FINANCE COMMITTEE

Tuesday 27 May 2008

Session 3

£5.00

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR Donnelley.

CONTENTS

Tuesday 27 May 2008

FINANCE COMMITTEE
15th Meeting 2008, Session 3

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)

COMMITTEE SUBSTITUTES

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:

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

THE FOLLOWING GAVE EVIDENCE:

Sandy Rosie (Scottish Government Finance Directorate)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 27 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 15th meeting of the Finance Committee in 2008 in this third session of the Scottish Parliament. I ask all committee members, witnesses and members of the general public to turn off any mobile phones and pagers. Although he is not a member of the committee, Jeremy Purvis will be with us today for our evidence session.

This is our final evidence session for our inquiry into methods of funding capital investment projects. I welcome John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth. He is accompanied by Dr Andrew Goudie, the Scottish Government's chief economic adviser and director-general economy, and by Sandy Rosie, the director of the Scottish Government's financial partnerships unit. They are all welcome.

Cabinet secretary, do you want to make an opening statement?

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Yes. Thank you for the invitation to discuss capital investment with the committee. Last week, I published the Government's latest document on the Scottish futures trust for the committee to reflect on as part of its inquiry. Obviously, I will refer to the Scottish futures trust in my opening remarks.

I begin by putting the issue into context. At the end of March, the Government published its infrastructure investment plan, which draws together the significant contribution made through capital investment and capital infrastructure development by the Scottish Government, agencies working on our behalf and a large cross-section of Scottish local authorities. We have drawn together that plan to ensure that there is a clear understanding of the extent and nature of the investment in the infrastructure of Scotland over which the Government will preside.

The plan has at its foundation the Government's purpose of increasing sustainable economic growth and the development of excellent public services as part of that agenda. It includes certain investments that the Government can assure of £14 billion over the next three years, as set out in my financial statement to Parliament in November last year and as approved, for its first year at least, by the parliamentary support for the Government's budget.

We have tried to provide an idea of the wider situation in the infrastructure investment plan by setting out the likelihood that the plan will encompass the investment of approaching £35 billion of investment in Scotland's capital infrastructure in the next 10 years. That programme is the highest ever level of planned capital expenditure for the public sector despite the tight financial arrangements in which we now operate, which members will be familiar with.

The plan highlights the physical assets that are needed to grow the economy and to support high-quality public services. We will work with the public and private sectors towards the aim of supporting the development of the physical assets and high-quality public services of Scotland. The plan also clarifies market opportunities. The Government welcomes private investment when it represents good value for money, and we have ambitious plans across all sectors to take forward that agenda.

The Government has made clear its position on the private finance initiative. The Government believes that PFI resulted in excessive profits being made relative to the investment by the taxpayer. As we chart in the document, an increasing proportion of the Scottish Government's budget and the budget of the public sector in Scotland now supports the repayment arrangements for PFI contracts that have been undertaken in previous years. Indeed, I am struck by the fact that, in 2008-09, there will be a 13.9 per cent increase in PFI payments for which the Government is responsible, while our budget increases by 0.5 per cent. That gives committee members a flavour of the scale of the financial commitment that is now involved in servicing high-cost PFI projects.

I announced last Tuesday that the Scottish futures trust would be set up this summer as a delivery vehicle for a range of different elements of the Government's capital investment agenda. There are, essentially, three key components to its work. First, it will have at its core the non-profit-distributing model of finance. Secondly, it will provide a level of expertise in the development of projects by ensuring that we move away from the situation in which project expertise that is built up in one public body is not available to another, even though all public bodies face similar challenges in implementing infrastructure investment plans. Thirdly, it will pull projects together to guarantee that we achieve efficiencies in risk, finance and delivery arrangements that will support the

Government's wider agenda of improving public sector efficiency.

The Government has set out the development path for the Scottish futures trust. As members will be aware, that will be the subject of a statement by me to the Parliament tomorrow and, with the consent of the Parliamentary Bureau, a debate next week. The Scottish futures trust is about not only less expensive funding but a new approach to the organisation and packaging of infrastructure investment opportunities in Scotland. As well as any involvement that it may have in single, large projects, the Scottish futures trust will operate at a higher level of aggregation so that the market will not have to respond to a large number of individual projects that are procured by many public organisations. That will improve market liaison and the co-ordination of public sector handling of infrastructure investment. The programme of infrastructure investment that the public sector is undertaking is of the highest level that there has ever been and encompasses a range of investment across the board in Scotland's infrastructure. The Government will advance its agenda in that context.

The Convener: I will clear up a specific point. I regret that Yvette Cooper, the Chief Secretary to the Treasury, has declined to meet the committee, which is concerned about any potential effect of the international financial reporting standards—IFRS—on the Scottish futures trust proposal. I note that the minister says in his letter to me of 20 May:

"The plans take into account the UK Government's decision to adopt new international financial reporting standards from 2009-10."

What exactly does "take into account" mean?

John Swinney: It means that, on the basis of the information that is available to me at this stage, the Scottish futures trust will be able to operate within the context of IFRS, which we expect to be incorporated into the Treasury's approach to the management of public finances in 2009-10. The committee will be aware that it was originally intended that the new accounting rules would commence during this financial year, 2008-09. Commencement has been delayed until the next financial year but, obviously, the Scottish Government will be obliged to comply fully with the rules when they are introduced. Therefore, the remark that you quoted means that the Government has taken full account of the issues as part of the preparation of the Scottish futures trust and is taking the initiative forward on the basis that it could operate within that context.

Your question implied that the committee was concerned about whether the Scottish futures trust would be compliant with the IFRS. It is important to understand that the issues that the IFRS will raise for the Scottish futures trust will be exactly the same ones that they will raise for PFI contracts. Essentially, the IFRS brings projects on balance sheet, so PFI projects will be faced with the same issues about coming on balance sheet that the Scottish futures trust will face. Obviously, that raises issues about the nature of the activities that can be undertaken.

Alex Neil (Central Scotland) (SNP): You mentioned the PFI repayment legacy in your opening remarks. I think that you said that it will go up by nearly 14 per cent this year alone, when the money that is available to the Government is going up by substantially less than that. Can you project beyond this year and look at the profile of those PFI payments and their impact on Government spending over, say, the parliamentary session? How potentially damaging will that be to the other aspects of the Government's budget?

John Swinney: The information is presented in the document that we published last week, "Taking forward the Scottish Futures Trust", in which we set out the unitary payments for signed public-private partnership/private finance initiative contracts for the lifetime of those contracts as they sit before us. Those figures demonstrate that, when the Government came to office last May, we had a liability to make PFI unitary payments to the tune of £500 million in 2007-08. That liability will increase to £581 million in 2008-09, £672 million in 2009-10 and £787 million in the final year of this session. The increases in those three years are, respectively, 13.9 per cent, 15.6 per cent and 17.1 per cent. That will be set against growth in the Scottish block grant for those years of 0.5 per cent, 1.6 per cent and 2.3 per cent, respectively. Therefore, it is clear that the contracts are squeezing the public spending that is available for other projects. The investment that has been made in a variety of projects has taken its course over the past few years, but we are now beginning to see the full extent of the scale of payments that will have to be made to repay that investment.

In table 1 in section 3.4 of "Taking forward the Scottish Futures Trust", we set out that the repayment programme lasts until 2041-42. The numbers begin to decline significantly only after 2032-33. Therefore, a significant proportion has still to be repaid. The repayment figure will be around £800 million in 2011, which will represent of the order of 3 per cent of the Scottish block grant. I think that any observer would recognise that the degree of manoeuvrability and flexibility that any Administration has over its funds will be of the order of 2 to 3 per cent in any given financial year. Much of our public expenditure is very much disciplined by the existing pattern of spending on essential public services, so the manoeuvrability that the Government has in that context is severely constrained.

Alex Neil: That is an horrendous level of PFI debt to pass on to future generations. It is clear that it will skew public spending for the next 30 years. Have we paid off or paid up—whatever the right phraseology is—any school building that has been funded under PFI? Or is this just continuing debt that we are passing on to future generations?

John Swinney: To my knowledge, we have not completed the payments of any PFI school project that has been undertaken.

Alex Neil: None at all?

John Swinney: To my knowledge, not one. The repayment pattern is as I set out in the document. That constraint will therefore apply to all Administrations for a formidable period of time.

14:15

James Kelly (Glasgow Rutherglen) (Lab): I have a couple of questions on private sector finance. On page 10 of the document, you state that a six-month delay in a £100 million project would cost the public purse £3 million. It is therefore somewhat disappointing that, on page 39, the document notes:

> "The details of how finance will be raised from the private sector have not been explored in any detail."

What is the on-going cost to the public purse of the delay in a detailed solution in respect of the Scottish futures trust? What is the timetable for such a solution in terms of attracting private finance?

John Swinney: There is no cost to the public sector and no loss of opportunity as a consequence of the approach that the Government is taking to the Scottish futures trust. The premise of Mr Kelly's question is that somehow no investment is under way in the public infrastructure of Scotland, which is far from the case. In the infrastructure investment plan, we marshal an investment of the order of £1 billion in schools projects alone, which will be undertaken by the local authorities of Scotland with borrowing supported by the Scottish Government. That is precisely why I increased the capital budget for local authorities by 13 per cent in the first financial year in which I had control of those budgets to ensure that there was a significant upsurge in public investment in those projects. The local authorities of Scotland are planning to spend of the order of £1 billion on schools developments.

There are also the on-going commitments that this Administration has taken forward, some of which we inherited from the previous Administration and which were too far advanced for us to redirect. When we have been able to redirect them, we have redirected them into non-profit-distributing models. That investment totals close to £1 billion into the bargain.

Members should be comfortable about the scale of public investment that is being made and reassured that, as the Scottish futures trust is developed, a strong pipeline of projects is being taken forward in Scotland. I have referred simply to the schools projects so far but, of course, many other projects are being taken forward in a variety of other sectors in the Scottish capital programme.

James Kelly: I have just one follow-up question. On this year's capital expenditure outlay of £3.26 billion, how many projects have been initiated since the start of the financial year?

John Swinney: This will probably come down to a definition of what one means by initiation of projects. For the benefit of the committee, I can run through a variety of projects for which contracts have been signed since May 2007. Those include the NHS Forth Valley Clackmannanshire community health services project; the NHS Forth Valley acute hospital project; the NHS Fife St Andrews community hospital and resource centre; PPP projects in East Dunbartonshire for schools; and schools in West Lothian, Aberdeen, Falkirk, Perth and Kinross, Dumfries and Galloway, and West Dunbartonshire. There have been improvements to the A7 at Auchenrivoch—I am sure that Dr Murray will correct my pronunciation if it was wrong.

Elaine Murray (Dumfries) (Lab): That is right.

John Swinney: Thankfully, I have passed that test.

There are also the improvements to the A77 Haggstone climbing lane. There is the state hospital. We have made announcements about the Southern general hospital and the Forth replacement crossing. The tender for the M74 completion has been awarded since the Administration came to office. There is the Moray Council flood prevention scheme for Rothes. Announcements have been made about the Borders railway. There is the Royal Botanic Garden Edinburgh gateway visitor centre; the Broxburn flood prevention scheme; and the Ravenscraig sports complex. There are a number of projects still in the pipeline that we are looking to take decisions on. There is the schools programme for the Western Isles; the schools programme for Orkney; the mental health developments project for NHS Tayside; the Moray schools project; and various others. A lot has been happening.

Elaine Murray: I have many questions about the Scottish futures trust, but I will start by asking about the difference between PPP and the non-profit-distributing model that the Government favours. I will refer to evidence that has been given to the committee during our inquiry.

Michael Watson of McGrigors LLP stated that the PPP model

"has evolved, leading to a strong pipeline of delivery of projects",

but that

"there is a bit of a hiatus at the moment in the delivery of projects".

Jenny Stewart of KPMG stated that there is concern

"about the NPD vehicle having been tested in only limited circumstances as a project vehicle".

According to Nigel Middleton of Barclays Private Equity,

"Many investors are concerned that that investment can be refinanced at will, at no gain to the investor".—[*Official Report*, *Finance Committee*, 29 April 2008; c 405, 418, 429.]

Dylan Fletcher of Forth Electrical Services Ltd stated that

"there is not much difference between the NPD structure and traditional PFI",

and Jo Elliot of Quayle Munro stated:

"I find it difficult to see how the NPD model can deliver higher equity returns in an efficient market".—[*Official Report*, *Finance Committee*, 6 May 2008; c 481.]

Andrew Gordon said that NPD and PFI should be allowed to run together, because that would make it possible to compare the two.

Concerns were also expressed by the British Medical Association. Jon Ford said that the model was

"little different from the PFI arrangements, because profit will still be taken from income streams",

and Dave Watson of Unison stated:

"Of course, NPD is not non-profit, because the profit is simply taken at contractor level."—[*Official Report*, *Finance Committee*, 13 May 2008; c 506.]

On 16 May, in answer to a question from me, you admitted that 10 PFI projects that fall into the NPD category

"have received approval since last May."—[*Official Report*, *Written Answers*, 16 May 2008; S3W-12806.]

What is the real difference between NPD and PPP? Is NPD not just a variant of PPP? If you are continuing to use PFI, why did the First Minister say last week that

"PFI was a disastrous mistake"?—[*Official Report*, 22 May 2008; c 8908.]

John Swinney: I cannot be alone in saying that not all the propositions that Dr Murray read out can be correct at the same time. They reflect a variety of views. I understand that some people are frustrated by the fact that the model for which we have opted does not generate higher equity returns. I am not here to deliver higher equity returns from investment in the public purse—my objective as Scotland's finance minister is to deliver value for the taxpayer. I did not come into politics to preside over a system that delivers higher equity returns so that people can invest small amounts of money and make a fantastic profit.

When answering Mr Kelly's question, I thought that I was in danger of being chastised by the convener for giving such a lengthy answer, but what I said could in no way be interpreted as describing a hiatus of projects. We have a vigorous programme of capital investment the length and breadth of Scotland.

Dr Murray suggested that NPD has been tested only in limited circumstances, but it has worked for a number of schools projects and has been used successfully for a health project in Tayside. One of the quotes that the member read out suggested that NPD refinancing is of no benefit to the investor. That is precisely my point—I want the NPD model to benefit the taxpayers of Scotland, so that benefits are recycled for further capital investment here. I understand that there are differences of opinion about the route that we should take on capital investment and that some people think that they are not able to make returns today that are as big as those that they were able to make a number of years ago, but I make no apology for that. In the quotations that Dr Murray read out, there is a great deal that needs to be unpicked.

The member asked about the key differences between NPD and PFI. Under PFI, there can be uncapped dividends, but that is not the case under NPD. In the NPD approach to projects, we have an independent director involved in the process to guarantee the public interest. That does not happen in the PFI model. With PFI, there is a secondary market in which equity holders can sell their shareholding shortly after the initial construction period—maybe after three to four years—once the major period of risk has passed. If the major period of risk has passed without event, they are able to sell their stake for a significant return on a relatively small investment. That opportunity does not exist with NPD because of the absence of an uncapped equity element.

There are a number of strong characteristics of NPD that make it a fundamentally different proposition from PFI.

Elaine Murray: On whether NPD is better value to the public purse, studies have indicated that NPD is perhaps more expensive to the public purse because the profit is built in at the beginning of the project. Because investors will not be able to get the equity return, they build that into the cost of the project, which means that NPD does not save money.

John Swinney: That view is not supported by the evidence that I have in front of me. We will test all aspects of capital investment against the value-for-money criteria and the value to the taxpayer. That is the essential test that will be applied. By stripping out the approach of uncapped dividends and the ability to generate significant equity returns, the Government is presenting a model that delivers much better value for the taxpayers of Scotland.

Elaine Murray: The equity returns in more recent PFIs and PPPs have been considerably lower. As others have said to us, the model has been developed and is now fairly efficient. In fact, it is such an efficient model that it has been rolled out throughout the world. If we do not have a good model here, investors will have plenty of other places to invest their money. They do not need to invest their money in Scotland—there are many other countries that are running PPP-type models of investment.

John Swinney: That ignores everything that I have said to the committee this afternoon on the scale of the Government's capital investment programme. We are sitting on a capital investment programme of £14 billion over the next three years. I fail to see where there is any absence of opportunity in what the market can support. Of course, we operate in a free market and people are free to choose where they do business. However, the Government is trying to put in place a strong pipeline of projects to guarantee that we capture market interest, and that is precisely what we are doing at present.

The Convener: The minister is absolutely correct. My inclination is always towards short questions and short answers, although this subject can sometimes lead us elsewhere.

Derek Brownlee (South of Scotland) (Con): You have spoken about the returns that are to be gained from conventional PFI and your strategic objective of delivering the best value for the taxpayer. Are those principles always in conflict?

John Swinney: That is a hypothetical question, the answer to which would be predicated on an assessment of every project with which we proceed. Ministers and local authorities have to arrive at a judgment in testing, project by project, where the value for the taxpayer rests. That process must be undertaken to guarantee that we operate according to the correct value-for-money criteria.

Derek Brownlee: But the key aim is value for money for the taxpayer, as opposed to minimisation of the return—whatever it may be—to whoever is contracting or is involved in a project.

John Swinney: Of course, yes.

Derek Brownlee: In that case—I accept that this is a hypothetical question, but it turns around the decision-making process—if a conventional PPP model could be shown to represent better value for the taxpayer than an NPD model, would you go down the conventional PPP route?

John Swinney: Well, that is a hypothetical question based on the fact that my preference is the non-profit-distributing model.

Derek Brownlee: That might be your preference, but if you were confronted with a decision between the two and the best value for the taxpayer lay down a route that was different from your preference, would your personal political preference get in the way of delivering the best value for taxpayers' money?

John Swinney: I am confident that my personal political preference is aligned with the value-for-money interest, because I cannot see how one could ever justify some of the financial returns that have been delivered under PFI.

14:30

Derek Brownlee: Wherever we are politically, and whichever side we take in the debate, the key is the comparability of different procurement options. In your opening remarks, you mentioned the increase in the unitary charge payments. We all understand the issue that you raised about higher contractual payments relative to slower growth in the overall amount of money that is available to the Scottish Government and local government, but most of the unitary payments are for pre-existing services. If we consider a new schools project, the children are still being educated in school buildings elsewhere.

Is it possible for the Government to give us—in relation to the data in table 1 of the strategic business case—comparable figures for what the spend would have been if PFI contracts had not been signed for the services that are being delivered under PFI/PPP?

John Swinney: I will ask Sandy Rosie to talk about the data that the Government holds on the projects. I am not familiar with the amount of data that we hold on all the projects and their development since 1997-98, but I am sure that we can furnish the committee with a sense of the proportion of the unitary payments that are attributable to repayment of the capital asset value, the payments that have been made in relation to services, and what we might loosely call appreciation of the costs.

Sandy Rosie (Scottish Government Finance Directorate): It might help the committee to know that in the value-for-money exercise that is carried out before a PFI project proceeds, an attempt is made to assess what would have happened under the conventional approach, so that a comparison and a value-for-money judgment can be made. That is probably where we would find the information that Derek Brownlee requested. It is not easily found in normal records and accounts because of the normal separation, under conventional arrangements, between the procurement of an asset and its long-term maintenance through separate and different measures under annual budgeting.

The information is not usually recorded systematically throughout the public sector but, as I said, when a PFI project is considered, an assessment is made and a view is taken on the likely life-cycle costs that would arise under conventional procurement. That information is in the business cases. I think that I am correct in saying that most, if not all, the business cases have been published, but we can probably provide that information.

Joe FitzPatrick (Dundee West) (SNP): All sorts of discussions about accounting are going on among the anoraks, so to speak, but what members of the public want is a system that delivers the maximum bang for the public buck. The paper mentions savings of £150 million. That is a substantial saving, which will be welcomed by the overwhelming majority of the public. You explained how it will be achieved.

The public will also be interested to see what a new funding system will deliver. In particular, people want to know how the Scottish futures trust will fit with two big projects—the Forth road bridge and the Borders railway. Will you talk about the framework for those?

John Swinney: When the statement was made to Parliament about the replacement Forth crossing—I suppose that I can start calling it the Forth bridge now that there is no debate about its nature—we said that we would bring the procurement options to Parliament in 2008. That is exactly what the Government will do.

We have opted to take forward the Borders railway under the not-for-profit distribution model. Work is under way to develop the project with Transport Scotland as the authorised undertaker.

Liam McArthur (Orkney) (LD): The more one examines the issue, the clearer it is that all is not what it seems. In a letter to the convener of 20 May, you suggested that the consultation “was welcomed by respondents”. Even a cursory glance at the responses to the consultation indicates that that is not strictly true.

Rather than suggest that we face a tighter spending settlement, the fact that you said in your opening remarks that the Government’s programme involved the “highest ever” level of planned expenditure reinforces the point that you are in command of the biggest budget since devolution. For all the talk about private profit being an ill, which HBOS has suggested amounts to putting “political dogma” before effective delivery of major public investment, in response to Derek Brownlee you said only that your preference was for an NPD model—which, as you will be aware, was pioneered by the Liberal Democrat council in Argyll and Bute and has, I am pleased to say, been adopted by Orkney Islands Council for its schools programme.

In relation to the requirements for the market to respond, you will be aware that throughout the inquiry we have received evidence to suggest that NPD might be better suited to lower-risk projects and that it might not always attract adequate competition to ensure value for money. I will press the point that Derek Brownlee made. In effect, you are not ruling out PPP; you are simply saying that your preference is for a non-profit-distributing model.

John Swinney: Let me pursue some of those points. To some extent—although not uniformly—the evidence that has been advanced to the committee, which Mr McArthur has just marshalled, is that when it comes to tendering, somehow PFI equals lots of competition and NPD equals not very much competition. That was the inference of part of the question and of some of the evidence that has been advanced, which I have read.

There was just one bidder for the Highland schools PPP, which was a traditional PFI contract, and just two bidders for the Forth Valley acute hospital contract. Given that there have in the past been just one or two bidders for some PFI contracts, the idea that that system produces a congestion of companies jostling to get costs down and thereby guarantee great value for the taxpayer is not borne out by all the evidence. We cannot generalise in that fashion.

The Government has set out that its preference for the non-profit-distributing model is at the core of the Scottish futures trust because we think that that model has all the characteristics to enable us to do what we are interested in doing, which is to protect the public interest.

The fact that Mr McArthur mentioned that the NPD model might be more closely aligned with lower-risk projects rather makes my point about returns that have been made under some PFI contracts. If a company has built one school with 20 classrooms, it can build another school with 20 classrooms—it will know what the issues and challenges are, and the risk will be reduced. In other words, the PFI model makes it possible for returns to be made by selling on a private developer's stake at an early stage. That is how the returns to which I referred have been made. Essentially, a secondary market has developed in which equity holders sell their shareholdings after the initial high-risk period has passed. That is evidence of the need to extract more value for the taxpayer through the proposals that we progress.

Liam McArthur: I was not suggesting for a second that lack of competition was a hallmark of the NPD model; I was suggesting that different projects require different approaches. The evidence that we have heard in that regard does not conflict but suggests that risk has a bearing on the issue.

Some of the tables on pages 23 to 25 of "Taking forward the Scottish Futures Trust" show Scotland set apart from the rest of the UK. Surprisingly, the format is not used in the table entitled, "Public Investment as % of i) GDP and ii) General Government Expenditure", although perhaps that is because Scotland's showing is higher than that of the rest of the United Kingdom.

As we heard in earlier evidence, a number of countries—not least members of the famed arc of prosperity—have taken up the PPP model. In Scotland, the Government prefers another model and is therefore trying to rule out, or crowd out, the PPP model, even if it best fits the needs of a project. In the words of HBOS, surely the Government is putting "political dogma" ahead of the delivery of major public investment projects.

John Swinney: No. It is about making sure of the Government's intention to deliver the maximum value for public expenditure at a time when our public expenditure is rising at a much slower rate than our PPP repayments. Undoubtedly, that is squeezing our ability to invest in Scotland. Delivery of maximum value for the taxpayers of Scotland drives the Government's agenda.

Tom McCabe (Hamilton South) (Lab): I apologise for coming late to committee, convener.

I have three points to make. Something strange is at work. The normal rules of the market are that, if "excessive profits" are to be made—I think that was the phrase the cabinet secretary used—individuals or companies vie with one another to get their hands on them. However, the evidence shows that often only two bidders are involved, and sometimes there is only a single bidder. You mentioned a major project in that regard—I think that I am right in saying that a single bidder was involved in the M74 project. Given the ability to make substantial profits, why are queues of people not trying to get close to them? There is a stark contradiction between what the Government is saying and the evidence.

You said that, in the interest of achieving value for money, you want to restrict what you describe as the "excessive profits" that can be generated when a contractor sells on an asset. The contractor constructs an asset and carries the risks throughout the construction period. In minimising or expunging the risks, the contractor creates an attractive asset that can be sold on to an interested party. Clearly, an asset that carries less risk will command a higher premium.

If the Government removes the ability to sell on the asset in that way, it is doing nothing to minimise risk. As the project is undertaken, the contractor continues to carry the risk. Surely it stands to reason that, if they cannot recoup moneys when they sell on an asset, they will put up front the premium for the risk. Essentially, the Government seems to be saying that the market will take a lower premium for the risks that have been carried.

There was some validity in what the cabinet secretary said on schools. However, not every school is the same, including in respect of the geological conditions on the site. Some schools will be constructed in fine summer weather and others in bad winter weather—a range of things can go wrong. That said, I understand the view that, if the project is a repeat—a school, hospital or whatever—the risk can be set within narrower parameters.

You mentioned the Forth crossing, which we now seem to be calling the Forth bridge. On television, you conceded that that could be a project for the Scottish futures trust. It would be a brave private sector contractor indeed who would agree to minimise the premium for risk in a civil engineering project of such magnitude over such a wide expanse of water. No one would agree to that, given all the uncertainties that are involved. What is it about the Scottish futures trust that makes you think that a contractor would be prepared to take a lower premium for the risks that they would undoubtedly carry on a project of that nature?

14:45

Finally, I would like to hear your views on this point: surely if we make margins so low and create a situation in which the market feels that the premium that it gets for taking a risk is unattractive, it will look to the rest of the United Kingdom and perhaps find more attractive projects. Most of the companies that carry out such projects do not operate only on these shores but in Europe, which has huge markets. Even though we often have only one or two bidders for a contract, is not there a danger that we could end up with no bidders because we have made the situation so unattractive?

John Swinney: I will address those points in turn, convener.

On Mr McCabe's first point, the Government cannot direct the market to demonstrate interest in projects. If it is a market, people will decide voluntarily whether they have an interest and where they should concentrate their efforts. I can cite only the Highland schools PPP project, in which there was no great competitive tension to ensure that different private sector players were trying to maximise the value for the taxpayer. That says to me that there is a problem in the way that such projects are dealt in respect of the competitive process.

Tom McCabe: I am sorry to interrupt, cabinet secretary, but surely that makes my point. If "excessive profits" were to be made on completion of that project, there would have been more bidders in the first place.

John Swinney: No—the market decides how it deploys its resources and interest. The Government is in no position to second-guess that. Governments can try—I am sure that the previous Administration tried to wrestle with these issues—to encourage greater market participation. As a consequence, there are plenty of players and plenty of developments are being undertaken. We are now paying for them, so they must have been undertaken.

My point is that the market will decide where it is going to deploy its skills and resources, and we cannot dictate that.

Mr McCabe's second point was about risk and removing the secondary market for selling on assets post-risk, as the NPD model does. That point gets to the nub of the PFI debate and the evaluation and quantification of risk. How much risk is a contractor taking on by building a school that bears a startling resemblance to a school that it built down the road in a neighbouring authority at another time? That is where the big mistakes have been made. The significance of risk in relation to such developments has been under-assessed.

As I have looked at the detailed financial mechanics of the contracts, I have seen that the judgment invariably hinges on risk and how it is treated within the evaluation. If the risk is inflated, greater returns can be realised.

Mr McCabe's third point was about comparability of risk between schools and the Forth bridge. As I said earlier to Joe FitzPatrick, I will during 2008 set out our approach to procurement for the Forth bridge. It would be premature to speculate on that before it is shared with Parliament.

I want to make a point about assessments; it is not about the Forth bridge in particular, but about how we market and promote projects. If we want a reliable and effective way of investing in projects, we must ensure that the projects are securely founded. That will be the Government's approach to all projects, and the approach will take account of the evaluation of risk.

Mr McCabe's final point was about margins being so low that risk premiums would be unattractive and people would move their business to other parts of the United Kingdom. I go back to points that I have raised a number of times in answer to questions. A formidable amount of construction and public investment is going on in Scotland. Numerous opportunities exist across the range of Government activity, and our infrastructure investment plan makes that case powerfully. Last week, I set out our ideas on the Scottish futures trust at an event that was held primarily to discuss the Government's infrastructure investment plan. The event was hugely well attended and a tremendous amount of interest was expressed in construction activities in Scotland. That gave us all the evidence we need on the tremendous interest that exists in the market.

Tom McCabe: Is there a danger that we simplify the quantification of risk? I mean no disrespect, but many risks exist and it is simplistic to say that if somebody has built one school, they have built 100 because schools are all the same. Surely there are labour market risks. We might win the Commonwealth games, and all of a sudden the supply of skilled labour might be diverted. That is a risk, and a company would have to ask whether it could finish the contract it was on. There can also be unforeseen risks in the money market. A company can sign a contract but then find that people have been a bit free and easy with lending money in America, the problem then crosses the Atlantic and, the next thing they know, people are queuing up outside branches of one bank to withdraw their deposits and other people's banks start pulling in letters of credit guarantees.

Projects carry a whole range of risks, and those risks do not relate only to the method of construction that might have been used time and again. Every one of us faces situations that are outwith our control but which can have a big impact.

John Swinney: It is, of course, legitimate to mention all those risk factors, but my points related to the evaluation and quantification of risk. Information that I have studied suggests that the justification for proceeding with many projects hinges on the scale and the quantification of risk. Getting the number correct—understanding it and putting it in its proper context—is key.

Some aspects of investment will carry less risk than others. We have to be extremely vigilant and tough on the question of the evaluation of risk. People will have historical expertise through their marketplace experience of other projects, and that expertise will allow them to manage risk. However—this is one of the reasons why we want to go down the route of the Scottish futures trust—I am not confident that the public sector in Scotland has the necessary skills to evaluate risk on a like-for-like basis with experienced players in the private sector. In the private sector, people judge and debate risk every minute of their day; I am not sure that the public sector is equipped for that. That is why retention of expertise is one of the three fundamental pillars of the Scottish futures trust.

Tom McCabe: You said that it was not the Government's role to interfere with the market and that the market will move along as it wills. However, do you accept that Governments can kill a market, even with well-intentioned actions?

John Swinney: What I can accept is that the Government is putting in place a formidable capital investment programme of £14 billion over the next three years, which contains significant and attractive opportunities for many in the marketplace.

The Convener: Some excellent points have been raised and there have been some excellent answers, but there is a danger of running into debate and philosophy as opposed to questions of fact. I have a queue of people wishing to contribute so I appeal for greater succinctness in questioning.

James Kelly: With that warning, I will be specific. Joe FitzPatrick spoke earlier about savings in the region of £100 million to £150 million being generated. Page 41 of the document notes that it is difficult to try to quantify the added value of those savings. You have used a figure of between 3 per cent and 5 per cent of the average capital expenditure of £3.5 billion. How was the figure arrived at?

John Swinney: The figure was built up by the different components that are set out on page 42 of the document, which are the project-level drivers of value for money, and the programme-level drivers of value for money and the cost of finance. That work was done by the Government's Scottish futures trust working group, but was very much informed by the contribution of PricewaterhouseCoopers and Partnerships UK, which worked with the Government on development of the proposition.

James Kelly: I note what you say about the explanation on page 42. Is it possible to provide the committee with more detail on those three areas? How will each of them contribute towards £150 million savings a year?

John Swinney: The proposition is based on the three pillars of the Scottish futures trust. First, there is our determination to secure cheaper finance: we have talked about differing costs of finance. Secondly, there is the point that I made in my comments to Mr McCabe on retention of the skills base, which will provide for effective expertise, negotiation skills and understanding of the challenges that we face in Scottish futures trust projects, which will ensure that projects are undertaken on a basis that is more securely founded financially than may have been the case in the past.

Thirdly, there is the aggregation of projects. Projects emerge from a multiplicity of parts of the public sector. What lies at the heart of the ethos of the Government's proposal is the corralling of those projects in a place where we can guarantee their benefits and promote them more effectively. The model would be the one that we have developed within the procurement sector, in which we have built up centres of excellence. Our vision of the Scottish futures trust is that it will be a centre of excellence that will provide us with a formidable strength and resource to cover the three pillars as part of the financial benefits that are charted on pages 42 and 43.

James Kelly: On aggregation of projects, aligned to the use of local authority bonds, would you envisage job losses at local authority level, which will contribute to the savings?

John Swinney: I do not see that connection.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Thank you for allowing me to attend this afternoon. With regard to risk, the cabinet secretary said that he had considered the mechanics of the differences between not-for-profit schemes and PPP schemes. Was the Falkirk schools scheme one of those that were considered?

John Swinney: It is not one that I have considered personally.

15:00

Jeremy Purvis: You might care to look at the business case for the Falkirk schools scheme. In accepting the non-profit-distributing model, page 29 of the business case states:

"Two key structures of a traditional PPP model will endeavour to be maintained. These are the fixed liability of the public sector to the project and the capacity of the NPDO to accept the market standard risk allocation between the public and private sectors for schools projects."

If NPD schemes such as the Falkirk schools project keep the market standard risk allocation of PPP schemes, what is the difference between the two models? There is no difference between the two.

John Swinney: Essentially, that is a different point from the one that I am making. My point is that the judgment on many projects will turn on the assessment and evaluation of risk as quantified in the project. That is where we need to be extremely careful that we properly consider and evaluate the degree of risk transfer. If it is possible for significant gains to be made in the secondary market by selling off assets once the period of highest risk has been overcome, we are not properly assessing risk in terms of value for money. That has been one of the drivers of significant financial benefits to some of the contractors who have played a part in such schemes.

Jeremy Purvis: My point was that, in developing its NPD scheme, Falkirk Council kept the same risk allocation as a PPP scheme. Perhaps you will look at the business case.

John Swinney: Obviously, I will. However, my point is that the assessment and evaluation of risk lies at the heart of such judgments. That is where, in my opinion, we need to be extremely adept at assessing the degree of risk that is transferred. If the secondary market can operate in as buoyant a fashion as it has operated, the natural conclusion must be that we have come to the wrong conclusions on the actual risk transfer involved.

Jeremy Purvis: You cited the unitary payments in table 1 of "Taking forward the Scottish Futures Trust". Does that table include the payments under NPD contracts?

John Swinney: Yes.

Jeremy Purvis: If the unitary payments for the NPD contracts—which you have cited as a better alternative to PPP—are included in that table, the level of debt that Mr Neil called "horrendous" and that you described as putting "a squeeze" on public spending budgets includes NPD debt.

John Swinney: Table 1 includes NPD debt and PFI debt. It is a statement of fact that, if the costs of unitary payments are increasing by 13.9 per cent this year, 15.6 per cent next year and 17.8 per cent the following year when our budget is increasing by 0.5 per cent this year, 1.6 per cent next year and 2.3 per cent the following year, the payments are clearly putting a squeeze on the manoeuvrability that any Administration has over its budget.

Jeremy Purvis: I understand that. It is helpful that you have confirmed that part of the increase in that squeeze is from NPD debt, of which you approve. That gets to the nub of the issue.

Both you and the Deputy First Minister have cited the Falkirk schools scheme as an alternative to PPP. Is that the case?

John Swinney: Yes.

Jeremy Purvis: On 21 May, I received a written answer to the following parliamentary question:

> "To ask the Scottish Executive what level of revenue support grant it has provided for the Falkirk PPP/NPDO schools project."

The reply from the Minister for Schools and Skills stated:

> "Scottish Government revenue support for the Falkirk schools project will average £5 million per year for the 30 year duration of the PPP contract."—[*Official Report*, *Written Answers*, 21 May 2008; S3W-12863.]

Do you want to comment on that?

John Swinney: The issue comes down to terminology. The position has been clear in all the briefing material that I have seen on the subject. PPP is a generic term that has various subsets, one of which is PFI, which delivers excessive profits. The NPD models are part of the family of public-private partnerships, but PPP is a generic family term for all such approaches.

Jeremy Purvis: My question was whether the Falkirk scheme is a PPP or is different. You said that there was a difference, but now you say that all the schemes are part of the same family.

John Swinney: I am saying that a fundamental difference exists between the NPD model, which protects the public interest, and PFI, which generates the excessive profits about which I am concerned.

Jeremy Purvis: When we hear the Scottish Government describing schemes as PPP/PFI, does that represent a separate arrangement that is subtly different from PPP/NPDO? When the Government talks about PPP schemes, are they all members of the same family? The issue is important.

John Swinney: I agree. The Government talks about PFI because that is the problem.

The Convener: We have gone from general philosophy to highly specific projects. Perhaps Jeremy Purvis might write to the minister about the detail.

Jeremy Purvis: I appreciate the convener's forbearance. I have questions about the Borders railway, but the description of projects is fundamentally important to clarity. The Scottish futures trust consultation paper refers to PPP schemes as well as NPD schemes. The cabinet secretary says simply that NPD schemes are a subset of the same family, but he has also said that how the schemes are structured and their value to the public purse are considerably different. He has said that one difference concerns excess profits. I notice that the interest rate for the Falkirk schools scheme is 6.5 per cent per annum and that its subordinate debt interest rate is 12 per cent. That means considerable interest for the lender to an NPD scheme, so clarity is important.

John Swinney: I could not have been clearer. I make a distinction between NPD and PFI. I appreciate that the terminology is important, but of equal importance is what the initiatives deliver. My point is that PFI projects deliver excessive profits and create the secondary market that I talked about. I could rehearse all the arguments that I have used in answers to other committee members. Those are the distinctions between and the distinctive characteristics of the two project types. The position could not be clearer.

Elaine Murray: I have a point of information. In the cabinet secretary's answer to my parliamentary question S3W-12806, he described the 10 schools that have been funded under the NPD model as PFI projects.

The Convener: The point about the looseness of the definition and terminology has been made, but if the minister wishes to respond, he may.

John Swinney: I will examine the point that Dr Murray raises. If a project is NPD, it is NPD; if it is PFI, it is PFI.

Alex Neil: I will stop dancing on the eye of a needle and ask substantive questions. I return to the Scottish futures trust. Will the cabinet secretary amplify on the role of local authority bonds in funding projects?

As the cabinet secretary knows, the Office of Fair Trading is investigating allegations of cartels and collusion in PPP/PFI projects, which it believes prima facie might be one reason why few companies have tendered for projects recently. That inquiry is on-going. Has the Scottish Government given evidence to it or has the OFT been in touch about it?

The main thrust of my question is to ask for amplification on local authority bonds.

John Swinney: Under schedule 3 to the Local Government (Scotland) Act 1975, local authorities can raise money through bonds, and public corporations have that ability into the bargain, but the Government does not at present. One fundamental element of the Scottish futures trust is about ensuring that we draw together interests in the public sector to reach a common point at which there is a shared interest in progressing with different elements of projects. The concept of a local authority bond fits comfortably into that model, because the Scottish futures trust would have the ability to broker an arrangement between local authorities to raise funds in that fashion. It would be for individual authorities to decide whether to go down that route, but the Scottish futures trust would assist.

Alex Neil: So it would not be accurate to say that it is illegal to use local authority bonds.

John Swinney: It is far from illegal. As I said, it is provided for in schedule 3 to the Local Government (Scotland) Act 1975, so it is a perfectly acceptable way in which to proceed.

I understand that the OFT is not examining contracts in Scotland, and I do not believe that we have given evidence to its inquiry. However, as part of improving the understanding and awareness of the policy area, the Government will consider carefully anything that emerges from the inquiry.

Elaine Murray: I, too, am interested in finding out more about the perceived advantages of using bonds compared with other forms of raising capital. The strategic business case document did not enlighten me at all on that issue, so I resorted to Googling. I found out that bonds are popular in the United States as they deliver lower-than-average interest rates because the interest is tax free. However, under the Government's powers, it could not offer that sort of incentive for local authority bonds in Scotland.

I also found out that, at a meeting of the cabinet of Newark and Sherwood District Council—I do not know exactly where it is, but it has a cabinet—back in October 2006, it considered using local authority bonds to raise capital. However, the cabinet was advised against doing so on the grounds that local authority bond rates would have to be set higher than those at which the council could ordinarily borrow by way of Public Works Loan Board money or market loans, so it would not be financially advantageous to follow that course of action. The cabinet was also advised that individuals looking to invest would get a better interest rate from a building society or bank than they would from the bonds and that the current disadvantages of issuing bonds had led to local authorities redeeming local bonds rather than activating new issues. That was in England, but the situation in Scotland is not terribly different. How do you answer those concerns about the issuing of local authority bonds? The advice given by Treasury advisers to that council was not to do it.

The Convener: You have been thrown a Google, if not a googly, minister.

John Swinney: I now understand how members of the Finance Committee spend their spare time.

Alex Neil: Some members of the Finance Committee.

John Swinney: It is reassuring, because it is no better than how I spend mine.

Far be it from me to allege that Newark and Sherwood District Council might be a parish council or something like it—

Elaine Murray: It has a cabinet, though.

15:15

John Swinney: That just goes to show—most living-rooms have a cabinet as well.

The point that we make in the paper and that the First Minister and I have made in setting out the arrangements for the proposal is that it is an opportunity for more than individual local authorities to raise bonds. The scale is determined by the scope and extent of the organisation and its interest in supporting a bond. I have no idea how large or small Newark and Sherwood District Council is, but I cannot imagine that it is terribly big. The example that I would rather cite is Transport for London, which has successfully raised bonds at extremely competitive interest rates close to those that can be achieved through the Public Works Loan Board. Transport for London is a big-scale authority.

The Government is keen to put together a shared interest across a number of different authorities and has demonstrated through its ability to bring interests together among local authorities that it can secure the foundations that would allow it to take that option forward. However, it clearly depends on the degree of interest that individual local authorities show, and the Government would seek to achieve an appropriate level of interest.

Elaine Murray: Transport for London is a large organisation, as you say, but it has a common purpose: it delivers transport in London. I know that you would like Scotland to have a common purpose and that that is part of your economic strategy, but Transport for London has specific income streams and is a corporate entity. You might want to bundle together all the bonds from local government in Scotland, but the 32 local authorities might not have the same aspirations: Dumfries and Galloway Council might want to use its borrowing powers for particular projects in its area while other councils might wish to use them in other ways. Local government is a much more disparate group of organisations that have different aspirations, and I do not understand how they would be bundled together in a way that was commensurate with the concordat. At one level, with the concordat, you are giving local government the money and letting it make local decisions, but now you are talking about bundling together the authorities' borrowing powers and using them for some sort of nationally directed purpose. I do not see how those aspirations fit together.

John Swinney: Crucially, the bonds would not be for nationally directed purposes; that is the key point. Dr Murray referred to the fact that local authorities are disparate organisations. I have a list in front of me of £974.5 million-worth of investment that Scottish local authorities intend to make in the schools estate in the course of this parliamentary session. That is nothing to do with PFI and everything to do with traditional use of their capital interests. Because they are all involved in building schools, it would be straightforward to provide those local authorities with a vehicle through which we can finance that building programme at a more affordable level.

Yes, the local authorities all have different interests, but the list in front of me shows that just about every local authority in Scotland—admittedly, it does not include every one—is involved in some form of school construction or refurbishment programme. If we had a Scottish local authorities schools bond, it would have a unified purpose, would be a simple concept to get across and understand, and could be implemented. There is clearly a shared interest. We have to have discussions with local authorities on the proposal, but it is not about specifying from the top what local authorities should do. I increased their capital budgets by 13 per cent in one financial year precisely to give them a greater degree of decision-making power.

Elaine Murray: The proposal's attractiveness is in getting over the disadvantages of modern finance—for example, the inability to use tax incentives—but its only advantage is the economy of scale.

John Swinney: That is a formidable advantage, because we get into the aggregation of contracts, which is a significant factor for the efficiencies that we think can be achieved.

Elaine Murray: A concern was raised with us that, under the previous PFI and PPP initiatives, the bundling of contracts disadvantaged smaller Scottish businesses, because they were unable to compete for the work. If you make the bundle even bigger, will you not disadvantage those companies even further?

John Swinney: There is every opportunity in the procurement approach to ensure that individual companies can participate in the process. The Government has to deal with strict rules and regulations under the procurement agenda, and they would have to be followed in every respect.

Alex Neil: Is it not right to say that, although you would bundle the raising of the funding through the bond, it would not be necessary to bundle the contracts for building the schools?

John Swinney: That is right, and it is easy to envisage individual construction companies the length and breadth of Scotland participating in some of the contracts.

The Convener: I wish to call to speak every member who has asked to do so, but I remind the committee that we have major items later on the agenda. I call Derek Brownlee, who has been patient.

Derek Brownlee: It appears that the Treasury is somewhat more reluctant to speak to us than it is to *The Sunday Times*.

On bond finance, there is clearly an existing borrowing constraint both in theory and in practice, in relation to the Treasury's oversight of borrowing throughout the UK. In assessing how useful the SFT proposals may or may not be, the key question, apart from the practical issues that have already been alluded to, is how much headroom exists to borrow. By how much can borrowing be increased in Scotland before you fall foul of the Treasury rules?

John Swinney: This is an interesting area. Like Mr Brownlee, I was fascinated by the comments from the Treasury to *The Sunday Times* at the weekend.

As Mr Brownlee knows, we in the Scottish Government do not have borrowing powers. Local authorities do, and in a sense the only constraint on local authority borrowing capacity is affordability within the individual authority. I have not been given a Treasury borrowing limit for Scotland's Government. I do not have such a number, and to my knowledge such a number does not exist. Equally, individual local authorities do not have a borrowing limit. They receive from the Scottish Government information on capital allocations split into three categories—general capital grant, supported borrowing and specific capital grants—and total support for capital. On top of that, they can exercise their responsibilities with prudential borrowing. The key test is affordability: can the authority sustain the level of borrowing?

If we move to the line of argument that the Treasury was apparently advancing in *The Sunday Times*—I say "apparently advancing" because the story was based on people called "Treasury sources" and I am not sure who they are—

Tom McCabe: What are you looking at me for? I do not know either. [*Laughter.*]

John Swinney: Essentially, the proposition advanced in *The Sunday Times* article was that, if local authority bonds take their course, the Treasury will say that there is too much borrowing and will stop it. That is not my understanding of how the Treasury acts. The Treasury certainly has a view of the total borrowing capacity that is appropriate for the UK and its public sector, but it does not give me a number or limit that I have to stay within. If it became concerned—for wider macroeconomic reasons or perhaps for some of the reasons linked to the international financial situation that Mr McCabe mentioned—and decided that borrowing had gone too far and had to be reined in, that would be a general, macro UK judgment. The powers in the law are clear: if an authority can afford its borrowing, it may proceed with it.

Liam McArthur: You have reiterated the point that is made near the beginning of "Taking forward the Scottish Futures Trust" about the fact that you do not have borrowing powers. However, you did not have borrowing powers when you came up with the idea of a Scottish futures trust. I would be interested to know who you think is responsible for that oversight.

I return to a point that Alex Neil made. As he was dancing on the head of a pin and busily smearing the otherwise harmonious PPP family, he might inadvertently have created a misleading impression about the OFT inquiry. I know that it does not refer to projects in Scotland, but neither is it related to PPP projects anywhere. It is an investigation into some fairly disreputable construction practices that have come to light across a range of projects. I do not know whether the cabinet secretary, Dr Goudie or Mr Rosie are able to enlighten the committee on that.

John Swinney: I am sure that the committee has heard Mr McArthur's remarks in relation to the OFT inquiry. In relation to the Scottish futures trust—

Liam McArthur: Excuse me. You have heard my remarks, but I would like confirmation on the matter from you or your officials.

John Swinney: I am not in a position of great knowledge on the matter—I am also looking to my two colleagues—but I will certainly write to the committee, if that would be helpful, and furnish you with some information on it.

I find Mr McArthur's remarks about the Scottish futures trust quite surprising. The Government has published a document, which, unless I was reading it wrongly when I opened the cover a minute ago, is entitled "Taking forward the Scottish Futures Trust". We have brought forward our proposals for the Scottish futures trust within the competence of the Scottish Government and the

Scottish Parliament. That is exactly what members would expect.

On borrowing powers, as Mr McArthur well knows, I have high aspirations for the future powers of the Scottish Parliament. I know that he is an enthusiastic supporter of the Calman commission, which I hope will come to a conclusion on these points into the bargain.

The Convener: Can we get back to finance?

Tom McCabe: An act from 1975 is quite an old piece of legislation.

The Convener: I voted for it.

Tom McCabe: Did you really? I must still have been at school then.

Anyway, 33 years is a lot of experience. How much have Scottish local authorities raised using bond finance over those 33 years? Can the cabinet secretary give me an example of a recent major construction project that was carried out using bond finance?

John Swinney: The approach that I take is to look—as I am constantly lectured to do—for opportunities to act within the competence of the Scottish Parliament. I had not quite made the connection that the 1975 act was a piece of legislation that Mr Welsh, in his younger days, had voted for; I imagine that he would have been an enthusiastic participant in the work on it in 1975. If the powers exist, we should aspire to use them.

I have cited the example of the work that has been done relatively recently by Transport for London, essentially as a local authority-style bond. That is an example that we should look at carefully.

Tom McCabe: You are on record as having a very high regard for Scottish local government, and we are talking about Scottish local government. Are you not even slightly dispirited that, after 33 years of having that power available, councils have been a bit shy about using it?

John Swinney: Mr McCabe knows that I am indeed a great fan of Scottish local government. I know that he shares my aspiration, and that he shared it during his distinguished leadership of various authorities around the country. However, the decisions are for local authorities to make a judgment on. Essentially, we are offering a realistic and tangible opportunity to use the powers.

I return to Dr Murray's example of Newark and Sherwood—a place that I must visit now, after such extensive discussion. An individual authority that tries to pursue such an exercise will find it a major challenge. Through the Scottish futures trust, we are offering a platform to establish a common and shared interest among different local authorities to advance that agenda. That is an exciting prospect and an exciting opportunity.

Tom McCabe: I appreciate that, but given the wealth of knowledge that exists in Scottish local authorities, does it not surprise you that during the past 33 years they never came together to try to capitalise on the opportunity?

15:30

John Swinney: Mr McCabe will know that there is nothing pejorative in what I am about to say, although it might sound pejorative. I do not think that there has been much appetite among Scottish local authorities to work together, because, for the best part of 20 years, they have been pushed from pillar to post as a result of local government reorganisation, boundary changes and the threat of amalgamation. We have decided to park all that and say that we are having none of it. We will focus on encouraging good, collaborative working between local authorities and other players in the public sector in Scotland. From where I am sitting, it looks as if we are beginning to see formidable returns and rewards for that degree of co-operation.

Tom McCabe: I am tempted to ask what afflicted them in the 13 previous years, but I do not think that we will get anywhere with that.

The Convener: You should always resist temptation.

James Kelly: On NPD, the document states that, above a predetermined level, returns could be reinvested. What will that predetermined level be and how will it be calculated?

John Swinney: That is obviously a material consideration in the financing of any projects that are undertaken. The key point is that the returns over that threshold will be reinvested in the public estate and public infrastructure, which is a significant advance on where we are just now.

James Kelly: Will the returns vary across projects?

John Swinney: They might well do, but we will obviously try to secure the maximum opportunity for any returns to flow into other infrastructure projects.

The Convener: Do committee members want to ask any more questions before I call Jeremy Purvis?

Elaine Murray: I just want to follow up Tom McCabe's question. Between 1976 and 1995, Strathclyde Regional Council must have covered something like half the population of Scotland, but it did not use its borrowing powers to issue bonds. What makes you think that that option will work better across the whole of Scotland, with a population of twice that size? If the option was so attractive, you would think that a council the size of Strathclyde Regional Council would have used it.

John Swinney: I remind Dr Murray that we had the two-tier system of local government then. Yes, Strathclyde Regional Council covered about half of Scotland, but there was a multiplicity of local authorities under it. I cannot remember how many district councils there were under Strathclyde Regional Council. There might have been 10, or even 15. It is difficult to corral interests. There may have been no appetite to go down the bond route or to encourage the process in the Labour Government of 1974 to 1979, the Conservative Government of 1979 to 1997 and the Labour Government thereafter. However, I am not here to answer for the sins, mistakes and omissions of previous Government; I am here to explain why this Government wants to take forward that agenda.

The Convener: As a fan of local government, I point out that for a long time local government called itself local administration, rather than local government, because that is the role that it was forced into.

Tom McCabe: Of course, Labour Governments legislated to give local authorities powers.

Alex Neil: I have a quick question for the minister. Does not all that we have heard underline the need for the Scottish Government itself to have borrowing powers? We have heard evidence from people from the national health service about what the benefits would be to them if they had been able to fund some of the new hospital projects through the use of prudential borrowing. The constraint in the Scotland Act 1998 means that the Scottish Government does not have any borrowing powers, unlike local authorities. Would such powers not be a major bonus to the Scottish Government in terms of efficiency and efficacy in raising capital for public sector projects in Scotland?

John Swinney: Undoubtedly they would. I hope that my frivolous reference earlier did not lead the committee in any way to question the importance that I attach to the matter. There are legitimate areas in which it would make good sense for the Parliament's powers to be enhanced in a fashion that allowed the Parliament and the Government to be more effective in their attempts to secure greater opportunities for taxpayers in Scotland, of which the ability to borrow is an example.

Again, we should consider the logic and the rationale that I mentioned in my answer to Derek Brownlee's question about the way in which the United Kingdom Government handles and manages borrowing at present. Essentially, it is taken forward on the basis that authorities are entitled to make judgments about borrowing provided that they can support it. If a local authority or a public corporation can do that, what is the impediment to the Scottish Government doing it under the auspices of parliamentary scrutiny? I am sure that members will discuss that important question as we consider the ways in which the Parliament's powers might develop in the years to come.

The Convener: We will have a quick final question from Jeremy Purvis, who is making a guest appearance.

Jeremy Purvis: Thank you, convener. I am grateful.

Joe FitzPatrick mentioned the Borders railway. Would it be accurate to describe that project as a PPP scheme?

John Swinney: I would say that it is being taken forward as a non-profit-distributing procurement model.

Jeremy Purvis: Is that within the family of PPP?

John Swinney: It is a non-profit-distributing procurement model.

Jeremy Purvis: You are refusing to say that it is within the family of PPP.

John Swinney: I am just telling you what it is, so that people cannot be confused and think somehow that it is going to be a PFI project that will result in a loss of value to the taxpayer.

Jeremy Purvis: The Government has decided to borrow all the capital costs of the construction of the Borders railway. That approach is unique among all rail schemes in Scotland. What assessment was carried out to prove that that approach will be better value for the public purse than straight procurement?

John Swinney: I want to check whether the premise of your question is accurate, because I do not think that it is.

Jeremy Purvis: Do you mean the premise that all the capital costs will be borrowed?

John Swinney: No—the premise that the project is the only one that has been taken forward in that way.

Jeremy Purvis: I do not have the information to hand, but I am sure that the clerks would be able to—

The Convener: Mr Purvis, I suggest that you write to the minister and get your question answered in that way.

John Swinney: Before I venture further into the issue, I want to be absolutely clear about what I am saying on the record on that particular point. However, we are taking forward significant investment in establishing a much-needed rail connection for the communities of the Borders, and we are doing so as part of a non-profit-distributing procurement model.

Jeremy Purvis: Convener, the question that I asked was whether an assessment has been carried out.

The Convener: As I said, if you write to the minister, you can get an answer to that question—unless we can get one now.

John Swinney: That is the approach that we are taking to the project. I am happy to fill in further detail if Mr Purvis wants additional detail on the various tests that have been undertaken to make a judgment about the point. I am happy to share that detail with the committee.

The Convener: That is a reasonable offer.

We have had a fairly long session, minister. Thank you for your presence and the answers that you have given. I also thank your colleagues Mr Rosie and Dr Goudie for their presence and their assistance with the committee's work on the matter.

I announce a short suspension to allow our witnesses to leave.

15:39

Meeting suspended.

15:42

On resuming—

Decision on Taking Business in Private

The Convener: Item 2 is to decide whether to consider in private later today a paper from our budget adviser. Our normal practice in this session is to have the opportunity to consider briefings from our adviser in private in the first instance. Do members agree to take the item in private?

Members *indicated agreement*.

Creative Scotland Bill

15:42

The Convener: Members will recall that recently the committee reported to the Education, Lifelong Learning and Culture Committee on the financial memorandum to the Creative Scotland Bill. We expressed serious concerns about the level of information that was provided in the financial memorandum. From the clerks' note, members will see that the lead committee has now taken evidence from the Minister for Europe, External Affairs and Culture. At that meeting, the minister committed herself to bringing forward a fully costed plan for the creation of the new body prior to stage 2 of the bill. Given the strength of our report, it would be appropriate for us to scrutinise that plan once it has been published. Do members agree that we should do so and that I should write to the minister and the convener of the lead committee to inform them of our decision?

Members *indicated agreement*.

The Convener: We will move into private session to consider a paper from the committee's adviser and to discuss the evidence that we heard earlier from the Cabinet Secretary for Finance and Sustainable Growth.

15:43

Meeting continued in private until 16:39.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Wednesday 4 June 2008

PRICES AND SUBSCRIPTION RATES

OFFICIAL REPORT daily editions

Single copies: £5.00
Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75
Annual subscriptions: £150.00

Standing orders will be accepted at Document Supply.

Published in Edinburgh by RR Donnelley and available from:

Blackwell's Bookshop

53 South Bridge
Edinburgh EH1 1YS
0131 622 8222

Blackwell's Bookshops:
243-244 High Holborn
London WC 1 7DZ
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh.

Blackwell's Scottish Parliament Documentation Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

Telephone orders and inquiries
0131 622 8283 or
0131 622 8258

Fax orders
0131 557 8149

E-mail orders
business.edinburgh@blackwell.co.uk

Subscriptions & Standing Orders
business.edinburgh@blackwell.co.uk

Scottish Parliament

RNID Typetalk calls welcome on
18001 0131 348 5000
Textphone 0845 270 0152

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers

Printed in Scotland by RR Donnelley