Thank you for your letter of 22 June 2010 seeking information in respect of the Northern Ireland Executive's approach to capital allocation and investment. You identified several areas of particular interest to the Finance Committee and I will seek to address each of these below.

1. **How was the decision taken to operate a ten year capital strategy, and what was the rationale behind this approach?**

The first devolved Executive inherited a legacy of under-investment in civil infrastructure and determined to address this as a policy priority. The quantum of available public capital was increasing during this period, aided by an agreement with HM Treasury to provide the capacity for the Executive to borrow up to £200 million per annum from the National Loans Fund to help accelerate further the potential to deliver key programmes under the Reinvestment & Reform Initiative (RRI). To ensure that this money was invested optimally on strategic priorities the Executive decided to:

(a) establish a small team with appropriate commercial expertise to advise Ministers on the optimal mix of investment;

(b) task the team to draft an Investment Strategy for Northern Ireland (ISNI) which would set out Ministers' decisions on the long term priorities, and help the public and private sector suppliers prepare for the challenges ahead; and

(c) use the team's expertise to help departments speed up delivery of projects on the ground - and ensure value for money.

A 10-year perspective was agreed to provide sufficient perspective recognising the long planning period involved in areas such as water, roads and hospital development. It was recognised, nevertheless, that budgetary commitments in ISNI would cover only the normal 3-year UK budget planning period. Amounts quoted for programmes beyond this period were indicative of Ministers' intentions at the time of
publication - but would require affirmation in future Budget cycles. For this reason, the ISNI is refreshed alongside the Budget in each Spending Review cycle.

There was some precedent for a planning period longer than the normal 3-year window. The National Development Plan in Ireland, for example, typically covered 7 years.

**Why was it decided to put this under the direction of the Strategic Investment Board?**

The reply to the first question above sets out the background: the “small team” was constituted as the Strategic Investment Board through the Strategic Investment & Regeneration of Sites Order 2003. The statutory responsibilities of the new organisation - Strategic Investment Board Limited - were to (paraphrased):

(a) advise on an Investment Strategy for Northern Ireland, and

(b) support to departments and related public bodies to accelerate the delivery of investment on the ground.

In relation to ISNI - SIB draws on its expertise, Ministerial/departmental liaison and market soundings in order to advise Ministers on the optimal programme of investment consistent with the funding available (as advised by the Department of Finance and Personnel (DFP)). As a company wholly-owned by the Office of the First Minister and deputy First Minister (OFMdFM), SIB provides advice which is independent of external interests and is provided wholly in the public interest.

**Given that funding allocations are only known three years ahead (at most), how is the issue of uncertain funding levels addressed in relation to managing a ten year plan, particularly considering the current climate with the prospect of reductions to capital budgets?**

The Investment Strategy Northern Ireland 2008-11 (ISNI) was based on an estimated funding package for the ten year period. However, the allocations for years four to ten of the ISNI, i.e. the years falling outside the CSR 2007 period, were indicative only. It was the clear intention that these would be revisited in subsequent local budget processes in order to reflect the actual level of funding available and to take account of changing circumstances.

**Is the Executive’s total capital budget centralised, or do departments hold their own capital budgets – how does this fit with the Strategy?**

The local budget process sets a capital budget for each department for each year of the budget period. The allocations in the Budget and the ISNI are the same for this period. The ISNI sets an indicative budget for each department for the latter years falling outside the budget period.

Although each department is responsible for the management of its capital budget there are restrictions on the level of flexibility available to departments. For example, departments must surrender funding not required for the purpose originally granted and any proposed movement of funding across spending areas requires Executive approval.
If departments hold their own capital budgets, what are the procedures for taking forward capital projects within departments?

At the invitation of Ministers, SIB works with departmental officials to support the development of business cases and in subsequent commercial negotiation. Its support is aimed at ensuring that the right assets are procured, fit for purpose, and the best deal secured for the public purse. Departments are required under the legislation to have regard to the advice provided by SIB in making investment decisions, albeit departments' internal priorities and actions are directed by their Minister.

What proportion of total capital spend is included in the Strategy?

All capital spend by NI departments is included in the Investment Strategy.

How are decisions taken in terms of what programmes/projects are to be included in the Strategy?

At the outset of each ISNI development exercise, departments are invited to submit bids for capital funding for the three years ahead - and for the subsequent 7 years of the overall 10 year ISNI perspective. This must be disaggregated by individual project - together with a clear financial profile of the investment sought. Additional information on each project is sought in order that a comparative assessment can be made by SIB later in the process, in the event that the total value of bids exceeds the funding likely to be available. SIB then assesses bids by reference to issues such as:

(a) the current nature of commitment to the project. Projects that have already commenced in delivery, and where funds are required to complete the work, receive a high priority, all other things being equal. Projects that relate to legal compliance - such as EU framework compliance, health and safety, disability access, etc. are also given a high priority.

(b) Multi-criteria analysis (MCA) is also undertaken to assess the likely comparative return on investment - those projects offering a higher return are prioritised accordingly. The MCA includes questions on complementarity, alternative options, deadweights effects, etc.

Ministers of course make the final decisions regarding prioritisation.

Given the existence of the long term Investment Strategy, how does this allow for flexibility to respond to emerging demands?

The Investment Strategy will be reviewed in line with the local Northern Ireland budget process. The budget agreed by the Northern Ireland Executive usually covers the same period as the national Spending Review.

In addition the Northern Ireland Executive conducts four In-Year Monitoring rounds each year which allow budgets to be reviewed and updated in light of up to date information and changing circumstances. These rounds allow departments to surrender funding no longer required for the purpose originally allocated and to identify additional funding requirements. The In-Year Monitoring process also allows the Executive to take action to deal with emerging pressures.

How is the overall Investment Strategy monitored and evaluated?
SIB has developed a Delivery Tracking System (DTS) that provides a central hub for
information on the planning and delivery status of all capital projects. Using the DTS,
departmental officials responsible for each project (and component procurement)
update key information such as milestone dates, project details, contact information,
financial cost, etc. The DTS is used to monitor the delivery progress of ISNI.

The DTS is also used to serve information to a front-end web portal - the ISNI
Information Service at www.isni.gov.uk The web portal allows members of the
general public and/or interested stakeholders (such as SMEs in the construction
sector) to view the most up-to-date information on the progress of projects through
procurement - and to view forecast dates. The information can be explored on an
innovative map-based interface - or downloaded in report format.

The DTS is also used to prepare focussed status reports that will shortly be
circulated to MLAs and Committee Chairs on a regular basis.

**How are the individual projects/programmes monitored and evaluated?**
This is covered in the answer to the previous question. Departments also undertake
post-project reviews.

**What efforts are made to include social clauses and promotion of local
business within infrastructure investment?**
SIB has developed a Social Clauses Toolkit to ensure contractors act in a way that
helps communities and young people to benefit directly from the delivery of capital
projects in their area. SIB can provide further details on how this is already being
implemented to deliver apprenticeships - and how it will be further enhanced working
closely with DFP’s Central Procurement Directorate going forward (www.sibni.org).

I hope you find this information useful and wish you well with your inquiry into the
way in which capital funding is allocated within the Welsh Government.

Yours sincerely

[Signature]

SAMMY WILSON MP MLA