

FINANCE COMMITTEE

Tuesday 16 June 2009

Session 3

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FINANCE COMMITTEE 16th Meeting 2009, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Jackie Baillie (Dumbarton) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

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

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Murdo Fraser (Mid Scotland and Fife) (Con)

Kenneth Gibson (Cunninghame North) (SNP)

Lewis Macdonald (Aberdeen Central) (Lab)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED

Andy Kerr (East Kilbride) (Lab)

THE FOLLOWING GAVE EVIDENCE:

Sir Angus Grossart (Scottish Futures Trust)

Barry White (Scottish Futures Trust)

CLERK TO THE COMMITTEE

James Johnston

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 16 June 2009

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

Decisions on Taking Business in Private

The Convener (Andrew Welsh): Good afternoon and welcome to the 16th meeting of the Finance Committee in 2009, in the third session of the Scottish Parliament. I ask members to turn off any mobile phones and pagers, and I welcome Andy Kerr to the committee for today's public session.

Agenda item 1 is to decide whether to take in private item 3, which is a discussion on our approach to stage 1 scrutiny of the Public Services Reform (Scotland) Bill, and item 4, which is our review of the budget process. I propose that we do so. Does the committee agree?

Members indicated agreement.

The Convener: I invite members to decide whether to consider our approach to scrutiny of the 2010-11 draft budget as part of our work programme in private at our next meeting. I propose that we do so. Do members agree?

Members indicated agreement.

Scottish Futures Trust

14:01

The Convener: Item 2 is to take evidence on the Scottish Futures Trust. The committee considered methods of funding capital investment projects in its recent inquiry and decided that today's meeting would be an appropriate opportunity to receive an update on the progress of the Scottish Futures Trust. Members have a copy of the SFT's business plan in their papers.

I welcome today's witnesses from the Scottish Futures Trust: Sir Angus Grossart, chair, and Barry White, chief executive. I invite them to make a brief opening statement.

Sir Angus Grossart (Scottish Futures Trust): My comments will be marked by their brevity.

The committee has received our business plan, and we are well informed about and have commented on the committee's report on methods of funding capital investment projects. Those two documents embrace between them many of the points that I would have covered in an opening statement.

It is preferable from our—and, I hope, the committee's—point of view that our time here is spent in dialogue, not only because we want to answer your questions but because we are interested in your views and in developing those views. As I said in my letter to you, we found the committee's report to be well written and clear. It did not answer all the questions, because there was a great deal of work in progress, but the spirit in which it was written aligned pretty closely with many of our intentions.

In the spirit of finding the common ground with the committee that we seek, and to discover where issues might exist, we are pleased to be here and to answer your questions.

The Convener: Thank you. Mr White, do you wish to add anything?

Barry White (Scottish Futures Trust): No.

The Convener: I thank you for your comments on the committee's report. Can you advise us of the latest developments in the guidance on the international financial reporting standards and of the practical effect that they are having on investment options?

Sir Angus Grossart: Interesting new territory has opened out. Since last summer, we have been overhung by the economic conditions and by the drying up of finance from the private sector. At the same time, the new accounting rules, which have taken on balance sheet a great deal of the private sector finance that might have been available,

have restricted the visible territory for which we can aim.

We are interested in the Treasury's statement of 22 April, and we are following as closely as we can the evolution from what was in that statement to a draft bill and then to what will finally appear. We regard it as potentially helpful to us. We believe that private sector finance is an important dimension of our armoury and that additionality is something that we should strive to achieve. So far, so good.

I do not know whether Barry White wants to add to that.

Barry White: I have a few comments. The draft guidance, which was published on 28 April and which went out to consultation with different Government departments, is still to be confirmed. When that happens, it will allow us to move forward and ask how we can best seek value for money using the new set of rules. Opportunities will be thrown up for doing things differently from how they might have been done in the past. Projects used to be assessed under United Kingdom generally accepted accounting practice, but in future they will be assessed under Eurostat, which allows a different approach to be taken. If that route is to be used, I see it as being at the heart of what we do at the SFT to ask how we can get the best value for money out of it.

The Convener: Before I bring in other members, I have another general, scene-setting question. What effect is the recession having on the ability to get projects started and to ensure value for money?

Sir Angus Grossart: As far as moving things along—as opposed to just getting them started—is concerned, one effect of recession is that people become extra cautious about providing money and taking decisions. Getting people to commit themselves, whether in the public or the private sector, is certainly more difficult. Some people become gun shy because they are worried about the risks, while others are genuinely not very sure. For many, the navigation lights have gone out, so the process is difficult and slower.

There are some signs that a bit more reality is beginning to emerge. Looking forward, even if we cannot see or predict green shoots, we know that the recession will not last for ever, so we must engage our plans. We must get people to look beyond the immediate issues at the end of their noses and to plan for an environment in which it will be easier to do things and in which money will flow more freely. The flow of money has certainly been extremely difficult—it vanished, even for the banks, for many months. That has not been helpful, particularly in the early months of the SFT, but that was the reality for much of the world and we have had to live with it.

We are moving and are beginning to see traction. We are engaging with a number of financial sources and the process is moving along. It is early days to be too optimistic, but we are positive.

The Convener: Do you want to add to that, Mr White?

Barry White: I have nothing to add.

Derek Brownlee (South of Scotland) (Con): In May last year, the Government published, "Taking Forward the Scottish Futures Trust", which set out a variety of work streams that the SFT might proceed with. The detail of that document included the aspiration that the SFT would save around £150 million per annum in the procurement of capital assets, which I think was based on a 3 per cent saving on the £3.5 billion capital budget. Is that a target that the SFT considers realistic and is working towards?

Sir Angus Grossart: Yes. The figure is based on capital expenditure by the Government of about £3.5 billion and by the public sector of about £5 billion, so 3 per cent would represent between £100 million and £150 million. A saving of that level ought to be achievable, although it will take time to achieve.

If I consider the range of areas in which saving and efficiency are possible—and I am very much persuaded that 3 per cent is an achievable target; if I also consider, conversely, a number of past practices, duplications and inefficiencies; and if I bring to bear my own financial experience from over 40 years, I can see the opportunities for such savings. This goes beyond the question of the pure cost of finance; we are discussing operational efficiencies, in the main.

I ask Barry White to comment on some of our detailed menu options.

Barry White: We are targeting our initial efforts at the hub programme and the schools programme, and we are targeting a minimum of 3 per cent. We want first to gain traction in those areas and then to reach out along a broader front.

I see the savings as coming from three main areas. The first is process, which is partly to do with standard contracts and the taking out of waste and duplication. The second is planning, so that designs contain certain sustainability elements and the sustainability strategy becomes a common theme across a number of projects, instead of things being done individually. Planning for the whole-life cost of a building is a really important aspect. Thirdly, there is straightforward purchasing. If someone buys three things, they expect to get them more cheaply on average than if they buy just one. It is under those three broad headings that we will be pushing forward, and that

is where aggregation and collaboration become very important.

Derek Brownlee: As an organisation, can you say at what point in time you will be able to deliver the savings of £150 million or whatever? Can you commit to report regularly on what savings have been achieved and on what the benchmark comparator is? Is that something that the public and the Parliament will be able to take an objective view on?

Sir Angus Grossart: Yes, we will develop certain criteria by which to measure what, broadly, we can achieve. That will vary a great deal from case to case.

We have a menu of options. Starting with consultancy, we will be less reliant, to some extent, on external consultants because we will build up our own professional expertise, which, we hope, will be focused and will come in at an aggregate lower cost. We will also retain expertise. One of the difficulties in the past has been that expertise has been repurchased several times. It has built up but it is not often transferred within the public sector. It is unusual for somebody who has expertise in the public sector to be transferred to another local authority, for instance, where they might apply their expertise in a parallel area.

Thinking about duplication, loss of value, lack of planning and the importance of briefings, we note that a good deal of procurement has had a lot of hands in the cooking pot in the past. There have been elements of dysfunctionality in that, even in the simple matter of what external costs and advice are needed—and that comes before we get into such areas as aggregation, which is a cohesion of planning. It is not necessarily just a matter of standard models and standard buildings: differentials in the price of bitumen are important for road repairs, for example. Many jobs are done and contracted separately, with different outside parties. The differentials in price for bulk bitumen represent substantial percentages—much more than 3 per cent.

14:15

However, this is not a question just of smart buying or better use of consultants. It is also about the process of planning and getting procuring bodies to work together, which in itself will greatly reduce duplication in the public sector. We are achieving that in our schools pilot. If we can get three bodies to work together, we might need only one financial adviser rather than three. We can benefit from such co-operation in logistical and physical planning as well as in construction work. To give some simple examples, efficiencies can arise from having a central depot or one road roller

for three different projects. There is a myriad of ways in which efficiencies can be achieved.

Derek Brownlee's question is one that we asked ourselves. How do we measure and add up the savings? In the light of experience, we believe that there will be finite areas where we achieve savings and other areas in which we aspire to make savings. We are getting ideas from refreshing dialogue with people outside who are suggesting areas in which savings can come from joint working and co-operation.

I have spent less time at the coalface of procurement than Barry White, who spent the past few years there, so, with the convener's permission, I invite him to add to my comments.

Barry White: Derek Brownlee's question focused on validation. What we should do in our five-year corporate plan is set out a forecast of where we anticipate the savings will come from and how they will grow, and then set up a measurement technique that records progress against those targets. That is absolutely what we intend to do.

James Kelly (Glasgow Rutherglen) (Lab): Mr White, in your response to the committee's statement in its report on methods of funding capital infrastructure projects that the Scottish Futures Trust was not yet a proven mechanism for funding, you state:

"SFT is open to all forms of funding for infrastructure investment".

Will you expand on that and specifically state whether it includes public-private partnership funding?

Barry White: I am happy to expand on that. First and foremost, we were set up with the unwavering pursuit of value for money at the heart of what we do. That is absolutely right.

We seek to be clear about the term "PPP" because there is often misunderstanding when it is used. Certainly to me, PPP is a wide umbrella term that covers almost every relationship that the public and private sector have across a range of joint ventures, development agreements, private finance initiative structures and non-profit distributing structures. Are you asking whether we would be prepared to consider any one of those PPP options?

James Kelly: I am asking you specifically whether you would consider PPP as an option for funding capital infrastructure projects.

Barry White: We would want to pursue whatever is the best value for money. That is open to every avenue of funding.

James Kelly: So, if a PPP provider was able to demonstrate that it represented the best value for

money for the public purse, you would consider that.

Barry White: I would be open-minded and look at whatever people brought forward, yes.

Sir Angus Grossart: I have said since I took on my position that our approach is ecumenical. Part of the basis on which I took on the position was that the SFT had to think for itself according to its own standards. If we are seeking efficient financing and value for money, we cannot close our minds or restrict ourselves. We must consider what is best, which includes taking into account lessons from the past about measures that have not been effective, but we do not proceed from a preconceived ideology that must have a P at the head of it. Our concern is value for money.

I have been in the financial world for 40 years and was at the bar before that. I have seldom seen a standard model or financial formula to which I would hook my reins, because something different and a little better always comes along. Sometimes we move backwards and something that was done before becomes of use.

We must be open-minded. We can be, because the Scottish Futures Trust has been set up as an independent private company. We are appointed by the Government, which can sack us if it does not like what we do, but we are independent. Part of our credibility in the constituencies in which we operate is that we think independently. There has been a good deal of attribution of formulaic ideas to us, but that is not where we are coming from. We are attempting to think for ourselves and are doing the job that we were appointed to do in the interests of Scotland. I am sorry to have to square up to your point but we are ecumenical and we are determined to secure better value for money where we can.

James Kelly: I would be interested to hear your views on the report that was published this morning by University of Edinburgh academics, who say that there is no real difference in rates of return between traditional PPP projects and the NPD mechanism that is used.

Barry White: I have not seen the detail of the report; once I have, I will take time to read it. In my previous job, when I was a private sector participant in projects, we planned to invest £30 million of our company's money in an NPD project. We analysed the NPD model and found that it is certainly much less favourable from a private sector perspective than traditional PFI. The analysis that I had carried out on my behalf in my previous role suggested that there is a benefit to the public sector from NPD, because it is certainly worse for the private sector.

James Kelly: Derek Brownlee made the point that the Government hopes to save between £100

million and £150 million through the SFT. We are approaching the end of the first quarter of the current financial year. Do you have a forecast of savings that you anticipate making in this financial year?

Sir Angus Grossart: Not at this stage. It would be premature for us to make such a forecast before we are more fully up and running. We have begun to define the process of saving in certain areas, but quantifying savings will be a valid exercise only when we can do so with some integrity behind what we say. We are not there yet.

James Kelly: Previously, level playing field funding was in place, which meant that local authorities received 80 per cent funding from central Government for their projects. Do you anticipate that arrangement continuing under the SFT?

Barry White: I cannot really comment on the issue. It is a matter for ministers, to be decided between central Government and local government.

Sir Angus Grossart: We are conscious of the areas that we can address and the ones that involve ministers and politicians. We are particularly anxious not to get drawn into the political arena. We have a big job to do in getting on independently with what we do. I appreciate that there are differences of view between politicians, and I am sure that that is healthy, but it is not what we are about. We want to get on with what we do. We are men of the world. We are aware of what is happening—we do not close our ears—but the best thing for us is to be allowed to get on with the job. My background has been in doing things, so the political overtones are not our business.

Joe FitzPatrick (Dundee West) (SNP): Some folk are trying desperately to paint the SFT as PFI rebadged. I understand that you would not want to get involved in that argument, which is playing political football with our public sector investment, but will you assure us that, under the SFT, we will not see the excessive profits for the private sector that we saw under PFI, whereby the public sector paid the cost of two hospitals for one, as we often hear? Can we be sure that that kind of excessive profit will end under the SFT?

Sir Angus Grossart: I understand the context in which you use the phrase "excessive profit". If you look forward rather than back and ask whether we will ensure that full value is achieved—which involves people not only providing value but not taking excessive profits—the answer is yes.

As quite a large taxpayer myself, I believe that every pound that we spend in the SFT is to be a prisoner that we can achieve savings on. Our approach is focused on achieving the best value

and learning from whatever source—whether the past, abroad or new ideas that we create ourselves—where better value could be achieved. There is a lot of scope to do that because procurement is very difficult. I have some knowledge of what was achieved by a series of methods in oil industry procurement. That is one reason why Colin Maclean, who was the worldwide head of procurement for BP, came on our board. We are thinking hard about the broad question, which includes the point that you have made.

I am sorry if that was a bit lengthy, convener.

The Convener: That is no problem.

Joe FitzPatrick: I was involved in a PFI schools project. There was huge frustration at the length of time that the process took from the initial desire to build new schools to the schools being built. Not only were there years of nothing happening, but the process excluded community involvement and real consultation. Can the centre of excellence in the SFT bring down the lead-in time for such projects, and will we be able to have a more open process?

Barry White: Time is one of the savings that we will target by trying to establish a replicable process. Consultation is a local issue for the local authority. Most people would say that good consultation is important, but it is very much down to individual directors of education or local politicians.

The SFT will come in principally by saying that the decision to build a school in a particular place is important and that we must drive that through and obtain the best value so that the school is delivered quickly and provides excellent value for money. Our focus will be on ensuring that the delivery date is met so that the school opens on time to allow people to start the new term in the new facilities.

14:30

Sir Angus Grossart: I will add an important point about the time factor. A great deal of talent is in the public sector, some of which needs to be liberated. I am not one of those who take the view that the public sector is deficient or incompetent—far from it, as there are many very able people in the public sector—but I observe a culture that does not appreciate that time has a cost. For a good many people in the public sector, time is something that is used up, provided that they are busy. Activity can be confused with performance.

Given that, we are conscious not merely of the need to do things more quickly but of the cost saving from avoiding excessive duplication, which can include simple things such as having too

many committees or joint representation or observer status on a committee—having two observers from one department and two from another.

The task is a bit evangelical. We are not here to reform the public sector. We are here to achieve better value for money but, in the process, we have interesting opportunities to achieve savings of value by focusing on a much better use of time and reminding people that time has a cost.

David Whitton (Strathkelvin and Bearsden (Lab): My question is for Mr White. Under the SFT, I assume that a contracting authority will enter into a project agreement with a special purpose vehicle. Is that how you will work?

Barry White: That depends on the procurement route that is chosen. For instance, on the Forth crossing, we are undertaking a validation role. That is a design and build procurement, so no special purpose vehicle is involved. We are providing support on the Moray schools project, which uses an NPD structure and involves a special purpose vehicle.

David Whitton: I assume that a special purpose vehicle will provide maintenance services in return for a unitary charge.

Barry White: That is certainly the case in Moray.

David Whitton: What is the difference between the SFT and a PPP model?

Barry White: The core differences between NPD and what I call PFI fall under three major headings: transparency, in that NPD provides seats on the board for parties other than just investors; governance, in that the operation is regulated differently; and, beyond a fixed return on the sub debt, any surpluses are to be reinvested for the community's benefit. Those are the significant differences.

David Whitton: Under the special purpose vehicle, how will obligations be funded? Will that be from a mix of senior debt, junior debt and an equity element?

Barry White: The funding is principally senior debt and junior debt. The equity is only nominal. There is no equity return in an NPD structure.

David Whitton: I will put the question to Sir Angus Grossart, who can give us the benefit of his 40 years of financial experience. What we have heard does not sound much different from what has happened under public-private partnerships.

Sir Angus Grossart: You are trying to base your assumption on one example that might come close to PPP. Indeed, you seemed to refer to the SFT model, but the SFT will have many models, some of which might differ from PPP and some of which might come close to it.

David Whitton: So the SFT will be exactly the same as PPP.

Sir Angus Grossart: No. That is a generalisation.

David Whitton: So how close is close?

Sir Angus Grossart: There might be instances in which it comes close to PPP. It will depend on the particular case; after all, at any one time each model will have a number of variations. As far as the capping of returns is concerned, we should ask what constitutes a reasonable return for the private sector and whether that is reasonable for the public sector.

David Whitton: When we were putting together our report on methods of funding capital investment projects, we were told that 14 per cent was a reasonable return. Do you agree?

Sir Angus Grossart: Not necessarily. The figure is changing all the time. When you talk about what is reasonable, the question is what the market will bear at any point in time. In recent months, people have been looking for very high returns.

David Whitton: But, as I understood it, the original vision for the SFT was that it would be a not-for-profit vehicle. Are you not describing something that will generate a profit?

Sir Angus Grossart: It might generate a return, but it will not generate excess profits. You are trying to push us into some semantic and formulaic corset. I understand that you will want to debate these political points with the Government but, quite frankly, as far as we are concerned we are ecumenical and are trying to secure value. As a result, we might use a wide variety of financing methods.

David Whitton: I appreciate your wish to be ecumenical but, for better or worse, the SFT is a Government-appointed quango and you are its chairman. I am afraid that you are going to have to get used to answering what might be termed political questions.

Sir Angus Grossart: And we are answering them. I am not ducking your question. If you feel that I am failing to answer it, please come back at me.

David Whitton: Please carry on, Sir Angus. I am just trying to determine the difference between what the SFT is doing and what could be done under a PPP model. I have to say that it strikes me that there is no difference.

Sir Angus Grossart: There is a substantial difference. With our access to and knowledge of the market, our approach is more comprehensively professional—

David Whitton: But you have just told us that in local government there are many talented people who are just waiting to be liberated. Basically, we have set up a rather expensive quango to do what the public sector itself could have done, had it been given the opportunity.

Sir Angus Grossart: I disagree with that. I have praised the talent that might be latent in the public sector, but that does not mean that there is not a lot of talent in the private sector that we would want to involve. We believe that the aggregate of bringing that talent together and having an approach that is value—not formula—driven will make a difference, and we are already seeing how that different approach can be applied and have a significant effect.

David Whitton: Obviously you believe that the SFT will be a kind of fulcrum for progress in all of this. However, in your business plan, you say in paragraph 6.3, which is headed “Resourcing Principles”, that your

“team will be recruited from amongst the best in the market for any given set of skills and experience and will be remunerated to enhance retention and incentivise performance.”

Does that mean that you will pay them bonuses?

Sir Angus Grossart: We have not agreed any bonuses at this stage. The chief executive has been recruited without a bonus.

David Whitton: I am delighted to hear it.

Sir Angus Grossart: We accepted that that was appropriate. After all, we are not subject to the Government’s pay policies.

David Whitton: I am sorry. Did you say that you are not subject to the Government’s pay policies?

Sir Angus Grossart: Yes.

David Whitton: So, even though he is chief executive of a quango—

Sir Angus Grossart: It is a private company.

David Whitton:—Mr White is not subject to the Government’s pay policies.

Sir Angus Grossart: I think that the minister announced that in November in reply to a parliamentary question. I hope that it was not from you, Mr Whitton.

David Whitton: It was not from me. However, it might interest you to know that we will—I hope—say in our report on public sector pay that there should not be bonuses for public sector chief executives. Given that Mr White is not a public sector chief executive, I admire the way that you are pushing forward with his pay.

The Convener: That remains to be seen.

Linda Fabiani (Central Scotland) (SNP): It seems to me that if you move away from the traditional type of public procurement, regardless of what you call the procurement method, much depends on the upfront planning and what you put into the initial conditions. I am interested in your business plan for non-profit-distributing, rather than non-profit-making, models. You are talking about capped returns for investors, which seems to be a new development. How will that work? There is also the idea of having a trust for the benefit of the community in the longer term, which I think you refer to as community share. One of the big criticisms of PFI is that when refinancing occurs, excess profits go back to the developers. In the NPD model, you set up the trust and cap returns to investors. How would that work in relation to refinancing?

Barry White: Any non-profit-distributing structure has at its core a methodology that says that there is a fair return for the risks that are inherent in the project and that everything above that should be captured for public or community use. That is currently routed through a community body—a charity of some sort, for example—which reinvests in the community. It might be possible to refine that model further. We are considering whether, under the new accounting rules, it is possible to refine it further, so that the surpluses can be used more directly in the facilities that give rise to them in the first place. That is a core part of what the NPD structure was set up to do, and I believe that it can do it well.

Some of the historical big gains in refinancing were due to two things. First, older deals, by being first in the market, were not as tight as later deals. Secondly, people were refinancing at a time when there was a plentiful supply of cheap money in the market. That gave rise to gains that might not be there if someone tried to refinance a project now, because the cheap financing to replace what was in place initially is not as readily available now. The size of refinancing gains going forward might not be as significant, but, as the projects run for a long time, there will have to be something in place to capture the benefit as and when it arises.

The NPD structure has an added share in the refinancing gain in comparison with a standard PFI project: the public sector representative, as a member of the board of the company and as an independent director, can ask for refinancing to take place.

Linda Fabiani: You talked earlier about enhanced transparency. It has often been felt that traditional procurement methods in the public sector were frequently underestimated, for whatever reason. That is well documented over the decades. There is a general feeling that PFI was overestimated because of the risk premium

that was involved and so on. How do you intend to get into the middle of that to ensure that the groundwork is done, so that the costings are as firm as possible before a contract is let?

Barry White: In letting future contracts, we have to have a structure that we believe provides great value for money and generates sufficient competition to drive in value. Part of what we are doing in the hub initiative will allow what is, in effect, a framework-type arrangement to be set up, with transparency in pricing at subcontract level. It is like a two-stage tendering approach on an ongoing basis. That means not only that a relationship builds up, but that there is transparency in the pricing of all the elements that go into the cost build-up. From that point of view, the relationship should drive efficiency in terms of the design, the product, the building, the finishes and so on, while providing absolute transparency on costs at the same time.

14:45

Linda Fabiani: I noted a bit of terminology that you use in your response to the committee's report on methods of funding capital investment projects. You talk about

"the introduction by HM Treasury"

in its rulings

"of the 'Optimism Bias' concept."

What is that?

Barry White: Optimism bias is a concept that has been around for some time. Historically, when the public sector starts a project, it estimates the costs at a particular level but is, in effect, overly optimistic. It then adjusts for risk around that.

Linda Fabiani: I have a final question that is unrelated to cost issues. The Scottish Futures Trust has been set up as a centre of excellence for procurement and infrastructure projects. Architecture and Design Scotland was also set up as a centre of excellence. One of the big criticisms of PFI schools and hospitals has been that they have been built to off-the-shelf, bad designs, with no sustainability involved. How do you intend to work together with Architecture and Design Scotland and others to ensure good design and long-term sustainability, in terms of buildings rather than costs?

Barry White: It is critical that we involve the design community to ensure that what is produced is of a high quality and sustainable. Both those concerns are important. I speak with a vested interest, as I have developed schools in West Dunbartonshire that are, to my mind, sustainable schools. They have ground-source heat pumps that take water from 15m below the surface, and they are well designed. Over time, there has been

movement towards better design, but there is still further to go.

Sir Angus Grossart: I am supportive of Linda Fabiani's point. We are receptive to good ideas, wherever they come from. Good design is part of our approach to environmental issues. As the procurement process becomes better and more professional—not because it is centralised, but because there is a body that is accountable—some of the qualitative issues and questions will bring about improvements in value in the broadest sense, not just financial value. These are things that we should not only aim for, but take pride in achieving where we can. We would be happy to engage with others to adopt such goals—there is an open door on that one.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Good afternoon. I want to ask about governance issues—how the SFT is being operated and run. I was interested to see in the business plan that the SFT is considerably over the budget that was estimated in last May's outline business case. The main areas in which it has gone over budget seem to be in programme delivery. Sir Angus said that the body was not going to be so dependent on consultants. However, there is a differential of £2.178 million with regard to the costs of accommodation programme support, infrastructure programme support, financing programme support and the hub programme. What is included in those costs? None of that aspect was in the original business case estimate of the organisation's budget for this year.

Sir Angus Grossart: I ask Barry White to give you precise figures on what we spent.

Barry White: I will go through our budget figures to ensure that there is no misunderstanding.

Jeremy Purvis: I am looking at annex 4 of the business plan, which has a table that gives the budget breakdown for 2009-10. Against "Total for SFT Services", it has a figure of £4.17 million, excluding a VAT element of nearly £500,000, to which I will come later. Why is there a difference between the £4.17 million and the estimated figure in the outline business case that was presented last May?

Barry White: The sole reason for the difference is that the hub community partnership programme, which was previously held and funded by the Government, was transferred to us. We were asked to accelerate the programme and bring it into the market: taking an idea into delivery is right on mission for what we are there to do. The £953,000 was for setting up a programme delivery office with a mixed team of people from legal, financial and technical backgrounds, who will drive the programme forward. Over the next month, they

will run industry days in north and south-east Scotland to generate market interest in the programme's activity.

The difference between the estimated budget figure and the actual budget figure is therefore solely down to the hub programme. Its cost of £953,000 is a mix of internal staff costs and external costs for specific advice from PricewaterhouseCoopers and technical advice in preparing the tender document.

Jeremy Purvis: What about the costs against accommodation programme support, infrastructure programme support and financing programme support in the table in annex 4, which amount to more than £1 million?

Barry White: The total budget, apart from the hub costs, has stayed the same as the initial budget, so the bottom line remains exactly the same. The initial budget included a line for start-up costs, but we are using that money to support programmes. We have therefore underspent on our start-up costs and are deploying that money in genuine programmes that we will work on throughout this year.

Sir Angus Grossart: To put in context what we have spent, our aggregate spending to date is about £240,000.

Barry White: It was £250,000 to the end of last year.

Sir Angus Grossart: I am out by £10,000. The original budget was—

Barry White: It was £2.5 million.

Sir Angus Grossart: Last November, the minister revised our spending to £440,000, but it came out at £250,000, so—

Jeremy Purvis: Yes, but it could be said that your organisation has not spent that money because of the considerable delay in getting it up and running, so it had nothing to do and nothing to spend the money on. That is why you did not spend £1 million on payroll over the past year.

Sir Angus Grossart: I thought that your interest was that we might have a propensity to overspend.

Jeremy Purvis: If the SFT has underspent by £2.25 million in its first year, because you say that you have spent only £250,000—

Sir Angus Grossart: The budget was revised. As I am sure an expert on the figures should be aware, it was set at £440,000 last November.

Jeremy Purvis: The on-going budget—the budget breakdown for 2009-10—has £1.2 million for staff and £2.178 million for delivery of programmes. All the staffing component is outwith

the Government's pay policy. Did the SFT request that staff payroll costs, which are forecast to be £1.2 million for 2009-10, be outwith the Government's pay policy?

Sir Angus Grossart: Was it a request, or was it more than that? Well, yes. Certainly, when I took on the role of chairman, I wanted to see the SFT as an independent body, but not in order to have a licence to spend. I wanted us to have independence so that we would have credibility with local authorities and others and would not be seen by them as a tool of the Government. Equally, I wanted us to have credibility with the Government—I did not want us to be seen by it as a supplicant on behalf of local authorities and others. I wanted us to be somewhere in between, trying to do the best job that we could on behalf of both sides of the equation, and to depoliticise ourselves as far as the reasonable world out there allows us to be depoliticised.

Jeremy Purvis: We will certainly check this, but I think that the first time that it was absolutely confirmed that the SFT is outside the Government's pay policy was this morning, when I received an answer from John Swinney to a parliamentary question that I lodged. He said in that answer:

"It is very important that the Scottish Futures Trust ... has the scope and flexibility to recruit and retain staff with specific experience and skills which are not generally available in the public sector. I have therefore decided that SFT should not be subject to the Scottish Government's public sector pay policy."—[*Official Report, Written Answers*, 16 June 2009; S3W-24626.]

I find that extraordinary. After all, given that the biggest single cost component is the transfer of existing staff from the hub programme office to the SFT, the SFT seems to have had the experience and skills available to it.

Sir Angus Grossart: You raise two matters. You may be concerned about our pay policy, but the issue is when you chose to ask that question. We have been nothing other than open when people have asked us whether we are within the Government's pay policy. When you chose to ask the minister that question is your responsibility.

Barry White: Infrastructure delivery and investment are all about people. I know from delivering projects in the private sector that good people are needed to deliver projects. It is equally important to have a strong team of people delivering better value for money at the heart of the public sector. It is key to my mission as chief executive, which is to deliver better value for money, that talent is available to me to help drive through changes and value-for-money benefits.

The staff in the hub programme are private sector staff, not public sector staff. I am sorry if there has been any misunderstanding about that.

People have been seconded into that team from various backgrounds, including McGrigor Donald, Partnerships UK and Jacobs. We have private sector people with some public sector people from the territories—territories are areas in which health boards work with councils. The territories are staffed by local public sector health board or local authority staff, who work closely with the central team.

Jeremy Purvis: But they are all subject to the Government's pay policy.

Barry White: The local authority and national health service staff are.

Jeremy Purvis: Section 6.3.e) of your business plan says:

"SFT may, in time, seek to recover some of its costs from the users of its service."

I am interested in that. It gives the impression that you will, for example, seek to charge local authorities for your services. Is that the case?

Barry White: That is not the case. The business plan says elsewhere that our services will be free at the point of use. What you quoted was said because a local authority may approach us to fulfil a particular function that is not core to what we are doing, but we may be able to recruit or second someone to that function for a period of time. We would not want to loot our own resources to do that. We want flexibility so that we can help a Government body through secondment arrangements or whatever else, which would mean recovering costs. It is a flexibility issue rather than a charging issue.

Jeremy Purvis: On the funding that will be available to you, do you expect that, in progressing the business plan, the SFT will have a capital budget at its disposal that it can provide to authorities or other elements of the public sector? Will the SFT hold a capital budget?

Sir Angus Grossart: Not at this stage. We have discussed the matter with the Government and will continue to do so. It is clear that the financing sources that may be available to the Government and the public sector will be subject to two pretty large changes—I refer to the recent statement on off-balance sheet financing and the Calman report. We will have to explore how those will affect the SFT and the extent to which we will have any capital spending authority. That authority is not an unusual feature in other countries. For example, there is a board in Northern Ireland—sorry, I have forgotten what it is called.

Barry White: The Strategic Investment Board.

Sir Angus Grossart: Yes. The SIB has a capital budget of, I think, £200 million. We have not formally sought such a budget at this stage, but

clearly the SFT is open to ideas and is trying to evolve the best way in which to work.

15:00

Jeremy Purvis: Did you say that you have not formally sought a capital budget at this stage?

Sir Angus Grossart: We have not formally sought it.

Jeremy Purvis: So we do not expect a capital budget for the Scottish Futures Trust at any time.

Sir Angus Grossart: I would not say that we do not expect it. We have not formally asked for it or requested a certain amount of money. We believe that the question ought to be discussed with Government in context at the time. We would need to consider whether having a capital budget would help us, whether the Government would allow it and what the Parliament's view would be. There are some pretty big questions, but we have not closed our mind to the idea. However, we do not consider it to be an essential prerequisite at this stage. We have had a pretty busy job to get ourselves structured, establish our work flow and recruit our team. However, down the road, the question ought to be discussed. I hope that the committee will discuss it—we would be glad to take part in that discussion. I hope that, with that collective approach, the right answer might appear.

Jackie Baillie (Dumbarton) (Lab): I am delighted that the SFT is taking an ecumenical approach, because that means that everything is in. For clarity, I point out that your company shareholders are solely the Scottish ministers. Some have sought to paint the SFT as involving everything but PPP, so I am delighted with the clarification that you have given us. Before I start on my main questions, I wonder whether I can ask you something, Sir Angus. As I have been listening, I have been struck by your experience—your 40 years in the field as a lawyer and a banker.

Sir Angus Grossart: I have not reached my peak.

Jackie Baillie: I look forward to seeing you at your peak. However, on one level, are you not personally disappointed, because so much is expected from the SFT and it has been talked about for two years, if not longer, yet not one brick has been laid?

Sir Angus Grossart: It has not been thought about by me for two years—I was cruising along quietly when I was approached in August, although I was broadly aware of the issue. That excludes me from worrying about the preceding year. Thereafter, I was well aware that there were substantial political expectations and that a wall-

to-wall report had been produced last May that had many hands in it and did not have the clarity of the committee's report on methods of funding capital investment projects. I was well aware that several of the issues had become formulaically politicised—if I can use that euphemism. However, I believed that there was a chance to do something in the territory of creating better value for Scotland. I was pretty well aware from experience how better value could be achieved.

Jackie Baillie: Has progress been slower than you expected, given that you are about delivery and doing things?

Sir Angus Grossart: No—I always expected that it would take time. I have been involved in developing a number of situations. It is easy to drop on to the table a vast model that, although it is not terribly fully worked out, looks impressive and ticks the box because something has been done. It is easy to get headhunters and pull in a lot of reasonable but not very good people. However, despite all the pressures—we have a big recession on the go—I was determined to try to get it right.

I am not disappointed at all; I am glad that we worked so hard to get a number of the key ingredients right. We are now achieving traction. We had to get a really good board; I did not want a hall of fame or a bunch who were—dare I say it—past their sell-by date, so a lot of time was validly spent on that.

We also had to get a chief executive. There was a lot of flak about the SFT, which nobody liked, and we had to engage the local authorities' support, so we have made much progress. Barry White, who was in a very significant job, had to decide to change his career and come to the SFT to earn no more than he was earning elsewhere.

Jackie Baillie: I accept all that and I understand that there are time pressures in establishing the SFT, but there is also an expectation that it will deliver. If you are not disappointed and believe that a number of things have been achieved, are you able to say what success will look like in the future? I want to be precise about that. What will success look like in terms of the money that you raise over and above the Scottish Government's £3.5 billion of capital? Have you attempted to quantify that? If you cannot quantify success in monetary terms, what will it look like in terms of the numbers of schools, hospitals and new infrastructure projects commissioned? Either measure will do.

Sir Angus Grossart: We have set out a plan that shows the areas that we are engaged with and I would be disappointed if we did not make substantial progress on all those areas. We have listed schools and the Government will make a

statement on its school building programme tomorrow, which I hope will inform everybody what its financial plans are.

How will we be judged? We will be able to talk about the situations that we have worked on and use them to bring other people in. Many people are sceptical, and I understand the reasons for that because I have spoken to many in the private and public sectors. It is interesting that, once we have a non-political discussion with them and tell them that we are trying to do a straightforward job and do it well, they are willing to engage. That is why 17 different bodies have come to the table in the hub initiative, for example.

Jackie Baillie: I have no doubt about the process for that.

Sir Angus Grossart: You asked what our measurable achievement was and that is one. On schools, although it may be a small start, we have a pilot involving three local authorities that have found common ground. We have others that are on the dance floor together and we are encouraging the process.

Jackie Baillie: I will not be tempted to come on to the dance floor with you.

You will appreciate that politicians are quite impatient. We deal with hard numbers and facts, as you do in the private sector. If you cannot tell me now, could you return to the committee with a precise formulation of what success will look like in terms of the amount raised or the number of schools or hospitals built? Beyond that, we are trying to measure blancmange.

Sir Angus Grossart: That is not the standard by which we would want to be judged—we are not that wobbly. By the end of March, which is the end of this financial year, we should be able to give some pretty tangible evidence of our progress. Barry White is the chief executive, so he is the person who will deliver.

Barry White: The work that we are doing this year, for example in the hub initiative or in the pilot schools project that we discuss in our business plan, involves an element of time. The work that we do in the hub programme is a bit like planting a seed: it grows, but it takes time. In our five-year plan, we will set out a forecast against which our work will be measured. It is important that we provide a tangible path, saying where we want to be and how additional investment should be released back into public services.

Sir Angus Grossart: I will make a comment about the importance of having something tangible. We expect the hub initiative to get into procurement later this year; it will have taken us about a year to get to that point but, after eight or nine months, we are able to see something. When

I first became involved, I looked at the hub concept, and I noted that it had been given a massive amount of attention and that a considerable amount of time had been spent on it. I was told that the programme had been running for four years; I eventually discovered that it had in fact been running for about seven or eight years. It was announced two, if not three, times by ministers. In other words, there had been loud clucking noises but no eggs—not a single thing had actually happened. The consultants' fees involved in the hub ran into millions of pounds.

Where are we measurable? I think that we have achieved more in eight months on the hub than was achieved over the previous seven or eight years, and we are now able to see a day when we are going into procurement. That is not a political point or criticism against anybody in the public sector in the past; it is just a fact that we now have the hub moving tangibly, and it will be in procurement in October or November.

Barry White: If not before—but certainly by then.

Sir Angus Grossart: There are a number of tangible things happening such as that. We want to lay some eggs.

Jackie Baillie: Earlier, it was the dance floor; now we are into egg laying. This is going to be an interesting year indeed. We look forward to comparing your eggs with the ones that went before, in both volume and quality.

May I keep going, convener?

The Convener: Mr Kerr has been very patient. Would you like another quick question?

Jackie Baillie: I would like another few quick questions. They will, of course, be quick.

The Convener: Very quick, please.

Jackie Baillie: I ask you to clarify this, for my own simple understanding. With NPD, the private sector still makes a profit, but the scale of the profit depends on risk. Is that right?

Barry White: It makes a fixed return on its sub-debt.

Jackie Baillie: But that fixed return can vary, depending on the level of risk adjudged to any project.

Barry White: It can vary downwards, but not—

Jackie Baillie: And upwards.

Barry White: No, not upwards. It is a fixed return—if risks happen, there is a smaller return; if risks do not happen, or if surpluses arise, there is a ceiling, which stops the figure going up the way.

Jackie Baillie: What percentage above that is available for community reinvestment as a percentage of the overall project costs?

Barry White: It depends on how the project is structured, but all the surpluses above the line go to the community benefit.

Jackie Baillie: I am trying to identify what all the surpluses come to in percentage terms. Is that something on which you could write back to the committee?

Barry White: I could look into what examples there are—it depends on how each financial model is structured. Some projects had very little in the way of surpluses in the early years but significant ones in later years. It depends on the structure of the deal, so it is difficult to give a precise answer and say that it will always be X per cent—it is not as straightforward as that.

Jackie Baillie: Sure, but the percentage might not be huge, as the models get more precise.

Barry White: If someone builds in a contingency, but it is not needed, it will become a surplus; in other deals, it would become a profit. That is a difference, in some ways. It therefore depends on the contingencies. The baseline surplus level is often forecast, but other surpluses could arise above that, too.

Jackie Baillie: Will you engage in any form of borrowing under the SFT that will not result in a legacy of future payments? That is another criticism of PPP—that we have to keep paying for it. Is there any form of borrowing that you will engage in? Will any projects that are to be funded by the SFT not have such a legacy of payments?

15:15

Barry White: Under any form of borrowing—the tax increment financing proposals, using the Public Works Loan Board or NPD—loans need to be repaid. We make that point in our business plan.

Jackie Baillie: I understand that—I am making absolutely clear that I am not misled.

You have experience, from when you were doing a slightly different job, of the models that were used in West Dunbartonshire and in Argyll and Bute. It is interesting to compare and contrast those models—I represent parts of both areas. It has been suggested to me that the NPD model in Argyll and Bute was slower to develop and ended up being more expensive. Is that accurate, to your knowledge? Given that your aim is to be efficient and cost effective, can you reassure me that, if the SFT uses the NPD model, it will be cheaper than PPP?

Barry White: I helped to run the pilot project for NPD in Argyll and Bute. Like any pilot, it involved an element of investment of time. It was a bigger project, in terms of the number of schools involved, than the West Dunbartonshire project—the two projects were different in nature. I do not know the different timelines, but I would be happy to check and confirm them. All the work that was done in Argyll and Bute showed that NPD was better value for money than PFI. That was essential to the analysis that allowed the project to go ahead and to getting consent to proceed with it.

Jackie Baillie: So it was not more expensive than the equivalent PPP.

Barry White: We need to be careful when comparing projects, because the financial markets move. A project must be compared with others of its time, rather than with projects from three or four years later, when—as all of us know to our cost—the financial markets were lending money at rates that may not have been sustainable.

Jackie Baillie: I have a final question on education. I do not want to stray into the territory of tomorrow's ministerial statement but, on page 27 of your business plan, you say that you will

"Support the development of a wider schools investment programme."

Who will take the lead on that? Is it the role of the Convention of Scottish Local Authorities, the Scottish Government or even the Scottish Futures Trust, given that your priority customer is the Scottish Government and your secondary customer is local government and, therefore, schools? Local authorities are slightly lower down the pecking order. Who will decide which schools are priorities? When will you lay the first brick?

Barry White: I need to be careful about what I say, because it is public knowledge that an announcement is due tomorrow. The important point for me is that local authorities must decide what schools should be built and where—that is local democracy. I see the SFT's role as being focused on deliverability, aggregation, collaboration and value for money. That is the area in which we can make a big impact on any future schools programme.

Jackie Baillie: Without some kind of seed-corn capital, we can wish for schools, but they will not happen.

Barry White: I cannot stray into the territory of funding for schools.

Jackie Baillie: Okay.

Andy Kerr (East Kilbride) (Lab): Thank you for your warm welcome, convener. I have three fairly tight questions to ask, but I will start by commenting on the formulaic politicisation to

which Sir Angus Grossart referred. Sadly, he is in that arena, because the Government's manifesto promised not-for-profit trusts. We need to hammer home his interpretation of that assertion. I assure him that, when I was a minister, there was no clucking about on the delivery of both schools and hospitals. I do not share his view that there was a seven-year delay in the local improvement finance trust, subsequently called the hub programme.

Having ensured that those points are on the record, I will ask a specific question about the private finance unit that existed in the Government prior to the establishment of the Scottish Futures Trust. Its role was the aggregation of projects, the emanation of standard contracts, working with Partnerships UK, seeking to ensure best value in consultancy and advice on legal and planning matters, working with the market and indeed the public sector and, of course, working with the hub programme. You suggested that you are somehow involved in virgin territory when it comes to those matters. Have you examined the work that the private finance unit did under the leadership of Sandy Rosie? Are we not now simply in a more expensive world than before?

Sir Angus Grossart: We are well aware of that work. Indeed, I think that you asked a parliamentary question on the point some months ago.

The private finance unit was completely different. First, it was a very small body. When we inherited it, it had seven people, one of whom was about to leave and five of whom were on secondment. It had a good deal of responsibility for cross-sector communication, but it had limited authority in relation to delivery and its range of expertise was quite different from what is planned for the highly professional team that we are putting together at the SFT.

Also, because it did not have a lot of defined standing, the private finance unit lacked authority when it was operating as a representative body. That often happens in public sector committees where everybody has almost equal authority and nobody is quite entitled to take a decision. Nothing happens until the smoke rises in the middle of the table, unless somebody is given the authority and opportunity to make a decision and the accountability for delivery. We have those strongly, so we are much more seized.

I am not criticising the private finance unit. I am sure that it did the best that it could do in the context and with the brief that it had at the time, but I believe that we can do much better. We are structured to do a different sort of job and I am confident that we will achieve it.

Barry White: The financial partnerships unit did a good job with the resources that it had. As a former contractor who worked with the unit, I do

not believe in criticising things in the past, but the critical issue is the resources that were available. The introduction of the standard schools contract was a big step forward, but the unit did not have the commercial continuity and muscle behind it to realise all the possible benefits from that. It realised some of the benefits but not all of them.

The SFT will have a permanent core team rather than a revolving team of secondees. That will add the commercial muscle that is required to gain the extra benefits that were not possible under the previous arrangements. It has also been realised in other parts of the UK and overseas that units that are structured in the way that the SFT is structured—albeit that there are different bodies in different countries—can perform that function.

Andy Kerr: One wonders how those poor wee souls managed to deliver all those schools and hospitals, but that is another matter. It may be that the Government, latterly, after the election, chose to pare down the operation, but that was certainly not my intention.

My second question is on the SFT's ecumenical approach, which interests me. That is a key issue. A Moray Council document on schools states:

"The project will be delivered by an NPD model. This is a requirement of Scottish Government Support for the project."

Can I take it as guaranteed that no such document will be issued again and that the policy and choices for local authorities and anyone else who uses the Scottish Futures Trust will not be limited in that manner?

Are you aware of the Canmore Partnership's written evidence to the Finance Committee, which states:

"the Scottish Government has explicitly prohibited bidders from offering PFI alternatives to NPD bids, regardless of whether they offered better Value for Money"?

Will you clarify the ecumenical point? Will you ensure that such barriers to other forms of bidding will not be put in place and that offers of mandatory variant bids and other financial techniques will be made available rather than being closed off by the SFT?

Sir Angus Grossart: We will urge on the cabinet secretary, wherever we can, our best, ecumenically based advice. His response and degree of conversion or acceptance will depend on the merits of the advice at any given time. Those who want to embrace the agenda on the political field or to ask what advice has been received from the SFT are welcome to do that. Nobody can dictate to us what we think or advise—that was one of the conditions on which I took the job—and we cannot dictate to the cabinet secretary.

I well understand your point, Mr Kerr, but you must take it up on the floor of Parliament and, with great respect, try to take us off it. We are trying to do a job for Scotland and are not concerned with the historic territory in which political balls are kicked back and forward. However, that practice has been quite damaging to us. We have been attributed with taking a restricted approach, but that is not what we are trying to do.

Andy Kerr: I take comfort from that answer. I believe that you should take that position in order to give both the private and the public sector sufficient choice and opportunity to respond to competition in the provision of infrastructure.

Convener, I thank you again for your patience on this matter. If we take a classic schools contract as an example, an SPV will have the project agreement to which David Whitton referred, the unitary charge, substantial senior debt and some junior debt, and the use of private money, so it will be what the witnesses have described as PPP. The difference is that they seem to prefer the non-profit-distributing model.

Mr White, your statement on your previous experience surprised me because it suggests that your company was involved in excessive profits. I am happy to hear whether you regard the contracts in which you were involved in Dunbartonshire as excessive, if you are prepared to put that on the record. However, what you stated is not supported by any evidence that I have seen from the Centre of Public Policy for Regions or, indeed, from the University of Edinburgh report that was issued today. The evidence does not support the cabinet secretary's argument that NPD will eliminate excessive profits. He uses the same models that you have discussed here today, so I wonder where you got the analysis of the case to which you referred and whether you should be using that single case to show that NPD works, as opposed to using wider academic evidence that suggests otherwise.

On the point about capped profit and the coupon model, my conversations with your erstwhile colleagues in the private sector—risk managers and those who seek to price contracts for them—about the bid process indicate that contracts invariably end up with higher costs than under PPP because, bluntly, those involved are not prepared to make less money than they would have made under the normally established PPP. Again, I would be interested in your comments on the risk analysis of capped-profit schemes, because all the evidence suggests that they end up being more expensive for the public purse. Of course, that view is backed up by somewhat greater academic evidence than that which you have presented to us today.

Barry White: There were a number of questions

there. I have made notes and will try to tackle them all. First, a public body may choose NPD not only for cost reasons but for governance and transparency reasons, so the issues are more wide ranging than just cost. The Finance Committee report discussed the issue of long-term flexibility and concluded that extra governance and transparency may be better because of SPVs' visibility in the context of the public sector. I have not seen the University of Edinburgh's analysis, but I would say that the difference between that and my previous analysis is that I was going to invest a large sum of money in mine. The analysis was done by people working for me in my previous existence, when I was looking at NPD schemes, and it showed that there was a lower return for us in the private sector at that time. In that regard, I would disagree with the University of Edinburgh's research, but I would need to see what it says before I could evaluate it fully.

I am not aware of evidence of NPD schemes costing more money. In a previous job, I have bid for NPD projects and they were bid for on a comparable basis to a PPP, or on a more competitive basis. The sub-debt return was no different. Different bidders will have different strategies, which will change with time.

15:30

Andy Kerr: With the greatest respect, if your analysis—which, incidentally, I do not accept—is that the NPD model that you advocate provides less return, why will it be successful? Why will people get involved? If you do not get involved, why should anyone else?

Barry White: I have bid for NPD projects, so I know that people will get involved. The evidence from the current competition is that people are prepared to get involved. If one looks at the whole of the PPP/NPD/PFI market, one sees a trend over recent years whereby sub-debt returns got lower because people priced their risks more competitively. Now that senior debt, rather than the sub-debt return, is driving the financial models, sub-debt returns have gone up again. It is entirely possible that someone who priced their risks lower previously could still do that in an NPD structure and allow everything above that to flow as part of the NPD surpluses.

The Convener: I am aware that our witnesses have had one and a half hours of questioning.

Sir Angus Grossart: We are fine—we are just getting going.

The Convener: I remind everyone that the session is about the Scottish Futures Trust's business plan. I would appreciate short questions that are to the point.

Do you have any more questions, Mr Kerr?

Andy Kerr: I am happy; I have asked the questions that I wanted to ask.

Sir Angus Grossart: I have a comment to make. It is clear that no one will want to go down a particular road if there is evidence that value is not being achieved, so we will consider the academic point. Everyone talks about the formula or the model. In the marketplace, value is often achieved because of the imperfections. People sometimes overpay, but contractors sometimes underbid or overbid, with the result that they can lose money or money can be extremely tight.

Now is probably the best time to tap into the variations, because contractors are paring their margins right back to the bone in an effort to hold their workforces together. There are times when an adjunct to any finessing of formulae might be to get right one's timing and one's reading of the negotiating skills of the people on the other side of the table. We must not forget that. I hope that we will be pretty good at helping people with that. Although we will not be the procuring party, we will bring to the table a sense of market intelligence, knowledge and technique that may help quite a lot of bodies that are unable to sustain a corpus of expertise all the time. The retention of expertise is another way in which we hope to achieve value.

Jeremy Purvis: I come back to my earlier point about your assessment of the different proposals that are put forward. All local authorities that want to bring forward PPP or NPD projects will have received a unitary revenue payment from the Government, whether in the form of level playing field support, revenue support or grants, but the Scottish Futures Trust will not provide a gateway function with regard to the approval of projects. Is that correct? I could see no reference to that in the business plan. If that is the case, the SFT will simply be an advisory body and will have no ability to say yes or no to any given project. Your validation is basically a desk exercise, is it not?

Sir Angus Grossart: I would not say that. Our function is as good as the quality of the advice that we give and our record of delivery. If we prove to be effective, ministers will, I hope, listen to our recommendations. They do not have to; we cannot dictate to them. I hope that we will build up a body of knowledge and be able to vouch for the fact that we have helped to refine projects. There is evidence that that makes a difference and produces value. We are not impotent—

Jeremy Purvis: I do not mean to interrupt, but—

Sir Angus Grossart: We are not voyeurs on the scene—

Jeremy Purvis: It sounds as if ministers will have to do a lot more decision making on an individual basis. In the past—before the hiatus—we knew that any scheme that went ahead was

tested in the key stage review. If it was found to be successful, the project attracted revenue support on presentation of the final business case. The formal start was the presentation of an outline business case. If the Government accepted it, the project happened.

It is extremely worrying that, even if all of that happens, the SFT will simply provide the minister with a letter saying, "This is our advice." At the end of the process, the minister will decide whether the project goes ahead. That is an extremely uncertain environment. I imagine that, in your former guise, you would not have wanted anything to do with a project if you knew that there were a number of different risks in bringing it together.

Barry White: I am not—I think that I—

Jeremy Purvis: How, as chief executive, will you be involved in deciding yes or no on NPD or PPP projects? What role will you have in saying yes or no to funding?

Barry White: Let us look at what we are doing at the moment to support Aberdeen and Moray in their refinancing. We are performing a variety of functions in relation to, for example, refinancing provisions and derogations from the standard contract. We are also ensuring that the NPD principles in contracts are protected and are carrying out the key stage review process. We are combining a number of functions in one package.

To the extent that we are involved in future programmes—whether in health or education—you are absolutely right to say that we need a clear direction of travel at the start. People need to know that, once they have done certain things, they can expect support for their project.

Jeremy Purvis: Is that available at the moment?

Barry White: The situation is different at the moment. We will be looking to bring people together to work together.

Jeremy Purvis: What do you mean by "different"? Either it exists or it does not. If a director of education or chief executive of a council comes to you and says, "I want to replace four secondary schools and I want this to be NPD. What do I have to do to attract revenue support from the Government? Tell me, Mr White, what is my first stage?", when will you decide, and on what basis, that NPD or PPP will give a proper profit to a private sector partner?

Barry White: There are a number of things in that—

Jeremy Purvis: Does that exist at the moment?

Barry White: I cannot answer the question because of the announcement tomorrow. It would be improper of me to answer. However, I can

assure you that the SFT will work with bodies such as COSLA and the Scottish Government to ensure that, when a programme is announced, there is a clear path ahead, so that people know what they have to do. I think that we all agree that that is important.

Jeremy Purvis: When do you expect that to be in place?

Barry White: I think—

Jeremy Purvis: Will it be announced tomorrow?

Barry White: Well, it is—

The Convener: If you find it difficult to address the statement that will be delivered tomorrow, you should not be asked about it. I would not wish that question to be answered if that were the case.

Barry White: That is where I am having a problem. I would rather wait until the statement is made tomorrow.

The Convener: If my colleague will have a little patience, all will be revealed.

Jeremy Purvis: I have one further question about the business plan—

The Convener: You can see the constraints.

Jeremy Purvis: I appreciate the constraints.

Will the Scottish Futures Trust decide on what is considered to be a fair return or acceptable profit for any given project?

Sir Angus Grossart: We will make recommendations that will vary according to market circumstances and the context of the particular transaction. Risks will vary, as will market expectations and rates. We will form a view and, where appropriate, we will give advice.

Jeremy Purvis: The situation is not clear. If all options are to be considered and the SFT will decide, on a comparative basis, which option offers the best value for money, there must be objective criteria on value for money. If the decision is completely dependent on the market conditions around an individual project, there will be no comparative basis for value-for-money assessments. The decision will be entirely dependent on the minister of the day's view of what seems to be a fair profit, based on the advice that they have been given. However, in our report, this committee indicated strongly that there needs to be a more comparative basis for decisions about projects.

Sir Angus Grossart: There will be, but markets change—terms can change even within a period of a week or a month, and there are often tenders with an extremely short time limit on them. However, of course we will try to be objective. We are not just going to put our finger in the air. We

will consider comparable recent examples, what is being done in other parts of the UK and so on. We will try to be as objective as possible. You appear to assume that markets are entirely objective, but they are not.

The Convener: David Whitton will ask the last question.

David Whitton: My question follows on from the line that Mr Purvis pursued. You say that you are going to be objective and will not just put your finger in the air, and that you will judge schemes as they come along. However, only last year, the SNP said that it would oppose the use of private sector funding through PFI or PPP schemes to build schools, hospitals or other projects. If you are going to be objective, might you recommend to the minister a PFI or PPP scheme?

Sir Angus Grossart: That is a possibility, yes. In that case, it would be up to the minister—guided, counselled or assailed by other political parties—to take a view on the matter.

David Whitton: We appreciate that you have been with us for almost two hours, which is almost a record for witnesses, but this is an important area.

From what you have said, I gather that the NPD model is your favoured model—it is certainly the Government's favoured model—although you do not seem to be bound to it. The evidence that you have both given is clear: you agree with the view expressed in this committee's report that you should consider every model. Is that correct?

Sir Angus Grossart: That is absolutely correct. We will consider all the models. We completely understand the political territory that the decisions will be made in, but we will make recommendations based on best advice. Our approach will be ecumenical.

David Whitton: Good word.

You said that you might come back to this committee to discuss the option of your organisation having its own capital to invest—at the moment, you have none. No doubt, given the findings of the Calman commission, we will welcome that debate. However, I do not expect you to answer any questions about that.

Sir Angus Grossart: If I may say so, we are interested in this committee's views on the matter. If we parked the formulaic agenda about the SFT and if, at some stage, there was cross-party consensus that an independent, ecumenical procurement body could have merits and could be good for Scotland, we could positively engage with this committee to examine whether having capital to spend would be helpful or might cause a parliamentary problem.

15:45

David Whitton: You might want to engage with the idea of the Scottish investment bank. However, that is also a debate for another day.

You said that you want to engage the support of local authorities. You might have a bit of work to do in that regard, because COSLA has said that it is so frustrated with the delays around the SFT that it is going to set up its own working group to consider infrastructure investment. Is that a bit of a disappointment to you?

Sir Angus Grossart: No. The public expressions of local authority interest to which you refer must be balanced against some of the other comments that have been made and some of the positive engagement that there has been. Not all local authorities are opposed to the SFT; a good number are receptive or engaged. Many would not have gone down that route, but, in keeping with democracy, they are perfectly happy to work with us, especially because we were not the political originators of the idea; we are simply trying to do our jobs the best we can. They are willing to pull together on the basis that it is a genuinely good idea for Scotland to try to find common ground.

David Whitton: I have a final question for Mr White, as he mentioned Aberdeen. A project in that area ran into problems as a result of the situation with the Icelandic banks. Can you give us an update on how that work is going, or are you restrained from doing so?

Barry White: I am restrained from doing so. However, I can say that Aberdeen City Council is doing a really good job and that the officers and advisers who are involved, with our support, are doing a sterling piece of work. We will continue to support them to achieve a sustainable solution. The SFT can do important work in that area by deploying people who can provide expertise to the local authority while leaving ownership of the issue with the local authority. That is an important part of our approach to working with councils, and it is an example of the good working relationship that we can strike with COSLA.

The Convener: I am trying hard not to think of Father Ted saying:

"That would be an ecumenical matter."

Linda Fabiani: May I ask a final question, convener? I should have asked it earlier.

The Convener: One very short final question from Linda Fabiani.

Linda Fabiani: I am aware that we do not yet have the final Treasury IFRS financing guidelines. When do you expect them to be available? Will they have any bearing on the kind of recommendations that you might make?

Barry White: I think that they will have a significant bearing. When the guidelines become firm, we will have to interpret them and come up with a structure that delivers the very best value. We must strive to avoid a scenario in which a thousand flowers bloom. We want to assess the best-value-for-money solution and move forward with it, under the new rules. That will allow there to be the replication that we and the market want—people want to do business in an environment in which there is a standard procurement route, and getting that market interest is really important. Certainly, there is value to be gained from the Eurostat accounting regulations.

Linda Fabiani: When do you expect those guidelines to become firm? I am sorry to keep going on, convener, but it is the same question—he just didn't answer it.

Barry White: The judgment could come through any day. The consultation period closed around two or three weeks ago, and we expect the decision to be finalised imminently.

The Convener: We are drawing to the end of the public part of our meeting. Do our witnesses wish to have the last word?

Sir Angus Grossart: No—I think that that would be dangerous. We have the sense to withdraw.

The Convener: That would be an ecumenical matter.

I should say that depoliticisation of this issue is difficult, but I thank you both for guiding us through the question of how many PPP angels there are on an SFT pinhead and vice versa. Your clear explanations have been of great assistance to the committee, and I thank both of you for your contribution to our proceedings.

15:50

Meeting continued in private until 17:28.

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