

# **AUDIT COMMITTEE**

Wednesday 26 March 2008

Session 3

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## AUDIT COMMITTEE 6<sup>th</sup> Meeting 2008, Session 3

### CONVENER

\*Hugh Henry (Paisley South) (Lab)

### DEPUTY CONVENER

\*Murdo Fraser (Mid Scotland and Fife) (Con)

### COMMITTEE MEMBERS

\*Claire Baker (Mid Scotland and Fife) (Lab)  
\*Willie Coffey (Kilmarnock and Loudoun) (SNP)  
George Foulkes (Lothians) (Lab)  
\*Jim Hume (South of Scotland) (LD)  
\*Stuart McMillan (West of Scotland) (SNP)  
\*Andrew Welsh (Angus) (SNP)

### COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)  
\*James Kelly (Glasgow Rutherglen) (Lab)  
Iain Smith (North East Fife) (LD)  
Sandra White (Glasgow) (SNP)

\*attended

### THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)  
Mark Diffley (Audit Scotland)  
Caroline Gardner (Audit Scotland)  
Cathy MacGregor (Audit Scotland)

### THE FOLLOWING GAVE EVIDENCE:

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

### CLERK TO THE COMMITTEE

Tracey Reilly

### SENIOR ASSISTANT CLERK

Joanna Hardy

### ASSISTANT CLERK

Rebecca Lamb

### LOCATION

Committee Room 5



## Scottish Parliament

### Audit Committee

*Wednesday 26 March 2008*

[THE CONVENER *opened the meeting at 10:00*]

### Decision on Taking Business in Private

**The Convener (Hugh Henry):** I welcome members of the committee, the press, the public and Audit Scotland staff to the sixth meeting in 2008 of the Audit Committee. John Swinney, the Cabinet Secretary for Finance and Sustainable Growth, is with us. It is helpful to have his full title on the plaque in front of him.

I have received an apology from George Foulkes; James Kelly is standing in for him. I ask everyone to ensure that their mobile phones are switched off so that there is no interference with the sound system.

Under agenda item 1, do members agree to take agenda item 6 in private?

**Members** *indicated agreement.*

## Subordinate Legislation

### Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008 (Draft)

10:01

**The Convener:** Under agenda item 2, the committee will take evidence from the Cabinet Secretary for Finance and Sustainable Growth, whom I welcome, on the draft Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008. The cabinet secretary is accompanied by Richard Dennis, who is a deputy director of finance in the Scottish Government.

**The Cabinet Secretary for Finance and Sustainable Growth (John Swinney):** Good morning. The committee may find it helpful if I explain briefly the background to the order.

A review of audit and accountability for the United Kingdom Government by Lord Sharman in 2001 recommended that the auditors general for the constituent parts of the United Kingdom should be made eligible to undertake the audit of accounts of non-departmental public bodies established as companies and of company subsidiaries of NDPBs. The audit of companies is a reserved matter. Four years passed before the then Scottish Executive was given the opportunity to agree to the inclusion of a general provision in the Companies Act 2006 to enable the Auditor General for Scotland and the auditors general for the other constituent parts of the United Kingdom to audit the accounts of companies. That provision is scheduled to come into force on 6 April 2008. The then Scottish Executive also sought the inclusion of a separate provision in the Companies Act 2006 to enable Scottish ministers to designate, by order in the Scottish Parliament, qualifying non-profit-making companies as being subject to audit by the Auditor General for Scotland. The draft Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008 is the first such order.

The purpose of the order may not be clear, given that the Auditor General will, after all, be eligible to audit any company with effect from 6 April this year. However, designation in the order brings the companies concerned within the scope of the Public Finance and Accountability (Scotland) Act 2000 and allows the Auditor General to undertake the statutory audit of accounts without having to comply with commercial sector audit requirements or the independent supervisory arrangements that are

set out in the Companies Act 2006. In essence, it avoids the need for additional bureaucracy and costs relating to the audit of qualifying companies. Audit Scotland, on behalf of the Auditor General, was closely consulted on the inclusion of the order-making provision in the Companies Act 2006 and on the preparation of the order.

Very few on-going Scottish NDPBs have been established as companies, and at the moment it appears that no company subsidiaries of NDPBs could safely be regarded as meeting the non-profit-making requirement that is included in the Companies Act 2006. That has resulted in only three company NDPBs being listed in the schedule to the order, which is available to the committee.

I would be happy to answer any questions from the committee.

**The Convener:** Thank you very much. That was riveting stuff, minister. It is the kind of thing that gets us out of bed in the morning.

**John Swinney:** It definitely does, convener.

**The Convener:** Do members have any questions or comments to make?

**Andrew Welsh (Angus) (SNP):** Given that the order will avoid the need for additional bureaucracy and costs, and that the Subordinate Legislation Committee is satisfied with it, I think that it is fine.

**The Convener:** I thank Mr Swinney and move to agenda item 3.

*Motion moved,*

That the Audit Committee recommends that the draft Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008 be approved.—[*John Swinney.*]

*Motion agreed to.*

## “Improving the school estate”

10:05

**The Convener:** Under agenda item 4, I invite the Auditor General for Scotland to brief us on the report, “Improving the school estate”.

**Mr Robert Black (Auditor General for Scotland):** Thank you. The report that committee members have before them—“Improving the school estate”—is a joint report prepared by Audit Scotland for the Auditor General for Scotland and the Accounts Commission.

There are more than 2,700 council-run schools across Scotland. Ten years ago, many of them were in a state of serious disrepair. At that point, a major programme of improvements began. In 2003, the Scottish Executive and the Convention of Scottish Local Authorities launched the school estate strategy, in which they set out the aims of raising and maintaining the quality of the school estate over a period of at least 10 to 15 years. Audit Scotland has found that £3.9 billion has been spent or committed on school buildings in the seven years to April 2007. The figure is expected to rise to more than £5.2 billion by April 2008. The investment produced 219 new schools by the end of 2007, and more than 160 more are in the pipeline. In addition, many more schools were refurbished or improved in smaller ways. We cannot say exactly how many schools have been refurbished, because of a lack of an agreed definition of what constitutes a refurbishment.

The report contains four main themes that I would like to bring to the committee’s attention, the first of which relates to the school estate strategy itself. The strategy, which came out in 2003, did not set out exactly what needed to be done with the school estate, or how it would be achieved. Because of limitations in the data that were available up till now, the Government has found it difficult to assess accurately how much still needs to be done to achieve the aims of the strategy and how much it will cost. Although there was no doubt that many school buildings needed to be improved urgently, the strategy contained limited information on the scale and nature of the improvements needed. It set few specific targets for achieving the aims.

Since that time, the Government and local authorities have been working together to develop a consistent method for assessing the condition of school buildings. That is leading to improvements in the data available. The report therefore suggests that the better information provides an opportunity to review the strategy, to set specific targets, and to monitor progress against those targets.

The second theme is progress towards the improvement targets. Based on the Government's criteria, the interim targets for improving 300 schools by 2006 have been met. A further target of renewing another 100 schools by 2009 looks likely to be met, too. However, the strategy back in 2003 indicated that it could take at least 10 to 15 years to improve all schools that were in poor condition. If the strategy continues at the current rate of progress, we suggest that it could take up to 20 years from now to remove all schools from poor condition and make them fit for 21<sup>st</sup> century education. However, that is no more than a general indication, based on the current rate of progress.

Using the Government's criteria for what constitutes a refurbishment, the school building programme built or significantly renovated 100 schools by 2003, and built or substantially refurbished another 200 schools by 2006. The programme looks on track to renew a further 100 schools by 2009. The total is therefore at least 400 schools by 2009.

If we consider new build alone, we see that a total of 219 schools opened between 1999 and 2007. We estimate that at least 160 more will be built by 2012, if the strategy is delivered. About two thirds of the new schools are in the current programme of public-private partnership or private finance initiative contracts. The remaining third are traditionally funded projects to which councils are committed. There will be a total of 400 new-build schools by 2012, even if no further investments take place. However, it is estimated that about 1,000 schools were in poor condition in 2007, which is about a third of all schools.

My third theme is design and environmental issues. We found that pupils and staff are in general satisfied with the design quality of new and refurbished schools. However, many people said that the buildings can overheat and have insufficient daylight and natural ventilation. When such schools are assessed against good practice standards, it is clear that they could have been designed better. The two areas of design that require particular attention are, first, the need to ensure comfortable levels of heating, daylight and natural ventilation, and, secondly, the incorporation of environmentally sustainable features, such as energy efficiency and renewable sources.

Most new-build schools meet good practice standards for some key design details, including safety and security and furniture and fittings. However, they fall short of good practice standards in other design aspects. Refurbished schools often fall below new-build standards in every design aspect. Refurbishments are often constrained by existing building structures, but

many standards can be met through careful design, without which refurbishment runs the risk of having a negative impact. For example, on environmental conditions, installation of poorly designed replacement windows can reduce daylight and introduce difficulties to do with ventilation and overheating in summer.

My fourth theme is the challenges that lie ahead, which are mainly covered in part 7 of the report. Although school estate planning is helping councils and Government to plan and prioritise what is needed, the quality of long-term demand planning varies between councils, and there are significant risks to the school estate if planning is not improved. Since the strategy was launched in 2003, councils have been required to produce school estate management plans, which have helped them to prioritise what is needed and have helped the Government to understand the nature and scale of the improvements that are necessary.

However, planning for demand for future places varies considerably between councils. Fewer than half of councils estimate the number of pupils that they expect in their schools beyond the next 10 years, although they make investment decisions that could have an impact for 50 years, which is the average planned economic lifetime of a new school. We acknowledge that it is difficult to project demand beyond 10 to 15 years, not only because of uncertainty about pupil numbers but because expectations and policies change. For example, changes in class sizes could affect accommodation needs, and movements of populations, for example between Edinburgh and its surrounding areas, have significant consequences for projected school rolls. Therefore, it is important to plan for flexible school use in future.

Without having the best possible projections of demand and reliable information about the condition of the school estate, it will be difficult for the Government and councils to plan for future capital and revenue funding for the school estate. The capital investment programme that is set out in the strategy is less than halfway through, which suggests that another £5 billion or so of capital investment will be needed. As the committee knows, the Government has been consulting on the introduction of a Scottish futures trust as a replacement for the PFI model. However, it is committed to honouring existing offers of support for school PFI projects. If the Government pursues the Scottish futures trust concept, the alternative approach must be put in place in time to sustain the momentum of the improvement strategy.

There are issues to do with the on-going revenue spending that will be needed throughout the programme and beyond it. To maintain and adapt the school estate and avoid the risk of its

slipping backwards, it is important that adequate resources are given to the maintenance of schools as well as to capital funding. An issue in that context is that although the Government has committed itself to supporting the charges that are associated with PFI projects, its support will not increase in line with the indexation rate. The difference between the amount that comes from the Government and the actual cost of PFI charges is likely to increase and will have to be met by local authorities, which must also meet on-going maintenance costs.

In summary, there are a number of issues that the Government needs to address, and I will not take up more of the committee's time today. We have captured in part 8 the key recommendations for the Scottish Government to consider.

10:15

**The Convener:** Did you say that a third of all schools were in poor condition as at 2007?

**Mr Black:** Yes.

**The Convener:** Is that an objective analysis? Who made the decision that the schools were in poor condition?

**Mr Black:** Historically, the quality of information was rather poor until the school estate strategy came in, but local authorities have been working pretty intensively with the Scottish Executive—and now the Scottish Government—to improve that information. I am sure that Mark Diffley can provide more detail on how the information has been captured.

**Mark Diffley (Audit Scotland):** The figure of a third of schools still being in poor condition is from the figures that the Scottish Government publishes annually.

**The Convener:** So there is still a substantial challenge in improving the school estate. The scale of the work in the past seven or eight years has been huge. Was that work needed, or was it work that people would have quite liked to have done?

**Mr Black:** It is clear from the school estate strategy and from other documents that there was an urgent need for significant investment—that the state of repair of a very large number of Scottish schools was unacceptably poor.

**The Convener:** Could that work have been done using traditional funding methods?

**Mr Black:** It is highly unlikely that local authorities could have done the work using traditional funding methods. There have been a couple of quite significant changes in recent years. First, the old requirement for capital consent from Government—which used to be called section 94

consent—has been removed. That requirement put a tight constraint on how much capital investment was available for schools, because local authorities were required to provide for maintenance through their revenue budgets, which were always very tight as a result of other pressures on the budget.

Secondly, a new prudential code has been introduced, which means that local authorities now have the opportunity to determine locally, in the light of their own priorities, the level of capital investment programme that they can run. The prudential code requires a local authority to be very clear about appropriateness and sustainability in relation to meeting the costs of servicing that capital programme through its annual budget. The schools fund, which used to be available to local authorities, has been removed and the funding is now part of the general allocation to local authorities as part of the move to single outcome agreements.

All those factors together mean that there will be a significant amount of pressure on local authority budgets for education and other areas, and it will be important, therefore, that local authorities have clear strategies and costed programmes for education relative to other functions. One area of concern—I think that I mentioned it in my opening remarks—is the extent to which local authorities make projections of the need for revenue support to support the PFI indexation and an on-going programme of maintenance and repair in schools.

There must be a risk, at the end of this significant period of capital investment, that standards will slip back again if we do not reach an equilibrium in which an adequate level of maintenance and repair is sustained in the future.

**Murdo Fraser (Mid Scotland and Fife) (Con):** I have a question on occupancy levels in schools, which are covered in paragraphs 50 to 52 of the report. You mentioned the 60 per cent occupancy rate. I have been led to believe that the Accounts Commission applies that as a rule of thumb for a school's viability, but I am anxious to get some clarity on that. As you might know, I am progressing a proposal for a member's bill on rural schools and, when a council proposes to close a school with less than 60 per cent occupancy, it often argues that such a school is a candidate for closure because the Accounts Commission says that it is not being used efficiently. Is it correct to say that that is a rule of thumb that is currently used and, if so, where does it come from?

**Mr Black:** The concept has been around since the mid-1990s when the Accounts Commission did its first report on the emerging issue of surplus school places, to which I was very much party. That report said that it was for a local authority to determine locally the appropriate provision of

schools but that, when a school comes down to about 60 per cent occupancy, that is probably an indication that the council needs to review its strategy. However, the report recognised explicitly that the circumstances in rural and sparsely populated areas were different and local authorities were required to consider that.

We felt that it was appropriate to offer such a suggestion to local authorities, as declining occupancy levels meant that more and more of the limited budget that I mentioned was tied up in maintaining empty spaces, to be frank. An occupancy rate of 60 per cent seemed to be a reasonable threshold at which to suggest that the education authority might wish to turn some of its attention to the matter, but at no point was there any suggestion that the Accounts Commission proposed it as a standard.

**Murdo Fraser:** That is helpful. Thank you for that clarification.

My second question is on future funding mechanisms. In paragraph 71 and the following paragraphs, you mention your belief that the Government needs to develop a financial strategy to support councils in delivering school estate improvements. Would you expand a little bit on that proposal? Government policy is to remove ring fencing and allow councils greater discretion in how to spend funds. As you mentioned, the schools fund has been removed. How would a Government strategy on school estate improvements work when councils have greater discretion in how to spend the total allocation that they receive centrally?

**Mr Black:** There are two aspects to that, one of which concerns the availability of financial resources to undertake the improvement programme. It is important to recognise the significant role that PFI/PPP has played in that in the past. Therefore, given the constraints on local authority capital spending, there needs to be a clear strategy for the extent to which PFI/PPP and/or some form of Scottish futures trust will be available to local authorities as financial vehicles. That is clearly a matter for the Scottish Government to determine in consultation with local government.

The second issue is the importance of the Scottish Government and local government coming to an understanding on how performance and delivery on the programme will be reported. We suggest that the Scottish Government and local authorities need to address that by having clear plans and clear performance targets, so that they can report what is being delivered out of the investment.

**Murdo Fraser:** You said that the proposals for the Scottish futures trust must be put in place to

sustain the momentum in the school building programme. Do you get a sense that there is a lack of momentum and that decisions are not being taken because of uncertainty about the futures trust?

**Mr Black:** We have no information on that. I would not want to give you the impression that we feel that that is the case. If, however, you look at exhibit 9 on page 21 of the report, you will see how the PFI programme was ramped up over the past three or four years. From the diagram, which shows the year in which a PFI contract was signed, you can see that the significant escalation in that activity continues pretty much up until the present day.

Looking to the future, the significant issue in terms of funding is that succession has not yet been determined. I alluded to that earlier. If the strategy of improvement for a 10 to 15-year period—although we think that it may be slightly longer than that—is to be sustained in terms of activity flow, the mechanism that the Government puts in place to take over from the ramping up of those PFI contracts, which we summarise in exhibit 9, needs to be put in place in the fairly near future.

**Murdo Fraser:** With reference to exhibit 9, you are not aware of any fall-off in the signing of PFI contracts, for example, since the election of a new Government in May.

**Mr Black:** There was a commitment to quite a number of PFI contracts, most of which have been delivered. It is not a case of a fall-off, but of bringing contracts to the market and getting them signed. One of my colleagues will give the exact numbers.

**Cathy MacGregor (Audit Scotland):** Nominal funding support was allocated originally to a total of 40 PFI contracts. I understand that four contracts are still in the planning process and remain to be signed. We do not know the exact timing of that. We know of no further PFI contracts that are planned. That is where we are coming from in saying that we saw a peak last year, but that it may be coming to an end.

**Murdo Fraser:** Did you say that you are not aware of further PFI contracts being planned?

**Cathy MacGregor:** Nominal funding support was allocated originally to a total of 40 PFI contracts. That enables the process of planning through to the point of signing the PFI contract, only four of which remain to be signed.

**Murdo Fraser:** Are further contracts planned?

**Cathy MacGregor:** Not that we are aware of.

**Mr Black:** Our point is that we do not have the information. However, it does not necessarily

follow from that that other contracts are not being planned.

**The Convener:** The issue is not whether funding comes under the Scottish futures trust or PPP, but the huge scale of investment that is required for the future. You mentioned that earlier. Is a funding mechanism—Scottish futures trust or PPP—required, or could future investment be funded in the traditional manner?

**Mr Black:** Forgive me for making this comment, convener, but fundamentally that is a policy matter for the Government through the budget setting process.

**The Convener:** I am sorry, but I did not mean to get into the policy argument. The Government is committed to the Scottish futures trust. I am trying to establish—no matter the funding that is used—the scale of investment that is required. In the past, you said that the required investment could not have been funded by traditional methods. Can what is required for the future be funded by traditional methods?

**Mr Black:** Broadly speaking, given that the investment that is required for the future is in the order of £5 billion, it is difficult to see how conventional funding could be used to meet all that. We need to bear in mind not only the capital investment requirement, but the on-going maintenance, repair and refurbishment requirement on local government.

**Andrew Welsh:** Your point is that there is a need for continuity and a smooth transition in any new system.

**Mr Black:** Yes.

**Andrew Welsh:** On the existing system, the report says that

“Some councils are not planning adequately for future increases in PFI charges”.

How many councils are involved and how big a problem will that be?

**Mr Black:** We do not have the information on individual local authorities. At the macro level, we are pointing at the risk of the emergence of an affordability gap. The Scottish Government is committed to providing a level of £200 million—I think that that is right—

**Mark Diffley:** Yes.

**Mr Black:** The Government will provide that level of funding to contribute towards the charges that must be paid under PFI contracts. Those charges will increase through indexation in future years. Local authorities therefore have to take the strain, under current policy, of the margin between the £200 million figure and whatever the actual

charges are, in addition to meeting the costs that they will incur on the non-PFI programme.

10:30

**The Convener:** Andrew Welsh has raised an important issue. Mr Black's remarks indicate that the problem has developed since the programme started, so it is not a failure on the part of the current Administration. Is it fair to expect local authorities to fund the gap that you have identified? Given that it is inherent in the design of the procedure, is it not something that the Government should fund? What would be the implications of leaving it to the local authorities to fund?

**Mr Black:** How much support the Scottish Government puts in is a matter for policy discussion between the Scottish Government and local government. It is certainly true to say that the commitment by the Scottish Executive—as it then was—to provide support for the charges, which the Scottish Government has continued, allowed the PFI programme to go much further and faster than would otherwise have been the case. What we refer to in general terms in the report is the risk that a gap might emerge in the on-going support that is needed for PFI projects. We encourage local authorities to think about that in forward planning their budgets.

**The Convener:** So both the Government and local authorities will need to address the issue as a matter of urgency.

**Mr Black:** They will certainly need to take it into account in their forward planning.

**Jim Hume (South of Scotland) (LD):** Do we have an estimate of what the gap might be?

**Mr Black:** No, unfortunately we do not. That involves projecting into the future. We state in the report that because the quality of the basic information about the state of schools and the extent to which new projects are being committed is much better, it should be possible—indeed, it is essential—for the Government and local authorities to produce such estimates as soon as possible.

**Willie Coffey (Kilmarnock and Loudoun) (SNP):** We are some 10 or so years into the PFI scheme. Local authorities must have had some indication of the likely costs over the entire term of PFI contracts. The fact that a funding gap was likely to descend on them cannot have come as a surprise.

**Mr Black:** The answer to that would depend on the circumstances of individual local authorities. Each education authority in Scotland has developed its own strategy for managing the schemes. There are significant variations between

local authorities' approaches. For the report, we have not analysed in detail the circumstances of each and every local authority.

**Mark Diffley:** We state at paragraph 75 of the report that some councils have already identified the issue and have started to plan for it, and we outline the type of measures that they are implementing to address it. We found that other councils had not yet begun that process. As the Auditor General said, we did not examine the issue in great detail.

**Willie Coffey:** At some point, the cost of such projects over the term of the PFI contract must surely influence thinking about whether this model—setting aside the political disagreements about it—is affordable. We do not yet know the full cost impact of the model.

**Mr Black:** Yes, that is correct.

**Willie Coffey:** My second question is on the messages that you got about the design aspects of some new schools and on the environmental concerns about windows, sunlight and so on. Has any of that thinking been fed into the designs for current projects to make the kind of improvements that people seek?

**Mr Black:** Can Mark Diffley help on that question?

**Mark Diffley:** We found some evidence that councils are talking to each other, and a group has been set up for councils to share their experiences of design issues. However, that is not happening enough, and some of the limitations of and problems with design that we highlighted in the report remain a big issue.

**Mr Black:** For that reason, one of the proposals in the report is that, henceforth,

"Environmental sustainability should be a key element of school design, not an added extra".

It is also important that councils share information about what works well. Much more can be done in that respect. At the design stages, they should consult everybody who uses the schools to ensure that the design is well done and that people have the opportunity to influence the process.

**The Convener:** That is presumably an issue irrespective of the funding method. Having taught in a few schools that were funded using traditional methods, I know that they were absolutely horrid places, from a design perspective. I would hope that lessons are now being learned and, judging from what you are saying, I understand that they are. In response to Willie Coffey's question, you spoke about the critical involvement of users. Is that now being built in, irrespective of the funding method? Will more attention be paid to design and to consulting those who use school buildings?

**Mark Diffley:** Yes. As we say in the report, the users to whom we spoke—pupils and staff—were generally satisfied with the design of their new buildings. Obviously, they were comparing them with what they had before. The issues that they had with design were the same issues that we identified through an independent assessment, which involved environmental factors such as heating, lighting and ventilation. That reassured us that those really are the issues that need to be tackled. We are finding more examples now of better consultation taking place at the beginning of the process and being built in.

**James Kelly (Glasgow Rutherglen) (Lab):** I want to clarify what has been said about the scale of future investment. We note that £5.2 billion has been invested over the past eight years, which has reduced the proportion of schools that are in a poor condition from 40 per cent to 33 per cent. The report indicates the level of the investment that is required over the next 20 years to make the full school estate fit for purpose. At one point, a further £5 billion was mentioned. Do you have a total figure for the 20-year period in which investment will be required?

**Mr Black:** No, we do not. We only have what is in the report. Essentially, the report says that just over £5 billion will have been spent by April 2008. The programme for schools that require improvement is less than halfway through, so we have been able to infer that the same volume of spend will probably be required to make the entire estate fit for purpose. As I think I said in response to an earlier question, the strategy has not yet been updated in light of the much more robust and consistent information that is now available about what has been delivered. It should now be possible for the Scottish Government and local government to take the improved information base and produce more accurate projections of what the work on the rest of the programme should cost.

**James Kelly:** So if we take the objective of having all schools fit for purpose in 20 years' time, and if the starting position is that a third of them are currently not, it is necessary to identify which schools are not fit for purpose, how much finance is required to make them fit for purpose and which funding mechanism may be used to achieve that policy objective.

**Mr Black:** In the report, we suggest that the Scottish Government should be encouraged to update the schools estate strategy and relate it to a financial strategy based on the known cost of refurbishment, so that a programme can be put in place. We also recommend that it develop an agreed strategy for the funding vehicles that will be appropriate to deliver that.

**Mark Diffley:** Around 1,000 schools are in poor condition at the moment, which is about a third of the estate. Obviously, we do not know how many of the schools that are not currently in poor condition will fall into poor condition over the next 20 years, which makes the cost calculation a lot more difficult.

**Andrew Welsh:** In other words, it is a moving target.

You alerted us to the danger of creating a non-PFI backlog. Therefore, the Government should bear in mind the need for medium to long-term thinking. We have come a long way from using mobile huts in schools. This problem will never be solved, but there should be as much planning as possible to ensure continuity in a rolling programme.

**Mr Black:** In the report, we talk about achieving a state of equilibrium, which means a level of on-going investment, maintenance and repair that keeps the schools estate in a steady state. That can be achieved only after quite a significant investment has been made to get everything up to an acceptable level and can be sustained only if there are robust estimates of what is needed to maintain the estate at that level.

**Stuart McMillan (West of Scotland) (SNP):** Some of the questions that I had planned to ask have already been answered. However, I would like to highlight some paragraphs in the document that stood out when I read them: paragraphs 18, 28, 45, 68—which has already been discussed this morning—74, 83, 84, 87, 94, 96, 97, 108 and 143.

**Mr Black:** What is wrong with the other paragraphs?

**Stuart McMillan:** The paragraphs that I have mentioned seem to highlight the terrible situation that our school estate is currently in. On the other hand, paragraphs 47, 114, 121, 123 and 146 show that there are some green shoots.

The document shows that the school estate was in a dire condition when the previous Executive came into being and that, irrespective of the funding mechanism that was used, the new schools that were built and the investment that was made in schools should be welcomed. However, there are certainly challenges ahead. The report provides more questions and points of concern for the current Government than answers.

**Andrew Welsh:** It is a roadmap to the future.

**The Convener:** I do not think that there is any answer to that.

**Stuart McMillan:** It was not a question.

**Claire Baker (Mid Scotland and Fife) (Lab):** I want to try to pin down the numbers. You estimate

that if the current rate of progress continues, it will take 20 years to improve the school estate to the standard that we would like it to attain. What is the current rate of progress? Is it 100 new and refurbished schools every two years?

**Mark Diffley:** On page 15, there is an exhibit that shows how we calculate the timescale of 20 more years. We examined the progress that had been made between 2004 and 2007 and extrapolated from that. Obviously, progress is different in different years, as has been highlighted in our discussion of other exhibits in the report. Paragraphs 44 to 46 show that we have 200 fewer schools in poor condition than we had in 2004. Therefore, it will take another 20 years to lift the other 1,000 schools out of poor condition.

10:45

**Claire Baker:** An issue has been raised about whether councils can reach equilibrium in maintaining schools that were not built under PFI. Does exhibit 7 take into account whether councils spend enough on maintaining their non-PFI schools?

**Mark Diffley:** Yes. Given the number of schools that have been taken out of poor condition in the past three years, exhibit 7 provides an estimate of how long it will take to improve the rest of the schools that are in poor condition.

**The Convener:** Further to Murdo Fraser's question, the developments that we are seeing now are the tail-end of the previous school building programme, under which I think a handful of new schools remain to be approved. Mr Black said that he has no knowledge—which is not the same as saying that nothing has been done—of which developments are currently being considered. I am not sure how long it takes for the planning and delivery of a new school from conception to final approval, but if the developments over the next year or two are the tail-end of plans that were made two or three years back, will the conception and approval of new schools that are planned for future years need to be done fairly soon?

**Mr Black:** Yes, I think that it is fair to conclude that if the momentum of improvement is to be sustained, decisions about the forward programme will need to be taken fairly soon.

**Mark Diffley:** We point out that 160 new schools are in the pipeline. That takes us through to 2012.

**The Convener:** That is stuff that has previously been thought of and prepared.

**Mark Diffley:** Exactly.

**The Convener:** What about the next phase?

**Mark Diffley:** That is what we are unsure about.

**Willie Coffey:** I want to ask about the report's recommendations on capacity planning. Page 35 provides a nice table showing which councils plan over 30 years and which councils plan for much shorter periods—some of those periods are very short. Does any evidence suggest that councils that plan over a longer term do things differently in their school building programme from councils that plan over a short term? In general, do the plans that councils make for school capacity depend on the number of immigrants from other parts of the European Union? Is that very much part of their planning for future school rolls, or do they exclude that issue?

**Cathy MacGregor:** When we examined the number of years for which councils plan ahead, we saw no obvious match between those that plan further ahead and how far ahead councils were in developing their school estate. However, we did not look at that issue in great detail. We recommend that councils should not only plan for at least 10 years ahead but update those plans at least annually so that they can deal with immigration and other short-term changes that cannot be seen happening over a number of years. We give the example of the impact of high house prices, which has meant that young families tend to move out of Edinburgh. Changes in school numbers can be quite quick and sudden. If they are not reviewed at least annually, it may be hard to see those changes coming.

**Mr Black:** Let me build on that response. Our report says that there were weaknesses in local authorities' forward planning for the school estate before the system of school estate management plans was introduced in 2003. Councils prepared detailed business plans in support of PFI projects, but strategic planning for the whole of the estate was not a priority up until that time. The introduction of the estate plans in 2003 helped councils to prioritise their work. Generally speaking, the situation is improving and a more systematic approach is being taken.

**Andrew Welsh:** You referred to the need to keep up the momentum in funding, saying that funding decisions should be taken soon. What effect will the Commonwealth games and the Olympic games have on building capacity? It is important that we get continuity and that there is no break, but things are never that simple. Planning must consider the capacity to build as well as the finance.

**Mr Black:** That is an extremely important issue throughout government in Scotland. We will shortly lay before Parliament a report on the management of capital programmes. In it, one issue is whether enough is being done to manage the flow of capital projects to the market—if I may use that technical expression. We need to take

into account not only the school building programme but the roads programme, the water industry programme and big one-off projects such as the Commonwealth games. Those are important issues.

I am not for a moment suggesting that this is happening, but there could be a risk in trying to rush things by bringing school estate projects to fruition too early. The risks include short-cutting the good planning of the project, not consulting potential users well or not managing the programme in a way that maximises the chances of good competition for the letting of contracts. Those are complex issues, but they should be taken into account.

**Claire Baker:** I want to ask about exhibit 9, the comments on page 36 and the rate of signing of PFI agreements. Is it right that local authorities have been on a learning curve in respect of the quality of the PFIs that they have secured and their ability to manage good PFIs? Would the same challenges need to be met if a different funding vehicle, such as the futures trust, was introduced?

**Mr Black:** That issue was considered on behalf of the Accounts Commission some five years ago. Caroline Gardner might want to say something about what we found then.

**Caroline Gardner (Audit Scotland):** As the Auditor General said, in 2003 we looked specifically at the use of PFI to improve the school estate. One finding was that councils were struggling to share expertise on something that they were all doing for the first time and on a large scale. Our recommendation was for there to be more scope for councils to work together and support from the Scottish Executive to develop and share expertise so that people were not constantly reinventing the wheel. Our experience has been that people are getting better at doing that but, by their nature, the projects tend to be significant but one-offs, and the need then moves on somewhere else. The requirement will not go away: we need to keep in place the mechanisms for generating the experience and for ensuring that it is used as well as it can be throughout Scotland. Mark Diffley might want to add to that.

**Mark Diffley:** As the committee can see from the report, we visited and looked in some detail at 18 schools across Scotland—both refurbished and new. Although the sample was so small that we could not draw any large-scale conclusions, we found that the earlier new-build PFI projects generally had more design problems than the later projects. That suggests that there has been a learning curve and that some lessons have been learned during the process.

**Claire Baker:** Are those lessons easily transferable to a different funding mechanism, or do you see problems in changing the funding mechanism?

**Mark Diffley:** I do not think that we could comment on that. We looked at what is going on and what lessons have been learned. I am not sure how that would apply to future arrangements.

**Jim Hume:** I am environment spokesman for my party, so I am interested in the environmental sustainability of these projects. It is stated clearly on page 26 of the report that staff and pupils are interested in the environmental conditions in their school. However, paragraph 98 states that environmental sustainability is not a key factor in school design. Exhibit 14 gives two examples of good design, which I presume are not the norm, and I presume that renewable energy is not being taken up as quickly as every party would like. Paragraph 102 refers to the Executive guidance document. Did you find evidence of renewable energy being brought into modern builds? Does there need to be more of an impetus for that to happen?

**Cathy MacGregor:** We visited six councils and discussed in detail with them what they have been doing on school renewal. There are indications that environmental sustainability is on the agenda and that councils are considering it more now. It is important to bear in mind the timescales. We visited the 18 schools in May 2007; all the schools were opened and occupied by that time. Given that there is a time lag of a year or two—or perhaps longer—between planning and designing a school and opening it, we were looking at a sample of relatively early schools. We hope to see more evidence that sustainability has been considered in schools that open from now on. We cannot be too conclusive; we just got general indications from the councils.

**Jim Hume:** The problem is that it takes two or three years to start to pay back the initial cost of renewable energy. Therefore, there is probably a temptation for schools to take a slightly cheaper option in the short term.

**The Convener:** Thank you for your evidence. We have had a wide-ranging and useful discussion. We will consider our approach to the report later in the meeting.

## “Sustainable waste management”

10:57

**The Convener:** Under agenda item 5, we will consider a further response from the accountable officer on the Auditor General for Scotland's report, “Sustainable waste management”. Given that members have no comments to make, I invite comments from Audit Scotland.

**Caroline Gardner:** The response reiterates the Government's commitment to meeting the EU targets, such as the landfill directive targets, and refers to the cabinet secretary's statement on waste policy. It is set in the context of the development of single outcome agreements, so it does not say much about the action that the Government plans to take or what levers it has to influence councils and the role that they play. Given the importance of waste policy and the urgent action that is needed to achieve the targets by 2010 and onwards, the committee must consider whether it wants to follow up the accountable officer's response now or consider progress a bit further on. It is your decision.

**The Convener:** Thank you. I suggest that it might be premature for us to do anything at the moment. Waste management is an issue that will be of increasing concern. Delivery poses huge challenges for local government and I am not sure that the response from the accountable officer details how they will meet them. Are any other committees considering waste management? Could we refer the matter to them? Does anyone know what other committees' work programmes are?

**Jim Hume:** The issue should go to the Rural Affairs and Environment Committee, if any, but I am not sure what its work programme is. I know that it has not discussed waste management.

**The Convener:** We could perhaps consider whether other committees of the Parliament might have an interest in the matter and draw to their attention the information that we have.

**Caroline Gardner:** We will be consulting on the Audit Scotland programme on behalf of the AGS and the Accounts Commission over the summer. Sustainability is one of the big issues that we are thinking through, so we will come back to you with proposals for more work.

**The Convener:** Okay. Thank you very much. As we agreed earlier, we will now move into private session.

11:00

*Meeting continued in private until 12:05.*

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