

# **Minutes of a Board Meeting of Strategic Investment Board Limited**

Held at 8.30am on Friday 25th May 2012 at  
Clare House,  
303 Airport Road West, Belfast

**Present:** David Dobbin (DD) – Chair  
Frank Hewitt (FH)  
Bro McFerran (BM)  
Geraldine McAteer (GM) (Except items 1 and 2)  
Denis Rooney (DR)  
Chris Thompson (CT)  
Brett Hannam (BH)

**In attendance:** Scott Wilson (SW)  
Gregor Hamilton (GH)  
Martin Spollen (MS)

**Declarations of Interest:** DD declared interests in respect of his involvement with Ulster Rugby and Belfast Harbour Commissioners. BM declared interests in respect of his involvement with ILEX and City of Culture 2013. FH declared interests in respect of his involvement with ILEX and NI Science Park.

## **1. Minutes of Previous Meeting**

The minutes of the April 2012 board meeting were approved.

## **2. Chairman's Business**

On behalf of the rest of the board, DD congratulated BH on his permanent appointment as Chief Executive. He noted that attention would now turn to the recruitment of the new Chairman and potentially additional non-executive directors.

DD informed the board of his discussions with First and Deputy First Ministers. He noted in particular their desire to step-up the activity of the AMU and continuing requirement to identify additional sources of funding/financing.

### 3. Chief Executive's Report and AMU Report

BH spoke to the Chief Executive's Report He drew the board's attention in particular to the following:

- MLK: BH noted the approval by the Heritage Lottery Fund of a grant of £360K to work up a bid for an additional £6.4m for the CbCRC;
- Titanic Foundation's success in winning the "Outstanding Contribution" prize at the Aer Lingus Viscount Awards;
- BH informed the board of the positive discussions he had held with John McGrath and Gerry Lundy with a view to obtaining a greater degree of commitment to the Lisanelly project from the relevant schools;
- BH noted that all three Strategic Waste Projects were progressing but that the Minister was considering a paper setting out an approach for assessing the strategic business case for the programme as a whole. DD requested a briefing paper for board members.
- BH noted an urgent request from OFMDFM/Illex/DSD for SIB's assistance in recruiting a project manager for the City of Culture "Vital Venue" and the refurbishment of a building at Ebrington Barracks as a venue for the Turner Prize. The board approved the provision of such assistance subject to OFMDFM's written instructions.
- BH noted a request from Belfast City Council (BCC) to help in filling five roles in respect of (i) the extension of the Waterfront Hall, (ii) regeneration of the north foreshore, (iii) the creation of a Digital Hub (iv) support in the establishment of a programme support office and (v) assistance with obtaining project finance. He confirmed to the board that the clear understanding with BCC was that any new posts would all be fully funded by BCC itself. The Board agreed in principle that this request should be given a positive response, but that it should be the subject to more detailed scrutiny by the Programmes and Projects Committee.

DR noted the reference in the Chief Executive's report to provision of support to DETI and DCAL in relation to the Decade of Commemorations, and the sensitive nature of the project. BH confirmed that SIB's role was confined to assisting in the preparation of a brief for the

appointment of a communications consultancy, rather than taking an active part in the project itself.

SW updated the board on the work of the AMU. He explained that now that the allocation of £90m of additional capital over the budget period had been agreed by the Executive, the AMU is working with individual departments to prepare disposal programmes; identify actions and allocate responsibilities. He noted that the £2.5m target for sales achieved for 2011/12 had been slightly exceeded and that sufficient opportunities had been identified to achieve the £25.15m target for 2012/13, even allowing for a 25% contingency. In response to a query from BM he confirmed the importance of not over-achieving against target, since any surplus would have to be returned to HM Treasury. He explained the importance of the new Asset Management Forum (which had held its first meeting) in ensuring co-ordination and co-operation across government in identifying and realizing opportunities for disposals.

SW explained that the AMU's most challenging task was the production of the Asset Management Strategy, which had to be predicated upon assumptions as to the level of efficiency savings which might be required. He noted that AMU was proceeding with an assumption (on the basis of discussions with DFP and HOCS) of 25% budget reductions post 2015. CW and DD drew attention to the importance of proceeding on the basis of savings targets established by Ministers and/or Departments. The AMU should not itself assume or promote a particular target for savings.

DR queried whether there was an established metric that determines when it is appropriate to invest capital in order to deliver efficiency savings over the medium and long term. SW indicated that the normal practice in England was to apply a fairly simple 4/5 year payback requirement.

MS emphasized that the object of the exercise was to identify genuine efficiency savings, not just make cuts in expenditure at the expense of services.

#### **4. Revenue Financed Investment Programme**

BH and MS gave a presentation on Revenue Financed Investment. BH explained that the Budget Review group had considered an SIB paper recommending that a programme of projects be financed through the revenue budget, and approved the recommendations.

BH identified a number of issues around RFI:

- **Affordability:** He noted that a £1bn programme of RFI would increase the proportion of Resource DEL committed unitary payments from 2.5% to 3.5% which is relatively high by the standards of the rest of the UK. It was likely to require annual payments from the revenue budget of c£100m.
- **Value for Money:** Real interest rates for project finance being relatively high, it is likely that ministers would have to approve individual projects that were more expensive than would be the case had they used conventional capital funding (notwithstanding the absence of any actually available conventional capital funding).
- **Accounting Treatment:** Almost all RFI projects would be on balance sheet under IFRS accounting standards, however, they are not likely count against DEL (providing risks are transferred) as national accounts are prepared under a different standard (ESA 95).
- **Availability of Project Finance:** There are difficulties in attracting bank investment of a sufficient tenor for RFI projects, and although pension funds are prepared to invest over the long-term, they do not generally accept construction risk or have capability to manage investments in RFI projects for themselves.
- **Political sensitivity:** There is a widespread perception that PFI projects were slow and expensive, gave contractors excessive profit and were inflexible in operation. Any new RFI projects would have to be structured in a way that addresses these concerns.

BH referred the board to a list of projects which had been identified as suitable for RFI. He emphasised that they had been identified as projects that would deliver benefits above and beyond current provision – there being no economic benefit in simply replacing existing facilities on a one for one basis.

DD sought clarification as to the BRG position. BH confirmed that BRG was broadly content with the principle of RFI, although it recognized all the difficulties and risks. The group had asked DFP

and SIB to produce (by September) a paper considering the financial implications of embarking on such a programme, and to propose a suitable governance structure for its implementation.

BH explained the proposed governance model set out in the Board Papers. This would ensure effective coordination between DFP and SIB whilst providing for political direction and oversight. He explained that he proposed to appoint Leo McKenna to the role of Head of Project Finance. Leo had sound qualifications for the role, having extensive experience and international credibility in the field. Leo would lead a small internal team that would seek private finance for each of the projects within the programme. In response to questions from the Board, BH said that he intended to seek approval from the Remuneration Committee for an acting-up allowance for Leo and that he would take steps to ensure that the latter's current responsibilities were re-allocated appropriately. No existing project would suffer as a result of these changes.

There was unanimous approval for this approach. The Board agreed with SIB taking the lead in the development and implementation of the RFI programme, which was entirely consistent with the remit of SIB.

#### **5. Audit Committee**

CW reported on the proceedings of the Audit committee. The main business of the meeting had been to consider the draft report and accounts. He noted that the external auditors (NIAO) proposed to provide a clean audit opinion and that there were only four, relatively minor, observations arising from the audit. He noted that a final version of the draft annual report and accounts would be circulated in advance of the next board meeting in order that they could then be approved and signed off. BM complimented the executive on the quality of the draft report.

#### **6. AOB**

The date of the next meeting was confirmed as 19<sup>th</sup> June.

DD agreed to circulate dates for the away day.

| <i>Ref</i> | <i>Action</i>                         | <i>Owner</i> | <i>Status</i>               |
|------------|---------------------------------------|--------------|-----------------------------|
| 1          | Circulation of dates for away day     | DD           |                             |
| 2          | Circulation of note re waste projects | BH           | See agenda for June meeting |