OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 7 December 2017

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Pàrlamaid na h-Alba

Session 5

Thursday 7 December 2017

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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
30th Meeting 2017, Session 5

CONVENER

*Jackie Baillie (Dumbarton) (Lab) (Acting Convener)
Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Bill Bowman (North East Scotland) (Con)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
Monica Lennon (Central Scotland) (Lab)
*Alex Neil (Airdrie and Shotts) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kerry Alexander (Scottish Futures Trust)
Helen Carter (Scottish Government)
Eleanor Emberson (Scottish Government)
Robert McBride (Transport Scotland)
Alan Morrison (Scottish Government)
Peter Reekie (Scottish Futures Trust)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 7 December 2017

[The Acting Convener opened the meeting at 09:01]

Decision on Taking Business in Private

The Acting Convener (Jackie Baillie): Good morning and welcome to the 30th meeting in 2017 of the Public Audit and Post-legislative Scrutiny Committee. I have received apologies from Monica Lennon. I ask everyone in the public gallery to switch off their electronic devices, or at least switch them to silent mode, so that they do not interfere with our work.

Agenda item 1 is a decision on whether to take business in private. Do we agree to take item 3 in private?

Members *indicated agreement.*

Major Capital Projects (Progress Update)

09:01

The Acting Convener: Under agenda item 2, we will take evidence on the Scottish Government's latest major capital projects update. I welcome to the committee Peter Reekie, deputy chief executive and director of investments, and Kerry Alexander, investment programmes director, both from the Scottish Futures Trust; Eleanor Emberson, director of financial strategy, Helen Carter, infrastructure investment team leader, and Alan Morrison, capital accounting and policy manager, all from the Scottish Government; and finally, but by no means least, Robert McBride, project manager, rail directorate, Transport Scotland. I understand that Eleanor Emberson will provide a brief opening statement.

Eleanor Emberson (Scottish Government): Thank you very much for inviting us to give evidence on the latest major capital projects update, which we provided in October and which covers the six months ending in September 2017. We are absolutely committed to working with the committee and Audit Scotland to make sure that the information we provide is as helpful as possible. The current reporting format follows what was agreed by the previous committee, Audit Scotland and the Scottish Government. For the latest report, we have also taken on board three suggestions that were made by the Auditor General to include outline business case information or equivalent, the programme pipeline as well as the major capital projects, and a summary stating how projects are financed.

I note the committee's interest in the very important contribution to the economy that infrastructure makes, and the report contains information about the economic impact, including jobs that are supported through our investment. In addition, I am aware that the committee would like to see private sector leverage and net present values of revenue projects captured in the report. We have not been able to do that for this report, due to timing, but we intend to work with Audit Scotland and the committee clerks to provide additional information in the next report in a format that the committee would find helpful.

You introduced all the colleagues who are with me here today. I must mention that we have had a very unfortunate set of circumstances with transport colleagues. Three senior Transport Scotland colleagues, who have broad remits, have for various reasons been unwell and Robert McBride has very nobly stepped into the breach. Robert's particular area of interest is rail, but if you have questions about other transport projects we will do our best. We may have to write to the committee to follow up on detailed points.

That is all I need to say, but colleagues from the Scottish Futures Trust would like to make a couple of declarations of interest.

Peter Reekie (Scottish Futures Trust): I should let the committee be aware that I act as a public interest director on Aberdeen Roads Ltd, which is the company that delivers the Aberdeen western peripheral route project, and on one of the legacy non-profit-distributing model projects of Taycare Health Ltd, which provides services at Murray Royal and Stracathro hospitals.

Kerry Alexander (Scottish Futures Trust): I declare a similar, non-financial interest in Galliford Try Equitix Inverness Ltd, which is the entity that delivers the Inverness College project.

The Acting Convener: We perfectly understand when people become unwell. Indeed, some of our parliamentary colleagues have been struck down by something similar. We thank Robert McBride for stepping into the breach.

I turn to members' questions, starting with Colin Beattie.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to touch on rail, so it is good that Robert McBride is here. Let me quickly kill one thing that has always been niggling at the back of my mind concerning high speed 2. I assume that if HS2 does not extend to Scotland, as it certainly does not appear to do at the moment, we have no financial commitment to it and we would not be putting any money into it.

Robert McBride (Transport Scotland): I do not believe so, but that is not a specialist area of mine. I cannot believe that we would be committed to funding on that, but I can come back to the committee on it.

Colin Beattie: I would like to settle that little niggling doubt, so I would appreciate that.

A number of rail projects are overrunning on price. How are we dealing with that? How are we coping with those overruns? How will they be met and are they impacting on other projects?

Robert McBride: The projects are still affordable. We are working with Network Rail to try to improve governance. Since the Ernst & Young report was published last year, we have introduced a stronger governance portfolio board that Transport Scotland chairs. We continue to press Network Rail for more transparency and stronger reporting and we are seeing a significant improvement in the project controls that it is applying across the piece.

Colin Beattie: Are you saying that the overruns will be compensated for in other aspects of the project?

Robert McBride: In what respect?

Colin Beattie: You have spent more on projects than you budgeted for. That money has to come from somewhere. You said that you have improved on the management, controls and all the rest of it. Does that mean that you will be able to compensate somewhere else in the budget for the overruns that have taken place already or will they have to be absorbed elsewhere?

Robert McBride: They will be absorbed within what is classed as the headroom, which is the financial settlement for control period 5.

Colin Beattie: Will that impact on other projects?

Robert McBride: It should not do, no.

Colin Beattie: Okay. Why have the overruns come about? Why were the controls not in place already? Why does a budget significantly overrun? We are talking about the Edinburgh to Glasgow rail improvement project and the Stirling-Dunblane-Alloa rail electrification. Why were the overruns not picked up earlier? Why was some sort of special control not put in?

Robert McBride: You touched on two specific projects. Significant lessons have been learned on the Edinburgh to Glasgow electrification project. It is widely accepted that the issues that have come across are in governance and controls. The procurement model has been proven not to be successful and the alliance—

Colin Beattie: We have been procuring for railways for a long time now. Why do we suddenly find that the procurement process is not up to scratch?

Robert McBride: The alliance model that Network Rail entered into with the two contractors was, in effect, a novel procurement model for railway in Scotland.

Colin Beattie: A new procurement model was brought in that failed.

Robert McBride: Certainly within Scotland for rail, yes.

Colin Beattie: Who decided to bring that in?

Robert McBride: Network Rail.

Colin Beattie: Network Rail brought in a procurement process that failed and is costing money.

Robert McBride: I think that that is a component part of the root causes. It is evident elsewhere that electrification schemes are experiencing cost increases across the United Kingdom.

Colin Beattie: Does that come back to procurement?

Robert McBride: I am not qualified to say what the detail is on other schemes, but I think that it is a contributing factor.

Colin Beattie: Who is qualified to say?

Robert McBride: I am sure that there are people within rail who have a greater interest in technology across the UK network who could feed back.

Colin Beattie: My concern is that the bottom line, from what you are saying, is that Network Rail brought in a procurement process that failed and that that at least contributed towards cost overruns. Is that factual?

Robert McBride: It is certainly a contributing factor, yes.

Colin Beattie: What comeback do we have on Network Rail?

Robert McBride: It is now a public classified body, so I think that the comeback that we had previously through the regulatory environment has changed significantly.

Colin Beattie: But what has been done with Network Rail? You are saying that it has changed the procurement process as a result of the experience on this project. Is that right?

Robert McBride: For the Stirling-Dunblane-Alloa project, the model was meant to be rolled out again and Network Rail has moved away from that. It is entering into traditional contracts.

Colin Beattie: But there are still overruns.

Robert McBride: There will be on the Stirling-Dunblane-Alloa project, yes.

Colin Beattie: So it is not entirely the procurement process that is the issue.

Robert McBride: It is electrification schemes in general, yes.

Colin Beattie: So it is the procurement process.

Robert McBride: It is electrification schemes.

Colin Beattie: So the electrification process is the blanket cause. The procurement process for the electrification is at least a contributing factor to the overrun overall, not just to a specific project.

Robert McBride: It is more the delivery of electrification rather than the procurement process. Electrification schemes throughout the UK have all experienced significant cost overruns.

Colin Beattie: Why? Is it so novel?

Robert McBride: It is not, absolutely.

Colin Beattie: Perhaps you might consult the people who have that information and come back to us with the information on why these electrification programmes across the UK, and specifically in Scotland, are overrunning. You have given us some information, but we now have new information about the procurement process and so on, and I think that it would be good to pursue that.

Robert McBride: Yes.

Colin Beattie: What about the city region deals that are coming up? The Scottish Government will be putting money into them. Will those deals be covered in this report as well?

Eleanor Emberson: We would report on city deals. A lot of money, both locally and nationally, is going into city deals; they are a significant investment. I do not think that we have traditionally reported on them through this mechanism, although we report in a variety of ways. However, if it is important to the committee we can ensure that you get the information.

Colin Beattie: Since a significant investment of public funds is going in and we have a responsibility to follow the public pound, perhaps we should see the information on that.

Eleanor Emberson: There is no problem with providing the information. It is merely a question of where and how you want it.

Colin Beattie: Perhaps the starting point is what information is available and in what format. We can then review that.

Eleanor Emberson: As I said at the beginning, we are very happy to work with Audit Scotland and the committee clerks on the best way of getting the right information to the committee on anything that is of interest.

The Acting Convener: There is certainly an interest in the major capital projects, but some of those projects might be led by the local authority rather than ourselves. We will look at finding a suitable way of reporting.

Bill Bowman (North East Scotland) (Con): Mr McBride mentioned overruns being met out of headroom, or what I would call cushion or contingency. How much money do you have available to cover overruns?

Eleanor Emberson: Mr McBride was referring to the very specific arrangements within rail funding. He referred to control period 5. There is a United Kingdom-wide set of financing arrangements for rail, to which the Scottish Government and the UK Government contribute, so anything that we are doing would not come out of general Scottish Government funds. I am afraid that I do not have the full financial breakdown of that in front of me, but we have undertaken to follow up on Mr Beattie’s questions and we can provide some information about that if it is important to the committee.

09:15

Bill Bowman: I think that it would be interesting, given that you have raised the ability to fund it. There is some money there that may or may not be used and perhaps in doing that you can tell us how you deal with that more generally.

Eleanor Emberson: Do you mean how we deal with rail funding?

Bill Bowman: No, how you deal with overruns generally.

Eleanor Emberson: I am sorry, but do you mean overruns on things other than rail?

Bill Bowman: Just generally. The topic of headroom and overruns has been raised—does that not apply anywhere else?

Eleanor Emberson: Of course it does.

Bill Bowman: So you have something in your pocket available.

Eleanor Emberson: The capital programme, as you know, is very substantial. The direct capital funding from the Scottish Government is well over £3 billion per year. There are also all the other revenue funding arrangements. We are juggling and managing that programme, so all projects have to manage time, cost and quality. You would hope that at the start of any project the analysis and the planning have been well done and the appropriate contingency and headroom have been built in, but it does not always turn out that way. Sometimes we get money released back from projects and sometimes projects need additional funding. We manage that across the piece. We do not generally do it by putting aside a bit of money and not spending. We do it by active management of the projects that are under way.

Bill Bowman: Do you have some form of reporting on that?

Eleanor Emberson: I think that you would see the reporting of changes in costs on projects in the information that we provide.

Bill Bowman: But how do we see how your juggling is doing in total?

Eleanor Emberson: You will see how project costs have changed up and down over the period, so I think—

Bill Bowman: Do you mean by individual project?

Eleanor Emberson: Yes.

Bill Bowman: But then you have to add them all up to see whether you are in balance or out of balance.

Eleanor Emberson: We have to be in balance. We have a capital borrowing power but within the limits of that we do not have any room to spend more than is available in a given year, so we have to balance.

Bill Bowman: I think that that comes back to Colin Beattie’s point. I do not want to put words in his mouth, but what suffers if the project runs over? How do you deal with that?

Eleanor Emberson: Generally speaking, things do not suffer because some projects go up and some projects go down. The profile of projects is managed over years. This is a very large programme of work and the amounts of money that we are talking about going up and down are a small part of it, not the bulk of it.

Bill Bowman: Okay. I will leave it there for the moment.

Liam Kerr (North East Scotland) (Con): Good morning. I am going to stick to rail, if you do not mind. Colin Beattie brought up high speed 2. On page 71 of the update, there is a report on options to bring high-speed rail in general to Scotland. It says that options have been completed for control periods 6 and 7. I think that that is up to about 2030. Is that right?

Robert McBride: CP6 is 2019 to 2024.

Liam Kerr: So is CP7 2024 to 2030?

Robert McBride: It is 2024 to 2029.

Liam Kerr: Okay. The update tells us that the options are being presented in October. Can you give us an update on where we are on that?

Robert McBride: I will ask one of my colleagues from Transport Scotland who hoped to be here today and who deals specifically with that to write to you about it.

Liam Kerr: I understand. Thank you.

To move on, there is reference to Aberdeen to central belt rail improvements in the same section. I stay in Aberdeen, and I remember the city deal being announced. At the time, there was quite a big fanfare about dualling the track at Usan. Apparently, funding had been made available for that. I have asked quite a few questions of various parties since then, because that seems to have been kicked into the long grass—which is situated in a place called “It will never happen”. I am concerned because there is reference on page 73 of the update to

“Separate development works for the £200 million Aberdeen to Usan/Montrose project”.

That rather suggests to me that whatever improvements are made will stop prior to Usan. Can you comment on that at all?

Robert McBride: I cannot, unfortunately. Apologies.

Liam Kerr: After I set up the question at such length.

Robert McBride: Cheers for the way that you set it up. We will come back on that.

Liam Kerr: I would be very grateful for that, because I am genuinely struggling to get clarity on that.

Perhaps you will not be able to answer this question but, as part of the wider Aberdeen to central belt project, there is a drive to reduce the journey time by 20 minutes. I understand that the reference group has now been set up and that it met for the second time in October. What progress was there in October?

I see that there are two references to Network Rail not meeting the strategic transport projects review objective of 20 minutes. Can you give us more detail on that, please?

Robert McBride: I cannot, unfortunately. I should clarify—Eleanor Emberson touched on this at the start—that I am working specifically on the Edinburgh to Glasgow rail improvement programme and the Stirling-Dunblane-Alloa project at the moment. If there is anything in the briefing that I can cover, I will certainly do so but, unfortunately, we will have to respond to that in writing, if that is okay.

Liam Kerr: Okay. Perhaps we might have full details on the Aberdeen to central belt improvements.

The Acting Convener: Absolutely. You set up the questions very well, and I am sure that whoever is responsible will come back in writing to us.

Robert McBride: Can you clarify that you want a general progress update on where things are and what came out of the October meeting?

Liam Kerr: Yes. Specifically, an update on the Usan junction business or the dualling would be very useful.

The Acting Convener: If we are looking for further information, the clerks will be in touch to specify exactly what we are after.

Liam Kerr: I will come back in later.

Alex Neil (Airdrie and Shotts) (SNP): I refer to the table on page 15 at the end of the annex A projects list. We cannot get a proper view of the capital programme until we have some additional information that we need. I am not expecting that information now, but we need to know the value of projects that are being funded by the Public Works Loan Board and a breakdown by year of the investment of the £7.3 billion, if we include Fife College. It would be useful to get trends and comparisons of year-on-year and total spend as a percentage of gross domestic product with other countries, a profile of the revenue spend to support the capital spend, the UK Government capital spend in Scotland—not that I expect that to be much; that information might need to come from another source—and the local authority capital spend or any other public sector capital spend that is not included in the figures. Most important, where it is available, the leverage—in particular, the leverage of private sector investment and European Union investment—would be helpful.

That is just a request for additional information. That is on Terry Shevlin’s copy of the list of projects. I am sure that he will make sure that all of that is followed up. With that information, we will have a better all-round picture of the strategy as opposed to the individual projects.

Eleanor Emberson: I am not sure that I quite got all of that down, but I will follow up on that.

Alex Neil: I am sure that that will be in the *Official Report*.

Eleanor Emberson: Exactly. I will follow up afterwards to make sure that we got all the points.

There are just a few things to say. You noted that we would not hold the information on UK Government investment. For obvious reasons, we would also not hold information on local government investment beyond that which we are involved in. We would have to reflect on the best way of getting that information in front of the committee—

Alex Neil: I am sorry to interrupt, but I am thinking of capital spend on housing, for example. I know that the Scottish Government’s element of the capital investment will be in there but, typically for social housing, that is about a third of the total cost, and housing associations and councils usually borrow the rest. That would come under leverage, but some of it will be direct investment from balances by housing associations or from the housing revenue account by councils. What I am saying is that this is not anything like the total picture for public sector investment in Scotland. It would be useful to get a rounded figure, especially for housing, because that is such a huge figure.

Eleanor Emberson: I absolutely recognise the need to understand public sector investment in the round. There are a couple of points. As I said, we would have some work to do to figure out how to get all of that information in a sensible format. We will take that away and see what can be done.

However, there is something about what we regard as leverage and whether the Scottish Government putting in investment to release local government investment is leverage or Scottish Government investment to release private sector investment. I think Peter Reekie is going to say something about leverage.

Peter Reekie: I understand your point about overall levels of investment. There is the ability to deliver additionality of investment, for example through the NPD and hub design, build, finance and maintain projects where there is private sector investment in our infrastructure that is paid back over time through public budgets, as we know. That gives additionality of investment at present. As you have suggested, there are also areas in which leverage of public sector investment brings in other forms of investment that the Government does not eventually have to pay for. Housing is a good example of that. The rents from occupiers eventually repay the debt or the additionality of investment. There is that leverage.

Another example of that is in tax increment financing and the growth accelerator. Overall, about £100 million-worth of public sector investment has gone into those schemes, which has drawn in—we see this in the Edinburgh St James development, for example—and catalysed about £1 billion-worth of private sector investment in property. That is a very clear example of where our public investment has catalysed and leveraged in private sector investment.

There is a whole range or spectrum of different sorts of that approach, and it is quite hard for us to think where the line might fall on what it is useful to report in this particular format and in this setting. Drawing the lines between those different classes of investment is quite a difficult thing to do, so we will have to give some thought to how to do that.

Alex Neil: To get a total picture, I want to ask a specific question about housing investment. About a third of the £3 billion commitment on housing over five years is through programmes such as shared equity and help-to-buy programmes. Is the Scottish Government's funding of shared equity and the shared equity that it puts into houses counted as part of the Government's capital spend, or is it counted as revenue spend?

Eleanor Emberson: The help-to-buy scheme in Scotland has been funded through a very particular kind of allocation that we receive from the Treasury, which it calls financial transactions. That is money that the Government can invest, but it has to go outwith central or local government, and it is in the form of loans that have to be repaid. The help-to-buy scheme is funded from that tranche of funding rather than more general revenue funding.

Alex Neil: Given the importance of financial transactions, it would be useful if we got an overall picture of financial transactions as part of the extended report. We have a number of layers of financial transactions and that is still investment. It is funded a different way but it is still investment. That would be helpful. Specifically, outside the help-to-buy scheme, which is funded through financial transactions, is the shared equity investment counted as capital spend?

Eleanor Emberson: Treasury score the financial transactions as capital spend and they count it within the Scottish Government capital budget. We try to keep it as slightly separate. It is still capital but we recognise it as a separate stream because we can only use it in certain ways.

Alex Neil: There is, however, shared equity that predates financial transactions and is not funded through financial transactions. If the Scottish Government puts £40,000 shared equity into a new house, is that counted as a capital investment?

09:30

Helen Carter (Scottish Government): Before we had financial transactions, the shared equity schemes that you are referring to were funded by traditional capital. However, because we now have financial transactions we are able to fund the non-help-to-buy shared equity schemes using financial transactions. Any current and future schemes on shared equity are funded from financial transactions rather than capital. The open market shared equity scheme is part of the affordable housing programme, so the more than £3 billion figure includes an element of financial transactions for the open market shared equity schemes, which are classed as affordable housing.

Alex Neil: When you add up all the additional stuff, it is well over £8 billion for the total capital spend, is it not?

Helen Carter: Do you mean on housing?

Alex Neil: Housing is £3 billion and a lot of that will be included in the departmental expenditure limit but the financial transactions will not be included in the DEL.

Eleanor Emberson: They are.

Alex Neil: Are the financial transactions already in there? Could we get a breakdown of the DEL figure between financial transactions, which is money that needs to be repaid to the UK Treasury? With DEL, presumably there are at least three elements. The first is straightforward capital spend, a traditional method in which there is a capital budget and we spend it. Secondly, there is the capital spend funded through borrowing powers through the Public Works Loan Board. Thirdly, there is financial transactions. There may be other bits and pieces but those would be three subheadings of the capital DEL. Is that right?

Helen Carter: On the capital DEL, we would not distinguish what programmes are funded from the block grant for capital DEL and borrowing powers, because it is all scored in Treasury terms as capital DEL. Capital DEL and financial transactions are the two subcategories for scoring purposes.

Alex Neil: It is important because if it is funded through borrowing then it is a contributor to the 5 per cent limit of repayment, whereas if it is funded from the capital grant element, it is not. To get a total picture of investment, it would be useful to have that breakdown.

Eleanor Emberson: Of course, we have that at an aggregate level. In fact, we show it in the draft budget document every year; we reflect it in the accounts. We have all those numbers and they are in the public domain. Helen Carter is talking about funding of a given individual project, but we do not decide which project is funded from borrowing and which is funded from the capital grant. It is a pool of money. We also separate out financial transactions in the budget documentation and the accounts for you to see. That information is already in the public domain. It is easy for us to pull it together for you.

Alex Neil: In this update document, we are identifying the sources of the funding, which are NPD—previously the private finance initiative or others—but we do not identify financial transactions as a source of funding. They are subsumed into the capital DEL. It would be useful if we saw that information so that we can be clear about what is coming in and what is going out and how it is coming in and going back out again; that is the important thing.

Eleanor Emberson: We would be happy to do that.

I want pick up on one other point. Reference has been made to the Public Works Loan Board. That funds local authority borrowing where the Scottish Government borrows it technically through the national loans fund. Obviously we now have power under the 2016 act and the fiscal framework to borrow from other sources, should we so wish.

Alex Neil: That would be very helpful. I am not asking for that this morning, obviously.

Eleanor Emberson: I have a run of numbers, but I do not think reading them out would be very helpful to the committee.

Alex Neil: No. I have a few more questions. The first is on the use of framework contracts. When I was Cabinet Secretary for Infrastructure and Capital Investment, I was not convinced about framework contracts in terms of their economic impact in Scotland, but when I look at the number of large procurement projects that are going to businesses outwith Scotland—and the same is true at local authority level—if we did not have these large framework contracts, I wonder if we would have greater economic benefit if we had a different system. I am not asking you to answer that yes or no. I am asking you whether any independent assessment evaluation has been done of the different methods of procurement, not of just obtaining value for money in a narrow accountancy sense, but of the economic and social benefits to the Scottish economy of the different methods. I am not convinced that framework contracts maximise economic and social benefit.

Eleanor Emberson: You are quite right—this is not my area of expertise, but I know that my colleagues in procurement have done an awful lot of work on that particular point. You will be aware of the European procurement rules, the framework within which we operate and the fact that we have to have an open competition for public procurement, but a lot of work has been done on social benefit and making sure that small and medium-sized enterprises have better opportunities to be involved in all Government contracts. Frameworks can be problematic, and there is sometimes a perception that only larger companies wind up on the framework, but there are obviously issues about subcontracting and supply chains and how smaller companies can be brought through. If you run individual procurements for every individual thing, that does not automatically benefit every small company, because there is a vast amount of paperwork associated with competing in procurement. Those are some general points.

My colleagues who deal with procurement in the round will have more to say about it. Peter Reekie, do you want to add anything from your experience?

Peter Reekie: I would say that there are frameworks and frameworks. There is a time and a place for lots of different sorts of procurement across Scotland, for different scales of project and different programmes of work. When we do projects at a programme level, such as the hub programme, which is not a framework—it is a long-term arrangement—it gives us the ability to take a view of the economic impact across a range of different projects and see what is going on across what would be smaller projects that would not be reported at this level in their own right. We can tell you from the hub programme, when we do that programme level view, that more than 78 per cent of the prime value—the actual construction cost of the projects done in that programme that have been completed or reported on to date—of that work has gone to Scottish SMEs. That works principally through subcontracts, because in the construction industry there are lots of layers of companies doing the work.

Alex Neil: Is that 78 per cent by value?

Peter Reekie: It is 78 per cent by value, yes. More that £1 billion of the work has gone to Scottish SMEs through that programme of activity.

Scottish public authorities have access to some framework agreements that have been procured more at the UK level. There has been some procurement guidance that authorities should be careful of using some of those frameworks and think really carefully about what is right for any individual project, because as you say, when a very broad procurement is done, it gives authorities the ability to select a framework partner that does not have a local interest in the original procurement. There can then be difficulties with whether that reflects the local circumstances and the best practice that we want to see in Scotland, for example, in engaging SMEs on the training and apprenticeships that come through these contracts and the form of contracts we want to use.

There is a time and a place for everything. We need to be careful about the large UK nationally procured framework arrangements, but it is possible to bring the benefits to smaller authorities, who, as Eleanor Emberson said, might not have the skills and capacity to run a whole series of individual procurements. We can do that at scale and still bring the benefits of local engagement in the supply chain. There is a time and a place for everything, but I agree that we need to be careful.

Alex Neil: A lot of the procurement rules are single market rules. If we are coming out of the single market, it is an opportunity for us to have a fundamental look at procurement rules post Brexit and maybe improve the economic and social benefits from procurement. That is an area that the Auditor General and this committee should look at in more depth.

I address my final point to Peter Reekie. Whether someone agrees with hub financing and thinks that it is an improvement on what has gone before—there are people on both sides of that fence—they will share frustration at what can be a lack of sufficient transparency about the hubs and their operations. Will the Scottish Futures Trust and the Scottish Government look at improving the transparency of hub activity? I have traditionally been a supporter of hub projects because they have produced a lot of good projects in Scotland. There is an issue around whether there is a better way to do it now with all the additional powers that we have, but that is a separate matter.

In the short term, though, the apparent lack of sufficient transparency causes problems for policy makers and people in the economics sphere, academia and this Parliament when they try to get the information that they need to decide how much value for money we are getting from hub projects.

Peter Reekie: We are certainly aware of the interest in hubs. I have talked before about the effects of delivering projects through a large programme arrangement, as a hub is. We report through a quarterly updated project dashboard across the hub programme on more than 200 individual projects, their value and the dates associated with them. Those projects have an average value of about £12 million; if they were done as individual projects, they would not fall under the £20 million limit that this committee tends to look at. However, because they are done as part of the programme arrangements, the committee gets additional transparency on those projects.

We report at a programme level on the jobs and the community benefits. I have talked about the SME engagement for the projects. We feel that it is most helpful to look at those elements at a programme level. We report the values and timescales at a project level and we publish the community benefits quarterly on our dashboard at a programme level.

As for some of the individual contracts in the hub programme, people have been particularly interested in design, build, finance and maintain contracts. According to the standard form that the Scottish Futures Trust wrote, the vast majority of that contract documentation is available from the time of contract award. It is not commercially sensitive information, so it can be released immediately. There are elements of the contract documentation, in particular some of the financing costs, which are deemed to be commercially sensitive for a much shorter period than was the case under previous arrangements, which is the completion of construction plus an additional two years. That is a standard term in our standard contract documentation.

On the issue of releasing that information, we have thought carefully about commercial confidentiality and the balance of the public interest. That has been the subject of a decision by the Scottish Information Commissioner this year, which upheld that the period that we use was reasonable to maintain confidentiality.

We have been in discussion about releasing some averages on the cost of capital, which has been of particular interest to people. Across the hub and NPD programmes, the average cost of senior debt is 4.09 per cent and the average all-in weighted cost of capital is 4.74 per cent, so the overall cost of capital is just under 4.75 per cent. We are able to talk about averages, but for that reasonably short period we do not talk about the specifics, because it is commercially confidential to the relevant parties.

We feel that there is quite a good level of transparency. I know that there has been some discussion about hub companies replying to freedom of information requests. Those companies are not covered by the freedom of information legislation, unlike all of the public authorities that they work for, and indeed the SFT. We have been very happy to answer questions sent to us in relation to the hub programme, as I am sure public authorities are. The hub companies have a duty to co-operate with any request made by a participant for help in answering an FOI question. We are not aware that any hub company has failed to co-operate with such a request from a public authority.

Across the programme overall, we feel that there is a good level of transparency, but if people want to raise individual points with us, we are happy to respond to those.

09:45

The Acting Convener: Let me ask you one question before we move on. It is about the 5 per cent borrowing rule. My understanding is that that applies only to the Scottish Government; it does not apply to health boards nor, in particular, to local authorities, which may themselves be borrowing to build major capital projects. Is that correct?

Eleanor Emberson: Are we talking about the rule that the Scottish Government has chosen for itself, which is that it will keep the cost of borrowing below 5 per cent?

The Acting Convener: Yes.

Eleanor Emberson: Where health board projects are being core funded by the Scottish Government, I think that they are within scope. Helen Carter could pick that up.

Helen Carter: Health boards cannot borrow, but if any projects are being funded through NPD or PFI, they are factored into the 5 per cent. However, that does not apply to local authorities.

The Acting Convener: So we do not know the overall level of public sector indebtedness. That is the point that Alex Neil made. Surely the whole-of-Scotland accounts that are, I hope, due soon will be able to tell us that.

Eleanor Emberson: Either Peter Reekie or I could say something about that. Local authorities have their own caps on borrowing and will report on their own accounts. You are right that we do not yet have those figures in one place, but that will come.

Alan Morrison (Scottish Government): Information on the unitary charge payments for PFI, hub and NPD schemes is reported in health boards' annual accounts. You will find that there is a range across boards as to how many schemes that they have of that nature. Places such as Lothian and Lanarkshire have some big PFI projects, whereas in some of the smaller boards it is pretty minimal. Although the information is reported in the annual accounts, it feeds into the overall Scottish Government 5 per cent.

The Acting Convener: I suppose that what I am looking for is a figure that tells me the overall level of public indebtedness over time. It will be our children that have to repay the debts that we incur now and it would be useful to know what the total figure is. When are we likely to see it?

Eleanor Emberson: I am afraid that I do not have a timescale to hand. I understand that that is of interest and we will let you have the timescale as soon as we can. None of us knows for sure.

The Acting Convener: I think that the Government committed to do the preparatory work in the coming financial year and whole-of-Government accounts, or whole-of-public-sector accounts, next year. Is that right?

Eleanor Emberson: Yes, that is right. I am sure that they are coming. I just could not answer your specific point about timing.

The Acting Convener: The sooner the better would be the message from this committee.

Eleanor Emberson: I understand.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I will come back to one of the issues that Alex Neil was raising but, hopefully, the questions that I ask will be simpler, because I did not quite follow the explanations that were given. The paper that we have in front of us explains that our capital budget is about £3 billion a year, but it also says that, under the terms of Scotland Act 2016, the Scottish Government can borrow only up to £450 million a year. It also says that we have not used that money to fund any capital investment other than to support some of our major projects. Where does that £450 million restriction come from? Is it some kind of financial guideline or is it a political decision? Is there scope to review the restriction or change it in a way that would ultimately allow us to enhance the capital programme?

Eleanor Emberson: It is a restriction from Her Majesty's Treasury. It comes from the fiscal framework that was agreed between the Scottish Government and the UK Government following on from the Scotland Act 2016. We would not have scope to change it unilaterally. It would need to be negotiated between the Governments.

Willie Coffey: Is there any discussion about whether it is the right value or whether there should be some kind of flexibility? Is there any commitment to review it over the coming years?

Eleanor Emberson: There is a commitment to review the whole fiscal framework in, I think, 2021. I will double-check that, but I think that it is five years on. I am sure that we will want to review borrowing limits and all other aspects at that point. You will appreciate there was significant negotiation to reach the fiscal framework level that we are at now, so I think that we are unlikely to be able to seek significant changes ahead of the review point.

Willie Coffey: I am asking this to explore any ways in which we can enhance the capital programme and deliver more economic impact for Scotland, so I am interested in routes that might lead us in that direction. One of them must surely be the Scottish national investment bank that is also mentioned in the paper. I want to get a feel for where we are with that, what the timescale for it is and how it will impact on the capital programme.

Eleanor Emberson: Again, as you know, the First Minister made an announcement about that in the programme for government in September. There is a programme of work being led by Benny Higgins of Tesco Bank, who is due to report in February of next year with an implementation plan for the national investment bank. I would expect that to be an implementation plan at pace, because we would want to get the full benefit of having a national investment bank as quickly as possible, but I think that the detail will emerge in February when we see the outcome of that implementation work.

Willie Coffey: Can you share any details at all at the moment? Will there be an element of borrowing to provide resource for that from a variety of sources? Where will its funding come from?

Eleanor Emberson: The expectation is that the Scottish Government will put in some money to capitalise the bank and the bank will then leverage in other money to be able to provide a programme of investment. However, the detail of what that will look like cannot come until we have seen the implementation plan from Benny Higgins.

Peter Reekie was involved and may wish to add something.

Peter Reekie: It is just worth saying that a bank will only ever provide financing that has to be repaid over time. There are various means of doing that, whether it be the Government's borrowing powers, the NPD and DBFM programmes or, potentially in the future, the national investment bank, but all that finance has to be repaid eventually from generally two sources: general Government revenue budgets in the future; or charges on the people using the infrastructure that is financed. If the bank finances energy infrastructure, for example, that will be paid for by energy consumers through the user charges for gas and electricity and so on. That will be an opportunity to raise finance that is not eventually paid for by Government budgets, but if the bank finances a new road or a hospital, that is fundamentally a Government asset and the finance will have to be repaid at some point in time from Government budgets. There are some options as to which areas the bank plays in, but if you are thinking about whether it can deliver a great deal of additionality and the ability to invest capital in the schools, roads and hospitals that we all want to see built, that is constrained as least as much by our ability to repay the money in the future—we have talked about the 5 per cent cap and other constraints like that—as it is by our ability to raise finance to start with.

Willie Coffey: Is there any connection between that initiative though and the restrictive £450 million borrowing limit for capital? Surely there is a connection between the two, and if the limit was increased or reviewed or enhanced, it would increase the powers of the SNIB to invest in the economy.

Peter Reekie: The cap would cover borrowing by Scottish Government or by entities that are owned and controlled by Scottish Government that are publicly classified. If the SNIB in the form that is recommended in February falls to be classified to the public sector, its capitalisation will fall within the borrowing powers limit and, along with the financial transactions and other sorts of budgets, it will have to be within that. If a bank is classified to the private sector, it has its own borrowing powers, but in that case it cannot be controlled by the Government. A publicly controlled SNIB would be constrained by the same caps as we have discussed.

Willie Coffey: I want to ask you about a particular project in the report: the digital superfast programme, which I think has gone particularly well. We have about 780,000 premises covered and we will have 95 per cent coverage by the end of this month. I wanted to focus a little bit of attention on the reaching 100 per cent, or R100, programme, which is the commitment to 100 per cent coverage. The Scottish Government is the only Government in the UK that has that commitment. This is going to be the hardest bit, as the last 5 per cent is always the hardest to do, but there is not a lot of detail in the report to tell us anything about the schedule. We know that it runs to 2021, but there is not a lot of detail in there. This is potentially quite an expensive part of the procurement, because it is for the most difficult to reach areas of Scotland. Can you give us any other information about where we are with it and how we are getting on?

Eleanor Emberson: We expect the procurement for that to start by the end of this month. Other information about it may emerge in the Scottish Government's draft budget publication on 14 December. Unfortunately, I do not think that there is anything more that I can tell you at this stage.

Willie Coffey: Members are always interested in when things are going to be done. It is particularly difficult to pin down sometimes when these programmes are going to roll into your particular area and it will be the same with this one. However, at any point between now and 2021, will we be able to see the rollout by location and where the installations are going to take place? How is it going to work?

Eleanor Emberson: The procurement would have to be concluded and there would have to be a full plan before you would understand in what order anyone would be tackling the last 5 per cent. That last part is the hardest part of the procurement process. It would be teasing out who has the best offer in terms of doing it at the best value to the public purse. The full plan will emerge only once the procurement process is concluded, I would expect.

Willie Coffey: Forgive me for going on, but constituents—I am sure I share this with my colleagues here—are always asking us, "In which of the four years ahead am I likely to be done?" which I think is a perfectly reasonable question to ask. Will you at any stage be able to answer that for our constituents? If they ask, "Am I in 2018, 2019, 2020 or 2021?" will we be able to tell them when they will be done?

Eleanor Emberson: Once procurement is concluded and the contract is let, there will be a plan. I imagine that it will be possible at that stage to say something about the order in which actions will be taken over the four years.

Willie Coffey: When did you say that would be again? The procurement needs to be concluded first.

Eleanor Emberson: I do not know exactly when the procurement will conclude. It will not be a straightforward procurement. If it is starting in December, it will take some time. I would not expect that to be completed until well through next year.

Helen Carter: I think that the procurement process probably takes about a year.

Willie Coffey: So by, say, this time next year we will know the whole implementation and rollout plan and schedule by location and so on, will we?

Eleanor Emberson: I do not know that that is the case. I am saying that I would not expect to know it before then. I would assume that we would know it some time soon after that. I can ask my colleague who deals with broadband to give me some more information about that for the committee if that would be helpful.

Willie Coffey: I realise that I am pressing you for information that you probably do not have, but this is information that constituents want, and I think that they are entitled to have it and to be given that information as soon as possible.

Eleanor Emberson: We absolutely understand the point and we will take that back.

The Acting Convener: Can I just go back to borrowing for a minute? My recollection is that you used borrowing to fund the gap in projects that was caused by the reclassification of projects under the European system of accounts 2010. That also caused you to change the profile of hub projects for the future so that there is less public sector involvement and therefore potentially more private sector involvement. Could you remind us what the costs of borrowing were as a result of the ESA10 changes?

10:00

Helen Carter: For the NPD projects that we had to use our borrowing powers for, we agreed with HM Treasury that it would be notional borrowing: we did not have to borrow money but we had to score against our borrowing powers. In 2015-16 it was £283 million and in 2017-18 it was £333 million.

The Acting Convener: That was quite a substantial amount.

Helen Carter: That is the notional borrowing. There will also be an impact in 2017-18, but it is not part of the notional borrowing; it is factored into our capital budgets.

The Acting Convener: How much is that likely to be?

Helen Carter: It is £234 million.

The Acting Convener: That is simply the legacy of the four projects that were reclassified because of ESA10?

Helen Carter: Yes.

The Acting Convener: I assume that that £234 million counts against our £450 million a year limit?

Helen Carter: It does. Can I just clarify that, as I said, the £333 million was what went against notional borrowing and that was our limit in terms of borrowing in 2016-17, but what we had to score for the NPD projects was £398 million, so there was an additional element over and above the borrowing figure.

The Acting Convener: If it was £398 million, where did the balance of £65 million come from?

Helen Carter: That was factored into our DEL programme. Again, it was budget cover that was provided, not a cash requirement, but it was factored into the capital budget in 2016-17.

The Acting Convener: But budget cover requirement would have meant that that money could not be used elsewhere—is that a fair comment?

Helen Carter: Yes.

The Acting Convener: So it could be described as an opportunity lost?

Helen Carter: Yes, I think that that is fair.

The Acting Convener: I appreciate that you cannot say anything about this budget coming. I just want to ask a more general point, because you have hundreds of millions of pounds in pipeline projects coming forward. Is your expectation that the Scottish Government will use its borrowing powers to fund some of those projects?

Eleanor Emberson: I think that the ministers have made clear that they want to maximise investment. We will see the position in the draft budget, but my expectation is that there will be use of borrowing in future years.

The Acting Convener: So any borrowing that is on legacy projects, because of ESA10, again represents an opportunity lost for this coming year to invest and means that some of the pipeline projects will not proceed in the time that you anticipated.

Eleanor Emberson: Helen, is there any notional borrowing in this coming year?

Helen Carter: There is no notional borrowing.

The Acting Convener: There is actual borrowing of £234 million.

Helen Carter: Yes.

Eleanor Emberson: In 2017-18, but not in 2018-19 and the future years.

The Acting Convener: Sorry, next year is a future year. We have not reached that financial year yet, so that is the future for me. We are already borrowing in actual cash, not even notional cash, £234 million. That means that the £450 million is reduced by that amount already, so I am again looking at opportunity costs for the pipeline of projects that are there. Are you going to have to reprofile any projects?

Helen Carter: We do not have to reprofile any projects, because that was factored in when we set the 2017-18 budget at the time, so no projects were stopped to make way for that. It was all factored into the requirements at the time of setting the draft budget last year.

The Acting Convener: I accept that no projects were stopped, because some have been delayed and the start dates in the outline business case have been pushed back, as we saw with hub projects at the time of ESA10. I could list a whole number of them that were delayed because of this, so it is likely that that could have happened in this case.

Peter Reekie: The convener is aware that some of the DBFM projects had to be put on hold while we reconfigured the structure of the hub programme to allow those to go ahead under the new rules. Those projects have now all gone ahead. I think that you are referring to other capital projects outside the programme.

Eleanor Emberson: As you know, we have an infrastructure investment plan; we have the pipeline. We do not have a programme with the detail of timing nailed down across multiple years, so we are flexing in order to accommodate the very unfortunate classification change. However, we still have the pipeline and projects are going ahead.

The Acting Convener: So if I do not call it a delay, but I call it flexing, that would be okay.

Eleanor Emberson: If you wish, yes.

The Acting Convener: Interesting.

Bill Bowman: Is reprofiling the same as juggling?

Eleanor Emberson: We have our programme of work and we have budgets available. We make the projects fit within the budget available over the piece. We are trying to make sure always that we are making the very best use of the public money that is available.

Bill Bowman: I want to build on Willie Coffey's line of questioning about the Scottish national investment bank. Eleanor Emberson said that, in effect, the bank could produce funds that you could spend, but Peter Reekie then said, "No, it is all subject to the same limitations." Does the SNIB make any difference to Government capital spending?

Peter Reekie: Under different potential formulations, different rules would apply, but that work has not yet been done. The group doing the work has not yet made any recommendations on exactly what form the SNIB will take. I was trying to describe various options, but I cannot tell you what form the SNIB will take, as those recommendations have not yet come forward.

Bill Bowman: Will you or will you not have more money to spend?

Eleanor Emberson: We will feed into the SNIB's work with the aim, obviously, of getting maximum value out of it. There are choices to be made about whether it will sit as a public or private body and, if it is to be a public body, what its nature will be. Indeed, if it is to be a public body, there might need to be a discussion with the Treasury about how it fits or does not fit within existing Treasury rules. I cannot answer your question until we understand the nature of the body.

Bill Bowman: Of course, as Peter Reekie said, it could be the poor consumer who again has to pay for these projects at the end of the day. Is that likely to be the case with Government projects, too?

Peter Reekie: As I was trying to describe, financing is the initial process of raising money to pay for something and funding is how it is paid for over time. Elements of our infrastructure—roads, hospitals, schools and so on—are funded from Government budgets and general taxation, while other elements, generally communications and energy infrastructure, are paid for through user charges. I was not trying to suggest any change in that mix; I was simply suggesting that when you raise finance, it is repaid using different routes, depending on what you raise it for.

Bill Bowman: It sounds like it is another bank instead of something different.

Eleanor Emberson: We do not have an SNIB at the moment, so it will be something different. We are waiting for recommendations on its exact focus. Many choices could be make about the kind of body it should be, its main focus of investment and so on; that will all come in February and we will follow things up from there, but it will be something different.

The Acting Convener: However, the potential choice of making it a private institution would involve a trade-off, because although the borrowing limits would not apply, the interest rates could be higher. Is that assumption correct?

Eleanor Emberson: I do not think that it automatically follows that if it is a private body the interest rates will be higher. The question is more about how the bank will fit into the landscape, how it will be accountable both to ministers and indeed to Parliament and how much it will be a private or a public body. There are considerations about how it will fit within the rules that we operate with the Treasury, and there might have to be some discussion in that respect with regard to the kind of body that we want it to be.

Alex Neil: I presume that, to some extent, it will use the experience of and be modelled on similar kinds of highly successful banks in Germany, Scandinavia and so on.

Eleanor Emberson: Indeed. We will want to follow all of that experience. Some of the things that I am describing are the particular complications that come with dealing with devolution instead of being able to set up a bank at an independent state level.

Alex Neil: And that come with being screwed by Treasury rules.

Eleanor Emberson: Those are your words, not mine.

The Acting Convener: Do you have any further questions, Mr Bowman?

Bill Bowman: I guess that the other aspect is the opportunity cost with regard to how much the bank is going to cost to run. Do we have any indication of that?

Eleanor Emberson: Not at this stage. Obviously, that, too, is down to the choices that are made and what the bank will choose to do.

The Acting Convener: I want to pursue some value-for-money issues and ask, at the risk of losing people, about senior and subordinate debt. I think that Peter Reekie reported a figure of 4.09 per cent for senior debt interest rates.

Peter Reekie: Yes.

The Acting Convener: I am glad that I was listening. At the moment, the underlying London interbank offered rate is 0.5 per cent. In the past, senior debt interest rates have been between 6.8 per cent and 8.3 per cent, but at those times, the LIBOR rate was 10 times higher at over 5 per cent. Does a rate of 4.09 per cent represent value for money, given that interest rates are currently so low?

Peter Reekie: That rate spans the deals that have been closed across the programme to date, and as you would expect, the LIBOR rate has also moved around over the same period. There is always going to be a difference between the underlying risk-free interest rate and the rate that a project finance lender will give you for an individual project at a certain point in time. As for the 4.09 per cent rate, it is broadly akin to the pooled PWLB borrowing rate that local authorities use, which has been measured over a very different period of time, and it is also below the rate of Government borrowing for a similar period on 20-year gilts for the 10 years previous to the programme. We believe that, overall, it provides a good cost of finance for infrastructure investment at this point in time and provides value for money.

The Acting Convener: And you do not think that the rate could be any lower.

Peter Reekie: We have not been able to get a lower rate, but we always try to get the best deals possible.

The Acting Convener: My understanding is that subordinate debt rates average 10 to 11 per cent. You have given us an all-in borrowing cost of 4.09 per cent, which is very welcome; indeed, I think that this is the first time that we have had such a figure. In percentage terms, what is the subordinate debt rate in the overall borrowing cost?

Peter Reekie: The figure that I gave for the all-in weighted cost of capital was 4.74 per cent. You are right—the average cost of junior debt is between 10 and 11 per cent. Overall, it is 10.8 per cent across the hub and NPD programmes.

The Acting Convener: Let me come back on that, because my question was whether the 4.7 per cent figure for the all-in borrowing cost included the cost of subordinate debt.

Peter Reekie: Yes. The average senior debt rate is 4.09 per cent and the average for junior debt is 10.8 per cent, which leads to an all-in weighted cost of capital of 4.74 per cent.

The Acting Convener: I got that. My question is: what is the percentage of subordinate debt in the total debt figure that you have given me?

Peter Reekie: The gearing across all of the projects is around 90 per cent for senior debt and 10 per cent for junior debt.

The Acting Convener: So there is 10 per cent of junior debt in that total figure, but when you average it out, it goes up by about one percentage point. Does that mean that 10 per cent of the debt is accounting for a 25 per cent increase in your average total cost? Is that right?

Peter Reekie: I do not quite follow your mathematics, but the senior debt rate is 4.09 per cent—or 4.1 per cent, let us say—and when you average it out overall, the figure is 4.75 per cent. That means that there is a 0.65 per cent difference between the senior debt rate and the all-in cost. That is the impact of the 10 per cent or so of junior debt going into those projects.

The Acting Convener: I suppose that what I am driving at is that the cost of subordinate debt is greater.

Peter Reekie: Yes, it is.

The Acting Convener: That is demonstrated by your all-in borrowing cost. Although the amount of subordinate debt in the total cake is 10 per cent—I am not talking about the interest rate itself—it has factored in quite a substantial increase to the overall percentage of borrowing.

10:15

Peter Reekie: Yes. In these highly geared projects; around 90 per cent of the debt is senior debt, which is cheaper and has lower risk. To improve value for money overall, we always attempt to minimise the amount of risk capital or junior or subordinated debt, which is the more expensive, higher-risk form of debt that I have said is averaged across the programme and whose rate is around 10.8 per cent.

The Acting Convener: We have evidence emerging that some people who own subordinate debt, if I can describe it in those terms, are selling it on in secondary markets. Because there is an excessive margin of profit to be made, they are able to do that. We have the bizarre situation where somebody might be borrowing, then deciding while they are making their borrowing repayments that the value of the debt should be sold on. Not only are they selling it on to somebody else, but they are still having to make borrowing repayments. Is that not gaming the system? Are you not concerned about the excessive margins of profit that would invite that to happen?

Peter Reekie: In the private sector there is a secondary market in junior debt or investments in projects. What tends to happen is that primary investors and developers will take the risk around the construction phase, when the projects are at a particularly high risk, and indeed at the bidding stage, when they may or may not win the projects and have to invest sums of money to become the provider, if you like. Once the construction phase is over, in many cases the investment is sold on to pension funds and other institutional investors that are very keen to hold that investment for a long time—25 years is the average length—because that matches their liabilities over the period. That allows the primary investors who take that construction risk to recycle their capital and do more projects and invest in future projects. As the risk reduces over time, there are investors who see that risk differently. In effect, they will pay more for that investment, because they will accept a lower interest rate over time once the risk has reduced.

The Acting Convener: There is a market there. For example, some local authorities that are generating debt because they want to invest in important capital projects in their area are then spotting that there is a wizard wheeze to be had in selling that debt on. They are making a profit out of it, but still paying their borrowing charges. Does that make sense in terms of public sector accounting practice? I am turning to Eleanor Emberson here.

Peter Reekie: Are you talking about the public sector selling on shares of subordinated debt?

The Acting Convener: Yes.

Peter Reekie: We—SFT and our investment subsidiary, Scottish Futures Trust Investments—hold an element of that debt on behalf of the public sector, and we have absolutely no intention of selling any of that. We are very keen on the role that that investment gives us in the governance of the project companies and are clear in our annual accounts of our intention to hold that debt until maturity.

The Acting Convener: So reports in local council finance agenda papers are entirely speculative and wrong.

Peter Reekie: I could not tell you about reports in any local authority council agenda papers.

The Acting Convener: I can.

Liam Kerr: I would like to focus on a couple of specifics in the report. Annex B, which shows the progress on projects, has two references to prisons, for want of a better term, at page 60. It shows that the total cost of the national facility for women offenders has increased by £13.5 million due to additional requirements. We also see that the Inverness justice centre project appears to have required an extra £6.5 million of funding. That surprised me, because that is nearly £20 million extra required on two projects. Can you give us any detail on what is going on there?

Eleanor Emberson: I cannot give you any information about the women offenders facility. My understanding is that there has not been a cost overrun of the Inverness justice centre project. It is merely that what is being funded from where, among partners, has been looked at, to make sure that the whole thing can be done. I think that there was an expectation that all public sector bodies would pool money. Instead, we have put the £6.5 million through directly to make the project go ahead. I do not think that that is a cost overrun, in my best understanding. I cannot tell you about the women offenders facility, I am afraid.

Liam Kerr: Would you mind providing clarity on the women offenders facility afterwards? Additional requirements to the cost of £13.5 million were not scoped or appear to have been unscoped at the procurement stage, which seems like an awful lot to be missed, so I would appreciate some clarity on that.

On the Inverness justice centre—and I appreciate that you may write in on this as well—your update says quite clearly:

> "Additional funding of £6.5 million has been received."

That, of course, begs the question: received from whom?

Eleanor Emberson: From the Scottish Government.

Liam Kerr: That leads on to the point that presumably that was not budgeted for by the Scottish Government at the point of procurement.

Eleanor Emberson: I do not think that it was at the earlier plan stage, but my understanding is that that was reviewed and agreed before procurement went ahead. I am turning to Helen Carter for more detail on that.

Helen Carter: The additional £6.5 million would be factored into the budget process. The project is not yet complete, so it would be something that we would take into consideration when we are setting future budgets. Perhaps the issue is with the words "it has received". The project would not receive it in advance of needing it. It is a budgetary issue. It has received confirmation that the budget will increase. I think that that is probably better terminology.

Liam Kerr: Thank you.

The previous page of that annex—page 59—has information on the V&A in Dundee. I see that very frequently and it looks fantastic. It appears to have a cost of £45 million. My first question on that is just a point of clarity for me. At page 21, annex A—which is, as I understand it, on how projects are being funded—appears to suggest that the cost of the project is about £80 million. I am clearly misreading something, but could you help me by explaining why there is that discrepancy, please?

Helen Carter: The £45 million was the initial cost in the outline business case. The way that the report works is that it provides the OBC information and the latest information as at September, which is compared to the information that we provided in February. Previous iterations of the report would have indicated that the cost of £45 million had increased and that the overall cost of the project is £80 million, which is recorded in the project pipeline. The whole £80 million is not Scottish Government funded though; it is a council-led project.

Liam Kerr: My next question was going to be on that. The cost of the V&A is now, give or take, £80 million. When it was £45 million, I had understood that £25 million was coming from the Government, which suggested that £20 million was coming from Dundee City Council. Now that it is £80 million, is that split still the same? Is it roughly £40 million from the Government and £40 million from Dundee, or how is that broken down?

Helen Carter: I would need to come back to you with the precise breakdown, but the further element from the Scottish Government—or part of that—is coming through the Dundee growth accelerator project, which is a mechanism through which funding will flow to the council when outcomes are met. I will need to confirm the precise amount that is coming through that mechanism.

Liam Kerr: I would be grateful for that. I see that the timeline says that the V&A will open in June 2018. If I am wrong about that, please correct me. Once it opens in 2018, my understanding from the report is that that will be the building completed. The operation of the V&A will be handed over to Design Dundee, which will run it—it will provide the product. How long is that contract with Design Dundee? Is that self-funding or is there some kind of contribution from the public purse—or, indeed, will Design Dundee kick back to the public purse? What happens if Design Dundee does not fulfil that contract?

Helen Carter: We would have to come back on the specifics of that. My understanding is that Design Dundee is an arm's-length organisation affiliated to Dundee City Council, but we will come back and clarify that.

The Acting Convener: I have just a couple of other little bits and pieces. I have a question on the Aberdeen western peripheral route that I asked when the Economy, Jobs and Fair Work Committee was in private session. Let me ask it again, because I do not think I have had an answer. There have been reports in the newspapers that the cost to complete assessment has been delayed. That process looks at the time taken to complete and cost overruns, and is essential to keeping on top of a project. My understanding is that that was meant to take place in October, but did not do so. Has it taken place now?

Eleanor Emberson: Not to the best of my knowledge.

The Acting Convener: I understand that such things are absolutely essential in capital projects, particularly big ones such as the AWPR. There was some suggestion that the assessment was delayed because of the difficulties experienced by Galliford Try and Carillion, which both reported significant losses and a fall in their share price. The suggestion was made that the assessment was delayed to help them. Is there any truth to that?

Eleanor Emberson: I am sorry—I am not aware that there is any truth to that. The key thing for us is that the road is still scheduled to open for traffic in winter 2017-18. Obviously, we will be staying on top of the financial aspects as well.

The Acting Convener: We share your desire to have the road complete, functioning well and on time. You can understand the concern if two of the three major contractors are reporting such difficulties. We want the contract to finish. I asked that question in private session previously; I have now asked it on the record. I would be grateful if somebody would write to me with that information. Thank you.

Finally, Alex Neil has certainly read most of the report that we commissioned from the Cuthberts, but he missed one thing. Aside from the Scottish supply chain, which he covered, I am curious to know whether tier 1 and tier 3 contractors are covered by the Scottish Government's procurement guidance.

Peter Reekie: The hub companies are not specifically covered by the Scottish Government's procurement guidance, because that is about procurement by public authorities. However, they are covered by the terms of the original procurement in which they were selected as partners, and those exercises select supply chain members to deliver for the local economy as much as they can. As I have said previously, 78 per cent of the prime value of those projects is delivered by Scottish SME companies, and we report on our dashboard on the amount of training that is done and the number of jobs and other important community benefits that come out of the hub programme.

The Acting Convener: I do not want to put words in your mouth, but what you are saying is that the Scottish Government has excluded the hubs from its own procurement guidance.

Peter Reekie: The hubs were procured by the participants at the outset of the programme, and the guidance that was in place at the time of that procurement was used in procuring those hub companies.

The Acting Convener: Let me get down to brass tacks. I wait to be contradicted on this, but I think that the Government and the Parliament care about things such as companies that use blacklisting and the payment of the living wage. Are you telling me that you do not monitor those things among tier 1 and tier 3 contractors? Do we have any idea whether they are paying the living wage or are engaged in blacklisting?

Peter Reekie: I could not tell you about payment of the living wage through all the subcontractor chains of all those entities.

The Acting Convener: So none of that is monitored.

Peter Reekie: There is monitoring of the hub companies at the level of the key performance indicators, which are published every year. The KPIs contain a range of information on community benefits and the achievement of programme and financial targets, but those KPIs, which are public, are the things that we monitor across the hub programme.

The Acting Convener: That is a very helpful way of telling me what you do not monitor. Therefore, I will not find any reference to whether a company is blacklisting or has blacklisted in the past, or to payment of the living wage. I am pursuing the issue because these are substantial sums of public money. I think that both the Government and Parliament have made their intentions clear about what they want, but that does not seem to be happening in practice. Is that a fair comment?

Peter Reekie: We can look into your comments, but I have already said what we look at: we look at a range of KPIs across those projects and programmes.

The Acting Convener: Thank you very much. Members have no further questions. I thank our witnesses for attending this morning and for subjecting themselves to quite a grilling from my colleagues.

10:30

Meeting continued in private until 10:52.

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