



Ms. Niamh Maguire,
Secretariat to the Committee of Public Accounts,
Leinster House
Dublin 2

7 May 2014

Re: Update as requested at the Committee meeting on Thursday 3 April 2014

Dear Niamh,

I refer to your letter of 9 April 2014 seeking a response to issues which arose at the meeting of the Public Accounts Committee on Thursday 3rd April 2014.

I am pleased to enclose updates in relation as follows:

1. A breakdown of the target for savings of €305 million under the Haddington Road Agreement that were delivered in 2013.
2. The amount of debt that will be transferred to Irish Water, for waste water service commitments when responsibility transfers from the local authorities.
3. A note on how the associated costs to the Courts Service could be reduced when the Central Criminal Courts Complex is unavailable due to inadequate service levels by the PPP provider.
4. A note on the PPP arrangement for the National Convention Centre and confirmation on whether the owner of the National Convention Centre, Treasury Holdings, received a write-down on its loans.
5. A note on whether any of the 25 staff, now engaged in procurement work have direct experience of working in an SME.
6. An update on the situation regarding the Local Government Reform Bill 2013 with particular reference to the commercial rates section.
7. A response to the submission to the PAC by the Small Firms Association and the Irish School Art Supply Federation, which were forwarded to the Department.
8. A note on the amount of money that is likely to be recouped arising from investments and work carried out on Metro North, DART underground and Metro West projects.
9. A note on the transfer of the procurement of services from the OPW to the Department of Public Expenditure and Reform and the impact of this on old and new suppliers.

10. A note on the timeframe for the implementation of the new integrated financial management system for the HSE.
11. A note on the up to date situation regarding the cost to the state for the payment of vacant space in Carrisbrook House, Dublin 4.
12. A note on the up to date position and the steps taken to complete the unfinished Tipperary Hostel Project.
13. A note on the practices of the current system of tendering by SMEs in the public sector and whether a special purpose vehicle for tendering is allowed.

Yours sincerely,

A handwritten signature in black ink, reading "Robert Watt". The signature is written in a cursive, flowing style with a large initial 'R'.

Robert Watt

Secretary General

1. A breakdown of the target for savings of €305 million under the Haddington Road Agreement that were delivered in 2013.

Overall Context

- Since its peak in 2009, Gross Voted Expenditure has been reduced from €63.1 billion in 2009 to €54.5 billion in 2013 and a further reduction of €1.5 billion is budgeted for 2014.
- It is important to note that in the context of this overall consolidation, the Public Service Exchequer Pay Bill has been reduced by 22%, from €17.5 billion gross in 2009 to an estimated €13.6 billion net by the end of 2014.
- The Haddington Road Agreement contains a number of measures which, when fully implemented, will enable the delivery of a reduction of €1 billion in the Public Service Pay and Pensions Bill by 2016. The specific pay and pensions measures set out in the Haddington Road Agreement are allocated to each Vote in advance in the context of the Estimates process each year.
- While the monetary savings are of critical importance, it should also be noted that the Agreement is facilitating unprecedented increases in productivity across the Public Service.

Implementation

- The primary responsibility of the Department of Public Expenditure and Reform is to ensure that aggregate spending remains in line with the overall expenditure ceilings as approved by Government. In this context, the Department is responsible for ensuring that Pay Bill savings arising from the implementation of measures under the Agreement are allocated across the various Votes as appropriate. In addition, the Department drafted and introduced the legislation necessary (FEMPI Act, 2013) to implement the various central measures under the Haddington Road Agreement.
- The focus is now on the comprehensive delivery of the Agreement and that task falls to Public Service Management and each Department's Accounting Officer. It is their responsibility to deliver the required level of savings through complete implementation of the various reforms and workplace changes which the Agreement enables to ensure that their respective pay bill targets are met.

Expenditure in 2013

- At the end of 2013, overall expenditure came in below target. While Supplementary Estimates were required for some Votes in 2013, this was more than compensated by savings made across all other Votes. Gross Voted Current Expenditure to end-December 2013 was €51.1 billion or €48 million (0.1%) below profile, based on the end December Exchequer Statement.

- The total amount of allocated savings arising from the implementation of measures under the Agreement was almost €300 million in 2013. Of this total, approximately €251 million was allocated to Exchequer pay savings with further savings of €46 million, arising from pensions and a number of other non-Exchequer sources (e.g. Local Authorities, Central Bank etc), being incorporated into the estimates. These measures and reforms implemented helped to ensure that spending remained in line with profile and resulted in Ireland delivering on our fiscal target for 2013.
- The net Public Service Exchequer Pay Bill reduced by €210 million in 2013. This reduction was enabled, in part, by the implementation of various measures under the Haddington Road Agreement. The difference in allocated savings under the Agreement (€300 million) and Exchequer net outturn reflects the fact that some elements of the Agreement's savings were not allocated to the Exchequer paybill (as noted already).
- In addition, the difference also reflects various countervailing pressures within the overall Exchequer Pay Bill in terms of allowing for some recruitment to frontline services, particularly in the Education Sector and the Health Sector. This is a reform dividend that will help sustain the Public Service Reform agenda by re-investing some of the efficiency savings we are delivering into improved services
- This is reflected in the target for Public Service numbers in 2014, which was adjusted by Government, to allow some scope for additional staff in classrooms, hospital wards and for front line policing. This reform dividend is being used in part to fund additional posts in these areas as the Public Service pay bill approaches a more sustainable level while still maintaining tight control of the overall Exchequer Public Pay Bill.
- In addition, as the various reforms under the Agreement and the wider Public Service Reform Plan continue to deliver efficiencies and greater productivity, some of the savings made, including those from the proposed headcount reduction, are being re-invested in new or improved services, including recruitment in areas of most demand.

Allocation of Savings in 2014

- A further €465 million in savings arising from the implementation of measures under the Agreement was incorporated into the budgetary arithmetic for 2014. This reflects the full year impact of various measures implemented in 2013, as well as measures which are to be implemented in 2014, such as the deferral of incremental progression. This brings the total amount of savings allocated to date under the Agreement to €762 million.
- The Public Service Exchequer Pay Bill will reduce by approximately €500 million in 2014 from €14.1 billion net in 2013 to an estimated €13.6 billion net by end 2014.
- In conclusion, with approximately two years remaining in the lifetime of the Agreement, over 75% of the targeted savings have now been incorporated into the various Votes.

2. The amount of debt that will be transferred to Irish Water, for waste water service commitments when responsibility transfers from the local authorities.

The amount of debt that will be transferred from local authorities to Irish Water is a complex matter and a response to this question is being prepared. I will respond as soon as possible.

3. A note on how the associated costs to the Courts Service could be reduced when the Central Criminal Courts Complex is unavailable due to inadequate service levels by the PPP provider.

The following response was provided to the Department of Public Expenditure and Reform by the Department of Justice & Equality (Courts Service):

'Schedule 15 of the Project Agreement which forms part of the public private partnership contract between the PPPCo and the Courts Service sets out the amount payable to the PPPCo as the monthly unitary charge over a twenty five year period commencing from the date the building was handed over to the Courts Service. This payment is in respect of the construction of the CCJ building and the provision of services over a twenty five year period. This schedule also sets out how and when financial penalties can be imposed on the PPPCo and the basis by which financial penalties are calculated. The monthly unitary charge is reduced by any such financial penalties.

There are two main types of deductions;

- Where an area of the CCJ building is unavailable for use, a financial unavailability deduction is imposed. As previously outlined the amount of the unavailability deduction varies; with the more significant areas attracting a higher deduction tariff.
- Where the PPPCo fails to meet set performance standards based on performance tests, set out in schedule 7 of the Project Agreement, in the provision of services such as security, cleaning and ICT services, performance points are deducted. Where performance points deducted exceed agreed thresholds then financial penalties will also be imposed and the monthly unitary charge payment reduced accordingly.

The purpose of the above regime is to incentivise the PPPCo to maintain high level of services over the 25 year period of the contract and for the PPPCo to carry financial risks associated with guaranteeing availability of the CCJ or poor performance levels.

4. A note on the PPP arrangement for the National Convention Centre and confirmation on whether the owner of the National Convention Centre, Treasury Holdings, received a write-down on its loans.

A note on the National Conference Centre NCC/CCD (Convention Centre Dublin) has been sought from the Office of Public Works and on receipt of same I will forward a response to the committee.

5. A note on whether any of the 25 staff, now engaged in procurement work have direct experience of working in an SME.

As stated at the PAC, we have approximately 25 staff directly employed at this time in sourcing. We have established that 7 staff have worked in SME's. It is important to note however that staff conducting tenders in the markets are trained in market analysis to understand how the markets are structured, the competitive forces at play and how to deliver best value for money. It is important that public procurement does not distort the market in the medium to long term as to maintain a competitive landscape is important in the long-term delivery of value for money for the tax-payer.

6. An update on the situation regarding the Local Government Reform Bill 2013 with particular reference to the commercial rates section.

The Local Government Reform Bill 2013 was enacted as the Local Government Reform Act 2014. With regard to the Valuation (Amendment) (No.2) Bill 2012 significant progress has been made on the drafting of the Committee Stage amendments and it is expected that the Bill will be ready to return to the Seanad shortly. The Minister has stated that his objective is to have this Bill enacted before the Summer recess.

7. A response to the submission to the PAC by the Small Firms Association and the Irish School Art Supply Federation, which were forwarded to the Department.

The reform of the procurement system across the public service is a key element of the Government's public sector reform programme. These reforms will bring a much-needed professional and whole-of-government approach to public procurement, enabling the State to secure better value for money for the tax-payer and enabling Departments and Agencies to deliver services to citizens within tighter budgets.

These reforms will require that suppliers to the State are competitive and innovative in the offerings. The Office of Government Procurement ("OGP") is committed to ensuring that SMEs are fully engaged with public sector procurement and the opportunities presenting. The objectives of the OGP make it clear that a healthy and competitive business sector is vital to securing value for money.

The reports submitted to the PAC by the SFA and ISASF cover a number of common themes that have arisen in our recent engagements with SME representative bodies. We welcome the submissions made and received other submissions directly from Chambers Ireland and the Construction Industry Forum ("CIF").

The OGP has been working in recent months to develop new guidance to accelerate the implementation of the key business-friendly elements of the new Procurement Directives and has consulted the key industry-representative associations. Many of the issues raised by these reports are addressed in the recently-issued guidance to public service buyers designed to further facilitate SME access to opportunities. This has been in the form of a new Circular 10/14 to replace the previous Circular 10/10.

Some of the key measures in this guidance include:

- Buyers are instructed to undertake market analysis prior to tendering;
- To better understand the range of goods and services on offer, the competitive landscape, and the specific capabilities of SMEs etc;
- Buyers are now encouraged to set turnover thresholds at no more than twice contract value for low-value low-risk competitions;
- SMEs including Micro Enterprises are encouraged to consider using consortia where they are not of sufficient scale to tender in their own right;
- Template tender and contract documents allow for consortia to tender for public procurement opportunities;
- Guidance on insurance levels for routine low risk goods and or services has now issued and will have an immediate cost saving benefit for SMEs tendering into the public sector;
- Buyers are encouraged to sub divide into lots where this is appropriate.

This guidance has been developed following consultation with key industry representative bodies such as the Small Firms Association, Chambers Ireland, ISME, IBEC, CIF and in conjunction with state bodies such as the Department of Jobs, Enterprise and Innovation, the Competition Authority, Enterprise Ireland and InterTrade Ireland.

Some of these new measures are based on key business-friendly initiatives under the new EU Public Procurement Directives which were agreed under the recent Irish EU Presidency.

To facilitate easier access to the public procurement market, the OGP has established Category Councils for 16 categories of goods and services. The role of each Category Council is to develop commercial strategies for sourcing goods and services in their category in line with the needs of customer organisations and in the context of obtaining best value for money. Each council is made up of members who are nominated by the departments and agencies that are the main users of the category. This initiative strengthens the professional approach that Government is now attaching to public procurement.

8. A note on the amount of money that is likely to be recouped arising from investments and work carried out on Metro North, DART underground and Metro West projects.

The Department of Transport Tourism and Sport estimate that the cost of deferred PPP projects (Metro North, Metro West and Dart Underground) is just over €228.3m which includes costs incurred between 2006 and 2013.

Metro North Expenditure to end of December 2013

	Total
Expenditure Categorisation	€'000
Alignment Feasibility Study & Route Selection	1,979
Ground Investigations & Surveys	7,439
Reference Design & RPA Design & PPP Procurement Costs	32,785
Railway Order Preparation	10,477
Oral Hearing & Prep for Depot Railway Order	5,482
PPP - Legal, Financial Commercial and Insurance advisers	20,670
Property	25,610
Enabling Works	60,996
Total to 31 December 2013	165,438

Metro West Expenditure to end of December 2013

	Total
Expenditure Categorisation	€'000
Alignment Feasibility Study & Route Selection	2,079
Railway Order Preparation	10,173
Oral Hearing	918
PPP - Legal, Financial Commercial and Insurance advisers	37
Property	0
Design & Procurement	5,493
Total to 31 December 2013	18,700

DART Underground Expenditure to end of December 2013

Expenditure Categorisation	Total
	€'000
Iarnród Éireann & CIÉ Staff costs & OHD, incl property referencing	11,392
Design Team	20,144
Geotechnical	3,449
Railway Order Application	1,759
Progression of PPP Process	2,180
Consultants	4,688
Information campaign	616
Total to 31 December 2013	<u>44,228</u>
GRAND TOTAL:	<u>228,366</u>

The RPA estimate that:

- 18.9% (€31.3m approximately of the total of €165.4m) of Metro North costs have no value going forward with the remaining cost having value on the basis that the project progresses in the future.
- 14.4% (€2.7m approximately of the total of €18.7m) of Metro West costs have no value going forward with the remaining cost having value on the basis that the project progresses in the future.
- The full costs of these projects will have no value and no residual values (beyond the €10 million in property values relating to Metro North) will arise in the event that the projects do not progress in the future.

Irish Rail believe that costs incurred on Dart Underground have full value going forward in the event that the project progresses and that there are no abortive costs incurred, based on the following assumptions:

- DART Underground is implemented within the constraints of the existing Railway Order;
- The procurement method for construction of DART Underground is not changed from the proposed PPP contract method;

- Continued administration of the DART Underground to safeguard the Railway Order and the route during the deferral period.
- There are no significant changes to Irish and European standards (no significant changes are currently foreseen by Irish Rail);
- In addition Irish Rail are satisfied that the reference design is robust and will remain valid should DART Underground be recommenced within a reasonable timeframe. Irish Rail is satisfied that the Railway Order as approved by An Bord Pleanála confirms the reference design.

There are no property costs incurred by Dart Underground or Metro West.

¹ **Property costs of €25.7million were incurred for Metro North.** These costs were incurred /contracted around the peak of the property 'boom'. A reasonable estimate would be that a 60% approx. reduction in value has occurred leaving an estimated residual value attaching of approx. €10 million. Of the 13 properties acquired by the RPA, 10 are currently occupied or let, 1 is currently on the market for letting and the remainder would need substantial investment to bring them to standard for letting. Monthly rental income of approximately €12,000 is currently accrued from these properties.

9. A note on the transfer of the procurement of services from the OPW to the Department of Public Expenditure and Reform and the impact of this on old and new suppliers.

In light of the discussion at the meeting of the Public Accounts Committee on 3 April 2014 which centred on the transfer of responsibility for the Managed Print Services Framework from Office of Public Works (OPW) to the Department of Public Expenditure and Reform, we have responded to the question raised on that basis.

As a point of principle, the question as to the continued use, re-deployment or disposal of equipment, is a matter for contracting authorities to address. The OPW / OGP as Framework Contracting Authority has no role in the requirements and specifications of contracting authorities who may utilise the framework agreement. Accordingly, it has no role or authority in the determination of the use, re-deployment or disposal of equipment. However the need for contracting authorities to make best use of the existing equipment it had procured prior to entering into a managed print agreement is allowed for in the framework and forms part of the competitive process. Details of this are set out below.

To assist the Committee the following summary may further clarify the position:

Managed Print Services Framework Agreement

The Managed Print Services (“MPS”) Framework Agreement was concluded on 8 February 2012 and expires on 7 February 2016. The MPS Framework Agreement is open to all Government Departments, Agencies and non-commercial public sector bodies. The MPS Framework Agreement modernises the approach to office printing and contributes to the public sector reform agenda.

The procurement competition to establish the MPS Framework Agreement was conducted as a fair, transparent and legally compliant process. The MPS Request for Tender was advertised on e-tenders and the Official Journal of the European Union. 15 suppliers participated in the competition and seven were selected as framework members. The seven framework members are made up of four indigenous SMEs. In addition, a further eleven indigenous SMEs are used to deliver services under the framework agreement. The estimated current annual value of contracts under the MPS framework agreement amounts to €3.25 million and the annual savings generated are estimated to be in excess of €2 million. These figures are expected to grow significantly in the next two years of the Framework Agreement.

What is MPS?

The MPS Framework Agreement offers all public sector bodies in the State access to an office print solution that is strategic, cost efficient and that can be tailored to the specific needs of the individual organisation. MPS is a significant move away from traditional office printing that uses individual print and imaging devices, as MPS optimises the entire print device fleet of an organisation. MPS encompasses photocopiers, printers, fax machines and scanners. In most offices there are many of these units scattered through the workplace. They are usually under-utilised, are purchased on an ad-hoc basis, have high-cost consumables and fixed-cost servicing

arrangements, have limited or no reporting arrangements and are, in general, un-managed. The whole-of-life cost consequences of these arrangements has been often overlooked. MPS by contrast is, in the main, delivered through multi-function devices that combine print/copy/fax/scan capabilities into a single unit, improving utilisation of expensive equipment, costs relate to usage and most importantly, provide the contracting authority with the ability to monitor and control costs.

Under the MPS Framework Agreement no capital outlay is required for MPS as billing is on an all-inclusive per printed page/image basis (per-click) which includes the supply of print devices, maintenance, repairs, parts, consumables and reporting.

A typical example of a non-MPS solution, identified by the OPW during their research in a public sector body is illustrated below:

- Purchase cost of a single multi-function printing device - €4,235*
- 5 year service level agreement (SLA)*
- 1c per copy mono / 2.9c per copy colour*
- Monthly minimum (for device) 30,000 mono / 5,000 colour*
- Cost of SLA (based not exceeding minimum print levels above) - €26,700*
- Total cost of ownership (capital and SLA) if monthly minimum is not exceeded - €30,935*

In this example, the relevant contract contained a provision whereby a three month notice period applied if the public sector body sought to cancel the SLA. The notice must be given at the end of year 5 of the SLA. If the public sector body wishes to cancel the SLA prior to the five years the remaining balance of the €30,935 is due to the supplier. Furthermore, under this arrangement public sector bodies have no incentive to print less as they are paying for 30,000 mono / 5,000 colour every month regardless of whether they reach that amount or not. If more than 30,000 mono / 5,000 colour pages are printed in a month then extra charges apply.

Benefits of MPS

MPS, on the other hand, brings greater transparency to the cost of office printing and provides an incentive for a reduction in both print volume and devices. MPS also provides detailed management information that can be used to rebalance colour/mono print ratio which results in further cost savings. Furthermore, the management information provided identifies the print behaviour of each individual user of the service and allows for efficient demand management and the control of uncontrolled/unauthorised printing.

Comparing the price between a MPS solution and a non-MPS solution

Comparing MPS and non-MPS prices on a click charge for click charge basis is inaccurate because it does not fully address the whole of life costs of the print device. For example if one were to take a notional MPS click charge of €0.015 and compare it against a notional non-managed print click charge of €0.013 it would appear that the non-managed print charge is

cheaper. However, as the table below shows the non-managed print click charge does not fully take into account the whole-of-life costs.

MPS Framework Agreement (complete service)	Non-Managed Print Services (single device)
Supply of device (ownership of the equipment remains with the service provider) – cost of which is reflected in the all-inclusive click charge.	Separate purchase of device
Consumables, servicing, parts, reporting etc.	Consumables, servicing, parts, reporting etc.
Rationalisation of print devices	No rationalisation of devices
No minimum print levels	Minimum monthly print levels per device with no carry over for under-printing.
Management information	No management information

Furthermore, the non-managed service often has a minimum monthly print level that prevents public bodies from generating savings from printing less. The MPS Framework Agreement does not have such a restriction and consequently allows public bodies to benefit from reducing their print output.

Existing Print Devices

If a public sector body runs a mini-competition under the MPS Framework Agreement they are required to conduct a comprehensive print survey which shows to the framework members the print infrastructure in terms of ICT, number of office/locations, current print output and the number of existing print devices of the body. In respect of print devices, the public sector body lists them by location, manufacturer, model and age.

If some of the print devices are deemed existing viable devices (EVDs) they can form a part of the print solution that will be delivered by the successful Framework Member. If required EVDs can be moved to a more appropriate location within the public sector body and utilised until they reach end-of-life. This will be a matter for the relevant contracting authority to address in the competition/contract. End of life devices are replaced as required during the period of the contract. EVDs will be managed by the Framework Member in the same way that they manage the new devices that they supply. Any new print devices supplied during the contract will be as part of the MPS agreement and consequently included in the all-inclusive per-click charge.

Print devices deemed non-viable are under the contract, required to be disposed of in full accordance with the WEEE Regulations (SI 355 of 2011 European Communities (Waste Electrical and Electronic) Regulations 2011).

10. A note on the timeframe for the implementation of the new integrated financial management system for the HSE.

The HSE are in the process of preparing a business case for a new integrated financial management system. The HSE have indicated that they expect to submit the business case for the system to the Department of Public Expenditure and Reform in the coming weeks. Key dates in the delivery of the system, as indicated by the HSE, are outlined below.

Key Dates

The Public Service Reform Plan commits to commencing implementation of a Financial Management System in 2016.

The Key HSE implementation dates are as follows:

May – June 2014	Completion of Business Case
	Procurement Planning
	Supplier Engagement
June – July 2014	Develop Output Based Specification
September 2014	Commence Development of Invitation to Tender
December 2014	Select supplier following Tender Process
Jan – Dec 2015	Prepare for implementation
January 2016	Go live with new Finance Operating Model.

11. A note on the up to date situation regarding the cost to the state for the payment of vacant space in Carrisbrook House, Dublin 4.

I understand that a comprehensive briefing paper on Carrisbrook House was forwarded to the Committee Secretariat by the Chief Executive of Forfás on 13 November, 2013. While it is unclear what, if any, element of that paper needs to be updated, it would appear that any questions that might arise in relation to it would most appropriately be directed to Forfás.

12. A note on the up to date position and the steps taken to complete the unfinished Tipperary Hostel Project.

I understand that the Public Accounts Committee received an update from the Secretary General, Department of Environment, Community and Local Government in December 2013 stating that payments to Tipperary Hostel Ltd., remain the subject of Garda Enquiries and that Pobal had sought recoupment of Dormant Accounts funding of €110,149.28.

13. A note on the practices of the current system of tendering by SMEs in the public sector and whether a special purpose vehicle for tendering is allowed.

Under EU procurement rules, a public contracting authority may not prescribe the legal form which bidders must take in order to submit a tender. However, if a group of suppliers tendering as a consortium is selected for the award of a contract, the contracting authority can at that stage require the adoption of a particular legal structure in order to ensure the satisfactory performance of the contract.

The Office of Government Procurement's template tender documents do not prohibit the use of a special purpose vehicle (SPV). However, in accordance with the above rules, before a contract could be awarded to an SPV, the suppliers involved would need to demonstrate, to the satisfaction of the contracting authority, that appropriate structures and guarantees would be in place as to availability of resources, performance and liability.

The formation of bidding consortia is, of course, also subject to compliance with suppliers' obligations under competition law rules.