourage LRNI to press BT to provide, in the spirit of current guidance for similar partnerships, appropriate value for money mechanisms, such as benchmarking, market testing and open book accounting (including the BT rate of return). BT indicated that it would, as a partner, be prepared to support an investigation into such benchmarks to demonstrate that it continues to deliver value for money. Under the terms

14 *The Private Finance Initiative: The Contract for the Defence Fixed Telecommunications System*. July 2000 HC 413
15 LandWeb Concession Agreement paragraph 12.4

of the Agreement *'No less than four calendar months in advance of the Break Option Review date, BT shall submit to LRNI a paper setting out BT's proposals for ensuring that the Project provides a VFM service for LRNI for a term of five years from the Break Option date'*. This will provide LRNI with the opportunity to assess the rate of return at the end of year seven (2011-2012) when the option to break mechanism, detailed in the contract, comes into play. This will provide LRNI with an opportunity to renegotiate or indeed walk away from the Agreement.

21. DFP and BT maintain that there is clear evidence to indicate that the project delivers good value for money, has met all of its intended aims and has transformed Land Register's Business. DFP explained that at the very core of PPP/PFI projects there is the clear assertion that such projects can provide profitable business for the private sector and value for money for the public sector. DFP added that the criticism that the Agreement does not provide for open book accounting is based on the benefit of hindsight and the Agreement, when it was signed, was fully compliant with the Treasury guidelines which were in place at that time. However, an NAO report[16] which surveyed 121 PFI projects let prior to 2000, showed that 55 per cent had provisions for open book accounting, 49 per cent had benchmarking mechanisms and 43 per cent had profit and other gain sharing mechanisms. LRNI considers few of the surveyed schemes appear to be comparable to the LandWeb Project, and consider that the validity of the comparison is therefore open to question and inconclusive.

16 *Managing the Relationship to Secure a Successful Partnership in PFI Projects*, HC 375, 29 November 2001

Part One:

In July 1999 Land Registers (NI) entered into an agreement with British Telecom as its strategic partner in a major business transformation programme

Part One: In July 1999 Land Registers (NI) entered into an agreement with British Telecom as its strategic partner in a major business transformation programme

1.1 Up to computerisation in 1999, Land Registers (NI) (LRNI) operated a paper based process that was manually intensive. The deficiencies in the system meant that:

- only one person could access papers at any one time, causing delays in completing applications;
- constant handling of documents over time meant that some were of very poor quality;
- the amount of information was causing storage problems and down-time for staff searching for documents; and
- security of documentation was a serious risk.

1.2 In July 1999 LRNI entered into an agreement with British Telecom (BT) as its strategic Private Finance Initiative Information Computer Technology (ICT) partner. The purpose of the project was to use a modern Geographical Information System (GIS) and databases to process all transactions received by LRNI more efficiently. The project aimed to give LRNI the capacity to extend registration of title throughout Northern Ireland, thus increasing the amount of land information available to the public and extending the Government guarantee of title to more owners. It would enable information to be provided and accessed electronically, thereby reducing turn-around times, improve performance quality, reduce registration costs and create a secure archive for the paper documents.

1.3 The Agreement between LRNI and BT was one of the first financially free standing Information Technology enabled projects in the PFI/PPP field. It won a coveted prize in the IT Winner category at the PFI Awards 2000, the industry's benchmark, recognising innovation and excellence in the Private Finance Initiative. More recently LandWeb Direct won the Best Project Government to Business category at the Government Computing BT Awards for Innovation in 2006, was a nominated finalist at the UK e-Government National Awards in both 2005 and 2007 and was a nominated finalist at the Inspire IT Award in Dublin in 2006.

A Cabinet Office Efficiency Unit report and an enquiry by the Westminster Public Accounts Committee stressed the need for the computerisation of LRNI operations

1.4 In 1988, following lengthening processing times, increases in fees and backlogs of work (which at that time exceeded 15,000 applications), LRNI was subject to a Cabinet Office Efficiency Unit scrutiny and agreed an Action Plan which set a series of targets for reducing the backlog and registration processing times. The Plan also required LRNI, provided those targets were met, to introduce Compulsory First Registration (CFR) of title and extend it to the whole of Northern Ireland. It was recognised that the manual processes operating at that time could not support the complete rollout of CFR.

1.5 The need to computerise LRNI's operations was also recommended by the Public Accounts Committee in 1990. Appendix 3 summarises PAC's conclusions and recommendations and DFP's response to them. In commitments given to PAC, LRNI outlined the advantages computerisation would bring, enabling it to significantly reduce processing times and to extend CFR throughout Northern Ireland and by doing so bring down its unit processing costs. LRNI informed PAC, at that time, that the extension of compulsory registration throughout Northern Ireland was dependent on the successful implementation of the Action Plan to the satisfaction of the Cabinet Office Efficiency Unit.

Workload was expected to increase significantly with the introduction of Compulsory First Registration

1.6 The initial Compulsory First Registration (CFR) area, which took in Newtownards and Comber, became operational in June 1996. At the end of 1997-98, following analysis of statistical information from registrations in that area, LRNI prepared a report putting forward recommendations regarding work processes and staffing levels, and proposals for the extension of CFR to the rest of Northern Ireland. The report highlighted that this extension would approximately double LRNI's work intake, resulting in a doubling of its Direct Running Cost budget[17] and a need for considerable additional staff if no changes were made to processes and systems. The report concluded that a major expansion of the CFR programme should not be undertaken until the Registry was fully computerised.

1.7 On presentation of the report's findings, the Law Society of Northern Ireland stated a strong preference for CFR to progress as quickly as possible and for the achievement of a single registration system for Northern Ireland. In the event, CFR was introduced on a phased basis and, following the successful resolution of a number of obstacles, full implementation across Northern Ireland was completed in May 2003. The reasons behind the delays are examined in paragraphs 3.11 to 3.14.

An outline business case (OBC) prepared by LRNI and approved by DFP in October 1995, further considered the need for the project and appraised a range of options for the delivery of services

1.8 Following the implementation of the Action Plan, new Land Registration Rules to facilitate the introduction of First Registration were introduced in 1994. In 1995, five years after the publication of the PAC report, the Business Case was approved by DFP. LRNI added that two years earlier a business case was submitted to DFP proposing the computerisation of the text processing element of the registration process. These proposals were rejected on the basis of the high cost of back conversion of data. LRNI informed us that back conversion had always been a barrier to the computerisation of operations due to cost and the specialist nature of the task. It had also been aware that conversion exercises in other jurisdictions had been fraught with cost and time overruns and a failure to achieve a consistent quality in the converted records. However, it sought to reduce the risks associated with these potential problems by placing the task and its associated risks with BT. DFP advised LRNI to rigorously investigate the use of PFI as a procurement option. LRNI commenced PFI investigations

17 Up to 1996, LRNI was funded directly from Central Government (Direct Running Cost funding); following its establishment as an Executive Agency it operated under a Net Departmental Running Costs regime i.e. income from fees charged for its services would need to equal or exceed the total running cost of the Agency.

Part One:
In July 1999 Land Registers (NI) entered into an agreement with British Telecom as its strategic partner in a major business transformation programme

in April 1994. LRNI explained that it engaged with local IT suppliers to test interest in a PFI arrangement and to give it some evidence of the market's ability to deliver. This engagement was completed in January 1995.

1.9 A summary of the key dates for LRNI's PFI computerisation project to contract signature is outlined at Figure 1. In October 1995, an Outline Business Case (OBC) proposed a computerisation project under the Government's Private Finance Initiative. This decision was driven by confirmation from both LRNI's parent department (at that time the Department of the Environment) and DFP *"that there is no possibility of the necessary public funding being made available for the project."* The OBC detailed an ambitious timetable of approximately 16 months from DFP approval in October 1995 to "Go Live" of the system. However, there was a delay of over two years before the procurement process commenced in November 1997. LRNI explained that the delay was due to it operating under a funding regime which did not facilitate payments to the PFI contractor and it could only proceed to the procurement stage once a switch to Net Funding (footnote 17) had been approved by DFP.

The original specification for the project was extended through the post tender negotiation process

1.10 Three companies were shortlisted and by December 1998, following rigorous assessment of bids, BT was confirmed as the preferred bidder. At that stage of the procurement, the BT bid (based on a 10 year cost) stood at £17.5 million (1999 prices). According to the Final Business Case (July 1999) the preferred bidder negotiations focused on:

- BT's desire to extend the contract period to 17 years (2 years for development and 15 operational years);
- the feasibility of adding the Registry of Deeds into the computerisation project (paragraphs 3.4 to 3.7);
- the solution required for resolving a previously unidentified Ordnance Survey of Northern Ireland (OSNI) mapping problem identified by BT (paragraph 3.8 to 3.10); and
- the need to revise the interim payment model to reflect any proposed changes.

1.11 These key changes were included in the Final Business Case (FBC) approved by DFP and a Concession Agreement for the project, called 'LandWeb', was signed by both parties in July 1999. The Agreement period was 17 years (two years development and 15 operational years) with a break option at year twelve. The value of the Agreement was dependent upon the number of transactions successfully processed through LandWeb. The potential value of the Agreement was assessed at £46 million at 1999 prices, a negotiated increase of 163 per cent on BT's original bid, with BT responsible for the development, installation, testing, operation and maintenance of a computer system to be used by LRNI in its provision of land registration services in Northern Ireland. BT's obligations also extended to other areas that were associated with the operation of that system, resulting in a project that was made up of several discrete services. These are set out in Appendix 4.

The payment mechanism is based on transactions processed

1.12 The LandWeb payment mechanism is based on a number of chargeable transaction types, representing business activity in LRNI.

Figure 1: Summary of key dates for the LandWeb project up to contract signature

Date	Development
October 1995	DFP approves an Outline Business Case allowing LRNI to pursue a PFI computerisation project.
June to July 1997	Technical, financial and legal advisors appointed.
November 1997	Interest notice placed in the Official Journal of the European Union.
December1997	Information seminar held and the Prequalification Information Memorandum issued to suppliers who expressed an interest in the project.
March 1998	Three applicants short listed from seven prequalification submissions.
May 1998	Invitation to Negotiate documentation issued to three short listed suppliers.
August 1998	Closing date for indicative bids. Three bids submitted. One of the bids did not include the mandatory financial information requested, the bidder confirmed that they could not provide this information and consequently were withdrawn from the competition.
November 1998	The two remaining bidders submit their Best and Final Offers.
December 1998	The Preferred bidder for the contract is approved by the Board and BT appointed. The Net Present Value was estimated at £17.5 million (10 year period).
December 1998 to July 1999	Post Tender Negotiations with BT.
July 1999	DFP approve Final Business Case Parts 1, 2 and 3. Concession Agreement signed on 8 July 1999. The total projected payments over 15 years were £46 million (Net Present Cost estimated at £27.5 million).

Source: LRNI

Part One:
In July 1999 Land Registers (NI) entered into an agreement with British Telecom as its strategic partner in a major business transformation programme

Where applications for registration contain a number of chargeable transaction types, the charge applied by BT reflects the transaction with the highest transaction charge associated with it. Case Study 1 sets out the transaction fees and associated BT charge for a typical application.

The Project has progressed against a backdrop of an unprecedented increase in business

1.13 Since the Agreement was signed, LRNI has encountered an unprecedented increase in business which, due to an extremely buoyant property market, has seen the average house price escalate from around £100,000 in 2003 to £250,000 in 2007[18]. This, compounded with a 174 percent increase in the level of registration application requests since the Agreement was signed, has created a particular challenge for LRNI due to demand-led nature of the transactions it processes. These in turn have contributed to fee income increasing from £7.5 million in 1999-2000 to £25 million in 2006-07; over the same period LRNI running costs have increased from £6 million to £17 million. In 1999 when the project commenced, LRNI completed almost 350,000 transactions across all business areas; in the year ending 31 March 2007, it completed 1.25 million. This increase in business, along with a geo-referencing[19] problem with the underlying OSNI maps (identified post tender, see paragraph 3.8), put significant pressure on LRNI and

Case Study 1 Transaction fees and BT charge for a typical application

Transaction Name	Transaction Fee (£)	BT Chargeable Transaction Y/N	Charge (£)	Charged for this application Y/N
Transfer	150	Y	27.56	Y
Release of Charge	0	N	0	N
Dispense with Certificate of Charge	25	N	0	N
Charge	70	N	0	N
Certificate of Charge	0	N	0	N
Duplicate Land Certificate	50	Y	3.12	N

Total charges to customer = £295
Transaction fee paid to BT = £27.56

Source: LRNI

18 Based on University of Ulster House Price Index November 2007
19 Georeferencing: a process whereby a small area on the original source map is registered against the Ordnance Survey (NI) digital data through the use of common points.

compounded the expected pressures from the introduction of new systems and new processes. In part this pressure is reflected in the backlog LRNI has had to manage in the years following the signing of the Agreement (see paragraph 3.11).

1.14 To counter these pressures, LRNI extended its Agreement with BT to include additional back conversion (see paragraph 15), map-reconstruction services and casework assistance services, which involve a BT team based in LRNI's headquarters processing less complex cases. These problems also led to the implementation period being extended to five years instead of the two years originally envisaged, and a service commencement date of July 2004 instead of July 2001. These changes to the Agreement have increased its capital value from an estimated £51 million (£46 million adjusted to 2006 prices[20]) to a reported current estimated cost of up to £78 million over its revised period (1999-2019).

Good Practice Guidance and IT PFI Projects

1.15 Since the inception of PFI, advice and guidance has been available from HM Treasury and the Central Computer and Telecommunications Agency. The Treasury Taskforce (now Partnerships UK) has also issued guidance, which deals generically with PFI procurement and Private Finance and IT. In January 2000, the Committee of Public Accounts at Westminster in its report on Improving the Delivery of Government IT Projects,[21] drew together lessons to be learned from a wide range of projects previously examined by the Committee. More recently the NAO has developed a framework for evaluating the implementation of Private Finance Initiative projects[22].

1.16 Locally, the Assembly's Committee for Finance and Personnel produced a report[23] in 2001 which outlines a number of advantages and disadvantages in using Public Private Partnerships[24] and identified a range of good practice measures intended to help determine value for money in any planned programme of investment.

A report by HM Treasury concluded that PFI may not consistently deliver value for money in Information Technology (IT) contracts

1.17 The 2003 HM Treasury's Report 'PFI: Meeting the Investment Challenge"[25] examined research conducted by the Government and others (particularly the NAO) and the impact of PFI. Overall, the research indicated that, because of the significant differences between PFI in IT and other sectors and the difficulty of ensuring an appropriate sharing of risk, PFI may not be able to consistently offer value for money benefits for IT projects. New guidance[26] was issued by the Office of Government Commerce (OGC) in Spring 2004. This took many of the successful features of the service-based focus of PFI but sought to

20 Adjusted using the Consumer Prices Index

21 *Standardisation of PFI Contracts,* Treasury Taskforce, 1999.; *"Improving the Delivery of Government IT Projects"* (First Report, Session 1999-2000); *Private Finance and IT: A Practical Guide,* Treasury Taskforce (March 1998)

22 *A Framework for Evaluating the Implementation of Private Finance Initiative Projects* Volume 1 & 2 (NAO May 2006)

23 *Report on the Inquiry into the Use of Public Private Partnerships,* Committee for Finance and Personnel, June 2001, NIA7/00.

24 PFI projects fall within the definition of PPPs, which is a wider term that includes other types of joint venture. PPPs evolved from PFI as a result of Government reviews and are potentially more flexible in structure and form.

25 *'PFI: Meeting the Investment Challenge* HM Treasury July 2003

26 Version 1 of OGC's Model ICT Services Agreement (Version 2.1 issued June 2007)

rebalance the payment profile to improve value for money. The guidance was updated in June 2007 and includes a summary of the provisions that should be considered for inclusion in any long term contract that will assist in obtaining value for money (see Appendix 5). Whilst all of this guidance post-dates the letting of the LRNI Agreement, we have used it as a benchmark for our study as it reflects the current approach to delivering ICT partnerships and the key principles are equally relevant and applicable in the context of the delivery of the LRNI ICT enabled services.

Scope and methodology of our examination

1.18 Against this background we examined:

- the deliverables of the project against the anticipated benefits (**Part 2** of the Report);
- the change to the original Agreement and LRNI's management of the extension of the Agreement with BT (**Part 3** of the Report); and
- the project management arrangements within LRNI, including the use and management of its financial, technical and legal advisors (**Part 4** of the Report).

1.19 Information was obtained through meetings with key staff in LRNI and its sponsor Department (DFP); review of available papers held by LRNI and additional documentation later provided to LRNI by BT; written correspondence; legislation; and departmental papers/circulars and guidance. We also sought the views of BT, the Law Society (NI) and the Lay Observer for Northern Ireland[27].

27 The Lay Observer is an official appointed by the government in consultation with the Lord Chief Justice to oversee the way in which the Law Society investigates complaints about solicitors.

Part Two:
The LandWeb project has delivered significant improvements to LRNI's operations and benefits to customers

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LRNI's digital records are crucial to the effective operation of the property market in Northern Ireland and have enabled it to respond to the increasing demand for its services

2.1 The significant increase in business, along with the mapping problems identified post tender, put significant pressure on LRNI and compounded the expected pressures from implementing new systems and processes. Although the key objectives of the project have been subject to a number of significant amendments and adjustments since the original OBC in 1995 (see Figure 2), LRNI and its customers have achieved significant benefits from the project.

2.2 New digital formatting has allowed a full data audit trail of LRNI's registration records, verifying that for every folio there is an owner name, record and matching digital map record. The confirmation of the completeness of records improves customer confidence in the quality of information extracted when searching records. These digital records are also key to the effective operation of the property market in Northern Ireland. The digital format of LRNI registration records has meant that the original paper documents are now stored off-site. This has reduced storage costs for these documents, which LRNI retain in case of legal challenge of authenticity.

2.3 Importantly, the Agreement has enabled LRNI to fully implement CFR across the whole of Northern Ireland – meeting a commitment made following the Cabinet Office Efficiency Unit Review in 1989 and the Westminster PAC Report in 1990. LRNI acknowledges that this could not have been achieved without the level of computerisation delivered through the Agreement. In addition, the computerisation of its services has also allowed LRNI to provide greatly enhanced levels of customer service via a direct access service over the Internet. This service allows registered customers to carry out a range of transactions or access information at any time.

2.4 A further enhancement, the Document Image Processing Information System was introduced in 2004 enabling LRNI to scan most paper documents supporting a registration application. This enables staff to complete registrations on the IT system and work on a completely paperless application. Through the use of 'dual screen technology', LRNI staff can view and process separate registration documents. This provides an electronic record of documents, enhances accuracy of registers, removes the risk of lost cases, and allows for document sharing and copy document production from electronic versions. Since its inception, in excess of 3 million documents have been processed through the scanning system.

2.5 The continued buoyancy of the NI property market and the introduction of Compulsory First Registration have had a significant impact on LRNI's workload. Computerisation has enabled LRNI to respond to increasing levels of applications. Figure 3 illustrates the trend in applications received over the years 2002 to 2007.

Figure 2: The Project Objectives Changed through Business Cases

Outline Business Case October 1995	Final Business Cases 1 to 3 July 1999	Final Business Case 4 February 2001	Final Business Case 5 June 2004
The automation of the production of outputs.	Full computerisation of the Agency's registry operations within 2 years of award of contract.		Full computerisation of the Agency's registry operations, including the securing from the risk of loss, accidental damage or disaster damage of the Land Registry Archive.
Protection of the archives and replacement of the present paper system			
Multiple user access to information		To enable one-stop electronic integrated searching on all three registries by mid-2001.	To enable one-stop electronic integrated searching on all three registries.
Processing volume increases for applications and reduction of processing times.	A reduction of 50% in the average turnaround times for typical registrations within 3 years of the achievement of full computerisation.		A reduction of 50% in the average turnaround times for typical registrations within 3 years of the achievement of full computerisation.
Removal of duplication of work.			
Ability to produce management reports			
	Achievement of a single registration system for NI through the CFR of the 400,000 properties/land parcels currently dealt with within the Registry of Deeds (66% transfer within 10 yrs and an 85% transfer within 15 years).		Achievement of a single registration system for NI through the CFR the properties/land parcels currently dealt with within the Registry of Deeds.
	Reduction in the average fee charged for registrations and reduction in the average fee charged for typical registrations of at least £25 within 5 yrs and a further reduction of £50 within 10 yrs taken from the point of full computerisation.		A reduction in the average fee charged for registrations within the Land Registry.
		To allow on-line customers in 85% of cases to obtain 100% of their Registry of Deeds search requirements over the Internet by the end of 2001, increasing to over 90% by 2005; and to be able to service all other Registry of Deeds requests through on-line submission and response of search request if required.	
		Play a full role in the development and provision of an integrated NI Government wide e-conveyancing information service.	Play a full role in the development and provision of an integrated NI Government wide e-conveyancing information service

Source: LRNI

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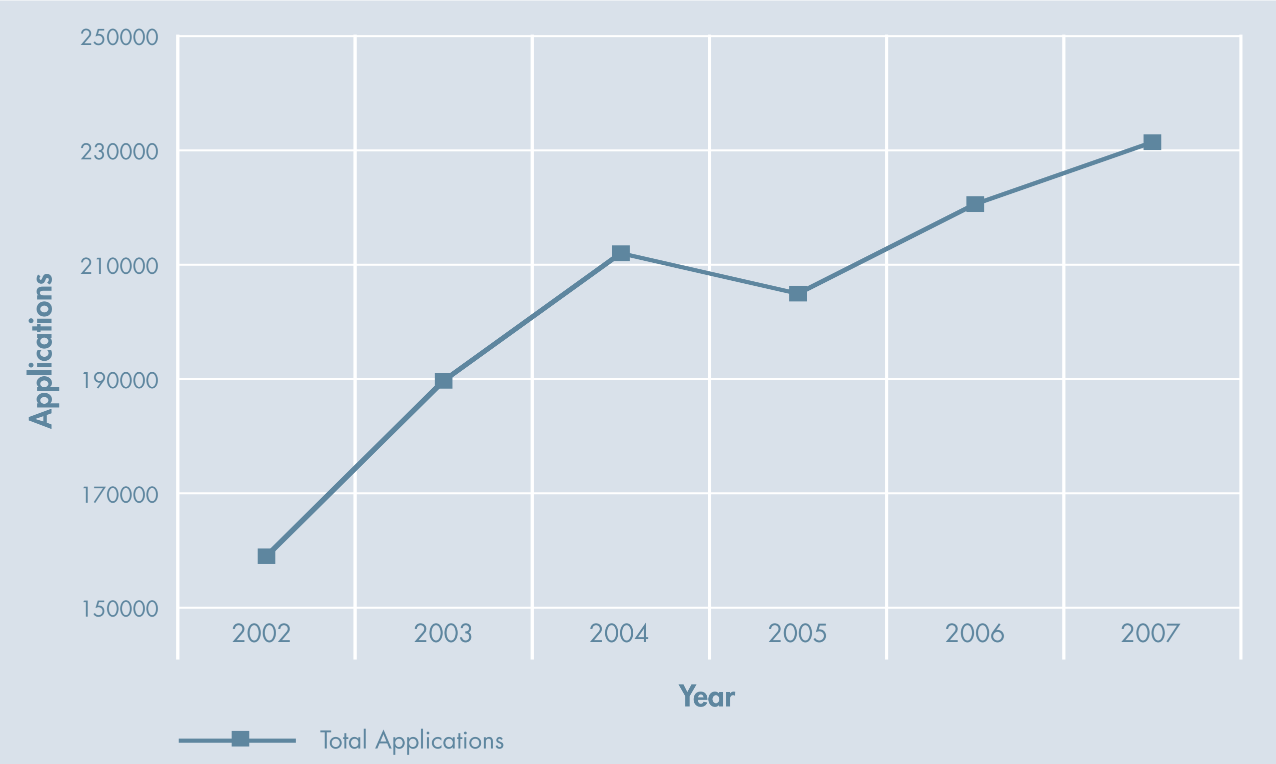
Figure 3: The volume of applications has increased significantly



Source:LRNI

LRNI has set key performance targets

2.6 LRNI reports on a range of key performance targets, set by the Minister, in its Annual Report and Accounts. These targets include average unit cost for processing applications, numbers of applications processed per member of staff, customer satisfaction and recovery of costs through income from fees collected. LRNI's performance against these targets since 2004-05 is summarised in Appendix 1. During this period LRNI has met or exceeded targets set.

Application turnaround times have, and continue to be, reduced despite continued external pressures

2.7 A key project objective (see Figures 2 and 4) was the reduction by 50 per cent in the average turnaround times for "typical registrations"[28] within three years of full computerisation. While turnaround times have reduced for Registry of Deeds applications, to date this objective has not been achieved for Land Registry typical applications; these account for 48 per cent of 'Dealing of Whole' applications. LRNI

28 An LRNI term for an application relating to one entire title, where LRNI is not obliged to raise queries Dealing of Whole Applications received (an application affecting all the lands of an existing folio, for example a transfer of a house from an existing owner to a new owner) (or 29 percent of total Applications)or serve notices. LRNI defines these transactions as "fast stream" and in 2007, these accounted for 48 per cent of Dealing of Whole Applications received (an application affecting all the lands of an existing folio, for example a transfer of a house from an existing owner to a new owner) or 29 percent of total Applications

Figure 4: A key objective was a reduction of 50 per cent in average turnaround times for typical registrations within 3 years of full computerisation

Registry	July 2004[1] (Days)	July 2007 (Days)	Reduction in average turnaround times (2004 to 2007) (%)
Land Registry	16.16	14.73	9
Registry of Deeds	10.55	4.46	58
Statutory Charge Register	8.27	7.61	8

Source: LRNI

Note 1: Service Commencement Date

explained that full computerisation is not yet in place, as e-Registration and public access have not yet been achieved, and progress against the objective has been affected by the dramatic rise in volumes; slow improvement in the quality of applications submitted for registration; staff vacancies; and difficulties in obtaining additional appropriate staff. LRNI further explained that the results would need to be revisited after the implementation of the e-Registration project (Case Study 2), as it expects that times will reduce further.

2.8 The introduction of LandWeb has enabled the extension of CFR to all of Northern Ireland. Figure 5 illustrates how the average time taken to complete a first registration has decreased during the period LandWeb has been operational.

The long-standing issue of incomplete or inaccurate applications being presented by the legal profession continues to be a problem

2.9 The 1989 C&AG's Report on Land Registry (footnote 7) highlighted concerns surrounding the quality of work submitted to LRNI by the legal profession. At that time, around 30 per cent of the backlog cases were in respect of queries put to practising solicitors who had submitted documents for registration. This continues to be a challenge for LRNI with levels of rejected applications in the last two years of between 20 and 25 per cent. The reduction to the current levels results from LRNI efforts to make the profession aware of the problem and its impact through seminars with the NI Law Society and the Belfast Solicitors Association. Other initiatives by LRNI since the introduction of LandWeb include the provision on the LRNI website of notes on the Direct Access Service; a Library of Precedent documents; notes on CFR applications; frequently asked questions;

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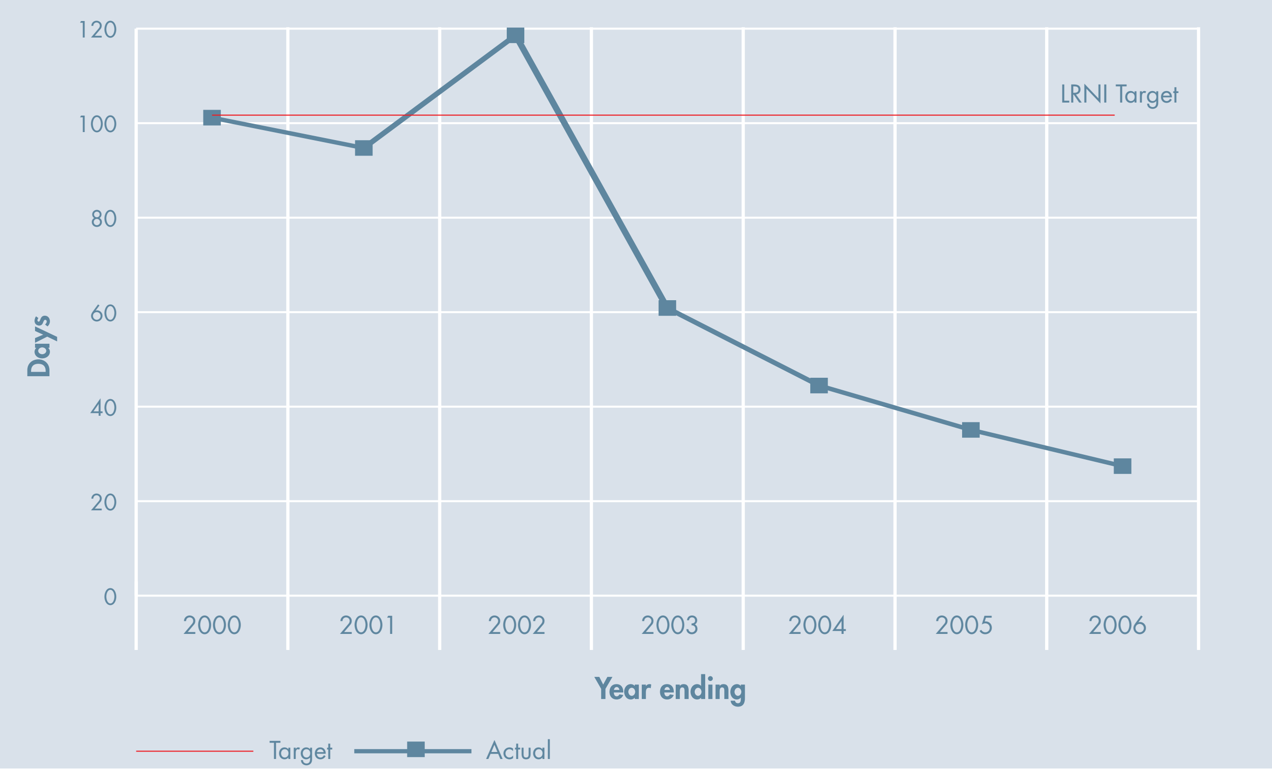
Figure 5: The average time taken to complete a first registration has decreased



Source:LRNI

fees guidance; and a fees calculator. LRNI has also arranged an annual programme of province-wide information seminars aimed primarily at solicitors (to date there have been 366 participants, representing 147 legal practices) and annual presentations to the Institute of Professional Legal Studies at The Queen's University, Belfast and the Belfast Solicitors Association. A pathfinder project commenced in November 2007 with a small number of volunteer solicitors (see Case Study 2). LRNI is working with BT to further develop the LandWeb Direct service to enable a system of e-Registration to be introduced in Northern Ireland. This will allow solicitors' practices to submit applications electronically from their offices, with improved validation at source, thus improving quality.

Case Study 2: The e-Registration Pathfinder project

This is essentially the first step on the way to the delivery of electronic conveyancing, centering on improving data quality and streamlining the service. It is expected to reduce the application rejection rate significantly. The manual scrutiny function currently delivered by LRNI staff will decline, as validation of information will take place on-line, as a by-product of data entry. The information input by the applicant as part of the e-Registration submission process will automatically be made available to staff involved in the case registration process, thus reducing input effort and the potential to introduce re-keying errors. Seven legal practices registered for the first phase which began in November 2007. Over thirty practices will be involved in the second phase of rollout.

Source LRNI

The Lay Observer for Northern Ireland has taken a close interest in the quality of applications

2.10 In his 2004 Annual Report[29] the Lay Observer of Northern Ireland commented that the incidence of erroneous application in relation to first registrations was far too high, and this no doubt contributed to the raised number of complaints related to conveyancing in 2004. He recommended that the Law Society (NI) discuss this specific issue with LRNI with a view to early and drastic reduction in error and that LRNI might continue to find ways of streamlining and clarifying its methodologies.

2.11 The Lay Observer's 2006 report[30] noted the reduced levels of complaints during 2006, which he expected to continue into 2007. He commended the regular meetings between the Law Society and LRNI; a well developed series of joint seminars for solicitors and their staff; and other information activity relating to many of the specific blockages which has caused difficulties in the past. His 2008 Annual Report is expected to report further reductions in complaints arising from conveyancing.

Electronic access – a success story

2.12 LandWeb Direct is an internet portal available to members of the business community in both Northern Ireland and Great Britain. The service went live in September 2004. It was the first transaction-based internet service available in the Northern Ireland Civil Service and was also the first to use the Government Gateway Service to authenticate users accessing services. LandWeb Direct is a collaborative development between LRNI, BT and groups representing other key stakeholders e.g. the legal profession and NI Housing Executive. It now has more than 1,000 registered customer organisations and provides a range of mechanisms to search records, download and print copies of documents. It is available 24 hours a day, 7 days a week. The availability of information has accelerated the conveyancing process and

29 *Action: Prevention and Cure:* Annual Report of the Lay Observer 2004
30 *Action: Moving on:* Annual Report of the Lay Observer 2006

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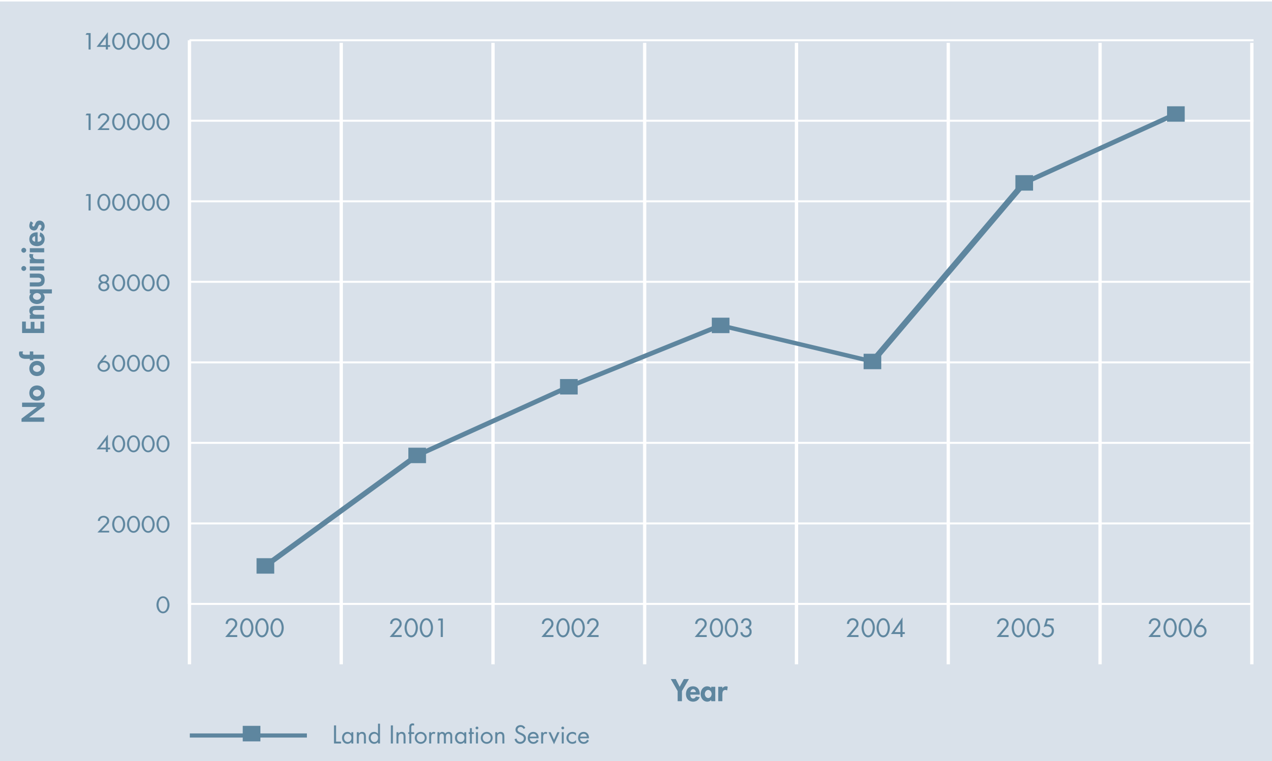
has enabled the legal profession and law searchers to keep pace with the demands of the buoyant property market. LRNI provided statistics which demonstrated that the turnaround time for applications for land information has been reduced from 5 days under the manual system to an almost immediate response under LandWeb.

2.13 LandWeb Direct is now the preferred method of accessing land information, with some 85 per cent of customers choosing to extract information using the internet portal. Consequently the number of land information service enquiries (Figure 6) and the volume of transactions processed by LRNI have increased considerably. Despite these increases, LRNI estimates that, since the introduction of LandWeb Direct in 2004, which includes a facility for law searchers and solicitors to search Registry of Deeds records, it has been able to reduce the number of staff in Registry of Deeds from 25 to 15.

2.14 The LandWeb Direct service had been expected to go live in 2001, but was delayed to 2004 due to problems surrounding the process of converting original documents to digital format

Figure 6: The volume of Land Information Service enquiries has increased substantially



Source: LRNI

(paragraphs 3.8 to 3.10). LRNI explained that delays were due to it being the pilot site for the Government Gateway project in Northern Ireland and the new technology was untested. It added that a phased rollout of the LandWeb Direct Service in advance of 'go-live' was adopted to make better use of its limited resources and to ensure that there were no major technical problems with the systems. This approach also kept the volume of calls to the help desk manageable and enabled LRNI staff to undertake training with registered users; the highest number tended to be in the week immediately following customer account activation.

2.15 The success of the LandWeb Direct service has seen the volume of Land Information transactions processed increase by 41 per cent, from 440,000 in 2004 to 620,000 in 2007. Given this success, BT has held tentative discussions with LRNI regarding full public access to LandWeb Direct, however no dates have been agreed to take this development forward. BT has agreed in principle to progress this service at its own risk and cost as LRNI is not persuaded that the volumes will be significant enough to warrant it making the investment. LRNI is currently benchmarking direct access services with the Registries in England and Wales and Scotland to ascertain what levels of interest there may be from the general public.

A key strategic driver for the computerisation project was a reduction in fees

2.16 One of the key strategic drivers for the computerisation project, included in the Full Business Case, was the achievement of reductions in the Land Registry fee levels through improved efficiency (see Figure 2). Since 1996 there have been three revisions to Land Registry fees, enabled through Fees Orders. In 2000, although the fees for certain applications were increased to reflect the actual costs associated with production, the five per cent reduction in the average cost of a registration transaction anticipated in the Land Registry Fees Order[31] was achieved. A restructuring of scale fees for transfers and exchanges in the 2003 Land Registry Fees Order[32], saw the introduction of revised 'ad valorem' scale fees (see Figure 7). It was estimated that the impact of this Order would be to reduce the average cost of a registration transaction by some seven per cent; this was achieved for the first year of operation of the Order. LRNI explained that thereafter the benefits of the Order were eradicated by the unprecedented growth in house prices and the number of applications being received for registration.

31 Land Registry Fees Order (Northern Ireland) 2000 No 167
32 Land Registry Fees Order (Northern Ireland) 2003 No 506

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Figure 7: Land Registry Scale Fees 1996 to 2007

Land/Property Value	1996*	2000*	2003*	2007*	Open Market Transactions** Q3 2007
£20,000 or less	£25 to £100	£50	£50	£50	1%
£20,001 to £30,000	£125 to £150	£100	£100	£100	
£30,001 to £40,000	£175 to £200	£150	£150	£100	
£40,001 to £50,000	£225 to £250	£200	£200	£100	
£50,001 to £60,000	£275 to £300	£250	£200	£100	
£60,001 to £70,000	£325 to £350	£300	£250	£100	
£70,001 to £80,000	£350	£350	£250	£100	
£80,001 to £100,000	£350	£350	£300	£150	
£100,001 to £150,000	£350	£350	£300	£200	9%
£150,001 to £200,000	£350	£350	£350	£300	29%
£200,001 to £250,000	£350	£350	£400	£350	28%
£250,001 or more	£350	£350	£500	£450	33%

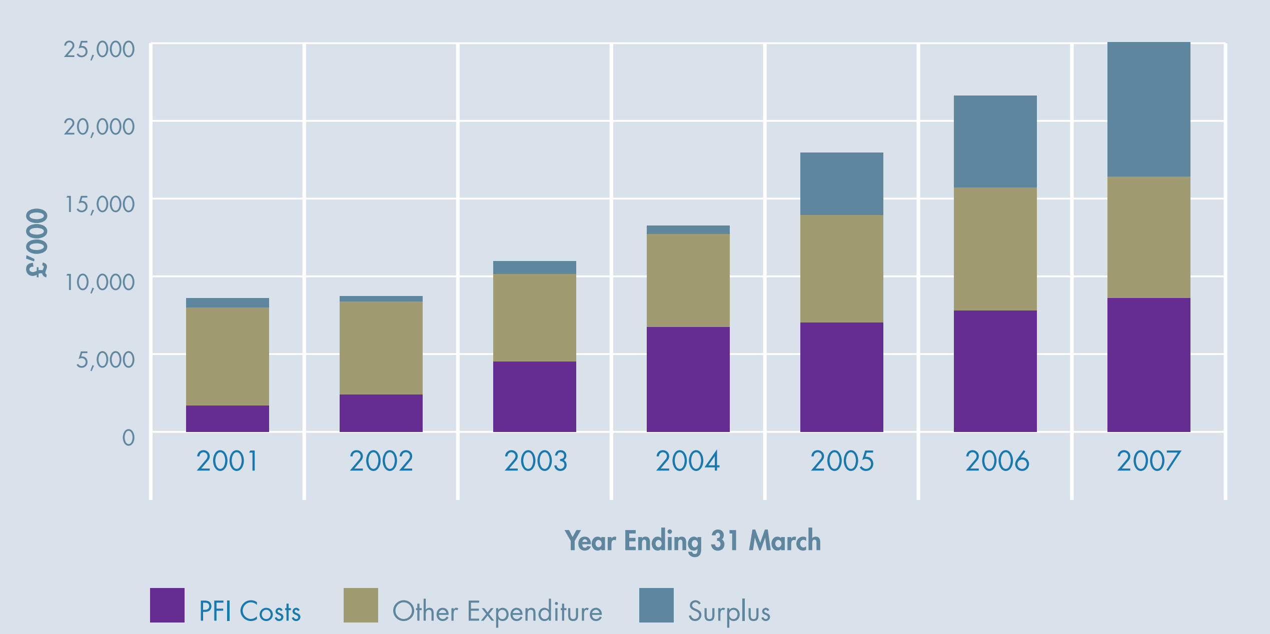
*Source: *Land Registry Fees Orders*

**Northern Ireland Quarterly House Price Index for Q3 2007 - The price statistics are based on a sample of 1,480 open market transactions during the third quarter of 2007.

2.17 The impact of the 'ad valorem' fee structure is that LRNI has generated large volumes of surplus income, which increased to £8.6 million in 2006-07 (see Figure 8); this is surrendered to DFP. We calculate that, based on the number of Land Registration applications received in 2006-07, this equates to an average excess in fees per application of over £60. This is due to the continued buoyancy of the housing market leading to sustained increases in the number of applications which, combined with significant house price inflation, results in applications moving up the 'ad valorem' scale to higher bands.

2.18 With the introduction of the 2007 Land Registry and Registry of Deeds Fees Orders, applicable from April 2007, it is anticipated that the restructuring of scale fees for transfers and exchanges will lead to an estimated decrease in fee income of some 32 per cent. The introduction of the Orders followed a protracted consultation process, involving the Departmental Solicitors Office (DSO). Following submission of the first drafts to DSO in 2005, the Land Registry Order took three months and the Registry of Deeds Order twenty nine months to finalise. It is clear that the present system does not allow fee levels to be revised in a timely

Figure 8: Surplus income surrendered to DFP has increased to £8.6 million



fashion to respond to fluctuations in the housing market.

2.19 Following the audit of LRNI's 2006-07 accounts the C&AG reported to the Assembly on the issue of excessive surplus income generation (see Appendix 2). LRNI has given assurances to the C&AG that the situation surrounding Fees Orders will be revisited to take account of the buoyant property market and the impending introduction of e-Registration. LRNI confirmed *''that the process for introducing Fees Orders has already been reviewed and streamlined''*. We welcome LRNI's prompt response to this situation and trust that the two new Fees Orders to be progressed in 2007-08 will benefit from the streamlined process. We will continue to monitor these developments. We recommend that a robust Service Level Agreement with DSO needs to be in place, setting out realistic and tight deadlines. Clearly the process would benefit from continued close management.

2.20 LRNI is legally obliged to fully recover all costs associated with the operation of its activities[33]. A regular review of Fees Orders is essential to ensure that this is happening. However, it is also important that excessive surpluses are not generated, as this indicates that LRNI customers are paying too much for the service provided. Indeed any excess could be considered as a form of taxation. The 'ad valorem' fees structure is the main driver for the level of income generated. Given that LRNI's primary objective is the recovery of the cost of delivering its services,

33 Section 84 of the Land Registration Act (Northern Ireland) 1970 and Section 16(1) of the Registration of Deeds Act (Northern Ireland) 1970. The 1970 Act, as amended by The Registration (Land and Deeds) (Northern Ireland) Order 1992, states that fees are to be at a sufficient level to enable LRNI "to meet so much of the operating expenses of the Land Registry as is attributable to its registration functions".

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we recommend that DFP and the LRNI re-examine the fee structure currently in place and realign fees to reflect the cost of delivering the services. LRNI contends that its fee structure does reflect the cost of delivering the services and it currently has fees at levels below its equivalents in Scotland and Ireland and only marginally more expensive than in England and Wales. LRNI is of the opinion that, to use a system based on any mechanism other than ad valorem, would almost certainly penalise those at the lower end of property transactions where fees would be increased to cover costs to enable reductions to be made at the top end of the market.

Without a benefits realisation review LRNI is not able to fully assess whether the project has delivered on the planned outputs and outcomes

2.21 Benefits realisation management is defined in the Treasury Green Book as *"the identification of potential benefits, their planning, modelling and tracking, the assignment of responsibilities and authorities and their actual realisation"*. In most cases, benefits realisation management should be carried out as a duty separate from day to day project management. A crucial component of any project is planning for benefits, requiring continual monitoring and reporting towards realising benefits. This is an ongoing process that begins at the earliest stage of any change programme. This ensures that the objectives outlined in the business case, and used to justify the investment, are reviewed at key stages during development to check that they remain valid (benefits include improved services as well as savings). If benefits realised have not been determined, there is a risk that there is no obvious driver to push and promote the purpose of the planned business change.

2.22 The Final Business Case submitted to DFP in advance of the signing of the Agreement undertook to complete a Post Implementation Review aimed to ascertain whether the expected benefits have been realised; and if the service has caused any problems in operation. The Final Business Case proposed that the Review was to be conducted as soon as the benefits and problems could be measured. This was expected to be not earlier than December 2001, six months after the implementation of the final stage of CFR. To date (over four years after the full implementation of CFR) no Post Implementation Review has been completed. LRNI advised us *''that the e-Registration project and public access to the LandWeb are the two final elements of the Agreement and therefore the timing is not yet right for a full benefits realisation review''*. It did however, point to a 2004 review of the full business case for the project which measured costs and benefits against the initial business case (February 2001). The review, which was carried out by LRNI's financial consultants, considers that LRNI can demonstrate significant benefits from the PFI contract, particularly in respect of efficiencies that have helped it deliver transaction levels nearly twice that before the contract with only a 16 percent increase in staff numbers, along with the flexibility to contract additional casework assistance as required to cope with increased backlog. It also identified that computerisation of services allowed LRNI to provide greatly enhanced levels and types of service via a direct access service over the internet.

2.23 We recommend that LRNI, as a matter of urgency, should undertake a benefits realisation to inform key stakeholders of the tangible benefits of the computerisation project to date. As a first step a post implementation review will provide necessary internal assurance for the Senior Responsible Officer, confirming that the investment in the PFI Agreement and associated changes were justified and that lessons learned have been captured. The Project may also benefit from an independent Gateway 5 Process Review (Operations Review and Benefits Realisation) to assess whether the project has delivered on the planned outputs and outcomes.

Part Three:

The scope of the project and services delivered by LRNI's strategic partner have been extended

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Registry of Deeds services were not included in the original scope of the project

3.1 The contract for the project was awarded under the negotiated procedure[34]. This involved prequalification and bid preparation stages, leading to the selected Preferred Bidder entering into a contract with LRNI. The Prequalification Information Memorandum defined core and non core requirements:

Core Requirements	Non-Core Requirements
The securing and maintenance of LRNI document archives from the risk of loss, accidental damage or disaster damage; The computerisation of the LRNI services to meet specified business outputs and performance requirements (including compatibility with the aims of the Ordnance Survey (NI) Northern Ireland Geographic Information System) Provision and support of a LRNI Office Automation Infrastructure.	Computerisation of the Statutory Charges Registry's Services to meet the specified business outputs and performance requirements.

Source: LRNI

3.2 A number of activities were specifically excluded by LRNI from the scope of the project, including the delivery of Registry of Deeds Services. LRNI had identified Registry of Deeds as a candidate for the piloting of services electronically direct to its customers. It considered that, as the Registry of Deeds Services customer base reflected the whole of LRNI's customer base, this would enable it to assess the likely requirements for a successful delivery of all LRNI's electronic services. The project was progressed as a separate pilot project, with the support of DFP's Central Information Technology Unit.

3.3 One of the three shortlisted bidders for the main PFI contract had approached Central Information Technology Unit expressing an interest in progressing a pilot. However, its proposals fell short of LRNI's expectations in a number of areas, in particular the achievement of a deal which demonstrated sufficient transfer of risk to the private sector. Over time the bidder became increasingly unwilling to risk undertaking the Registry of Deeds pilot whilst not winning the larger PFI project. In addition, LRNI became uncertain about the wisdom of potentially having two separate contractors. Due to these difficulties both parties agreed not to progress the project further.

34 Public Services Contracts Regulations 1993 (SI 1993 No. 3328)

Following appointment as Preferred Bidder, BT proposed computerisation of the Registry of Deeds

3.4 In January 1999, following its selection as the Preferred Bidder, BT put forward a proposal for the computerisation of the Registry of Deeds in line with its plans for the rest of LRNI using the same infrastructure for the electronic delivery of services and the same transaction based payment mechanism. It considered that the potential early extension of CFR was a risk which would have a significant impact. LRNI considered that, without computerisation of the Registry of Deeds, it would require a significant number of additional staff, and that the BT proposal would lead to immediate staff savings with increasing savings year on year following the CFR peak, through to Registry of Deeds closure. In addition LRNI recognise the high technical interdependency between Land Registry's systems which it had not originally envisaged.

3.5 During the course of negotiations with BT, the Project Team concluded that the impact of an early extension to CFR would mean that a separate contract for Registry of Deeds would no longer be viable, both commercially and in terms of value for money. The Concession Agreement was signed by both parties in July 1999 and provided for a manual search solution for Registry of Deeds at a cost of £1 million.

3.6 By February 2001 it was agreed that the manual search solution included in the Agreement was not adequate to support customers' needs. A business case, approved in February 2001, proposed a service extension to computerise the Registry of Deeds function. The cost of this service extension over the following 11 years was estimated at £3.5 million. LRNI consulted with both its legal advisors and CCTA (now OGC) in relation to any potential EU procurement regulation issues. Both advisors told LRNI that the Public Services Contracts Regulations 1993 would govern the selection of any Registry of Deeds service provider and that LRNI could progress with this extension without competition.

3.7 The specific reasons put forward by BT and included in the final business case supporting the integration of the Registry of Deeds into the Agreement, would indicate that the decision to run a separate pilot programme outside the scope of the Agreement did not fully consider the extent of integration required between the two systems. In our opinion this was a mistake in the original scoping of the project. Furthermore, by including the integration of Registry of Deeds into the Agreement at such a late stage in the negotiation process, LRNI effectively found itself negotiating with a monopolist supplier. It is important when an organisation is defining the scope for a major business transformation project that it considers the full range of services it delivers and the underlying interdependencies between systems it manages and services it provides.

Back conversion proved to be a complex process

3.8 Investigations undertaken by BT during the contract negotiation period identified a problem with the Ordnance Survey Northern

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Ireland (OSNI) map base. Part of the process undertaken by OSNI in the 1950's and 1960's involved recasting its 'county series' maps onto the new grid system, the 'Irish Grid'. However, many of the Irish Grid maps had subsequently undergone a process of re-survey; the conversion of all the maps held by LRNI to a consistent digital map base therefore required a considerable degree of reconstruction of the older maps. This process required a significant amount of local geo-referencing (paragraph 1.13).

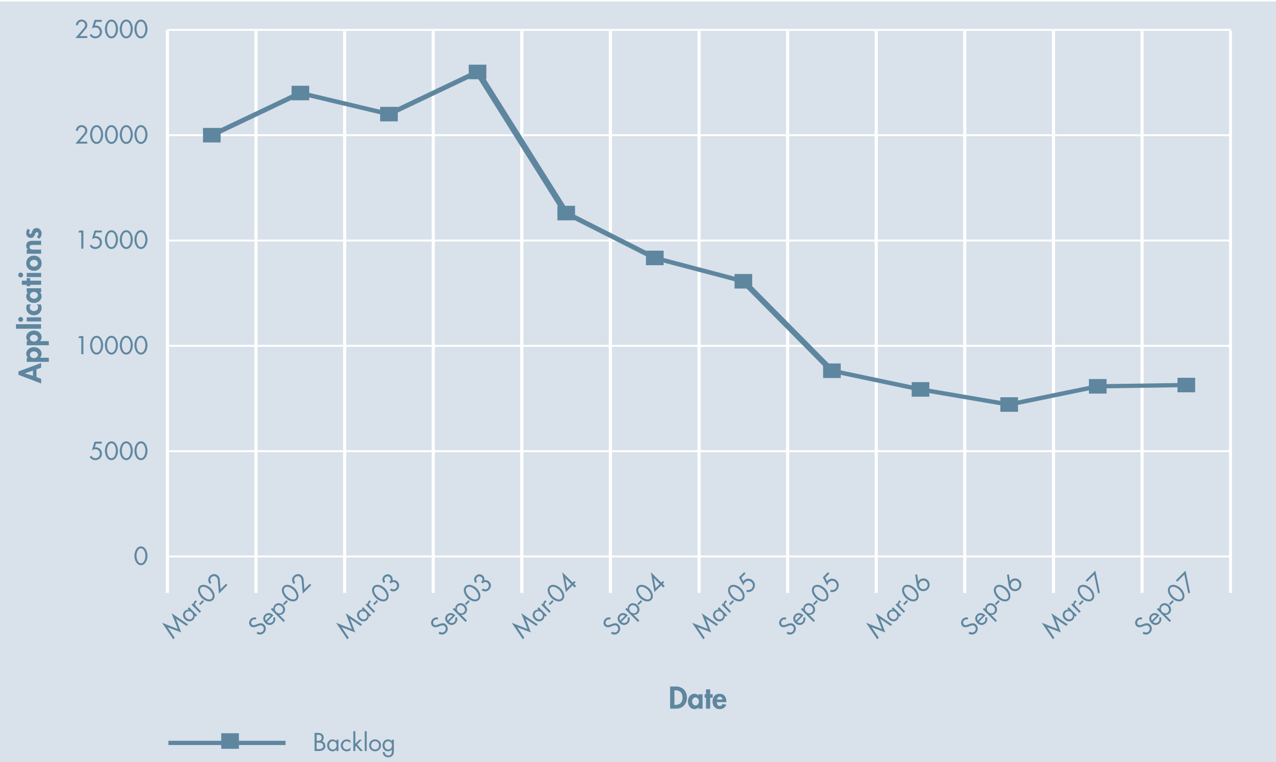
3.9 LRNI advised us that the back conversion exercise (paragraph 15), which involved the conversion of over 500,000 paper folio records and 18,000 map sheets to a digital format, required an extensive amount of planning as the records, for security and operational reasons, could not be removed from LRNI headquarters. There was also an imperative to track any paper records which had been the subject of change during the conversion period, thus ensuring that when electronic records were activated, they fully reflected their paper equivalent. BT employed separate specialist contractors to document the conversion rules and validate the quality of converted data; scan the documents and maps; create indexes of key folio information; convert the information on the paper maps to digital format; and a company to quality assure the entire end-to-end conversion process. LRNI added that it was kept fully informed of the planning and production program via weekly back conversion checkpoint meetings and was witness to many end to end process demonstrations.

3.10 The paper folio records held by LRNI date back to the establishment of the registry in 1890. Many of the very early records were based on parchment and others due to extensive use, had become soiled and difficult to read. LRNI informed us that the scanning solution employed by BT's subcontractor sought to enhance the legibility of records and the resulting electronic outputs are consistently more legible than the previous paper records. Map conversion was completed on a county by county basis commencing with County Down. The conversion exercise required a considerable degree of attention to detail as, in many instances, a specific area of the digital map would have been covered by a number of the paper versions. This adds additional complexity to the identification of parcels of land to be recorded digitally. Following scanning of the County Down maps by the BT scanning contractor (based in LRNI headquarters) the data was referred to BT's map conversion subcontractors based in Florida. When the converted data was returned to BT it failed to reach quality targets and was then reworked. BT held discussions with its map conversion subcontractor following which it was decided to move the remainder of the map conversion exercise to the subcontractor's Kuala Lumpur base. We were told that the costs of rework and the transfer of operations were borne by BT and its subcontractors. In addition, changes were made to the LandWeb Agreement, including a modified back conversion timetable and arrangements to help BT absorb the cost of this problem, without increasing the proposed transaction charges. LRNI advised us that it was essential that these problems were addressed at the outset of the contract otherwise its maps would have been inaccurate, leading to inaccurate registrations.

Increases in the volume of applications compounded the anticipated pressures from implementation of new systems and processes

3.11 The level of backlog applications (see Figure 9) continued to increase before and during the initial computerisation of LRNI, and by March 2003 backlog levels stood at 21,000 cases. In the year the project commenced, LRNI completed almost 350,000 transactions across all business areas. In the year ending 31 March 2004, the number completed had almost doubled to 670,000. This increase in business, along with the problem with the underlying OSNI maps and the continuing problem of the poor standard of applications submitted by the legal profession (see paragraph 2.9), put significant pressure on LRNI and compounded the expected pressures from implementation of new systems. A further challenge was the need to develop a staff IT education programme within LRNI. To counter these pressures, LRNI extended its Agreement with BT to include additional back conversion, map reconstruction services and casework assistance services. The latter involved a BT team (based in LRNI's headquarters) temporarily processing

Figure 9: Application backlog levels



Source: LRNI

Part Three:
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certain live cases on behalf of LRNI. These issues contributed to the extension of the project implementation phase from two to five years.

3.12 One of the key drivers behind the Agreement was the implementation of CFR across the whole of Northern Ireland. Dates for the roll-out were a key deliverable within the Agreement; the Final Business Case identified a *"major project milestone date"* of June 2001 for the extension to all of Northern Ireland. The roll-out was not completed until May 2003.

3.13 In the event, CFR was activated for Counties Down and Armagh in February 2001 and September 2001 respectively. However, this was prior to delivery of converted map data and resulted in the creation of additional catch-up work. LRNI was reluctant at this time to continue with the CFR roll-out timetable due to a variety of operational concerns including:

- managing a major procurement exercise which absorbed significant time of senior management.;
- buoyancy of the property market resulting in increases in demand for LRNI's services;
- high levels of backlog;
- the poor standard of applications submitted by the legal profession;
- low levels of staff IT literacy within LRNI;
- a large number of staff vacancies;
- reduction in productive hours available to staff involved in project management; and
- slowing of processing times during the implementation phase.

3.14 LRNI advised us that the Law Society (NI) had raised concerns over the extension plans for CFR and had a lack of confidence that LRNI would cope with the additional workload. Following these representations, LRNI told us that the Minister agreed to put implementation back by twelve months to 2003. Target dates for CFR extension were April 2003 for Counties Fermanagh, Londonderry and Tyrone, and May 2003 for County Antrim and the County Borough of Belfast.

To address the pressures of the increased workload LRNI engaged BT to help clear the backlog

3.15 LRNI was concerned that the failure to implement CFR within the planned timescales could lead to compensation claims from BT under the terms of the Agreement. An Evaluation of Options for reducing the applications backlog was approved by DFP in November 2001. In February 2002, BT was engaged for a 12 to 18 month period to assist with the objective of reducing the backlog to less than 7,000 cases over that period. The Evaluation of Options considered three options; (i) Do nothing; (ii) Create a backlog team with additional public sector resources; and (iii) Outsource backlog processing to BT. We asked LRNI why it did not consider an option of outsourcing to a contractor other than BT. LRNI agreed that this may well have been an option, but considered that:

- there were important time factors and capability to consider. If it had gone

outside for this work the time required for a competitive procurement would have seen the situation worsen. For every month of delay the number of case registration back conversion catch-up applications was projected to increase by 4,500;
- it would have delayed the roll-out of the LandWeb Direct service;
- another provider would have had a period of learning, which would have had an impact on productivity, plus the training overhead for the LRNI's limited training facility and the potential for costs to rise significantly would have been considerable;
- another provider would have had to negotiate with BT to use the LandWeb System – further delays could have arisen from this. With the backlog growing all the time this would have been disastrous; and
- the go-live date would have potentially been extended for a further year.

We note that these factors were not all clearly recorded in the Evaluation of Options submitted to DFP.

3.16 While we acknowledge that there may have been benefits in engaging BT to assist in backlog processing, comparison of alternative options is at the heart of appraisal. As the Northern Ireland preface to the Green Book makes clear, it is only by comparing the alternatives that the real merits of any particular course of action are exposed. It is important that all potential options are considered in business cases.

Specific legal advice was not sought to ensure the Agreement change was valid under EU procurement regulations

3.17 It is important to analyse all consequences of a proposed contract amendment to ensure there are no unintended effects of the change, or that contract variations are not of such a level that they significantly change the contract requirement and/or substantial parts of the original agreement. The determination of when the contract has been so substantially changed so that it becomes a new contract can be a difficult matter of judgment; this is fundamentally a procurement decision that may require specialist legal advice. Our review of the Evaluation of Options noted that LRNI considered that it could appoint BT without going out to tender. LRNI concluded that this was valid under EU procurement regulations. This conclusion was based on advice from its PFI consultants, who considered that the legal advice in respect of the Registry of Deeds function (paragraph 3.6), applied equally in this instance. Accordingly, specific legal advice was not sought.

3.18 The changes to the Agreement for the Registry of Deeds extension and the subsequent change for the provision of caseworker support by BT, were significant changes to the original Agreement. Given the complexity of those changes and their potential impact in terms of costs to LRNI, and the extension of the contractual relationship with BT, we would have expected LRNI to have sought specific legal advice. The Westminster PAC highlighted the importance of seeking such advice in its Report on the PFI Contract for the

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Defence Telecommunications System[35], recommending that departments must be in an informed position when they approach the development of a PFI contract and the subsequent negotiations.

Casework Assistance was required to assist LRNI in clearing its backlog of applications

3.19 The Evaluation of Options document approved by DFP in November 2001, estimated that fixed set up costs would be £133,000 and the cost per transaction (based on estimated daily costs of an Administrative Officer in LRNI), would be £35.34 per First Registration and £10.60 per Dealing of Whole[36]. The Evaluation did not include an overall estimated cost for the service or details of the numbers of transactions likely to be processed. BT, in its written response, indicated that it considered casework assistance as primarily a specialist labour cost which focussed on less complex transactions only. LRNI estimate that this is broadly equivalent to the cost of having this work done by NICS staff.

3.20 An Agreement Change Request was subsequently raised by BT in February 2002 to assist LRNI with clearing its backlog of applications. The plan was to utilise around 27 sub-contracted staff from April 2002. At this stage the backlog of applications was over 20,000. BT undertook to complete the work at the same transaction rate included in the Evaluation of Options i.e. the daily costs of an Administrative Officer in LRNI. We note that this rate includes a *"public sector overhead"* as it is based on estimates of staff costs that include annual leave, sickness, training and time spent on other activities other than processing. Under this Change Request, the fixed costs paid to BT were £270,000 and transaction fees up to March 2004 totalled £2.1 million. LRNI advised us that the Minister agreed the proposals for reducing the backlog of work in LRNI in February 2002.

3.21 A further Agreement Change Request was raised by BT in April 2003 to extend the Casework Assistance agreement to August 2005. The key aim, as with the previous Agreement change, was to provide LRNI with continued additional case work processing capability over an additional 18-24 month period, in response to: higher levels of applications being received as a result of an increasingly buoyant property market; the final roll-out of CFR; and the need for additional effort to reduce LRNI's casework backlog. BT presented a paper to the Project Board in May 2004 setting out the need to increase the Casework Assistance team from 27 to 35 staff up to August 2005. The Casework Assistance timescales were further extended to August 2007 (with an opt-out for both parties at 31 August 2006) applying the same terms and conditions agreed in the previous Change Requests. Our examination of the payments made to BT for Casework Assistance up to July 2007 identified that over £10 million has been paid since the initial Evaluation of Options document was approved by DFP in November 2001.

3.22 BT submitted a further paper to the Project Board in February 2005 on proposals to extend casework assistance to 2008, but to

35 *The Private Finance Initiative: The Contract for the Defence Fixed Telecommunications System.* HC 413 July 2000
36 Paragraph 2.7

date this has not led to a subsequent revised Agreement Change Request. LRNI informed us that another business case is being prepared for further outsourcing, through open competition. It explained that there are not the same time pressures, and EU Procurement Regulations relating to the ''negotiated procedure'' do not allow them to extend the BT Agreement by more than fifty per cent above the original value of the Agreement.

LRNI identified a need to reconsider their approach to business training

3.23 The original Agreement provided for BT to supply sufficient training to LRNI staff to enable them to use the system efficiently (Appendix 4). In April 2003 LRNI asked BT to undertake a *"business training review"*. A report was agreed in December 2003 identifying a number of major deficiencies:

- lack of training material and standardisation;
- lack of structured staff development;
- an inefficient approach to training; and
- a need for post training support.

The use of digital mapping tools and a digital map base, document image processing and electronic folio maintenance had driven process changes and removed paper from the casework process. Computerisation had completely transformed the way in which caseworkers operated and their training requirements. They were now responsible for processing the whole application, not just part of an application. LRNI explained that this was in addition to the training provided for in the original Agreement and *"a totally different deliverable and is a completely new and innovative approach to training"*.

3.24 LRNI engaged their technical advisors to appraise the most appropriate option to delivering the development of a new training environment in February 2004. A Training Review Project Business Case was produced in March 2005. LRNI informed us that this mainly considered whether it could be included under the current PFI arrangement or needed to go out to separate tender. Legal advice was sought on how to proceed. The advisors suggested that an initial outline interest circular be prepared and passed to three of the largest potential bidders identified by LRNI's technical advisors. Exploratory meetings were held between LRNI and two of the potential bidders. At these meetings it was made clear to LRNI that, although the project was of interest to them, it would be cost prohibitive for any third party provider who had to secure permissions from BT on intellectual property rights. Following these discussions a revised business case was prepared and approved by DFP in October 2005. This was based on:

- new hardware provided by BT;
- software development of the training environment by BT; and
- business services provided by BT, in conjunction with LRNI staff.

The Agreement was extended in September 2006 through the Agreement Change Request process at an estimated cost of £2.2 million; payments to July 2007 totalled £900,000.

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3.25 The lack of transferability of the intellectual property rights in the LandWeb Agreement is, in our opinion, placing LRNI in an over dependant position with BT. This is also evident from the discussions with alternative suppliers for the provision of "e-training" services. In July 2004 OGC issued guidance on risks of over-dependence on a supplier[37]. This identified several factors that result from over dependence, including a lack of willing players to tender, insufficient competition in the wider market, or the cost of changing a supplier is deemed too high.

3.26 Public bodies must be alert to the risk of over-dependency in a contractual arrangement. Failure to identify and act on issues of over-dependency can have adverse effects, including risks to successful contract completion, reduced competition and less innovation in the market. In addressing over-dependency specific strategies cited in the OGC guidance include extending dialogue with the market and insisting on the transferability of intellectual property rights, especially in relation to ICT contracts. It is important that these risks are effectively managed by LRNI.

The Agreement was further extended to provide additional IT infrastructure for access to on-line services

3.27 The escalation in LRNI's workload and the need to employ further processing staff also resulted in periodic Agreement Change Requests for the provision of additional work stations over and above the number specified in the Agreement. These changes have cost £1.5 million to date. We identified instances where, through negotiation with BT, reductions in prices had been achieved. For example, in the provision of flat-screen monitors purchased from BT that enabled caseworkers to properly access and view documentation on-screen, a reduction of twelve per cent on the initial price quoted was achieved.

Our review has identified a significant number of Agreement Change Requests approved by LRNI since July 1999

3.28 In excess of 300 change requests have been initiated to date. The extent of change to the Agreement since signature in 1999 is apparent from the profile of payments made to BT. Our review identified over 100 Agreement Change Requests approved by LRNI since contract signature that have resulted in an additional £19.2 million (representing 42 per cent of the original estimated cost) being paid to BT, up to the end of July 2007. DFP contends that some £14 million of this figure relates to expenditure which LRNI would have had to incur in its normal line of business: casework assistance, additional PCs to cater for increased workloads and transaction charges for Registry of Deeds work pending introduction of a new fees order. Furthermore, while the provision of these services was instigated by the change request mechanism, this was purely a pragmatic approach to maintain day to day business.

3.29 Details of the key Agreement Change Requests agreed to date are shown at

37 *Guidelines on the factors that can be considered when trying to reduce the risks of over dependency on a supplier* OGC July 2004

Appendix 6. Expected transaction payments to BT over the same period totalled £19.3 million. LRNI explained that the majority of these have either been processed as a result of agreement between LRNI and BT and so fall within the scope of the project and attract a nil cost, or are as a result of external factors over which LRNI has no control. BT, in its written response, indicated that of these 300 change requests, 104 were cancelled or suspended, 94 were at its risk and cost and 25 cost less than £5,000 to implement. BT contends that only the remaining 77 are of any significance, which in a project of this size and complexity is well within the expected range. We asked LRNI to provide us with the total future financial commitment on the Agreement Changes approved to date. LRNI was unable to provide an accurate valuation of this commitment but estimate that it would be in the region of £1.5 million.

3.30 The need to negotiate change is a continuing and ongoing component of all service contracts. However, care must be taken to ensure that changing requirements do not take the resulting contract outside the scope of the original EU advertisement or outside the permitted extensions to existing contracts. Multiple changes made to a contract over a period of time may shift the overall allocation of contract risk or transfer particular risks to the Public Sector.

3.31 The private sector partner is in a strong position once a contract has been let because it is the long term contractual supplier. We note that, through negotiation, some reductions in prices quoted by BT have been achieved. However, we found little evidence of testing of prices, for example from alternative suppliers. The rate agreed with BT for caseworkers was based on the public sector cost of processing transactions, which would clearly have included an element of public sector overhead costs. It is important that public bodies take steps to rigorously test any prices for additional work and to impose credible conditions that will allow them to have additional work carried out by alternative suppliers of their choice if there are doubts about value for money.

Part Four:
Contract management and governance arrangements

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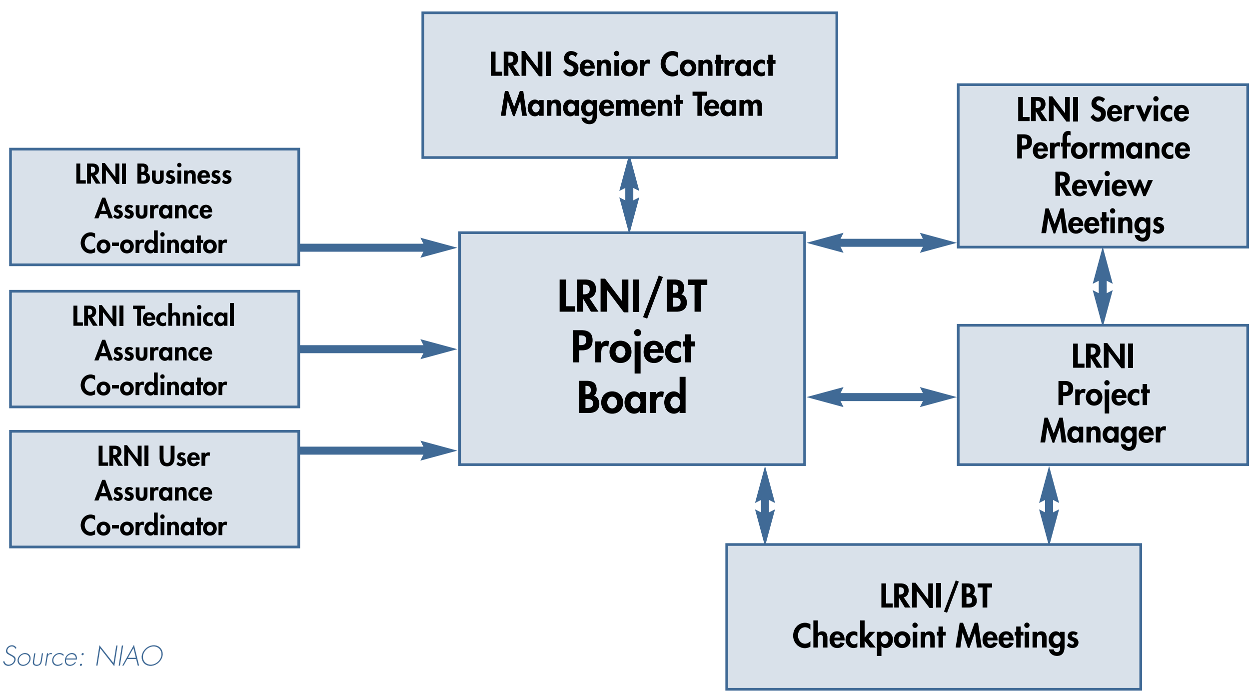
PFI projects involve long term relationships between public bodies and contractors

4.1 The Public Accounts Committee has underlined[38] that PFI projects involve long term relationships between public bodies and contractors and need to be approached in a spirit of partnership, where both sides are open, share information fully and work together to solve problems. The partnership needs clear governance arrangements setting out how performance will be monitored, problems will be resolved and new services or other changes will be introduced. PFI contracts also require appropriate mechanisms, such as benchmarking, market testing and open book accounting, to ensure that value for money is maintained over the lifetime of the project. An earlier related NAO report (see footnote 16) found that only around half of the contracts surveyed had such mechanisms in place. Over one in five authorities considered that there had been a decline in value for money in PFI projects after contract letting, with high prices for additional services a key area of concern.

LandWeb project management arrangements were defined in the Agreement and Final Business Case

4.2 The Final Business Case approved by DFP in July 1999 set out the organisational structures that were to be put in place by LRNI to support both the implementation of the project and the monitoring of the performance of the supplier over the term of the Project Agreement. Figure 10 provides

Figure 10: Project management arrangements were defined in the Agreement



Source: NIAO

38 *"Delivering better value for money from the Private Finance Initiative"* Public Accounts Committee Twenty-eighth Report HC 764 19 June 2003

an overview of the governance arrangements that were established.

4.3 The PFI Agreement set the arrangements in relation to the management of the Project at various levels, including the appointment and authority of individuals who had day to day control of the service. BT and LRNI were each required to appoint one project manager to oversee the Project on behalf of each party and each had the authority to make certain material changes to the way in which the Project proceeded, subject always to ratification by the Project Board. The Agreement also anticipated that the project managers would be responsible for the day to day operation of the Project including any issues or disputes that may arise in relation to the Project and for briefing the Project Board.

4.4 Under the Agreement, a Project Board (comprising three permanent representatives of each party) was to be constituted as soon as possible after the effective date of the Agreement and meet once every two months. A key responsibility for the Project Board was the review and approval of the various rules, manuals and other documents prepared as the Project progressed. Those documents were to govern the operation of the Project, but would only bind the parties once they had been approved by the Project Board.

4.5 Our review of Project Board minutes noted that the Project Board convened approximately every two months until September 2000, but over the next year met only twice. There was a further seven month gap in 2002 and thereafter the gaps between meetings varied from three to five months up to the end of 2005. During these gap periods, significant Agreement Change Requests surrounding back conversion, map reconstruction and casework assistance (see Part 3) were signed off by both parties. Project Board minutes made available do not, in most instances, record key decisions and approvals for significant contractual changes. LRNI informed us that other meetings/working groups did the work associated with the Change Requests and that only Change Requests which were of significant value or had major issues should be presented to the Project Board. However, our review has identified significant change requests with a value of £9 million that were not submitted or approved by the Project Board.

4.6 LRNI only put in place expenditure procedures that included internal processing and approval of PFI Change Requests in September 2005. Whilst the procedures record that all "major" change requests are subject to discussion and approval of the Project Board, the criteria for referral to the Board in terms of value or nature of change are not clearly defined.

4.7 The Project Board is the forum that ensures that parties are equally represented and has sufficient authority to resolve the majority of issues, including through the sanction of a change to the Agreement. It is therefore an important aspect of governance, as a control mechanism to ensure that the infrastructure, controls and documentation that are needed to keep the project on track and promote a successful outcome are operating. In terms of transparency Project

Part Four:
Contract management and governance arrangements

Board meetings should convene in line with the frequency stipulated in the contract, and comprehensive minutes that fully reflect the key project management decisions taken should be maintained.

LRNI has relied heavily on the support of external advisors

4.8 LandWeb was one of the first PFI schemes and LRNI was a relatively small organisation mainly staffed with Land Registry specialists. Exposure to PFI projects within the Northern Ireland public sector at that time was also limited. LRNI therefore required consultancy support through the procurement and implementation phases. In March 1997, DFP approved the appointment of external financial and technical advisors at an anticipated total cost not exceeding £200,000. LRNI's technical advisors were subsequently appointed in June 1997. Legal advisors were appointed in July 1997. Our review of papers indicated that consultants have been used on this project to a greater extent than was originally envisaged, mainly because the original implementation period of two years was extended to five. A revised contractual arrangement was signed by both parties in September 1999 based on a CCTA approved procurement scheme (S-Cat[39]) and rates have been re-negotiated and agreed annually since. The overall cost of consultancy support to date is now in excess of £1.5 million as illustrated at Figure 11. LRNI explained that it sought DFP approval (a key requirement for regularity of expenditure) for the use of consultants up to the award of the contract and for their engagement through the implementation phase. However, we found that approvals were sought and provided by DFP retrospectively in November 2004 for expenditure of up to £1.46 million. LRNI advised us that it has significantly reduced its need for support from external advisors.

4.9 Whilst the external support has been significantly reduced in recent years, it is important to put in place an effective plan to enable transfer of relevant skills to in-house staff. Furthermore, despite the retrospective approval obtained from DFP in November 2004, the failure to obtain

Figure 11: Over £1.5 million has been paid to external advisors

	1999 £'000	2000 £'000	2001 £'000	2002 £'000	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000	Total £'000
Financial and Technical Advice	36	133	254	253	219	245	178	55	100	1,473
Legal Advice	19	48	9	–	–	–	–	–	–	76
Total	**55**	**181**	**263**	**253**	**219**	**245**	**178**	**55**	**100**	**1,549**

Source: LRNI

39 *Guidelines on the factors that can be considered when trying to reduce the risks of over dependency on a supplier* OGC July 2004

approval in advance of incurring expenditure highlights a serious weakness in the control of consultancy expenditure.

4.10 There is an important role for sponsor departments in monitoring costs on all major schemes, including the cost of advisers. These evaluations can be used to monitor the quality of advice and to ensure that progress is being made in reducing advisory costs. An aim should be to allow accurate benchmarking of the price and quality of advisers, to enable the public sector to secure the best advice and value for money from their advisers. Indeed, the recent PAC hearing and report[40] on the use of consultants in the Northern Ireland Civil Service highlighted the need for DFP to introduce enhanced central oversight of consultancy arrangements. The Committee was concerned that delegated limits could be breached, with departments incurring irregular expenditure without sanction.

Good risk management is integral to delivering a successful partnership

4.11 In response to the Invitation to Negotiate, BT prepared a risk profile table identifying the risk allocation between the two parties at that date. To ensure that the risk apportionment proposals (upon which BT was selected as the preferred supplier) had been accurately reflected in the terms of the Agreement, LRNI's advisors examined the risk register originally submitted by BT and the risk transferred under the terms of the Agreement. The legal advisors were content that each risk was dealt with appropriately within the Agreement. BT accepted the following risks at contract signature:

- system design, build, finance, operating and maintenance risks;
- technology risks (obsolescence, refreshment and interface);
- system availability and performance risks;
- volume risk;
- usage risk; and
- the regulatory risks associated with the delivery of its services.

4.12 Although the above operational and financial risks appear to lie with BT, the ultimate business risk cannot be transferred to the contractor because if it fails to deliver the specified project, the public sector still has the responsibility for delivering the required public service. The LRNI PFI project had features that added to the risks including: its status as an early ICT enabled PFI project; the quality, age and quantity of paper based data to be converted; the initial plan to treat Registry of Deeds as a separate project; and the impact of market conditions and backlog levels. Therefore effective monitoring of risks, including information gathered on the scale of risks and how they are being managed, is key. It is also important to have clear agreement on what information will be provided and by whom. Joint guidance issued by OGC and HM Treasury in 2005[41] outlines the benefits of a joint project risk register. A shared register ensures that both parties have a shared understanding about risks to implementation and ongoing service delivery and enables a partnership approach to managing risks. We note that in their recent e-Registration project, LRNI

40 *"Use of Consultants"* Public Accounts Committee No. 16/07/08r 10 January 2008
41 *Managing Risk with Delivery Partners* HM Treasury / OGC 2005

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and BT have conducted an ongoing process of updating a joint project risk register, which is in line with good practice.

A Payment Mechanism should incentivise the contractor to deliver the service and give value for money to its public sector partner

4.13 The payment mechanism is key to a contract as it is the primary means of putting into financial effect the obligations that are being placed on the contractor, and the allocation of risk between the public body and the contractor. It determines how the public body pays for the services it receives and should incentivise the contractor to deliver a service that gives value for money to the public body. Recent OGC guidance (see paragraph 1.17) recommends that where services require the deployment of project specific assets prior to service commencement, the contractor will be paid by a combination of Milestone Payments and Service Charges through the implementation and operational stages of the contract. The impact of this is that the costs of asset creation are likely to be substantially recovered by the contractor through the Milestone Payments made by the public body, provided that key performance criteria are demonstrated as having been met by the contractor.

4.14 A public body should ensure that the contractor is required to meet agreed service levels throughout the operational period of the contract and that service credits[42] are applied for failure to meet service levels. There is very rarely a direct relationship between the cost of providing a service and the level of service delivered. An over-aggressive approach will result in contractors applying a risk premium to their prices. However, a public body must not leave itself in the position where it is incurring additional expenses that far exceed the service credits. Service credits must be seen as part of a package of contractual measures to maintain the focus on restoration of the service to the required levels and not as an end in themselves.

4.15 To ensure that LRNI has a remedy for poor service (other than termination), the Agreement incorporates a mechanism where, to the extent that BT fails to provide an individual service to an agreed level, and LRNI incurs staff overtime costs to rectify that failure, BT will meet those costs. A staff overtime repayment mechanism was chosen for its simplicity and was considered by LRNI to be the only realistic means by which a cost could be attributed to the poor service concerned. A service performance review team has responsibility for monitoring performance against the agreed service level targets and the Agreement allows for quarterly service review meetings. The first of these meetings was held in May 2000 and there have been twelve further reviews. To date there have been no penalties imposed on BT in relation to service levels provided.

4.16 As discussed in paragraph 4.14, service credits are included in PFI contracts to protect the public sector from paying the full price for poor quality service. The LRNI Final Business Case 3, approved in July 1999, states that *'In line with Treasury Taskforce guidance, the parties have agreed not to use a formal service credit regime in order*

42 Service credits are an abatement of the charges so that the public body is not paying the full price for poor quality service.

to penalise BT for its failure to reach any relevant service levels". However LRNI was unable to provide the source of this Treasury Taskforce guidance and NIAO is not aware of any such guidance.

Without a transparent open-book approach to pricing, judgements over the value for money, or otherwise, of those changes are difficult.

4.17 As outlined in paragraph 4.1, the 2003 Public Accounts Committee Report stressed the importance of mechanisms, such as benchmarking, market testing and open-book accounting, to ensure that value for money is maintained over the lifetime of a project. It considered that such mechanisms need to be an integral part of the contractual and governance arrangements for all contracts. The 2007 OGC guidance further highlights the importance of monitoring the financial aspects of the project including the contractor's return (see Appendix 5)

4.18 This was an early PFI Agreement and is classed as 'financially free-standing', in that it required no public sector funding to enable it to progress. BT financed the design, build, data conversion and operation of the service, recovering their costs entirely by receiving a set transaction fee, forming part of the charges made by LRNI directly to its customers. The requirements of open government suggest that PFI contracts should be placed in the public domain as far as possible. Only "commercially sensitive" information, information which the dissemination of is contrary to the public interest, or information which is personally private should be withheld. In the PFI context the key concern relates generally to "commercially sensitive" information. The Standardisation of PFI Contracts guidance (SOPC4 issued in 2007) defines Commercially Sensitive Information as "any information which is agreed by the parties at the time of the Contract as being commercially sensitive".

4.19 Under the Agreement signed with BT in July 1999, DFP has secured certain access to BT's Service Records. However, this Agreement specifically excludes the Department obtaining information on *"the make-up of the charges, including, without limitation, BT costs, overheads and profit"*. LRNI informed us that, *''this was the commercial reality at the time. No company would have given Government open book access''*. However, an NAO report published in November 2001(see footnote 16 at paragraph 21) which surveyed 121 PFI projects let prior to 2000 demonstrated that 55 per cent had provisions for open book accounting; 49 per cent had benchmarking mechanisms and 43 per cent had profit and other gain sharing mechanisms. LRNI considers few of the surveyed schemes appear to be comparable to the LandWeb project, and consider that the valadity of the comparison is therefore open to question and inconclusive.

4.20 The SOPC4 guidance asks two key questions in relation to the issue of transparency and value for money:
- which items should reasonably be included and which excluded when costing a variation? and
- for the pricing of items which are included, how might the Authority assess whether or not it is getting value for money?

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4.21 As set out in Part 2 of this report, the Agreement signed in 1999 has seen significant change, increasing its total capital value from an estimated £51 million (adjusted to 2006 prices) at contract signature to a reported current estimated cost, over the revised period of the Agreement (1999-2019), of up to £78 million. LRNI advised us that, *''we can demonstrate that we have consistently challenged the price of new work with BT and have agreed significant reductions or added services for the money''*. However we have been provided with limited documentary evidence throughout our review in support of LRNI's assessment of the value for money of the changes and extensions to the Agreement. In particular there is limited evidence of benchmarking or market testing of costs and more importantly, there has been limited opportunity to involve other suppliers (see paragraph 3.24). LRNI commented that, *''there is no other contract in existence that we could benchmark against''*.

4.22 Without a general requirement on BT to process and implement changes using a transparent open-book approach to pricing, judgments over the value for money, or otherwise, of those changes are difficult.. BT, in its written response, indicated that it is confident that it is delivering good value for money and it believes that benchmarking services of a similar or comparable nature would be an appropriate means of assessing this. BT also explained that it would, as a partner, be prepared to support an investigation into such benchmarks. HM Treasury guidance on benchmarking and market testing issued in 2006 (summarised in Appendix 7) suggests that such benchmarking and market testing are primarily the responsibility of the contractor. The contractor and public body should independently collect comparative information as part of the benchmarking exercise.

4.23 In our view the lack of transparency of the Agreement makes it difficult to assess whether LRNI are obtaining value for money. BT has stated that it does not see access to the cost base of a supplier for an end-to-end business services contract as a secure means of ensuring value for money, particularly as BT took (and continues to take) a significant commercial risk in entering this partnership. BT considers that LandWeb is not just a pure ICT project, and has cited NAO guidelines on evaluation of value for money from PFI Contracts, which focus on other mechanisms such as benchmarking *("A Framework for Evaluating the Implementation of Private Finance Initiative Projects Volume 1 & 2 - NAO May 2006")*.

4.24 BT will have the opportunity to undertake such benchmarking to demonstrate that it continues to deliver value for money as part of the Break Option Review. Indeed, we note that the Agreement states that *'No less than four calendar months in advance of the Break Option Review date BT shall submit to LRNI a paper setting out BT's proposals for ensuring that the Project provides a VFM service for the LRNI for a term of five years from the Break Option date'*. LRNI has this opportunity to assess the rate of return information that, under the terms of the Agreement, should be made available at year seven (2011-2012) and depending on the outcome of this review, LRNI should be prepared for tough negotiations and ultimately be prepared to walk away from the Agreement. However, we strongly encourage LRNI to press BT to provide, in the spirit of SOPC4 and OGC guidelines, appropriate mechanisms, such as benchmarking, market testing and open book accounting. Indeed the Public Accounts Committee in its 2003 report on *Delivering better value for money from the Private Finance Initiative* recommended that such mechanisms need to be an integral part of the contractual and governance arrangements for all contracts.

Appendices

Appendix One:
(Paragraphs 5 and 2.6)

Performance of LRNI against Key Ministerial Targets

Key Ministerial Targets	Targets, Outturns & Achievements			
Efficiency		**2004-05**	**2005-06**	**2006-07**
To achieve a weighted unit cost target of £x inclusive of PFI costs	Target	28	27	26.50
	Outturn	20.68	21.90	25.55
Output		**2004-05**	**2005-06**	**2006-07**
To process x application units per member of staff per month	Target	160	180	190
	Outturn	244.65	255.05	222.91
Quality		**2004-05**	**2005-06**	**2006-07**
To achieve a customer satisfaction rate based on customer surveys of at least x %	Target	75	78	80
	Outturn	86	84	85.5
Financial Performance		**2004-05**	**2005-06**	**2006-07**
To cover Agency costs out of fee income	Target			
	Outturn	Achieved	Achieved	Achieved

Source: LRNI

Note: Revision of Monitoring Systems - In 2005-06 the Agency conducted a comprehensive review of its unit performance measurement system. The existing unit measuring system having been established for a solely manual processing environment, the main aim of the review was to develop a unit measuring system which reflected the operational efficiencies brought about by computerisation and the redesign of business processes.

Average Turnaround Times for Typical Registrations (Ministerial Target up to 2003-04)[1]

Registration	2001-02 (working days)	2002-03 (working days)	2003-04 (working days)	2004-05 (working days)	2005-06 (working days)	2006-07 (working days)
Land Registry	15.37	14.41	13.94	17.13	12.20	15.19
Registry of Deeds	8.69	5.55	5.87	5.67	3.77	3.79
Statutory Charge Register	9.46	10.33	12.57	8.68	8.32	5.62

Source: LRNI

Note. Up to 2003/04 average turnaround times were Ministerial Targets and were published in the LRNI Annual Report and Accounts.

Appendix Two:
(Paragraphs 9 and 2.19)

Report of C&AG (or Extract) to be included following its publication in Annual Report and Accounts

Land Registers of Northern Ireland – Surplus Income

Under Section 84 of the Land Registration Act (Northern Ireland) 1970 ("the 1970 Act") and Section 16(1) of the Registration of Deeds Act (Northern Ireland) 1970, the Department of Finance and Personnel has the power to make an order prescribing the fees to be charged by the Land Registers of Northern Ireland (LRNI) for services provided.

The 1970 Act, as amended by The Registration (Land and Deeds) (Northern Ireland) Order 1992, states that fees are to be at a sufficient level to enable LRNI "to meet so much of the operating expenses of the Land Registry as is attributable to its registration functions".

Full details of the fee income and the cost of services for the three separate registers within LRNI (the Land Registry, the Registry of Deeds and the Statutory Charges Registry) are shown at Note 2 to the Annual Accounts.

A summary of fee income and cost of services for the four years since The Land Registry (Fees) Order (Northern Ireland) 2003 ("the 2003 Order") is shown below:

	2006-07 £'000	2005-06 £'000	2004-05 £'000	2003-04 £'000
Fee Income	25,076	21,618	17,940	13,263
Cost of Service	16,431	15,719	13,944	12,723
Surplus	**8,645**	**5,899**	**3,996**	**540**
Surplus as % of fee income	**34.5%**	**27.3%**	**22.3%**	**4.1%**

The Land Registry accounts for the majority of the surplus in all years, with deficits in 2006-07 of £694,000 and £12,000 incurred by the Registry of Deeds and Statutory Charges Registry respectively.

I am concerned that such large Land Registry surpluses have arisen in the last three years and that there has been an escalating upward trend. I am also concerned that fees charged in respect of the Land Registry may be subsidising deficits in the Registry of Deeds and Statutory Charges Registry

At present, the surpluses arising in LRNI are surrendered to the Department of Finance and Personnel at the end of each financial year. The 1970 Act, as amended, requires that the fees should meet the operating expenses of the Land Registry as is attributable to its registration functions. It appears however, that the surpluses

Appendix Two:
(Paragraphs 9 and 2.19)

are being used for purposes wider than those specifically permitted by the 1970 Act.

I note that the Land Registry (Fees) Order (Northern Ireland) 2007 ("the 2007 Order"), which revokes the 2003 Order, came into operation on 1 April 2007. The 2007 Order has substantially reduced fees paid for many transactions across the Land Registry. Given the level of surpluses which have arisen in the past four years, I am concerned that there was no Fees Order issued by the Department between 2003 and 2007.

Following the audit of the 2004-05 annual accounts, my staff recommended that the level of fees should be reviewed. LRNI responded by noting that "The process of setting fees is a lengthy one involving DSO, customer consultation, the minister and the Rules Committee. Fees cannot be quickly changed to match a fluctuating market. A new fees order is currently being progressed. A costing system is also being developed to further improve the setting of fees and ensure the customer gets best value for money."

I am concerned that it has taken until 1 April 2007 to introduce reduced fees. I am further concerned as to whether past surpluses were taken into consideration in setting future fees as it is my understanding that a surplus is expected in the 2007-08 year, despite a reduction in fees in the 2007 Order.

LRNI and its sponsor Department, the Department of Finance and Personnel told me that:

- LRNI drafted a new Fees Order in 2005, taking into account property prices in 2005. But due to protracted scrutiny and consultation of both the Land Registry Fees Order and the Registry of Deeds Order, which LRNI wished to implement at the same time, LRNI were unable to introduce the new scale fees until April 2007;

- The sharp increase in surplus income within LRNI has been exacerbated in recent years by the unprecedented increase in both the volume of transactions and property prices in Northern Ireland and this looks set to continue; and

- The Land Registry Fees Order 2007 and Registry of Deeds Fees Order 2007 are intended to arrest the escalating upward trend in surplus income but despite this action the continued growth in the property market may well result in a further surplus for the 2007-08 financial year.

I also note that the Department has recently asked the LRNI Accounting Officer to take appropriate steps to ensure more effective financial management of fee income, including more frequent and regular reviews of fees. I would ask the Department and the LRNI to ensure such steps are taken as quickly as possible and take into account past surpluses earned when setting revised fees.

J M Dowdall CB
Comptroller and Auditor General
2nd July 2007

Northern Ireland Audit Office
106 University Street

Belfast BT7 1 EU

Appendix Three:
(Paragraph 1.5)

Northern Ireland Department of Finance and Personnel Memorandum on the 26th Report from the Committee of Public Accounts Session 1989-90

On the unsatisfactory nature of the Registry's performance and the standard of service provided, and its response to the recommendations of past surveys

PAC Conclusions	Department Response
i. We expect the Registry to make positive efforts to continue to reduce the backlog of cases and increase productivity.	Positive efforts continue to be made by the Registry to increase productivity and to reduce the workstock. The target of 7,000 cases by the end of March 1991 referred to in Paragraph 4 of the PAC's Report is already well on the way to being achieved. (Workstock on 31 August 1990 stood at 7,930 cases). Major increases in productivity are expected following implementation of the proposals contained in the Action Plan.
ii. We consider that the Registry's failure to act promptly to improve its procedures contributed to the need to levy fees substantially higher than in HM Land Registry in England and Wales.	The implementation of the proposals contained in the Action Plan are designed to achieve a substantial reduction in the level of fees.
iii. We trust that the development of a financial framework to clarify the financial responsibilities of the officer responsible for managing the Registry will form part of the action plan now being implemented by the Department.	While it is not the intention to include a financial framework in the Action Plan, the introduction of Cost Centres throughout the Department has delegated control to the officers responsible for these Cost Centres including, in the case of Land Registry, the Registrar of Titles. Other changes to be implemented by the action plan will cover the areas of economy and efficiency.

Appendix Three:
(Paragraph 1.5)

PAC Conclusions	Department Response
iv. We expect the Registry to develop fully its performance indicators and the Department to monitor progress against the position in HM Land Registry in England and Wales.	Performance indicators will continue to be developed as part of the ongoing improvements to the efficiency of the Registry. The introduction of a system of unit costing has been included as one of the targets to be met in 1990/91. The Department will monitor the LRNI processing times against those of HMLR.
v. We recommend that the Department should consider winding up the Land Registry Insurance Fund.	It is proposed that new legislation currently being prepared, will give effect to this recommendation.

On the computerisation of the Registry and the extension of compulsory registration

vi. We welcome the beginning, after a slow start, of computerisation in the Registry and expect to see substantial progress by 1995.	The Committee's comments are noted. Computerisation of the Registry is one of the elements covered in the Action Plan.
vii. We note the Department expects to extend compulsory registration of title throughout Northern Ireland, leading to a less costly form of conveyancing, and we look forward to hearing of progress on developments.	The extension of compulsory registration throughout Northern Ireland is dependent on the successful implementation of the Action Plan. The Committee's interest is noted.

On the Department's failure to prepare proper Memorandum Trading Accounts for the Registry

viii. We regard it as unacceptable that the Registry failed over several years to cover its costs because it had not prepared proper Memorandum Trading Accounts and we consider that the departmental management failed to maintain effective oversight of the matter.	New instructions on the preparation and maintenance of Memorandum Trading Accounts have been circulated in order to ensure that Treasury guidance is complied with.
ix. We urge the Department to introduce procedures to ensure that its policy on charges, and all Memorandum Trading Accounts for which it is responsible, comply with Treasury guidance in future.	As above

On the Efficiency Scrutiny of the Registry

PAC Conclusions	Department Response
x. We are glad that decisions on the recommendations made by the Efficiency Scrutiny Team have now been taken which should resolve the Registry's present problems and ensure that it provides a better standard of service in future.	The Committee's views have been noted. A detailed Action Plan has been prepared and agreed with the Efficiency Unit, Whitehall. The plan contains a number of targets with dates for their achievement and progress on achieving these targets will be monitored by the Efficiency Unit.
xi. We consider that if the Department's management of the Registry had been more effective, it should have considered in depth the entire system of land registration much earlier and we recommend speedy implementation of the decisions taken as a result of the Scrutiny Team's review.	As above

Appendix Four:
(Paragraphs 1.11 and 3.23)

The Final Business Case set out discreet services

a) **development, installation and configuration of the System,** including the development of all necessary bespoke software elements and the integration of all software and hardware elements;

b) **provision of a back conversion service,** through which existing Land Registry title and charges documentation will be scanned in order to provide an electronic version of the document, suitable to be used on the System;

c) **provision of a document archive service** with which, the Authority will store and track the hard copies of its land registration source documentation using various off-site storage facilities;

d) **provision of on-line services,** by which solicitors in Northern Ireland will be able to gain electronic access from a desktop PC to the System and carry out transactions without the requirement for the filing of hard copy documentation; and

e) **provision of change management and training services,** through which BT will assist LRNI to migrate its existing services to the System and provide LRNI's staff with sufficient training to use the System efficiently.

Appendix Five:
(Paragraphs 1.17 and 4.17)

The Office of Government Commerce has issued guidance on the provisions that should be considered for inclusion in any long-term contract that will assist in obtaining value for money

VFM Provision	Objective	Detail
Efficiency Savings	The Contractor should be able to use its expertise to find and implement efficiency improvements in service delivery. Sharing in the benefits achieved will provide an incentive.	The Agreement should provide for an annual service review meeting to consider – amongst other issues - the extent to which the continuous improvement programme has been successful in finding and implementing savings in the preceding year, investigating future opportunities and setting a target saving for the forthcoming year. To incentivise the Contractor, savings should be shared, where appropriate, between the Contractor and the Authority in a proportion which will be agreed on a case-by-case basis. The Agreement may also include provisions requiring a year-on-year reduction in charges (and/or, more rarely, where this can be shown to deliver business value, increases in service levels) throughout the contract term.
Gain Sharing	To impose some limits on the return the Contractor is able to achieve from the project.	Consider if the Agreement should provide for the Contractor and the Authority's organisation to share in the return made over the life of the project or on a periodic basis over an agreed threshold. That share may take the form of a rebate of service charges or the provision of free additional services if required.
Financial Model /Open Book Accounting	To ensure that it is possible to monitor the financial aspects of the project including the Contractor's return.	Before contract award, the Contractor will submit a financial model of the project showing the budgeted items of initial setup and ongoing service delivery costs and assumed profitability. On the basis of the agreed financial model, the Contractor will be required to provide annual accounts (usually in the form of a certificate of costs) in relation to the services. These accounts will expose the Contractor's actual cost of and return from the service provision over the life of the Agreement. This will support gain sharing. The assumed return in the financial model will also form the basis for estimation of proper cost to the Authority of change under the Change Control Procedure. To ensure that the principle of open accounts is adopted effectively, it is usually necessary to extend it to affiliates of the Contractor and/or other material subcontractors in projects where there is substantial dependency on these entities to achieve service delivery.
Benchmarking	In a long term services contract where there is limited scope to compete the services, benchmarking can be a useful means of injecting some continuing competitive pressure but it is important to include principles in the Agreement that permit fair "like for like" comparisons to be made.	Benchmarking is normally applied to service performance as well as service payments and may apply to individual service elements and not just the service as a whole. Improvements or price reductions specified in a benchmarking report shall be implemented within a specified period of time.

Source: OGC Model ICT Services Agreement and Guidance. V2.1 June 2007

Appendix Six:
(Paragraph 3.28)

Summary of the key Agreement Change Requests agreed to date (excluding additional back conversion costs)

Change Request No	Description	Cost	Detail
72	Map Volumes	£ 210,000	This is provided for within the contract
128	LRNI Connection to DFP	£ 146,722	At the time when LRNI moved from DOE to DFP it had implemented Microsoft Outlook as part of the services provided by BT. To achieve connectivity with DFP's Notes mail, LRNI had no option other than to incur these costs
169	Processing LRNI Applications	£ 2,130,402	Relates to work carried out by the Casework Assistance Team. The costs relate to the production of applications for registration. LRNI estimated that equivalent costs would have been incurred had it been able to recruit permanent staff. It was approved by the Minister .
179	Government Gateway Utilisation	£94,367	Resulting from a CITUNI mandate that the gateway must be used for e-services
190	Charging for Registry of Deeds Searching - Interim Solution	£2,666,948	When the back converted Registry of Deeds records were made available for searching, a new fees order introducing electronic search fees had not been approved by DSO. The CR relates to fees which LRNI would have to have paid BT had the order been in operation
206	Changes to Search Functionality in RoD	£50,150	Raised as a result of a request by customers
221	Copy Map Content	£59.950	Raised as a result of a request by customers
238	Additional PCs for DFP	£140,000	Directly relates to the increase in business volumes and the need to provide equipment to additional staff to carry out their duties
243	Additional PCs for Casework and Despatch	£223,825	Directly relates to the increase in business volumes and the need to provide equipment to additional staff to carry out their duties
251	Call-off for use of staff for Interrupt Cases (and other CW A Catch-up work)	£176,232	This CR relates to work carried out by the Casework Assistance Team (). The costs relate to the production of applications for registration. LRNI estimated that equivalent costs would have been incurred had LRNI been able to recruit permanent staff

Change Request No	Description	Cost	Detail
256	Lotus Notes & Internet Connection	£31,430	Directly relates to the DFP's use of Notes mail.
258	Approach for LRNI Business Training	£905,500	This expenditure is supported by a full business case and will have long term benefits to the organisation in establishing an integrated IT and business process training environment capturing detailed business procedures and standardising practices.
265	Extension	£5,451,128	Relates to work carried out by the Casework Assistance Team. The costs relate to the production of applications for registration. LRNI estimated that equivalent costs would have been incurred had it been able to recruit permanent staff
278	Additional PCs	£132,101	Directly relates to the increase in business volumes and the need to provide equipment to additional staff to carry out their duties
283	Additional PCs	£588,450	Directly relates to the increase in business volumes and the need to provide equipment to additional staff to carry out their duties
286	Registry of Deeds Paper Records	£31,057	Document storage facilities in LRNI headquarters had been exhausted and there was no other alternative but to store in the off-site facility
304	Flat Screen Monitors and Dual Display System	£428,000	Dual screen technology had not been developed at the date of the agreement and only became available when Windows XP went live. A detailed business case was developed for the procurement highlighting a quick return on the investment in terms of efficiency and improved productivity. The dual screens have complemented working with scanned documentation.
309	Extension	£2,505,000	Relates to work carried out by the Casework Assistance Team. The costs relate to the production of applications for registration. LRNI estimated that equivalent costs would have been incurred had LRNI been able to recruit permanent staff
325	Despatch printer	£30,000	Directly relates to the increase in business volumes and the need to provide equipment to additional staff to carry out their duties
336	Additional DIPIS Scanner	£25,600	Directly relates to the increase in business volumes and the need to provide equipment to additional staff to carry out their duties

Appendix Seven:
(Paragraph 4.22)

HM Treasury: Operational Taskforce Note 1: Benchmarking and market testing guidance (October 2006) – key issues for consideration

Introduction

Operational Taskforce Note 1 examines a range of issues, which public sector PFI contract managers should consider when approaching a value test, i.e. benchmarking or market testing.

Clear Lines of Responsibility

Both benchmarking and market testing are primarily the responsibility of the Project Company[43] in terms of cost and management. However, both the Project Company and the Authority must agree on a value for money outcome, and it is essential that the process is open, transparent and inclusive. Users should be kept informed of progress, and adequate time should be allowed for funders' involvement. Roles and responsibilities must be clearly established, and a clear methodology for assessing benchmarking data or evaluating competitive bids must be agreed at the outset.

Early and Thorough Planning

Early planning and identification of the skills and resources required for value testing is key to the process, as is maintaining good communications throughout. The process should have a clear plan agreed from the outset, including a timetable that allows adequate time for iteration, clarification and negotiation. It may take anything from nine months to two years to undertake the exercise. Departments should be involved early on in the process, and all appropriate guidance and legislation relating to employee rights must be fully complied with.

Adequate Resourcing

Undertaking a value test can be resource intensive. Specialist technical, financial and legal advisors may be required. The Authority should consider the need for advisory support and budget accordingly.

Reviewing the Specification

A value test is an ideal opportunity to review the operating specification, and to adjust service levels to better meet an Authority's requirements for the future.

Benchmarking – Ensure Data Provides an Accurate Comparator

Both the Project Company and the Authority should independently collect comparative information when undertaking a benchmarking exercise. The Project Company will require this information for identifying a benchmark cost of the services, and the Authority will need it to examine, interrogate and validate the result of that exercise. Authorities must ensure that data used is a valid comparator, transparently compiled. Making accurate comparisons is difficult, and often the data is likely to need to be adjusted to take into account project specific aspects of the service provision, and factors such as regional variations. The Project Company's own costs of providing the services are not a valid comparator.

Market Testing – Ensure Fair and Open Competition

Ensuring openness, fair competition, and the development of clear and objective evaluation criteria are key to the success of market testing. Authorities should assess how best to encourage an active bidding market and need to avoid

43 In this guidance the term "Project Company" refers to the Special Purpose Vehicle (SPV) which is party to the contract with the Authority and which is normally responsible for managing the value test. However, where another entity is responsible for value testing, such as the facilities management provider, the principles set out in this document equally apply.

potential for conflicts of interests between the Project Company and bidding subcontractors. An Independent Tender Process Manager could be used.

Continued Quality of Service

In order to ensure that public authorities benefit from the experience gained from value testing, the process and results should be documented in a lessons learned report and disseminated to the responsible departmental Private Finance Unit and the Operational Taskforce

List of Reports

Title	HC/NIA No.	Date Published
2007		
Internal Fraud in Ordnance Survey of Northern Ireland	HC 187	15 March 2007
The Upgrade of the Belfast to Bangor Railway Line	HC 343	22 March 2007
Absenteeism in Northern Ireland Councils 2005-06	-	30 March 2007
Outpatients: Missed Appointments and Cancelled Clinics	HC 404	19 April 2007
Good Governance – Effective Relationships between Departments and their Arms Length Bodies	HC 469	4 May 2007
Job Evaluation in the Education and Library Boards	NIA 60	29 June 2007
The Exercise by Local Government Auditors of their Functions	-	29 June 2007
Financial Auditing and Reporting: 2003-04 and 2004-05	NIA 66	6 July 2007
Financial Auditing and Reporting: 2005-06	NIA 65	6 July 2007
Northern Ireland's Road Safety Strategy	NIA 1	4 September 2007
Transfer of Surplus Land in the PFI Education Pathfinder Projects	NIA 21/07-08	11 September 2007
Older People and Domiciliary Care	NIA 45/07-08	31 October 2007
2008		
Social Security Benefit Fraud and Error	NIA 73/07-08	23 January 2008
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