FINANCE COMMITTEE

Tuesday 6 May 2008

Session 3

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FINANCE COMMITTEE
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CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Elaine Murray (Dumfries) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Joe FitzPatrick (Dundee West) (SNP)
*James Kelly (Glasgow Rutherglen) (Lab)
*Liam McArthur (Orkney) (LD)
*Tom McCabe (Hamilton South) (Lab)
*Alex Neil (Central Scotland) (SNP)

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Roseanna Cunningham (Perth) (SNP)
Ross Finnie (West of Scotland) (LD)
Murdo Fraser (Mid Scotland and Fife) (Con)
Peter Peacock (Highlands and Islands) (Lab)

*attended

THE FOLLOWING ALSO ATTENDED:

Nathan Goode (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Jo Elliot (Quayle Munro)
Dylan Fletcher (Forth Electrical Services Ltd)
Alan Fordyce (Robertson Capital Projects)
Andrew Gordon (Canmore Partnership Ltd)
Gareth Hoskins (Architecture and Design Scotland)
Alan Ledger (Mott MacDonald)
Ian Rylatt (Balfour Beatty Capital)
David Stark (Keppie Design)
Steven Tolson (Ogilvie Group Developments)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 6 May 2008

[THE CONVENER *opened the meeting at 14:00*]

Methods of Funding Capital Investment Projects Inquiry

The Convener (Andrew Welsh): Good afternoon and welcome to the Finance Committee's 12th meeting in 2008, in the third session of the Scottish Parliament. I ask everybody to turn off mobile phones and pagers, as they interfere with our broadcasting system.

I seek members' indulgence and say that my wife and I became grandparents last week—young Zara Jane Smith and her mother are doing well. Being called granddad really ages you.

The first item on our agenda is the fourth evidence session in our inquiry into methods of funding capital investment projects. We have three panels of witnesses today, plus Nathan Goode and Marianne Burgoyne, our advisers from Grant Thornton. Today, we want to consider issues of architecture, design and construction; the operation of facilities; and service quality and flexibility.

I welcome our first panel of witnesses: Gareth Hoskins from Architecture and Design Scotland; Alan Ledger from Mott MacDonald; and David Stark from Keppie Design. I give each of them the opportunity to make a brief opening statement.

Gareth Hoskins (Architecture and Design Scotland): I am an architect in private practice and a board member with the Scottish Government's advisory group Architecture and Design Scotland. Through that role, I have been involved in working on both sides of the table, with client bodies and as a consultant, in many public procurement projects. I also have the role of Scotland's national health care design champion for Architecture and Design Scotland, which involves working with health boards throughout Scotland and the health directorates to consider how to raise the quality of design in public procurement for health care buildings. That has given me a good insight into the factors that are involved.

Alan Ledger (Mott MacDonald): My colleague Graham Williams, who is sitting behind me, and I are divisional directors in Mott MacDonald's programme and project management wing. Mott MacDonald is a global management, engineering and development consultancy. Our paper reflects our experience in capital investment projects, including engineering infrastructure projects and public buildings, that are procured with public and private sector finance. The paper relates largely to procurement, rather than funding issues. We have provided an objective higher-level assessment of the strengths and weaknesses of the various available routes, including a general appraisal of the pros and cons of public and private sector finance. However, we did not address recent developments in the private sector funding arena—we will leave that to other contributors who are more expert in the field.

Our paper has three main messages. First, public authorities can use a variety of procurement methods that address different issues but, as yet, there is no panacea for all procurement problems. Secondly, the client needs to adopt a strong management discipline if whole-life best-value outcomes are to be achieved, whichever route is chosen. Thirdly, that discipline is in effect forced on clients by banks and private sector finance methods, but it is not always evident or as strong as it could be with public sector funding. However, although the discipline is sometimes lacking with public sector funding, there is no reason why it should not be applied, provided that clients can manage the multiplicity of stakeholders and political pressures. Delivering whole-life best value requires clients to balance the aspirations of all stakeholders, recognising cost and time constraints; to set an agreed set of project objectives and stick to them; and to concentrate single-mindedly on managing delivery.

David Stark (Keppie Design): I am managing director of Keppie Design, Scotland's largest architectural practice and also one of the oldest—it is more than 150 years old. Having researched the practice history, I found that we started off doing schools following the passing of the Education (Scotland) Act 1872. Charles Rennie Mackintosh was the third partner in the practice, and he was involved in some school design at that point.

I am just old enough to remember the 1970s boom in school and hospital building, when cheapest cost was very much on the agenda. The buildings that were built then were not maintained very well, and they are now being replaced. In the past 10 to 15 years, we have been very much involved in the building of hospitals and schools in Scotland and in other parts of the United Kingdom.

Our submission highlights where the strengths of the various public-private partnership procurement routes have been, and also where some of PPP's failings have been. It suggests some ways forward. I will not go into any more detail about it now; the information is there for the committee to look at.

The Convener: Is there any evidence of a direct connection between different procurement approaches and service quality?

Alan Ledger: From my perspective, it is quite possible to provide high-quality services whichever procurement method is applied. To return to my opening remarks, it requires management discipline to achieve that. If management discipline is applied, quality services will be derived.

Gareth Hoskins: I concur with Mr Ledger that it is possible to gain good levels of service across the range of available procurement routes. The main failing point in a number of those routes lies in the initial briefing periods and in the concentration on the level of design and on quality aspirations. It is a matter of how the different procurement methods support that through to the eventual service delivery. There is some evidence from the research that Architecture and Design Scotland has carried out that certain procurement methods provide more support than others in that respect.

David Stark: I agree that there is no panacea—that no one procurement method is suitable for every project. The key thing is how the public sector side communicates with the private sector side. If there is a true partnering, in which the strengths of both sides are combined and the public sector is clear about its requirements and about affordability, the private sector can respond. The whole point about modern procurement methods is that they provide holistic delivery of design, construction and, possibly, maintenance. Value for money is important over the whole life of a building; it is not just about getting buildings finished and open.

Elaine Murray (Dumfries) (Lab): I apologise for being delayed—I was at another meeting.

Malcolm Fraser, a well-respected Scottish architect, expressed some fairly strong views to us. He felt that projects that were built under PPP were of poorer design than they should be. However, we have received a written submission from the Canmore Partnership, which says:

> "there is no evidence to suggest that PPP design generally compares unfavourably with the designs used in direct, traditional procurement."

I wish to canvass your views on whether the different methods of procurement have resulted in superior or inferior design quality.

Gareth Hoskins: That question very much relates to the history of Architecture and Design Scotland, so I would like to respond. There is certainly evidence from PPP projects that we have reviewed—particularly some school projects, on which we worked with different agencies around Scotland—to show that many failed to live up to expectations in terms of the service and quality that have been delivered. As I said earlier, the issues around the levels of design quality are not solely attributable to PPP. However, the PPP process—certainly in its most recent form—exacerbates problems with early engagement around the briefing and the enshrinement in the process of aspirations. Although the process purports to allow a good degree of engagement between design teams and consortia and client bodies, there is not necessarily the level of engagement that might be found in a traditional process.

I am not saying that the traditional process is perfect, but there tends to be a degree of guardedness in a PPP process, in which perhaps three teams will come in one after the other to engage with the client bodies. There is limited connection between the partners and there is a fast turnaround as ideas are prepared and the design is developed. The client bodies are guarded in giving feedback and there is not the one-to-one engagement that we get in other projects. If we compare the process with some traditional school design projects, it is evident that quality was higher in the latter.

The issue is the level and manner of engagement. There are certainly ways in which the PPP process could be improved to allow better engagement. One way forward might be to consider the level of design in the public sector comparators, to enshrine design quality and aspirations and secure good control over the financial and programme implications that so often come back to bite projects.

David Stark: I agree with everything that Gareth Hoskins said. How we regard projects depends on what we compare them with. Just about anything that we do nowadays is better and lasts longer than the schools and hospitals of the 1960s and early 1970s, when the priority was to secure the cheapest capital cost.

Sometimes the biggest critics of the PPP process are the people who have the least knowledge of it. There are issues to do with discussion between the client organisation and bidders, but such issues can be dealt with, depending on how the process is followed. I draw the committee's attention to initiatives such as NHS ProCure21 in England, the equivalent Welsh framework and the proposed health care construction framework in Scotland, whereby the private sector partner will be chosen much earlier and there will be more opportunity for dialogue.

Tom McCabe (Hamilton South) (Lab): Mr Ledger said that strong management discipline is required to secure a successful outcome for customers over a project's life. Is there evidence that certain procurement methods are more likely to result in strong management discipline? I think that Mr Hoskins suggested that there is such evidence, but he did not elaborate on that.

Alan Ledger: In practice, when the PPP/private finance initiative route is taken the banks impose the discipline on the client, whereas when the public sector funding route is taken it is up to the client to impose that discipline on himself. Neither method need necessarily be linked to strong management, which is possible in both methods.

Gareth Hoskins: "Strong management" can be paraphrased as "strong leadership". Whether the procurement method is traditional design and build or PPP, there will inevitably be a better result if there is strong leadership from the client. However, PPP and design and build routes disengage the direct connection between the client body—the leadership and management side of things—and the design teams who develop the qualitative aspect.

You asked about evidence. We refer in our submission to Architecture and Design Scotland's briefing paper, "School Buildings", in which we said:

> "it is disappointing that the majority of schools reviewed"—

in the period in which we have been in operation—

> "fall below the quality which Parliament endorsed through the Architecture Policy—despite the best intentions and the good quality published guidance."

14:15

David Stark: Very few public bodies, whether they are health trusts in England or local authorities, get the chance to develop a large project, so their skills tend to be limited. The central Government organisation is then required to help with advice. We tend to find that, in Scotland, where central Government is closer to local government, we get better results than those that come through in England, where the national health service is an enormous organisation. Some of the improvements and advice that come from central Government in England tend to get lost along the way, before they get to health trusts. It is important for central Government to play a part in the sharing of knowledge from one project to another.

Gareth Hoskins: On the management of projects, particularly in the health board work in which I am involved, we are certainly finding problems in the disconnection between policy aspirations and day-to-day delivery and management of the processes. There is very much a disconnection between quality and design ambitions and aspirations for each of those projects among the people who are responsible for delivering and controlling the processes on a daily basis.

Alex Neil (Central Scotland) (SNP): My questions are on slightly different subjects. My first question is in two parts. Lindsay Glasgow, who, believe it or not, is the asset planning manager for the City of Edinburgh Council, stated in evidence to the Education, Lifelong Learning and Culture Committee on 16 April:

> "Traditional procurement methods offer a more interactive or iterative process to school users, the officers in the department and the design team. Our experience of PPP is of big-bundle projects, which has meant that we have had only limited time to examine all the issues affecting the schools. Inevitably, you can have much better engagement if you are dealing with one school design at a time, because you can have the design team on tap."—[*Official Report*, *Education, Lifelong Learning and Culture Committee*, 16 April 2008; c 832.]

Do you agree with that?

The second part of the question is along the same lines. Last week, one of our witnesses pointed out that once a project with, say, a 30-year life cycle is up and running, it is very costly under PPP to adapt to changing circumstances and needs. From a design point of view, do you agree with that?

Alan Ledger: I will address the second point first. It is clear that PFI/PPP contracts are much less flexible during the operational phase than traditional or design and build routes. To my mind, the PFI/PPP route works best when there is a simple project with easily measured outputs, a client who knows what he wants over the long term and who is unlikely to change his requirements, and a private sector that is largely unencumbered in the delivery of the services. With a 30-year contract to deliver services, the client is effectively called on to define what he wants and how he will operate for the duration of the contract, which might be difficult in certain cases.

The other point related to what I would refer to as client participation in the development of the design and the project. It is clear that with PFI/PPP and in design and build, the client may not be excluded from the development of the design, but they have less influence over it. The "iterative process" to which you referred would therefore be made very difficult. However, that process of iteration and engagement with stakeholders and continual refinement and development of the requirements is not the most efficient way to deliver a capital project.

David Stark: One problem is that we have been asked to deliver a huge number of hospitals and schools in the past 10 to 15 years. It might be nice to sit down and talk about every detail of every school, but the promise was made in 1998 that 100 new hospitals would be built in the UK by

2010—the figure will be 140—and schools tend to be dealt with in bundles, because each local authority wants all its schools to be upgraded quickly. That involves a compromise—the lack of the personal touch that it would be nice to have. As designers, we must accept that society wants many new facilities quickly—one local authority does not want to feel that it is falling behind another. We need to devise methods of consultation and design to achieve the best that we can.

Once a contract is up and running for 30 years, making changes is more difficult. However, in the past, public organisations have not been that good at making changes to and maintaining their buildings. One benefit of the PPP initiative is that buildings are being maintained. One hospital in Scotland has a maintenance backlog of £120 million, but that could not happen under PPP, as maintenance is part of the whole-life service.

Gareth Hoskins: I will answer the question about the level of engagement. It is evident from the projects that Architecture and Design Scotland has reviewed that a traditional process involves much more engagement than does a PPP process. On the whole, that results in buildings that are more in tune with their users and are better adapted to suit their needs—buildings that are more bespoke.

My recent PPP experience through private practice and reviewing projects is that an attempt has been made to increase consultative engagement but, as I have said, the feeling is that people are at arm's length. The process is disheartening for clients and designers, because evidence is rare that any consultative input is fed back into the process. The initial briefing sets the agenda and anything from the consultation and the PPP process adds lipstick or is an attempt to address that.

In traditional projects for schools in Shetland that we are doing now, we have found that the level of engagement is far higher. Recently, Architecture and Design Scotland reviewed primary schools that Glasgow City Council decided to deal with by a traditional route, at least through the initial detailed design phases. Users—pupils, staff and the wider public—were evidently engaged and the schools were of higher quality than the PPP schools that we have seen.

Flexibility in a PPP project invariably focuses on saying that we will have a steel-framed building with walls that can be knocked down, because it must be flexible, but how often are such walls knocked down? Another issue is how services can be adapted. However, little consideration is given to sustainability in future development. A more engaged process can allow people to tackle flexibility and sustainability much more holistically.

The Convener: Several members are waiting with questions, so I ask Alex Neil to be quick.

Alex Neil: My next questions are about Mr Stark's submission. Will he briefly give us more information on the local improvement finance trusts in English primary health care that involve private funding and public equity?

On policy, the second paragraph on page 13 of the document that contains all the submissions says that a potential downside of non-profit-distributing projects is that they remove equity. However, I know of a normal PFI project in which the equity is £15 million and the return is £250 million. Where is the risk in that?

David Stark: On the latter point, other witnesses later this afternoon can say more about the finances, but I presume that the return is the whole-year PFI costs. One benefit of modern procurement methods is that they do not consider just the capital costs. To keep a building operating for 30 years costs about five times the capital cost. The real cost of a hospital includes the cost of the doctors, nurses, medical equipment and so on, which can be well over 100 times the capital cost. It is important to get the correct design, construction and maintenance solutions if the facility is to run efficiently.

The other question was about the LIFT projects in England, of which we have some experience. In such projects, the primary care facilities in a certain area are bundled together. The supply chain is chosen on the basis of the design of one or two of them, and the rest are negotiated on that basis. That limits the costs of the bid, and it is possible to work closely with the partner and avoid the problem that Gareth Hoskins mentioned, whereby the initial competition means that there is limited involvement with the stakeholders. When a contractor has won a LIFT project, it can work from the earliest days with everyone involved—designers, suppliers and facilities managers—and discuss the design concept with them. With such open-book partnering, it is possible to get around some of the problems with PFI.

Gareth Hoskins: We have just come back from a research visit to Belfast last week. Northern Ireland health estates is running a similar process whereby projects are bundled together. As David Stark said, that approach allows the design team to develop working relationships with the client bodies, to begin to trust people and to understand the aspirations. In the examples that we saw, there were certainly much higher levels of design quality and final user satisfaction than are evident in Scotland.

Liam McArthur (Orkney) (LD): Mr Hoskins mentioned a trip to Shetland and said that the local engagement there was more impressive than is the norm. We are going through a similar process in my constituency, and there has been concern about the level of engagement with parents and pupils. I suspect that schools differ in that respect from hospital builds. Is there anything that militates against innovation in such projects in relation to the take-up of energy efficient technology or the use of energy generation technology? We were told in previous evidence sessions that PFI does not like technology risks. Given that biomass schemes have proved to be mature and reliable in other parts of Europe, it is difficult to understand why technology risk is an overriding concern. Do you regard that as a downside to the PFI route? Is the take-up of such technologies behind where it ought to be? What can we do to improve take-up in that respect?

Gareth Hoskins: The PPP sector is reluctant to use some of the technologies that you mentioned because of the potential risk. The technologies are not tried and tested, and the companies involved are responsible for long-term maintenance, so there is a little reluctance. That is often because of insurance and maintenance issues. In some projects—David Stark might talk about some health projects—there is a push to use other technologies because of the maintenance benefits. I think that Glasgow southern general hospital was mentioned, and the matter has been discussed in that project. Traditional projects certainly allow us to explore those aspects much more.

However, we need to take a step back and consider the level of aspiration and engagement that exists early in the project. Irrespective of whether a project is procured traditionally or through PPP, our ability to encourage and enshrine sustainability depends on the quality of the initial briefing and initial development before the project begins. That allows the aspirations to be contained within cost plans and the programme and life-cycle implications to be considered. Too often, whether the procurement method is traditional or PPP, design teams are brought into projects in which the cost plans were based on inappropriate early advice from people and teams in the public sector—or their technical advisers—who did not have the level of experience or knowledge to brief the project properly. There are a couple of issues in that. David Stark might want to say something more on health projects.

14:30

David Stark: I was going to mention another project, but the new Forth Valley hospital, in which we are involved, will have a lot of innovative features. In fact, the innovations will be found not only in that project because they have been developed over a number of other hospital projects. Most of us have now been through three or four hospital or school programmes. We are carrying forward the best lessons that we have learned on one project into the next—there should be gradual improvement.

The building that I wanted to mention is Great Glen house in Inverness—the Scottish Natural Heritage headquarters, which started out as a PPP project. As it happens, Scottish Natural Heritage had some money and purchased the building after completion. In that project, the client had definitive ideas about what it wanted to do. When a client puts their foot down and says clearly what they want, it is amazing what can happen—it almost does not matter what delivery mechanism is used. Scottish Natural Heritage got a building that won UK sustainable building of the year in 2006 and UK corporate workplace of the year in 2007. Excellence is possible.

Alan Ledger: In general terms, transferring risk to the private sector will influence the cost of a project. The private sector has to price the premium for the risk that has been transferred. The more difficult the risk is to manage, the higher the price will be. There is a case for doing what happens in railway construction projects. In general, the railways come in for tough criticism, but if Network Rail is introducing a new signalling system, it will implement it for the first time not on a busy mainline railway line, but on a branch line. When the new system has bedded in and has been proven to work, Network Rail will roll it out elsewhere on the network.

Liam McArthur: The Mott MacDonald submission mentions optimism bias. Mr Stark's comments that the public sector holds the whip hand in being more demanding and innovative were interesting in that regard. Other witnesses have talked about the difficulty of establishing the precise risk. Although some technologies might be untried and untested in this country, that does mean that they are untried and untested anywhere. It is therefore up to those who bid for projects to demonstrate why they deem the risk of engaging with technologies to be so much higher than when using more traditional methods.

Gareth Hoskins: In the briefs that many consortia receive, they are not asked to go for that level of ambition. Nowadays, the briefs that councils send out to design teams or consortia often refer to sustainability but fail either to define what that means or to set a level of aspiration.

Liam McArthur: Is that because consortia tend to say that that will up the risk profile and impact seriously on what councils are trying to achieve within their cost limits?

Gareth Hoskins: Not necessarily. We see that happening in traditional and PPP projects.

Nowadays, sustainability is invariably a requirement in traditional projects; it is seen as the thing that every brief must have. However, the poor level—or lack—of knowledge in many in-house public sector development or estates teams about technologies means that councils are not in a position to take their aspirations further.

Some consortia perceive some risks with regard to PPP projects. In our experience, we have had to design to the safer option, while perhaps adding alternative technologies—which are perceived as more risk inherent—as an attractive option at a higher cost. However, that is not always the case. The publicly procured project in Shetland that I mentioned has been directly procured by Shetland Islands Council, and the level of aspiration in terms of sustainable technology—although partly driven by location—is phenomenal compared with the PPP schools projects.

Alan Ledger: I will comment on optimism bias. The introduction of new technology is susceptible to optimism, but we are really talking about innovation or a novel application of existing technology, rather than technology that has been proven in a different sphere. There is a difference.

James Kelly (Glasgow Rutherglen) (Lab): Mr Stark mentioned, and his submission notes, that the ideal ratio of long-term maintenance costs to original capital spend is 5:1. Can you give examples of how that can be built in as good practice over the life cycle? Have you worked on any projects in which that has occurred?

David Stark: Obviously, it is built into whole-life contracts such as PFIs as part of the requirements. The building is funded by the private sector, which needs to ensure that the investment is retained. Unfortunately, with traditional funding, there is always some political imperative, and the maintenance budget is usually the first to be raided.

It is easy to give examples of projects in which maintenance is underfunded. I will not name any buildings, but I was at a health board meeting a few months ago at which someone reported that a clinic had to be cancelled for a week because of a roof leak. Such things happen all the time, but the good thing about whole-life contracts is that maintenance is guaranteed.

Alan Ledger: The whole-life cost angle and the emphasis on maintenance and operations are firmly linked in many people's minds with PFI and PPP, but it does not need to be like that. There are other models in which the client can contract for design, construction, operation and maintenance without securing private finance.

Gareth Hoskins: One of the issues with design is that it is often just viewed as the bit that is needed to make the buildings look pretty. The reality is that designing a building well is about making it efficient. If we do our job properly, we should consider the building's life cycle and whole-life costs. That is very much the focus in projects—or it certainly should be—in terms of taking a coherent and holistic design approach. The issue is to embed that within the project briefing and consider the capital costs that are allowed for in order to fulfil those ambitions. Scotland seeks grade A listed buildings, but often punts them at C listed level. Our funding aspirations need to be higher in terms of meeting life-cycle costs.

David Stark: Alan Ledger is correct that there is no reason why maintenance cannot be built into a contract without funding. As part of the open-book partnering process that I suggest in my submission, the contractor-led supply chain is chosen early and works with the public organisation to identify the costs as the project evolves. Maintenance costs can be added later. In fact, if it is decided that public funding is not available, a funding competition can also be held. That means that when you start a project, you do not have to specify the amount of private or public funding that is being used.

Tom McCabe: I am interested in whole-life maintenance. Even the very poorly designed schools and hospitals from the 1970s that Mr Stark mentioned might have stood the test of time had they been maintained better, but often that did not happen, because, as you pointed out, other priorities arose and central Government perhaps did not allocate as much money as it should. In such situations, maintenance budgets are among the first to be examined.

PPP seems to have introduced a financial or contractual discipline that did not exist previously. Can any other mechanisms ensure discipline with regard to long-term planned maintenance? What else can we do about maintenance if PPP is taken off the table? After all, even if a building has the very best design and everyone is happy with it, people will still become demoralised if it is not maintained.

Gareth Hoskins: I am laughing because surely it should be the inherent political responsibility of all sectors of government, no matter which parties are involved, to maintain their building stock.

Tom McCabe: Well, had that been the case, we might not have had some of the disasters that we have had over the years. Perhaps it should be the responsibility of Government, but self-evidently it has not been.

The Convener: I have to say that that was thrown back at us pretty quickly.

David Stark: The answer is to have a long-term contract, although it should be market tested every five years or so, which is what happens at the moment.

As for maintaining value for money over a period of time, I advised on one of the earliest schools PFI projects. When we tried to compare the cost of running a school with what the PFI bid might be, we found it extremely difficult, because in those days school budgets were spread across the education, estates, parks and cleansing departments. No one could tell us how much it cost to run a school. Now that we at least have a feel for the issues, we can analyse the maintenance budgets of local authorities and health boards and come to an understanding about what must be done to keep buildings in good order.

Alan Ledger: As I said earlier, clients can procure, design, build, operate and maintain contracts without private finance. Indeed, that already happens in certain sectors. Of course, in order to do that, you must ensure that the industry has the necessary capability. However, as it is simply about removing the finance element from PFI and PPP contracts, the capability obviously exists. Clients have to use the discipline that I mentioned earlier to ensure that contracts are let on the basis of best long-term, whole-life value for money.

The Convener: If politicians were to think in the medium to long term, many things would be improved.

Gareth Hoskins: On the culture side of things, many—indeed all—lottery-funded public projects have to set out a revenue and maintenance programme for operating the facilities in question to secure not only that funding but funding from other external sources. Local councils have had to pledge funding for a number of years to cover on-going operation and maintenance costs.

The Convener: To draw this session to a close, I ask our adviser, Nathan Goode, whether he wishes to make any comments or observations.

Nathan Goode (Adviser): I thank the witnesses for their extremely interesting evidence and would welcome views on two key points that have emerged. First, how do we secure and enhance procuring authorities' knowledge to ensure that the lessons of previous procurements are learned? Secondly—and related to that—are there specific areas in which the process of evaluation and bidder selection to identify a preferred partner could be improved to support that knowledge?

14:45

David Stark: Somehow, central Government needs to ensure that the information and knowledge get to the commissioning authority. As I said earlier, that happens better in Scotland than in England because the Scottish Government is closer to local government, but it still does not happen well enough. Central Government also needs to support the commissioning organisation in doing enough preparatory work. If that is not done before the project starts, and the bid process is commenced with all sorts of uncertainties, and the public sector client does not understand what it wants, it leads to disaster. Central Government should therefore support the local agency in the exploratory work that can be done before the process starts.

In terms of bidder selection, I would almost go so far as saying that PFI is dead because of competitive dialogue, which makes a complicated process even more complicated. We must find a better way of doing it if we want to include funding as part of a whole-life contract. I have mentioned open-book partnering with NHS ProCure21; the hub initiative, which might proceed in Scotland; and the Scottish framework agreement. Those mechanisms bring the knowledge of the private sector into the process much earlier.

Alan Ledger: The private sector generally views knowledge management as vital. I suspect that the private sector might put more effort and investment into that than the public sector does. Key to that is having a process that feeds back the lessons that have been learned from projects so that succeeding initiatives do not go to the previous bid inquiry document, for instance.

In selecting contractors, more emphasis could be given to their culture, behaviour and values. If the wrong partner is chosen, it is difficult to make a project successful, so there is a lot to recommend selecting partners by their attitude, behaviour and culture.

Gareth Hoskins: It is evident from the work that we are doing with health boards throughout Scotland that boards that have professional architectural and surveying knowledge within their teams are much more informed and prepared when they produce briefing documentation and business cases. However, such knowledge exists only in a minority of boards.

As David Stark has said, preparedness is essential. The ability of public sector bodies to engage teams—possibly bringing in outside expertise at an early stage—to prepare briefs and to produce the briefing information is, without doubt, beneficial.

Currently, selection processes are driven by quality and price ratios, but the mechanisms for scoring the price assessments can obliterate the qualitative assessments. Qualitative assessment is invariably subjective. Trying to define and assess qualities is difficult, whereas price assessments are produced formulaically. We suggest that to emphasise design quality and allow more than lip service to be paid to design elements—to have them carried through—quality and price factors should be replaced by design, delivery and cost factors. In that way, there would be a good emphasis on design right the way through. Interestingly, in the example that I gave from Belfast, the process sets the cost of consultancy fees, so the public sector authorities are able to define the pots of money that they are going to spend on them.

David Stark: Under NHS ProCure21 in England, the client goes to a contractor with a budget and says, "What's the best quality that you can give me for this amount of money?" To me, that seems better than picking the cheapest contractor.

The Convener: I thank David Stark, Alan Ledger and Gareth Hoskins. Gentlemen, your experience and expertise, which have been in evidence today, will be useful to the committee in its inquiry. Thank you for your contribution today.

14:50

Meeting suspended.

14:53

On resuming—

The Convener: On our second panel of witnesses, we have Alan Fordyce, the managing director of Robertson Capital Projects; Ian Rylatt, the managing director of Balfour Beatty Capital; and Steven Tolson, the director of Ogilvie Group Developments. I will give each of you the opportunity to make a brief opening statement.

Alan Fordyce (Robertson Capital Projects): Robertson Capital Projects is a privately owned Scottish company that specialises in investment in and delivery of PPP projects. I also sit on the board of twelve separate special purchase vehicle companies.

Robertson has 1,000 employees based in Scotland and, to date, has delivered 17 major PPP projects, with a capital value in excess of £600 million. Those projects include 40 schools, 10 primary care hospitals and nine social care properties as part of the LIFT initiative. It is also worth noting that, currently, we are bidding for the Tayside mental health project, which is on the NPD model. In addition to delivering the LIFT project, which was talked about at the previous panel, we are delivering Newcastle building schools for the future, which is similar in nature to a LIFT procurement but in education. Those are long-term partnering projects, in which the public sector has equity in the private company and has voting rights on the project board.

I draw the committee's attention to the three main points in our submission: value for money, which was quite well explored by the previous panel; the whole-life approach and the cost certainty that that brings to the duration of the project; and not-for-profit developments, whose similarities to LIFT and Newcastle building schools for the future we would like to explore. Our consultation paper also raises the issue of the pipeline of future projects and the need to maximise competition.

Ian Rylatt (Balfour Beatty Capital): I run the infrastructure investment business in Balfour Beatty, which is one of the United Kingdom's largest construction companies. Our roots are very firmly in Scotland and, within the next 12 months, we will celebrate our 100th anniversary. We still have a lot of key businesses in Scotland—we have here a civil engineering business, a construction business and a mechanical and electrical business. We employ between 4,000 and 4,500 people in Scotland, of whom between 500 and 600 are involved in PFI.

Steven Tolson (Ogilvie Group Developments): Ogilvie is a medium-sized Scottish business, turning over some £200 million. We are active in PPPs for schools in Stirling, Falkirk and Clackmannanshire and are also involved in important non-PPP public projects in areas such as regeneration and social housing.

I envisage that there will be a significant amount of overlap between our discussion and the discussion that you had with the first panel. The first issue that I would like to raise is the process. We feel that, during the competition, there is a tendency to focus on the process as much as on the project itself and its outputs.

The second issue that I want to raise is the high cost of competition, which is getting worse under the new competitive dialogue, which has caused costs to rise to some three times more than they were under the invitation to negotiate. We would submit to the committee that the situation is making it difficult for small and medium-sized Scottish businesses—which are the life-blood of the Scottish economy and are vital to its growth—to participate in the process. Further, losing competitors seek to recover those high costs by rolling them over into their bid for the next project. In effect, therefore, the process is punishing future projects.

I also want to raise the issue of the pre-competition stage, which we heard about from everyone on the first panel. There is a great need for there to be more detailed briefs and greater preparatory work. If more work were done at the brief stage and there were better technical information, participants such as ourselves would be able to respond more clearly and, which is important, more quickly. Another related issue is the avoidance of change. We have found that change is a costly and time-consuming business. Change can occur in the competition period and it can occur after a company has been selected as a preferred bidder but prior to financial close. Such changes are extremely expensive and time consuming, so I would call for better-quality early information, at the brief stage, with a cut-off point for changes, after which further changes can be introduced only under exceptional circumstances.

The Convener: We have heard evidence that the bundling of PPP and PFI projects can be a barrier to smaller Scottish businesses entering the market. We have also received evidence that smaller firms are a valuable part of the supply chain but need to work in conjunction with larger firms in order to access key top-end delivery and management skills. What are your views on the future of the Scottish market? Are there any difficulties in key skill areas? If so, what are their implications for securing value for money? How can such difficulties be overcome?

15:00

Ian Rylatt: You are right to say that it is difficult to attract local or smaller contractors into the market. The economies of PFI really work only when a larger project is being procured. There tends to be a bundling of schemes in order to get cost efficiencies. If the costs of PFI could be reduced, that would allow smaller contractors to participate, which we would welcome. As a larger contractor, we tend to find that we are involved in bundled projects and that, because of the scale of the work, we have to subcontract out to local contractors, which have the necessary skills.

Steven Tolson: Ogilvie is participating in joint ventures in the Scottish market. Some of the largest projects in which we are involved—the schools projects—are joint ventures with other smaller businesses; we try to bundle ourselves, as well as the product, together so that we can compete on a level playing field. It goes without saying that the supply chain is willing to work with us. Skill levels on our side have improved significantly. Like the public sector, we engage with consultants, where appropriate, to fill holes in the advice that is available to us.

Alan Fordyce: It depends on what you mean by bundling. Like the other companies that are represented here, we have handled projects on our own, as joint ventures and as part of the supply chain. In our view, the optimum number of projects in education is six to eight, not the 25 to 30 projects that were included in the previous Glasgow and Edinburgh school schemes. That view is not based solely on our experience of construction—there are certainly enough contractors available to do £200 million or £300 million projects. As the previous panel suggested, the difficulty is having the required level of dialogue with the public sector about design and details. It is almost impossible to have that dialogue on more than six or eight projects.

When we have handled multibundled projects, involving six or eight projects, we have used three or four different architectural practices. Each of those practices deals with only one public sector client. Although we can gear up to be as efficient as possible, the public sector can deal with only as much as its resources allow. That can be a stumbling block if projects are bundled too much.

Elaine Murray: I want to ask about two issues. First, a number of witnesses have suggested that competitive dialogue is problematic. I understand that the practice originates from the European Union. Are there ways of getting round the problems that have been created by competitive dialogue?

The second issue arises from the written evidence submitted by Robertson Capital Projects, which states:

> "The introduction of the Non Profit Distributing (NPD) model, which in essence transfers more risk to the private sector for less reward, is a significant contributory factor in making bidding for projects in Scotland less favourable than elsewhere."

We have received other evidence that NPD may be less attractive to the private sector. Do any of you believe that it could result in less investment in infrastructure in Scotland? Is the problem caused by the NPD model, or does it arise from the feeling that PPP is unpopular and may be got rid of?

Alan Fordyce: Competitive dialogue is a European initiative. It consists of guidelines rather than a set of instructions that tell us what we must do. We are currently bidding for a project that involves competitive dialogue and NPD. Because of the competitive dialogue element, we have tripled or quadrupled our bidding costs, which are now several million pounds. It is the only project for which a company such as Robertson Capital Projects will be able to afford to bid at that level this year. The bidding costs represent a significant drain of resources from the company. We have pointed that out to our public sector client. Unfortunately, because he was dealing with three bidders, he needed to have more design team meetings under competitive dialogue than he had days during the bidding process. Gareth Hoskins mentioned earlier that three design team meetings a day twice or three times a week are needed. Therefore, there is also a phenomenal requirement on the public sector. During the bidding stage, probably three times as much time is needed if three bidders are being dealt with.

I do not see anything wrong with the invitation to negotiate. That or even the restricted procedure would be a much more appropriate way of dealing with things. I do not see any legal issues with that.

In our submission, we say that there are two issues with the NPD model. We believe that it has a couple of flaws, one of which is that it forces companies such as ours out 12 months after a project has been built. There is forced refinancing of projects, which means that we would be out of business. As I said, we have secured 17 projects to date, which we maintain long term—some go back 10 years. We still own, operate and maintain our first hospital project, in Inverness, to a high standard, but we would have been forced out of that project nine years ago under such a model. We would have had no option—we would have been out of it. From a long-term business perspective, it does not make much sense to gamble a few million pounds to win a project if we are forced to exit from it within 12 months if we win it. Robertson Capital Projects is very much a Scottish-owned and operated business, but we look at other markets. We recently opened an office in Belfast, we are looking to open an office in Dublin later this year, and we have just moved into an office in Newcastle. In the near future, we will certainly put many of our resources, scant as they are, outside Scotland.

Steven Tolson: I concur with everything that Mr Fordyce has said. As I said earlier, we have assessed the costs under competitive dialogue to be three times what they were under the invitation to negotiate. It is difficult for a Scottish company of our size to manage such costs. We are already assessing where we will go from here in participating in the sector. We are delivering on three PPP projects and we have gained substantial experience with our partners. It is therefore a great shame that our overall participation in the sector is now at risk as a consequence of the change. I entirely accept that competitive dialogue is an EU matter, but there is a tendency to approach the process as if one were reading a book and looking only at the fine print—the rules and regulations. I am not saying that one should avoid the rules and regulations, but one should consider their spirit and interpret them appropriately. From my experience, that remark applies to certain public organisations, although less so to others.

Ogilvie is undertaking the Falkirk schools project in a joint venture under the NPD banner. I entirely agree with Mr Fordyce. The extra burden, risks and uncertainty do not equal the rewards that we would take. Equally, as has been mentioned, there is the issue of how one exits projects when there is refinancing.

Ian Rylatt: On Elaine Murray's first question, competitive dialogue has increased big costs. It is most prevalent in the UK—I refer to the BSF procurement programme that is going on in England, which has reduced competition. Partnerships for schools have been proactive in adopting a variation of competitive dialogue. Not all bidders are asked to develop a design for the first rounds of bidding at least. The more expensive big costs are left until later in the process to attract more people in.

On Elaine Murray's second question, Balfour Beatty Capital is, as a construction company, happy to bid under a range of models, including construct-only, design-and-build, PFI and NPD models. The most important thing for people is to be clear about what they want to procure, to say what they want up front, and to see the process through. Any bidder who gets into the process must know what they are getting into.

Elaine Murray: I would like you to elaborate on NPDs. I presume that refinancing is caused by a lack of access to equity, which would be the norm for a PPP. Is that correct? If the NPD model replaced PPP, different models could be available for different partners. If NPD is part of a mix, is there still a threat? NPD might replace PPP as a form of funding, rather than co-existing with it.

Alan Fordyce: There are three main differences between NPD and PFI. First, there is a capped rate of return. Secondly, there is full transparency in that the public sector has a director on the board—or perhaps two directors, one a charity director and one an independent director who deals with refinancing. Thirdly, there is the change to refinancing—it is not just refinancing of senior debt but refinancing of senior and junior debt. Junior debt is, in effect, our equity portion or risk capital sum within the project, and if that junior debt is refinanced, it is more or less the same as a forced sale. We would therefore have no economic interest in the project whatsoever at that point. A company such as ours, doing long-term maintenance on projects, would have no say on the board.

Steven Tolson: Ogilvie tends to consider PPP projects—or any projects—while wearing more of a contracting hat than an operational hat. Work on operations tends to be done by a partner. Our view on these issues may therefore be slightly different from the view of a company such as Mr Fordyce's, which works in operations as well as in construction.

Ian Rylatt: We are very happy with the terms and conditions for NPD projects. We bid for the project for Aberdeen schools and were delighted to do so.

I want to go back to Alan Fordyce's point. These projects work because they drive a long-term relationship. If you start a project with a model that could jeopardise the long-term relationship, you should consider what you are doing. We are very happy with the concept of NPD.

Steven Tolson: Convener, could I come back in? I handed over without meaning to do so.

The Convener: That is allowed.

Alan Fordyce: It was a forced handover.

Steven Tolson: It gave me more time to consider.

The changes to refinancing are probably the greatest difficulty, simply because there is clearly uncertainty. One can measure the worth of any project only by considering its end point. When one does not know the end point, one can take only a pessimistic view. That is not the best way in which to conduct the economics of the project.

On the issue of capped returns, we would accept that, in some projects—although I will not mention any particular ones—money has been made that could be defined as being in excess of what a reasonable profit would be. I can quite understand the public sector wanting to curb that. In regeneration projects, in which one might well be using public grant, if one makes larger profits than were originally forecast and if those profits go over a threshold, a clawback comes back to the public sector. The NPD model is consistent with that approach.

Joe FitzPatrick (Dundee West) (SNP): All three speakers have mentioned joint ventures. Will you comment on the possibility of moving towards joint ventures involving the public sector—either directly or via arm's-length companies run by the public sector?

Alan Fordyce: As I said earlier, we are doing that at present south of the border with LIFT projects and with the building schools for the future programme. That work involves, more or less, the elements to which you refer. The private sector has 60 per cent, the public sector procurer has 20 per cent, and local government has 20 per cent. On that basis, we get almost the same outcome as from an NPD. There are capped returns—that is, the private sector and the public sector share the returns. There is also full transparency at board meetings, as all members have full voting rights.

15:15

If there is any refinancing, it will be done in the best interests of the company. If there is an upside to such refinancing, the public sector will share 40 per cent in it anyway. That allows the private sector to run the business in the most economical way possible. One of the slight downsides of NPD is that there is no incentive for the private sector to operate a facility as efficiently as possible if all efficiency gains go back to the charity. There is no incentive for the private sector to be innovative or to put its time, effort and ability into generating more profit, 100 per cent of which will go to the charity.

Both the LIFT project and the BSF project deal with concerns that people have about the traditional PFI model, but they deal with them in a more environmentally friendly way, whereby the public sector and private sector are in a true partnership, working together for the greater good of that business, which is the delivery of the project. They are not trying to do two different things.

Steven Tolson: The answer is yes. Ogilvie is involved in such partnerships. We are currently working in partnership on a project under a limited liability partnership banner. It is a 50:50 joint venture with Fusion Assets Ltd, which is now owned wholly by North Lanarkshire Council—it was owned previously by the council and Scottish Enterprise Lanarkshire. In that project, there is a management agreement; the public organisation recognises that the skills of operating on a day-to-day basis lie with us. All matters are decided at member level—they would be decided by a board within a company. Everything is shared 50:50. We like that, because it gives us a level playing field. There is good discipline in the project. There is political involvement at member level. It is a case of so far, so good. The project is a regeneration project, rather than a PPP, but there is no reason why it could not be any financial model that you wish it to be.

Ian Rylatt: To reiterate what Alan Fordyce said, we are bidding for BSF in England, which has exactly that model. If you are contracting with someone to deliver, you have to ensure that they have the accountability and responsibility to deliver. BSF does that, because it still puts all the responsibility on the private sector. If you have too much of a joint venture arrangement, responsibilities can get fudged, which is a mistake.

Liam McArthur: You have all highlighted the increasing cost to the competitive dialogue process. Mr Tolson alluded to profits that might be seen as unreasonable. In previous evidence sessions, we were told that the PPP process has evolved and that the public sector might now be a more informed purchaser. One of the most consistent criticisms has been the lack of transparency in terms of the costs and returns to the private sector. Do you agree that there could perhaps be more transparency to improve public confidence in what is being delivered? If so, how do you see that evolving?

Alan Fordyce: We would encourage public sector participation in a schools project. One of the Dundee schools in which we were involved is due to go live today. The public sector, in the form of one of the council's officers, has a seat on our board. We are delighted with that. The officer has access to all board papers and financial papers, takes part in all the board meetings and is a fully included member. We have heard evidence from previous witnesses about the super-profits made through PFI. We have 17 projects and I have not seen any super-profits in any of them. They are transparent. The financial models are there and can be fully reviewed. We would have no hesitation in sharing the financial information with all our partners. A lot of those issues have already been taken care of in the existing PFI model, where each member has an authority observer stakeholder representative. They are able to be represented at SPV board meetings.

Ian Rylatt: Transparency can be a good thing and there has already been a lot of it. Many projects in recent history have been bond financed, which requires an offering circular containing a lot of financial information to be published and put instantly in the public domain. However, if we are to have transparency, there should be a level playing field. Not only the winning bidder's bid should be available; everybody's bids should be available, including those of the second and third-placed bidders, so that every bidder gets an equal view. Otherwise, there is a danger that the winning bidder will constantly have his numbers assessed by other bidders, whereas they are not getting the same treatment.

Steven Tolson: Transparency keeps coming up and is obviously an important issue. As we have discussed, we get transparency through joint venture. We have no problem whatever with the open-book approach. We apply that approach in the private sector partnering arrangements that we have with certain clients and it is equally appropriate with public sector clients. In general, there is no reason why we cannot provide such information. For the record, I inform the committee that we have not made super-profits either—that is a matter of hearsay.

Derek Brownlee (South of Scotland) (Con): I return to the costs of the competitive dialogue process. In this country, we have a tendency to blame EU rules for everything. Is there any evidence in the UK that some, or the bulk, of the additional costs that arise through competitive dialogue are self-imposed, rather than driven by European compliance requirements? Are you aware of comparisons with countries elsewhere in the EU that might show us whether the UK or Scottish Governments are unnecessarily adding burdens in implementation of compliance?

Steven Tolson: In my opening remarks, I talked about the process in itself—whether it is competitive dialogue, PPP or non-PPP. I have been involved in examples of all of them. There is an overly fastidious focus on processes. I find myself endlessly filling in forms and wondering what their real purpose is and how they will make the project better. The forms are not about the project per se, but about how we might do X, Y or Z. To be frank, our track record and those of our competitors speak for themselves in that regard. We should cut out that part of the process.

Part of the issue may be to do with skills, but it is a lot to do with human nature—that is the problem. One can work out the problem immediately when someone comes in with a book under their arm, rather than asking how they can make the project work and make the rules and regulations work for the betterment of the public body that they represent and the competitors that are involved. The objective of every procurement officer in public office should be to maximise the interest in competing because, by definition, the more competition there is, the better will be the solution in the long term.

Ian Rylatt: The three main elements in bid costs are staff, legal work and design. If there is a continuous market—one that can be seen coming—a company can reduce staff costs because of economies of scale. The BSF programme is driving bidding costs down—every time we do a project it is cheaper than the previous one. Legal costs come down as a result of standardised documentation: the more PFIs that are developed, the more standardised documentation there is. Most of the costs from the competitive dialogue process come from design issues. If authorities were willing to adopt a more standard school design throughout an area, only one design would be needed, rather than five or six designs if there are five or six bidders.

Alan Fordyce: I concur with much of what my colleagues have said. As Ian Rylatt said, the costs are self-imposed. I suggest that the bulk—90 per cent—of the additional costs are purely for design. For guys like us, and from the public sector perspective, competitive dialogue means that if two bidders are in competition, they will fully design a hospital or a bundle of schools to the stage at which they are ready to go through the planning process. That is a complete waste of money for one of the bidders. Having two separate bidders, knowing fine well that one will not go forward, is a drain on public sector resources because it means that 50 per cent of what the public sector team does is a waste of time.

When there are two or three bidders, it is hard to have a dialogue with head teachers of half a dozen different schools because they know that it is not real dialogue. The dialogue will only happen once there is one preferred bidder. As Gareth Hoskins said, you need to get to a situation in which the design is not done while there are still two or three people in competition. The costs and the time are excessive and the feedback that you need to inform the design will be haphazard because the people you are dealing with do not know who the successful bidder will be.

Alex Neil: I have been looking at a presentation from a Balfour Beatty PPP/PFI seminar, which appears to fly in the face of what we have been told today and a lot of what we have been told previously. First, in relation to risk and uncertainty, one slide, on the risk assessment and management of PPP/PFI projects, describes the income as "low volatility"; the capital costs as "fixed"; the operating costs as "largely fixed"; the financing costs as "hedged"; and the inflation as "income RPI formula". It concludes that PPP/PFI projects have

"Highly predictable profits and cash".

If that is the true picture, where is the risk that the private sector is supposed to be taking in such projects?

My second question relates to profits and profiteering. One slide in the presentation suggests that the rate of return on a typical project of around £150 million is between 14 per cent and 18 per cent after tax, which is well over 20 per cent before tax. According to another slide, for an investment of £15 million in a PPP/PFI project, Balfour Beatty made a profit of £250 million—17 times the original investment. How can you tell us that there are not large profits to be made and that there is real risk and uncertainty—which is why you are getting large profits—when your own slides, and other people's comments, say otherwise?

Ian Rylatt: I guess that those questions are pretty firmly addressed to me—I am happy to answer them.

The Convener: I am looking forward to Mr Rylatt's explanation.

Ian Rylatt: That presentation was made primarily to Balfour Beatty shareholders. On the first slide that Alex Neil referred to, we say to our investors that that is very much a feature of our portfolio. We believe that we are a market leader and that we are good at managing risk, and that we can therefore deliver cost certainty in a project. However, cost certainty is not guaranteed—there are lots of examples of companies that have not delivered cost certainty. There are elements of efficiency that we have delivered in our projects that other companies have been unable to deliver. Until now—tomorrow is always another day—we have been very good at managing risk.

Alex Neil: My point is that you are telling your shareholders a completely different story from the one that you are telling us. The conclusion of the first slide is that there are

"Highly predictable profits and cash".

Where is the risk?

Ian Rylatt: We believe that that is true of our portfolio. Balfour Beatty has historically been good at managing risk, and we plan to be good at managing risk tomorrow. We believe that our projects deliver highly profitable cash flows.

Alex Neil: Does your £250 million profit for a £15 million investment represent good value for the public purse?

Ian Rylatt: You have to take into account the time value of money. If you look at simple nominal cash flows, that is what it will show over a 30-year period.

Alex Neil: I quoted the internal rate of return because it takes account of the nominal cash flows and the discount: it came out at 18 per cent after tax.

Ian Rylatt: I am happy to answer that question, as well. The number that you are referring to is the nominal cash flow. If you look at the real cash flow, we are earning a return of about 14 per cent. We are unsuccessful in a lot of the projects that we bid for, and the cost of running my business is circa 2.5 per cent. I have to manage a group of shareholders who are looking for a return on their investment, and I guess we are paying them the weighted average cost of capital of the group—let us say that that is 8 per cent. If you divide those numbers up, I am making roughly 4 per cent for taking the risk that I take on a PFI. That is extremely good value for money, given the risks that we have to manage. As we say to our investors, we will deliver you that 4 per cent premium because we are good at managing the risks.

15:30

Alex Neil: In that case, are you not misleading your shareholders by telling them that you are making all that money? You cannot have it both ways.

Ian Rylatt: I do not think that we are because our shareholders realise the costs that we have in our business—they realise the trade-off between risk and reward that we earn for them.

The Convener: If you want to add any further information in written form, please do so. Are there any other questions?

Alex Neil: I made a point about risk, uncertainty and profiteering. I am not convinced by that, having seen the slide from the Balfour Beatty presentation. There is an internal story and another one for people like us.

The Convener: You might wish to follow that point through, Mr Rylatt.

Ian Rylatt: It was a public presentation that was made to shareholders. We do not have different stories; we have one story.

Derek Brownlee: I offer something of a balance in relation to the equity input and the profit that might be earned. Suppose that a project goes over budget and over time and you do not manage to achieve what you want to achieve and do not manage to deliver what you have been contracted to deliver. Is the risk that you as a bidder are exposed to limited to your equity investment or could it be higher?

Ian Rylatt: Typically, it is limited to the value of our equity, but you must recognise that by the time a contractor gets to its equity, it has had to burn through a whole load of other contingencies. Typically, the contractor in a PFI project will have far greater liabilities under its liquidated damage or termination provisions, so it has to burn through that first. When that is done, the equity provides another layer of what is, in effect, a cash-collateralised performance bond that has to be burned through before the company fails, ultimately. It is not the only method; a layer of guarantees sit below that, which usually go way beyond what would be found in a normal, conventionally procured project.

Alan Fordyce: A special purpose vehicle company is, by its nature, set up to deliver one project, so it would take a catastrophic event for a project to fail. We have heard today about examples of companies going bust, ceasing to trade or running into construction difficulties. As Ian Rylatt said, if that happens in the construction period, good risk management from banks will ensure that risk is transferred to the contractor.

Our organisation—as Balfour Beatty does—puts in equity and takes on the construction. There will be performance bonds in the contract to the value of 50 per cent of the construction cost. If we are dealing with a £100 million project, the bond would pick up £50 million of that. That does not release Robertson from the other £50 million if there were more of a liability; the liability in PFI projects is 100 per cent of the loss. The bond picks up a percentage and the company is left to pick up the remainder. A 100 per cent liability sits on companies such as ours.

The Convener: Mr Tolson?

Steven Tolson: I have nothing further to add.

The Convener: As there are no more questions from members, I ask our adviser Nathan Goode for any comments or observations.

Nathan Goode: There have been a couple of references to different types of partnership model, such as BSF and LIFT, and to standardisation. Does the panel feel that the industry is best served by standardisation or by the proliferation of models?

Steven Tolson: I have never been a great supporter of standardisation in life. "Horses for courses" is my answer to the question. It depends on the type of project. Some projects will fit well with standardisation—schools have been referred to—although hospitals fit less well. It is possible that health clinics might fit well with standardisation, but they might not. You have to look at the project and work out the process from there, rather than do it the other way round. In achieving value for money, scaled economies must be sought for the benefit of both the private sector and the public sector. I would not jump to one methodology alone.

Ian Rylatt: For me, the issue is single-point accountability. If you are going to enter a contract with someone, you must ensure that they deliver and you must give them the responsibility to do so. Most people will now be happy for that to be done in an open and transparent way. We fully support that approach.

Alan Fordyce: As my colleagues do, I think that we are happy to consider what is best for the project. With the Scottish NPD model, I suggest that it might be worth considering the BSF/LIFT models to attract similar elements.

Standardisation is good now that we have gone through four or five iterations of project agreements in Scotland to arrive at a standard form of project agreement. Such standardisation is good because we understand what is going on and so do our clients and sub-contractors. The process is quick and efficient. If different models are continually introduced, we need to return to square 1 each time to learn about them, so we spend lots of time trying to figure out what the public sector wants rather than delivering the required product.

The Convener: We do not want to be continually reinventing the wheel.

I thank the witnesses for sharing with us their practical experience and expertise—their evidence is appreciated. If you wish to add evidence in writing, you may do so. We will have a short suspension before we move on to our next panel.

15:36

Meeting suspended.

15:42

On resuming—

The Convener: I welcome our final panel of witnesses: Jo Elliot is deputy chief executive of Quayle Munro; Dylan Fletcher is a group board director of Forth Electrical Services Ltd; and Andrew Gordon is chief executive of Canmore Partnership Ltd. The witnesses may make brief opening statements.

Andrew Gordon (Canmore Partnership Ltd): Unlike many of the companies from which the committee has heard today, Canmore is not exactly a household name. We do only PFI/PPP public use infrastructure projects and we have been around more or less since the inception of PFI/PPP.

We have done 10 such projects in the UK, of which five have been in Scotland. Our first project was the Stirling further education centre that was set up by Falkirk College, which was unusual because it was an on-balance sheet PFI. We are currently building the new Victoria and Stobhill infirmaries in Glasgow. That project is unusual because it was, in effect, a negotiated tender so some of the points that David Stark made are perhaps applicable to it. The project also had complete cost transparency with the public sector and—at the suggestion of the consortium—it is currently processing a major change, which seems to be going okay.

We are currently trying to decide whether to continue bidding for the Tayside mental health NPD project. We think that the competitive dialogue side of that is being run fairly well—certainly as well as a good PFI—but we think that the Government is about to draw defeat from the jaws of victory by insisting on ridiculous terms for the non-core elements of NPD.

The Convener: The name Canmore nevertheless has very good Scottish roots.

Andrew Gordon: That is deliberate.

15:45

Dylan Fletcher (Forth Electrical Services Ltd): Good afternoon. I sit as a director on the board of Forth Holdings Ltd, which is a holding company dealing mainly in facilities management and construction-related activities. We operate a lot in the PFI market as well as in the traditional facilities management and construction markets. We are a family-owned business that employs about 1,500 employees directly.

I will highlight three main areas that may be relevant to today's discussions. The first is examples of the NPD, non-NPD and traditional-route projects in which we are involved. We are involved in the Inverclyde schools project, the Falkirk schools project and the North Lanarkshire bundled project, which is traditional design and build. We are also involved in some commercial projects. We work with Prudential in construction and with a facilities management service at the back of that. It is a 10-year evergreen project that is like PFI, but not the same.

Secondly, there is the deal flow from the public sector, which I mention in my written submission. Some bundled projects have come out together and there is a gap at the back of that. I do not think that that is good for the economy or the construction business.

Thirdly, there is the facilities management aspect. There are PFI-related projects that deliver quite a good facilities management service and there are commercial, privately owned companies that deliver slightly different services.

The committee may want to choose which areas are relevant to what the Scottish futures trust would like to do.

Jo Elliot (Quayle Munro): My firm is Edinburgh-based. We are investment bankers and PFI has been our principal speciality since it started, which, for us, was in the early 1990s.

There are three relevant strands to our business. We are financial advisers, which means that we advise public sector bodies and bidders for projects. We put together the financial models and raise the capital. We are investors, either on our own behalf or, more recently, managing investment funds that we have raised from institutions. For mature projects, we are financial managers and hold directorships of the projects.

We have done about 20 projects in each of those categories. As financial advisers, we have closed something over 20 projects. Those are not the same 20 projects that are in our investment portfolio, which is called the PFI Infrastructure Company, and they are not the same 20 projects of which we are financial managers or directors. Nevertheless, there is quite a lot of overlap.

Over the years, we have added value through continuity. Like Canmore Partnership, Quayle Munro is not a household name. We are one of the smaller players in the consortia, yet we have had the longevity to see many of the projects through. We are still the managers of two or three projects that were in the early wave of projects in Scotland, and I am still a director of the SPV. We think that a real partnership with the public sector to deliver a decent service is important and valuable.

The Convener: We have heard quite a lot about the NPD model. You have all been involved with that in some way. Does the NPD model provide better value for money than conventional PFI/PPP models?

Dylan Fletcher: From our perspective, one of the main differences between NPD and traditional PFI is the financing. Our business has invested equity in about six projects in Scotland and one in England, but we have probably worked on more than 25 projects throughout England and Scotland. Our main business is construction and facilities management, not financing, so for us there is not much difference between the NPD structure and traditional PFI. Construction procurement is the same for both types of project, as is facilities management. The NPD structure affects the financing of a project, and we do not see a huge difference between the two types of project unless we have an equity subscription within a project.

Jo Elliot: From an economic point of view, I find it difficult to see how the NPD model can deliver higher equity returns in an efficient market—and we are operating in an efficient, competitive market. We need certain returns to offset the risks that are involved in a project. If the NPD model has the effect of capping those returns, we must bid for higher returns in the first place. As a matter of principle, I find it difficult to think of the NPD model as the panacea. We are arguing theoretically about NPD models; from a practical point of view, we must remember the 800 or so other projects in the UK that are not NPD. As yet, it might be too early to tell as far as NPD models are concerned. There have been two or three projects in Scotland to test, but we have to wait and see.

Andrew Gordon: I suspect that, if the Government was prepared to accommodate bidders' concerns about an important but subsidiary element of NPDOs—the refinancing aspect—a sufficient number of bidders would accept the capping of return, which is what I think that the NPD model was meant to be about. It is sad that successive projects have not openly tested the NPD model against classic PFI. If they had done, we would know the answer.

On the current crop of NPD projects, people can bid almost anything that they want—as long as it is not PFI. If PFI was more expensive, it would lose; if it was cheaper, it would win. It strikes me that it would be more intellectually honest to try both methods. The costs of doing so would be fractional, because the core costs lie in designing and costing buildings. We could find the answer very easily, but people do not seem to want us to do so.

Elaine Murray: You have partly answered the question that I was about to ask. The previous panel expressed concern that the development of the NPD model was making it less favourable to bid for projects in Scotland than elsewhere. Is the concern about NPD replacing PPP, rather than about the NPD model being used as an alternative funding method alongside traditional PFI?

Andrew Gordon: That is probably the case. We operate in a competitive market in the UK. If any bidder who operates across the UK is offered a better deal somewhere else, he will take what he thinks to be the better deal—unless he is very loyal or very stupid. The Government has to perform a balancing act. It must claw back the best deal that it can without having an uncompetitive number of bidders. We do not need, say, eight bidders; we need only enough to make a competition. Some would argue that that means two, three or four.

The balance lies in pushing just far enough but not too far. My concern is that the Government is pushing too far at the moment. The evidence for that comes from the Tayside mental health project. In fundamental terms, it is a superb project, probably the best project under procurement in Britain at the moment, yet it has three—and might have only two—interested parties, let alone parties that have been short-listed. Only three people turned up to the show, whereas a dozen or 15 might turn up for relatively hotch-potch, indifferent schemes on the south coast. The market is very flat. If there are only three interested parties for a fundamentally excellent project in a flat market, something is wrong.

Dylan Fletcher: I agree with Andrew Gordon in many respects. We recently completed the Falkirk schools using an NPD model and we are a competitor of Andrew Gordon's in Tayside. As I said, our business is predominantly construction, although we have equity investments in some projects. The structure that was used in Falkirk is not favourable for an NPD model. Forced refinancing is one sour aspect, although most of the market is quite happy with the rest of the structure. If there was some way in which we could amend NPD models slightly, that would provide a favourable structure from the market's point of view.

The Convener: What sort of amendment do you have in mind?

Dylan Fletcher: Forced refinancing, which Alan Fordyce mentioned, is probably the biggest single aspect that should be amended. Capped returns are another aspect, but I think that people accept them. I think that everyone realises that the large returns that were produced by the early PFIs when equity or sub debt was sold on have been replaced with more competitive returns. People are probably quite comfortable with capped returns and a sharing mechanism with the public sector—that is not a big deal.

The issue is forced refinancing. If you enter into a 30-year facilities management contract but 12 months later have to invest a lot of up-front costs, you can lose your seat at the SPV table and continue on a subcontractor route, which is not a particularly good partnering arrangement.

Jo Elliot: A great deal of effort is invested in winning a bid—and from an investor's point of view in getting the money out—but if there might be forced refinancing we must put a value on an investment without knowing how long we will be able to hold it or what the ultimate return will be. Given that we are talking about managing money that is ultimately owned by pension funds and so on, such investment is very difficult and can be countenanced only within a portfolio of more normal investments—that is not a stable or encouraging position to be in.

Joe FitzPatrick: I think that Andrew Gordon suggested that there was less competition for the Tayside mental health project because the NPD model was being used. Please correct me if I am wrong, but I understand that there have been very low levels of competition for recent PPP projects throughout Scotland. For example, there were only two bidders for a £100 million project in Dundee. Perhaps the lack of competition has nothing to do with the NPD model but is because so much is going on.

Andrew Gordon: If you are in the PPP business very little is going on. Very little new stuff is happening. There is a flat market—

Joe FitzPatrick: If that is the case, why were there only two bidders for the Dundee PPP project?

Andrew Gordon: I was talking about Tayside. I can tell you that six to eight potential bidders turned up at the open day, and every potential bidder who did not bid did not do so primarily because of NPD. I know that because I asked them. What I said was based on knowledge.

Dylan Fletcher: We were involved in Dundee, and I can offer a different explanation. When Dundee came to market the construction industry was quite busy. There was a lot on—not just PPP but other projects. Dundee is probably regarded as being slightly out of the central belt—

Joe FitzPatrick: So is Tayside, then.

Dylan Fletcher: I accept that; I am just suggesting that NPD was not the only factor. The Dundee market was quite buoyant, which might be another reason why the project did not attract a number of bidders. However, NPD probably puts some bidders off.

The Convener: Can you clarify which projects you are talking about? It is not crystal clear.

Dylan Fletcher: The Dundee project is a bundled schools project. The Tayside project is a mental health project.

Alex Neil: The miles to Dundee seem pretty short.

Mr Elliot said that returns are needed to offset the risks in PPP/PFI projects. What are the risks and how do you assess them? What kind of returns encourage you to take the risks? Is the approach to a new project different from the approach to refinancing? Where is the risk in refinancing a PPP/PFI project, other than perhaps for the public purse?

Jo Elliot: On risks, when someone acquires the equity in a PFI project they are accepting the residual risk over 30 years of the cash flows coming through, as projected in the financial model. Of course, we design the financial models and contractual structures to lay off as much of the risk as possible. If we did not do that, financing projects 90 per cent with bank debt would be impossible. Traditionally, 90 per cent is bank or bond finance and 10 per cent comes from equity, so we are talking about the riskiest slice. Why do we want to gear it as much as possible? Because that reduces the cost of capital. The first point is that we are talking about the returns on only 10 per cent of the total capital cost.

The banks insist—as we do—that as much risk as possible is laid off to subcontractors. However, bad things happen in life. For example, after subcontractors are all set up, cracks might appear between them. One contractor will say that some event was not his fault and the facilities manager will say that it was not his fault, either. We try our best, but the fault cannot always be pinned on someone—it is not an exact science.

16:00

Alex Neil: Would indemnity insurance be far cheaper than the expensive arrangement under PPP and PFI?

Jo Elliot: I do not rule out that possibility, but we try to put together the cheapest possible bids so that we win. If an easy way of insuring such risks existed, I would like to think that we would have found it by now.

Alex Neil: We can consider the history of PPP/PFI, which has been going for some time—for nearly 11 years under the London Government. In Scotland, four projects have gone sour. In East Lothian, the private sector picked up the tab. Buying out the PPP and PFI contracts for the Skye bridge, Inverness airport and West Lothian College projects cost the public purse an additional £70 million. Given that only four projects have landed in such difficulties, where is the risk? Is that not a bit of a creation?

Jo Elliot: Risks are things that might happen. As my submission says, the fact that risks do not materialise often means not that they do not exist, but that we are highly incentivised to ensure that they do not happen or to lay them off.

Alex Neil: The issue is the cost of dealing with those risks. A normal consultancy business always carries the risk of giving the wrong advice. If it does not have indemnity insurance, it can go out of business, but the cost of that insurance is fairly modest, because the risk is not great. Why do PPP and PFI projects not operate on that basis?

Jo Elliot: If a cheap and easy way existed, I would like to think that we would have found it.

Alex Neil: Is insurance not cheaper and easier?

Jo Elliot: No, because such risks are not insurable. Contractual disputes, which are the bane of everybody's life in the early stages of a contract, are not insurable events. They arise because unpredictable things happen and must be worked through diligently to obtain the best deal.

Alex Neil: I believe that you have been involved in a lot of refinancing of PFI and PPP projects. What return do you obtain on refinancing?

Jo Elliot: We have not been involved in many refinancings, but I will answer anyway. In effect, refinancing means borrowing against the future cash flows from a project. It concerns reducing the cost of the senior debt and advancing the returns by gearing up the project further. That is done when the project's risks are judged to have reduced. After a project is commissioned, the consensus is—and I believe it to be the case—that its risks are substantially reduced.

Alex Neil: Absolutely, so when a project is refinanced, you pocket quite a wee profit, do you not?

Jo Elliot: The profit that is made reflects the successful management of risks. It is part of the reward for a successful project.

Alex Neil: In the projects that you have been involved in, has the profit that has been made been shared with the public purse?

Jo Elliot: We have not completed any refinancings. However, in the projects of which I am aware, the profits have been shared with the public purse.

Tom McCabe: In the cases in which the profit was shared, was the original risk shared?

Jo Elliot: No. Thank you for that intervention.

Elaine Murray: Canmore Partnership's written submission states:

"A recent study published by KPMG suggests that 17% of PFI contracts are unprofitable".

Is the loss shared with the public purse in those cases?

Jo Elliot: Mr McCabe reminded me of the asymmetry of the situation. We go into a project hoping for the best, but if the worst happens, we know where the risk lies. When the thing is up and running smoothly, the problems of ground conditions and all the other things that can go wrong in the project no longer exist. There is a difficulty if the public authority puts up its hand and says, "You've done very well. You've made money because you've run the project skilfully. Actually, we'd like some of that profit."

The Convener: We have some experience of projects not running smoothly.

Andrew Gordon: The answer to the question "What are the risks?" is that they are the things that go wrong, and things do go wrong. Elaine Murray quoted our submission, which quotes KPMG. When you put Ian Rylatt on the spot—brilliantly—he could have answered, "Metronet." Balfour Beatty lost tens of millions of pounds when things went wrong with Metronet. If you asked the shareholders of Jarvis whether PPP can go wrong, they would say, "Yes—every day, as far as we can see." The studies that have been done show that things go wrong—that is the risk.

Can we insure against the risks? Not that we are aware of. I think that we have explored every form of insurance going. The only one that I am aware of that we do not take is decennial, or 10-year, insurance for buildings. That is basically because it represents bad value for money and it is cheaper to self-insure.

What is a fair return? I would say 14 per cent, which is why I would accept a capped return of 14 per cent. Is refinancing good value? Yes, if it happens. Should it be shared with the public sector? Of course it should. That view was the driver of mandatory refinancing and the NPD model, and I have a lot of sympathy with it. Many classic PFI projects are not being refinanced because refinancing does not suit the consortium. I can understand why the public sector is saying, "Well, it would suit us. If refinancing opportunities are available, we want you—the private sector—to take advantage of them and share the benefits with us 50:50. If you don't, we'll do it ourselves."

When we are not given the opportunity to consider whether we want to refinance but, instead, we are bought out and not fairly compensated, that sticks in our throats. It is manifestly unfair that we take the risks up front and back-end our return, but we are kicked out after three years with a fraction of the return. For us, that is the problem with the NPD model. It is not the fundamentals.

Dylan Fletcher: I agree with Andrew Gordon's comment on forced refinancing. We are discussing risk transfer and value for money. Apart from the financial aspect, there is clear evidence from the construction and operating side that, under PFI, projects are completed on time, within budget and to the desired quality. Whether the quality is set correctly at the outset is an argument that Gareth Hoskins would take up, but when we compare completed traditional projects with completed PFI projects, there is clear evidence that the PFI projects meet the criteria.

Liam McArthur: Andrew Gordon partly answered my question in his description of son of NPDO. Looking further ahead to the Scottish futures trust model, some of the written submissions and the oral evidence that have been presented to the committee have indicated that lack of certainty and detail is a problem. Could the panel members flesh out a wish list of what that detail might contain? Building on Mr Gordon's point about the impact that NPD is having on the market, which was echoed by other panel members, do you feel that there is a point at which decisions about the Scottish futures trust will need to be taken? Does the Government need to put PPP/PFI back on the table, or else investment will dry up?

The Convener: A wish list. Who wishes to start?

Dylan Fletcher: We talked about the difference between the NPD model and the PFI model, without considering the SFT. The NPD model is not unfair—it actually works; there are just one or two aspects of it that do not work. Putting it in the bin and moving to the SFT after 10 years of continuous improvement—having now reached the NPD stage—would mean throwing away a lot of good work to move to something completely different. Only time will tell whether that is right, because the model is untested, but throwing away what we have done for the past 10 years and starting again would be a big move.

There is a timescale problem, as you rightly mentioned. Following the last tranche of schools projects—and the two Glasgow hospitals, although the Southern general hospital will not be a PFI scheme—there will be an opening of market deal flow that will dry up. The SFT is something new; it might be right or wrong, and it will take time for it to come to market and for people to understand how it works. There will be reiterations, because there will be bits that people do not like, and it could be three to five years away from being on site. That cannot be good for anyone.

Andrew Gordon: Uncertainty is a problem. We might have got it wrong: we thought that the Scottish futures trust was primarily a funding mechanism. I do not know how it works as a funding mechanism, but I do not know how lots of things work. I did not come up with the futures trust; it would be good if someone who came up with it with were to tell us how it will work as a funding mechanism, or whether it will not work in that way at all.

Using a non-guaranteed, non-Government body as a funding mechanism involves getting into new waters. That kind of body has not borrowed for such projects before, so one cannot cite examples of other states with varying forms of autonomy. They are states, and that is different; they are in a different category, like local authorities. There is a covenant issue that cannot be avoided.

There are other, even more complicated excitements about the national balance sheet and how that might or might not count, let alone the issues about borrowing powers and all the rest of it. If the SFT is to be a funding mechanism, let us hear what it will do and then get on with it. If, instead, it is to be a Scotland-wide centralised procurement body—well, that did not work for Stalin and it will not work here. If it is to be a way of transferring best practice, that might be very useful. The SFT could be all sorts of things, but I did not come up with it—I am waiting for the people who did so to tell us what it is. It might be great, but we would like to know.

Liam McArthur: Will you hazard a guess at how long we can continue in a state of limbo?

Andrew Gordon: I suppose that the people who live here will leave last. How long they will stay, I do not know.

Jo Elliot: We must be aware that the PFI/PPP industry has moved on a great deal in the past 10 years. It was invented in the UK, of course, and has spread through large parts of the developing world. It comes in various flavours, but as a concept it is not a British aberration; it was developed here and widely adopted elsewhere.

The flip-side is that new initiatives in the UK are evaluated according to international standards. Successful UK and international contractors have a choice about where to go. If the SFT is too complicated, it will not be taken up, which will be a great loss to Scotland. Scotland is part of an open market, and the contractors who are here do not have to use the SFT.

16:15

Derek Brownlee: I recognise that there is an international market these days. To what extent have NPD models evolved in other jurisdictions?

What benefits or flaws have been identified elsewhere?

Jo Elliot: I am not aware of any other NPD models. An example of the new thinking that the SFT might involve is consideration of how long private sector money should be invested in a project. If we say that the time of major risk for a project is during construction, why must the private sector's money be left in that project for the full 30 years? Perhaps the state should buy it out after a period. That kind of thinking is potentially fruitful.

There is a major technical change in accounting that means that most PFI/PPP projects will be on balance sheet. There is a great liberation in that, as it allows us to think up many different structures that may have the effect of improving value for money. The cautionary tale is the story of the building schools for the future programme in England. At more or less the same time, Scotland and England decided to embark on major school building programmes. The Scottish programme used PFI and is long since finished. The gestation of the BSF programme was about two years; with great celebration, the schools are just now coming on stream. BSF has strengths, but there is a flip-side to the issue. If we want to deliver projects quickly—one understands the political imperatives—we must definitely focus on structures that are already known.

Dylan Fletcher: I have nothing to add to Jo Elliot's comments, which I support.

Andrew Gordon: I am not aware of NPD in any other jurisdiction, but that is not a surprise. In many ways, NPD is a logical iteration of classic PFI/PPP, which is a UK invention. If NPD is got right, it could deliver better value for money—hence the frustration that exists. Much of NPD is on the right track, but it is pushing too far. It appears that an unwillingness to contemplate change and some kind of accommodation may derail it.

The Convener: We have reached the end of this three-panel session. I thank our final panel of witnesses for their presence and their contribution.

16:19

Meeting suspended.

16:20

On resuming—

Annual Report

The Convener: Item 2 is consideration of our draft annual report for the parliamentary year from 9 May 2007 to 8 May 2008. As members can see from the cover note, the format and length of the reports are laid down by the Conveners Group to ensure consistency.

The report is a factual account of the work that the committee has undertaken during the past year. I draw to the committee's attention some very minor alterations that have been made since the report was drafted, in the interests of ensuring consistency across committees' reports.

The first section, which deals with mainstreaming equal opportunities, is now called "Equalities". The second change is that the first sentence of the paragraph headed "Meetings" now reads:

> "During the parliamentary year (from 9 May 2007 to 8 May 2008), the Finance Committee met 25 times."

Are members agreeable to those very minor changes being made?

Members *indicated agreement.*

Tom McCabe: We should add, "and intends to meet less in the future."

The Convener: I rule that suggestion out of order.

Do members agree to the final form of the draft annual report?

Members *indicated agreement.*

The Convener: As we agreed earlier, the committee will now consider in private the evidence that we heard today and our report on the Creative Scotland Bill.

16:22

Meeting continued in private until 17:08.

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