



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 16 January 2013

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FINANCE COMMITTEE

2nd Meeting 2013, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Peter Reekie (Scottish Futures Trust)

Barry White (Scottish Futures Trust)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 5

Scottish Parliament

Finance Committee

Wednesday 16 January 2013

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the second meeting in 2013 of the Scottish Parliament's Finance Committee. I remind everyone present to switch off mobile phones, BlackBerrys, tablets and other electronic devices.

The first item of business is a decision on whether to take item 3 in private. Are members agreed?

Members indicated agreement.

Scottish Futures Trust

09:30

The Convener: Our second item of business is an evidence-taking session with Barry White and Peter Reekie of the Scottish Futures Trust. The focus of the session is to consider the Scottish Government's spending on non-profit-distributing or NPD-financed capital investment and maintenance expenditure. I welcome our witnesses to the meeting and invite them to make a brief opening statement.

Barry White (Scottish Futures Trust): I thank the committee for inviting us to today's meeting. Peter Reekie, the SFT's finance director, and I are delighted to be here.

The asset management and NPD programmes are two of the programmes that SFT is working on. Our other major programmes include the national housing trust, which is building affordable homes throughout Scotland; the hub programme, which is procuring community facilities across the country; and the schools for the future programme. We are also working on a number of other areas, including waste and low carbon.

As we have submitted a paper to the committee, I do not intend to say very much by way of introducing the two topics. The NPD programme, which currently has £1 billion in procurement, rising to £1.5 billion by the end of the financial year, covers 50 projects across 30 procuring authorities. The SFT is playing a lead role in the programme through expertise in financing and a simplified standard contract and, indeed, one of our key roles will be to appoint a public interest director, which will vastly improve the transparency in arrangements compared with the previous situation. Our report highlights the good progress that has been made in Inverness College, the procurement time for which was 53 weeks, and the other procurements that are advancing rapidly.

The report also highlights the three strands of asset management: the central estate, which is mainly to do with offices; the local estate, which is all about collaborative working between different public bodies; and surplus property, in respect of which we are looking to improve and build on our approach and take a lead role in disposing of significant assets in the public estate. That will happen over the forthcoming years as surplus property becomes available on the back of on-going investment programmes.

Again, convener, thank you very much for inviting us to today's meeting.

The Convener: Thank you very much for those comments and the detailed paper that you have submitted to the committee. In time-honoured fashion, I will ask some questions and then open the session to committee members.

My first question is probably the most obvious one: was there an element of overoptimism in the projected capital investment for NPD? For example, for the three years from 2012-13 to 2014-15, the financed capital investment is actually £482 million lower than was expected when the spending review was published; indeed, in the current financial year, investment was £20 million instead of the projected £353 million. Can you enlighten us as to why that has happened?

Barry White: In some ways, our paper addresses that point—

The Convener: I appreciate that. We all have the paper but, for the wider public who do not have it and for the record itself, we often have to ask questions that we know the answers to. Indeed, the matter was covered in the debate on 20 December. However, we want to hear your explanation.

Barry White: Absolutely, convener. I am simply apologising for repeating anything that might be in the paper.

There are a number of important points to make. It has always been understood that NPD financing is different in nature to capital financing and follows the progress of a project. An example is the Aberdeen western peripheral route, which went through a lengthy legal process. In capital financing, if a project is held up in a legal process, the funding can be switched to and spent on other projects; however, in NPD financing, the money is allocated to a specific project and is not interchangeable in that kind of way.

Secondly, as the budget document makes clear, it was always understood that NPD's profile would depend on the progress of a project. Looking at the examples that we give in our paper, I note that in the case of the Royal hospital for sick children in Edinburgh two things had to happen in the switch from capital to NPD. As the change in funding allowed the neurosciences facility and the hospital to be put together in the same building, NHS Lothian had to ask whether such a move was better clinically and concluded that, clinically, it would be better to have one instead of two buildings. Although that was a good decision, there then had to be lengthy discussions with the existing private finance initiative contractor on the Little France site to conclude the land deal that would allow the project to go ahead.

As far as progress is concerned, it is absolutely right to spend time on preparation to ensure that, when projects enter the procurement stage, they

are properly prepared for moving forward. Indeed, the procurement stage has been moving quickly. We have been given information showing that, historically, it has taken 35 months for such complex procurements to go from advertisement in the *Official Journal of the European Union* to financial close. Our timescales in Scotland are roughly half that. Preparation, therefore, has been leading to greater acceleration.

The Convener: But surely you accept that there was a level of overoptimism. There is, after all, a substantial difference between the £353 million that was projected and the £20 million that has been delivered. Although the figures show some catch-up in 2014-15, there is still an overall lag. Will that not have a significant impact?

Barry White: Things have certainly changed—but they have changed for good reasons, some of which I have outlined. One of the big changes that has had an impact on those numbers has been the switch of the close to £300 million Borders rail project from the NPD programme to the regulatory asset base. That project is still happening, but it is no longer included in the figures.

The Convener: My next question was going to be on the extent of funding with regard to that project, which is an issue that I note you highlight on page 1 of your report.

As you will be aware, we took evidence on public procurement from Jim and Margaret Cuthbert, who have expressed concern about openness with regard to the Scottish Futures Trust and have said:

“territorial agreements are set up in the first place and the individual projects move on thereafter. It would be great to get our hands on those and find out whether they are, in fact, performing as well as the SFT says they are.”—
[*Official Report, Finance Committee*, 7 March 2012; c 810.]

How would you respond to those concerns about openness?

Barry White: When I saw that quote from Margaret Cuthbert in the committee papers, I went back and re-read the Jimmy Reid Foundation report on which she was addressing the committee. Those comments are not in the main body of that report—at least I could not find them—so they must have been verbal remarks to the committee.

I disagreed with a number of things that the Cuthberts quote in their report and I wrote to the Jimmy Reid Foundation to say that there were things in the report that I believed were either inaccurate or wrong. For instance, the Cuthberts say that, in their eyes, firms such as Morrison Construction do not count as Scottish. Although the firm might have a large Scottish workforce, because it is part of a United Kingdom-wide group, it does not count as a Scottish firm in the

Cuthberts' eyes and therefore any contracts awarded to it do not go to a Scottish firm. I disagree, because Morrison Construction employs a huge number of people in Scotland; it was founded in Scotland in 1948 and some of its biggest shareholders are Scottish pension funds.

I also disagree with Margaret Cuthbert's comments about transparency. In the NPD programme, more than two thirds of the projects are stand-alone projects that are not subject to the territorial agreements that she mentioned, so I assume that she was in fact referring to the hub programme. Two thirds of the projects are outwith hubs, so on that point Margaret is incorrect.

On whether projects in hub or out of hub are more or less transparent, the procuring authorities have to adhere to the same level of transparency in both cases, so it makes no difference if they are in the territorial agreements. I would go further—in NPD contracts, we have moved from a presumption of confidentiality to a presumption of publication. A different tenor is being used in the contract. Peter Reekie can talk about the changes that we have made.

Peter Reekie (Scottish Futures Trust): The new NPD standard form of contract is a standard document that is owned by our team in the Scottish Futures Trust and has been developed by us. It contains specific drafting—if you want to look it up, it is clause 61.1—that enables the public authority to publish the contract, including the monthly payment and performance reports, and, indeed, the financial model that has caused a certain amount of controversy in the past.

Rather than having a whole confidential information schedule, a right is now built into the contract to publish at points in time. The NPD structure also has a public interest director—Barry White referred to that point earlier. That director sits on the board of the company that is established to deliver the contract. All the five hub territories that are part of the hub model that has been mentioned have public sector representation on their boards, specifically to deliver greater openness and transparency about the actions of those delivery companies.

All those concrete steps have increased the transparency of such contracts compared with what we saw before. I hope that that allows people to analyse the contracts in greater detail in the future.

The Convener: In your submission, section 3.1 covers

“Remodelling and Rationalising Central Office Space”.

In it, you talk about looking for opportunities to

“enable new ways of working; share existing space; improve space utilisation; exit leases; and to dispose of

freehold property. The outcome should be a significant reduction, of at least 25%, in the office footprint.”

There is a lot of detail on that, but what time period are we talking about?

Barry White: The 25 per cent reduction is scheduled to take place over five years, between 2012 and 2017, and initial moves are happening already. For example, NHS National Services Scotland has gone from, I think, five offices in Glasgow to one. It now occupies space in a Government office that had some spare capacity. The efficiency of that space is due to increase further over coming years. There are 10.4m² per person at the moment. That is due to go down to under 10m² as more people move into that office. As part of that, hot desking will take place to allow other NHS colleagues to work in there as well. It is about different working as well as increasing flexibility.

One of the first things that we did after being appointed to run the programme in May 2012 was to say that, although a lot of good activity was happening, we wanted to develop a wider strategy for each of the major locations. We need to look at all the central Government office space in Edinburgh as a whole, so that over the five years we move on to a strategic footing. Rationalisation can then happen in a better co-ordinated fashion than is currently the case, allowing greater efficiency to emerge.

Likewise in Glasgow, we need to look at Glasgow as a whole and to say what the best footprint is of offices for the central Government public sector—that includes the agencies and non-departmental public bodies as well as the civil service. In practice, that will mean people sharing office space that is perhaps currently occupied by one Government body. There will be two or perhaps even three Government bodies in that space, and greater use will be made of it.

One of the things that we have highlighted is our work with Fife Council and the City of Edinburgh Council to pilot technology that can allow a council worker to work in another council's office. As technology advances, the ability to share space and use it more effectively will increase.

09:45

The Convener: What kind of savings are we talking about through rationalisation and asset disposal over the five-year period?

Barry White: In the central estate, the estimated saving is around £28 million per annum. That will be made on a recurring, on-going basis once there is rationalisation. In the local estate, it has been estimated that £500 million will be the aggregate saving or benefit, as some of it will come from asset disposal, over the five-year

period. That is partly from asset disposal, but it is also from operating efficiencies.

The Convener: I open up the session to committee colleagues.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I am interested that your paper says:

“The NPD programme is, in relative terms, one of Europe’s biggest programmes of additional investment over and above capital budgets.”

Can you put that into context for us and quantify it? How does the programme compare with what is happening elsewhere in Europe?

Barry White: Based on figures from a European Investment Bank-sponsored body, France is the only country to have done something of a similar size. It had an investment programme of around €30 billion. Obviously, France is considerably bigger than Scotland but, in relative terms, it has probably done slightly more or thereabouts and its programme is one of the biggest. The Netherlands is behind France. We are on a par with or ahead of the Netherlands and slightly behind France proportionately, but compared with other European countries we are investing considerably more through our NPD programme in addition to our capital budgets for the population of Scotland.

Jamie Hepburn: If that information is available, could we see it?

Barry White: I can certainly share the information from the EIB-sponsored body.

Jamie Hepburn: That would be useful.

Your paper says:

“Currently there are projects”

in the NPD programme

“totalling more than £1bn in procurement, and this is planned to increase to over £1.5bn by the end of”

this financial year. What accounts for the £500 million difference?

Barry White: I think that Ayrshire and Arran’s project has moved into procurement since we published the paper—that has happened in the past week. However, the big differences will come from a number of schools projects entering procurement, a number of health projects and, most significantly, the Aberdeen western peripheral route, which will also enter procurement. Therefore, the difference is accounted for across all sectors, but one of the biggest differences will be made by the AWPR moving ahead.

Jamie Hepburn: You have already quantified this, but it would be useful to know how you have achieved a much-improved procurement time. I think that you said that the standard procurement

time used to be 35 months, but it is now half of that. How have you achieved that?

Barry White: We have done that in a number of ways. Getting the project preparation right is one issue. I will ask Peter Reekie to answer that question, as he is working most actively with the projects.

Peter Reekie: The context is that in the autumn statement in December the Treasury said that PFI projects in England are still “stubbornly”—it used that word—taking 35 months to go through procurement. Under our programme, as Barry White said, the Inverness College project took 53 weeks—just about a year—to reach preferred bidder stage. The new target in England is that in future, as an aspiration, projects should reach that stage in 18 months.

We have done a number of things to allow us to move through that procurement stage more quickly. First, we now do more design work up front, as Barry White said, with proper project preparation. That does two things: it allows us to move through the procurement stage more quickly and that in turn makes it cheaper to tender for projects—that is a critical point that the industry had been asking for. Less time is now spent at the stage at which three competitive design teams do the same thing at the same time, which saves money for projects overall. That saving will be fed back to the public sector, given that people had to recover their bid costs somehow. That more efficient interaction of the design process with the procurement process is one very big step.

Secondly, we have significantly simplified the contract. The standard contract that I have referred to is published on our website and has been written pragmatically so that it is capable of acceptance by anyone reasonable in the industry. We do not need to spend a lot of time with lawyers to-ing and fro-ing on points of detail in the contract. We have changed some of the detail of the risk allocation, which previously asked private sector companies to take risks that they were simply not able to control. If you ask people to take a risk that they cannot control, either they will try to negotiate a way of wriggling out of that and take up time during procurement, or they will simply price in the worst-case scenario, which we will end up paying for. For example, on insurance risk and the potential for changes in law sometime in the future, we have now changed the allocation of those risks in the contract.

Finally, as well as changing the design process and the detail of the risk allocation, we have simplified the range of services that are included in the contract. Previously, contracts of this nature might have included cleaning and catering-type services, which typically took a long time to specify and to procure and negotiate. Frankly, the

inclusion of such services also sometimes reduced the level of flexibility in the contract for the public sector to make any necessary changes to the contract in future. We have taken out that wide range of services and we now include only the core maintenance services that are required to keep the asset in a good condition. That has also simplified the procurement process.

Changing the design process, contract simplification and reducing the scope of services have all allowed us, working with really good teams in the public sector procuring authorities, to reduce that timescale.

Jamie Hepburn: With that condensed process and simplified contract, are you confident that the process and the contract is still rigorous enough to provide efficiency and a good deal for the public purse?

Peter Reekie: Absolutely.

Gavin Brown (Lothian) (Con): I will come back to some of the NPD issues, on which the convener started his questioning. As he mentioned, at the time of the spending review in 2011, the estimate for construction spend under NPD for 2012-13—the current financial year—was £353 million. However, we were told by the cabinet secretary that the actual spend for this financial year will be £20 million. What projects is that £20 million being spent on in this financial year?

Barry White: I think that the Aberdeen community health and care village is the main one.

Peter Reekie: Yes, the Aberdeen community health and care village is one project. There will also be some early works on Inverness College, which is due to close before the end of the financial year.

Gavin Brown: Sticking with the current financial year, we can see that that leaves a difference of £333 million. You have given some explanation for that in your written submission, but what is the breakdown for that gap in the current financial year? How is that £333 million broken down among the Borders rail link and the other projects that will clearly not happen on the ground in this financial year?

Barry White: As we said in our briefing, at the outset we are looking at the profile for the NPD programme at the stage at which all the projects are at pre-outline business case. When Audit Scotland looks at adherence to programmes, it talks about project life in terms of two key stages: the initial approval, which is the outline business case; and the full business case, or subsequent approval, which is when project dates are judged to become more certain. In looking at the NPD programme profile, we are looking across all the projects and saying that some schools or hub

projects—rather than specific projects—will happen.

The biggest impacts on the numbers that Gavin Brown is asking about are, for example, the shift in the Borders rail project financing and the delay to the Edinburgh children's hospital caused by the PFI contract. Some very big projects have had a big impact on those numbers.

Gavin Brown: With that in mind, when the spending review happened in 2011, what was the rough amount that it was thought would be spent on the Borders rail project in the current financial year 2012-13?

Barry White: I do not have those numbers on me.

Peter Reekie: I do not have the figure to hand.

Barry White: Again, the issue comes back to the programme as a whole. Borders rail, M8 and the AWPR were all transport projects that could have moved forward at different speeds, including the AWPR being held up in legal processes. The numbers are for across the programme rather than across individual projects.

Gavin Brown: You must admit that £353 million is quite a specific figure to put out for what it was thought would happen within this financial year. Do you have somewhere—if you do not have it today that is fine—a rough or estimated breakdown of what you anticipated the £353 million would be spent on, project by project, over the course of this financial year?

Barry White: We have a high level overview of what that could have been, yes.

Gavin Brown: Is that something that you can provide to the committee?

Barry White: Yes, it is.

Gavin Brown: My next question is on the next financial year—2013-14—the budget for which we will vote on next month. Again, at the time of the spending review, the projection was that £686 million would be spent in that financial year. When the cabinet secretary gave evidence to us on 5 November, he said that the figure will be £338 million. Is that £338 million still the correct figure, or has there been any change since 5 November?

Barry White: There has been no change to the figure, but it is a forecast for a programme that involves 50 projects and 30 procuring authorities. Some projects may still have to get planning permission, for instance. In addition, we may hold a funding competition for some of the college projects that we are working on to ensure that we secure absolutely the best value for the taxpayer. Therefore, some of the project timetables can hinge on external factors and on statutory decision making. As people working on the projects will

know, there are still some key risks in the project timetables going forward.

Gavin Brown: Can I take it that the £338 million figure is the best, most up-to-date estimate that you have?

Barry White: Yes, it is.

Gavin Brown: From your previous answer, are you saying that the figure could be less than £338 million, or are you saying that it could be more than £338 million?

Barry White: The figure could move, for the reasons that I have given. For instance, the figure for NPD investment this year is £20 million, but if Inverness College reaches financial close just before the year end, that figure could go up—there could be some balancing effect between this year and next year, if you see what I mean. Figures could move across the boundaries of the years.

10:00

Gavin Brown: Okay, but are you hopeful that the £338 million is going to go up? Are you saying that there are risks that it could be less than £338 million?

Barry White: It is unlikely to go up. If certain of the key projects that we are looking to move forward were held up—and I have given some of the reasons why that could be the case—the figure could be less.

Gavin Brown: You explained that Borders rail is one of the reasons for the change. You also specifically referred to the sick kids' hospital, which I have heard you mention before.

You also mentioned the Aberdeen western peripheral route. I am just trying to establish how much expenditure on that was expected in the current financial year and in the next financial year. I ask that because, as you will know, Road Sense announced at the time of the spending review that it was going to appeal the Court of Session decision, so the legal case was still live. How much expenditure on the AWPR was projected for 2012-13 and 2013-14 at the time of the spending review? Was it projected for 2014-15 or later anyway because of the legal case?

Barry White: I think that it was projected for 2013-14, and onwards from then.

Changes happen in a range of projects. For example, as a result of the shift to NPD for Dumfries and Galloway royal infirmary, the NHS board re-evaluated what it is going to do with the site. It has moved from refurbishing the existing hospital to building a new one on the outskirts of the town. That is a good example of a project that could have moved more quickly had it stuck to the original plan, but by taking stock, asking what

would be best clinically and moving ahead on a new plan, the NHS board believes that it has found a better solution. However, that means that the project has had to go through site identification and acquisition, and a decision has had to be made about how the hospital can be built on the new site.

That is what I referred to in my submission as getting the right thing in the right place. That is loose terminology but when big strategic investment decisions are being made it is right that project managers prepare themselves in that way and say, "If we are going to spend a substantial amount of money on this hospital, let us make sure that it is the right thing in the right place". That good preparation will lead to better value for the taxpayer in the long term.

Gavin Brown: Can we briefly go back to the Aberdeen western peripheral route? At the time of the spending review, on which your initial projections were based, the legal case was on-going. How much of the expenditure did you project there would be in 2013-14, the next financial year?

Barry White: I do not have that number to hand. A view is taken across all the transport projects, and I could supply you with it, if that would be helpful.

Gavin Brown: Sure. If you do not have it, you do not have it, but I would be grateful if you are willing and able to supply it. You have agreed to supply the top-level list for 2012-13; is it possible to get the same list for 2013-14?

Barry White: Yes it is.

Gavin Brown: Thank you.

Jean Urquhart (Highlands and Islands) (Ind):

I want to ask about the procurement process. The introduction of PFI and competitive tendering was seen as the best way to get value for the public pound. In Highland, we invited bids for the building of seven schools, but there was only one bidder, largely because the project was so big.

I am sure that all members have been lobbied by small businesses that feel that they cannot enter the bidding process. Is the situation changing? Barry White referred to the new simplified contract, but evidence from other European countries seems to be that contracts can be broken down much more so that smaller companies have a chance of winning some of the business.

The Cuthberts' report for the Jimmy Reid Foundation supports the idea of radically changing

"the culture of procuring agencies, so that it is the norm to split contracts into relatively small blocks, unless there are over-riding reasons for not doing so."

Given that Scottish industry is largely made up of small businesses—regardless of whether or not Morrison Construction is a Scottish company—would that not be a solution to lots of things? Is there an update on the move towards that? I am sure that the Scottish Futures Trust has been approached by small builders, architects and a lot of small businesses asking for a change in the process.

Barry White: I will ask Peter Reekie to speak specifically about what we are doing in relation to community benefits in the NPD programme, and I will talk in high-level terms.

Some of the projects that we are working on are large—the M8 or AWPR projects that Transport Scotland is procuring are large because it makes sense for them to be large. A lot of the other projects that we are working on across the board are smaller, and small and medium-sized enterprises are playing an active role in them. The Drumbrae project, which is one of the first hub projects, was not funded through the NPD programme, but 80 per cent of the value of the project work went to SMEs. We are watching closely the value of work and the location of contracts going to SMEs—that is an important part of what the Scottish Futures Trust looks at.

Peter Reekie will now give some examples from Inverness College or from our wider work programme on community benefits.

Peter Reekie: There are a couple of points to make specifically in relation to SMEs. As Barry White said, building a big building is a big contract. We are working in a specific subset of general Government procurement that is at the larger end, and we would not see it as a good idea to separate out elements of a building and buy them separately.

What is a good idea is to ensure that all specialist subcontractors in an area—which are often SMEs—have the opportunity to bid for packages of work within that larger contract. We are clear that the larger contractors that co-ordinate that work should be open with the local marketplace and help businesses to bid for the packages of work appropriate for them. For example, Miller Construction has just been announced as the preferred bidder for our Inverness College contract. It has run events—and it will run more—for local contractors to meet the buyer so that they are fully aware of all the packages of work that are coming and can tee up to bid for that work.

In the hub programme, as Barry White mentioned, we have a high proportion of SMEs getting packages of work, so the boots on the ground are, to a large extent, employed by small

companies—a lot of which are Scottish based—to deliver the work.

On the other side of community benefits, it is important that a good deal of training and local job opportunities come out of the packages. A lot of those will also be delivered by SMEs. We follow ConstructionSkills Scotland's guidance on the number of training opportunities that should come out of the larger projects in particular. To use Inverness College as an example again, on-site training programmes will be run to allow the work placement elements of the college's own courses to be delivered on the building site of its new project—there is a neat symmetry in that. The first apprentices are likely to be employed on that project at the preferred bidder stage before we even reach the contract.

As far as access to the SME marketplace and the provision of local training and employment opportunities are concerned, we feel that our procurement of projects and the way in which we are contracting and holding people to account for what they are delivering will result in strong outcomes for communities.

Jean Urquhart: What, then, has changed? If, say, an expert plasterer were to look at the new simplified contract on the website, what would reassure them that they could take part in the project? Indeed, what would reassure the Cuthberts with regard to their criticisms?

Barry White: The NPD programme is as much about culture as about what is in the contract. In each of the projects, we are asking the procuring authorities to appoint a community benefits champion. Quite apart from what the contract says, a culture needs to be created to ensure that community benefits are in the project's DNA. The community benefits clause that we have put in the contract is the strongest that we can employ in line with the existing laws and regulations, but the bigger change is to do with the culture, which is incredibly important.

Moreover, in the hub programme, which will deliver some of the health centres and schools that are being funded through the NPD programme, there is a longer-term relationship that allows apprenticeships to go across several contracts instead of just one. Where contracts are smaller, the opportunity to have continuity of employment is even greater. That is actually quite a significant change.

Jean Urquhart: I have two more questions. First, will there be a report on the finished project, how it worked out and whether the change in culture that you wanted happened, to ensure that you have evidence on how much the contract's value went to local contractors?

Secondly, I guess that you must be aware of how these things work in Europe. Do we have any lessons to learn in that respect? After all, some quite big projects have not appeared in the European bidding process, which means that other European countries have not been able to bid for the work, because, as I understand it, the contracts have been broken down into sizeable pieces that smaller businesses can bid for.

In summary, there are two questions. First, I absolutely appreciate your comment that you want to change the culture, but how will we know whether your approach has worked? Secondly, how have people in Europe managed to put the kind of system that I mentioned in place and we have not?

Barry White: First, we certainly look to Europe to see whether we can learn anything. In the projects that we work on, only a handful of contractors in the Netherlands, for example, will bid for those contracts. The market in Scotland is much more fragmented, which means that 10 or even 15 people might be capable of carrying out the contracts that we advertise. The construction markets in the Netherlands and Scotland are very different in nature.

I have worked for European contractors. One of them—BAM—is one of the biggest players in the Netherlands, and Skanska is one of the biggest in Sweden. I also know that three or four major firms dominate the construction market in France. Given the difference between the European and Scottish markets, we think that, although we can by all means learn lessons from Europe, we should focus on finding out what best we can do in the topography in which we are working.

10:15

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): Given that some of what I wanted to ask has been covered, I will begin by summarising what you said in response to Gavin Brown's detailed questions on the headline issue with which Kenny Gibson started his own questioning.

A lot of the explanation about the underspend, as it were, was to do with specific projects such as the Royal hospital for sick children. Although you say that the procurement time under the NPD model is quicker than the time for procuring PFIs in England, is it also quicker than the most recent public-private partnerships that were put in place in Scotland, say, two or three years ago? Is the process actually faster or does NPD have any intrinsic aspects that make it more difficult to conclude all the different stages quickly?

Barry White: There are two very separate issues, the first of which is getting projects ready for procurement. Let me take as a broad example

some of the phase 1 and 2 schools that were announced quite some time ago. One such school, which is in Edinburgh, had to buy a site; because of the process, it has taken time to prepare things, buy the site and carry out a consultation on the location of the school that was required as part of the purchase arrangement. The outcome has actually been really good. To date, we have largely been engaged in project preparation, in which I am a passionate believer and which I believe gets better value for the taxpayer.

Current evidence suggests that procurement is moving faster than the stubborn 35-month average that the chancellor quoted and historical PPP-style procurement in Scotland. We believe that our simplification of the contract form—while, as Peter Reekie mentioned earlier, taking out certain services, changing the risk profile, running the procurement in a different way and ensuring that procurement teams are properly resourced—is feeding into faster procurement.

Malcolm Chisholm: That suggests that you are not finding it difficult to put financial packages together. At the beginning, some thought that the process would not be so attractive to private finance but, according to you, it is proving to be. First, can you remind us of the financial returns for people who invest in NPD? I know that it is supposed to be a non-profit-distributing model, but that is really just a headline. Secondly, how attractive or otherwise is it proving to be for private finance?

Barry White: As I have said before, if you ask anyone in the private sector whether they would prefer a fixed, capped return or an unbridled return, they will always say the latter. However, we are finding that the capped return people are bidding on a capped return that is lower than the uncapped starting rate in the older projects. As a result, we are securing value.

However, our NPD programme has captured greater value than that. By reducing the services in the contract, for example, we have made it more flexible. Indeed, some of the contractual changes that Peter Reekie mentioned that alter the risk allocation also improve value for money.

I will ask Peter Reekie to comment on general financing, because we are looking to attract senior debt or pension fund money into projects. As we know, these are challenging times for banks, and Peter and the team are trying to ensure that we have projects that are financeable in the current market. That will, of course, mean finding different solutions for different projects.

Peter Reekie: The overall financing for projects mainly comes in two parts. First, 80 to 90 per cent of the financing requirements comes from a big

chunk of senior debt, which is the most secure form of debt. On top of that, there is a smaller, riskier tranche of financing, which is where in the past people have made uncapped returns. Under NPD, that element is capped and, as Barry White has pointed out, we have managed to reduce the level of return in that respect.

On the big chunk of financing, which in the past was always at a fixed rate from banks, the market has changed substantially since the global financial crisis. If I said that the market is unchanged since 2007, you would be very surprised indeed. A lot of different structures have come to bear. One thing that my team in the Scottish Futures Trust does is to act as a centre of expertise for the financing of major projects, which is really quite tricky and is not done very often.

For some of the early deals, such as that for the Aberdeen health village, the senior debt was provided by Aviva, which many members will know as Norwich Union. It is a life insurance company, and it is interested in such long-term secure financing because that reflects the liabilities that it has over the long term for life insurance. On a technical level, such players price from Government gilts rather than from the London interbank offered rate—LIBOR—which members have probably heard about. That pricing from gilts and the company's keenness on the approach give us a competitive rate for the overall financing of the senior debt element, even in these difficult financial times.

We will also attract European Investment Bank funding for larger projects in Scotland. For the City of Glasgow College project, which will shortly come up for financing, the EIB will lend at a competitive rate for half the senior debt, and we will run a competition, which Barry White referred to earlier, to see who can bring the best deal for the rest of the money, whether it be life insurers, commercial banks or pension funds.

We also anticipate European Investment Bank involvement in the bigger roads projects through a structure that President Barroso and the European Union are backing strongly called the EIB project bond. That will involve the EIB reducing the risk of the senior debt by offering to put in money if and when it is needed if something goes wrong. That would allow us to fund large chunks of the big projects through the bond markets. We expect pension funds to buy those bonds, which are strongly rated, at about an A-minus credit rating. We are working with Transport Scotland on the credit rating process to deliver the best financing package.

Barry White talked about preparation work. The approach to the M8 project of doing some utilities work up front and outside the contract might seem like a broadly sensible thing to do—although we

might worry about the risk of the interface—but it also hits a specific button in the rating agencies' process for rating the security of the project. By doing the utilities work outside the contract, we increase the credit rating of the debt in the contract and deliver better value for money for the overall financing package. All those issues about the contracts and financing are interlinked and must be considered to get the best value for the overall financing of contracts.

Barry White: Malcolm Chisholm asked whether the NPD programme is attractive to people generally. Actually, we are attracting large numbers of bidders for projects and we are getting competitive bids. The industry sees the programme as something that will give a substantial boost over the next four to five years. The question was whether the programme is sufficiently attractive to people to get them to compete, and the answer is yes.

Malcolm Chisholm: You gave some good news on the presumption of publication of contracts. Obviously, there has been criticism of the current situation. I know that, in relation to the Edinburgh sick children's hospital, freedom of information requests have resulted in largely redacted documents. Will that continue to happen or are you saying that the process is being opened up more generally to freedom of information requests?

Barry White: The business case for the sick children's hospital, which is published on NHS Lothian's website, has redactions of information that is viewed to be sensitive because of the ongoing procurement process. Commercially, that is the right thing to do, given that we want to get the best deal for the taxpayer. From that point of view, limited redactions at this stage are the right thing. Our focus is on working with NHS Lothian to consider how to get the best deal for the taxpayer for that hospital. We want to ensure that we drive through the procurement hard and fast and that we start with the hospital build at a competitive price and a good financing package. At present, we think that limited redaction is the right thing.

Malcolm Chisholm: Jean Urquhart asked about procurement, SMEs and local employment, so I will not repeat all that. I want to ask about an issue that you have covered, to an extent. In their report, the Cuthberts made a point about contracts being made very large. Obviously, with the hub programme, you are deliberately bundling projects. I presume that that is because it makes them more attractive and is better value for money. Does that have negative consequences for SMEs and local employment? A supplementary point is that you might want to answer the Cuthberts' allegation that the long-term arrangements that you are coming to on hub

bundling and the approach of having a particular provider are contrary to European rules.

Barry White: I will tackle the SME point head on, because there is limited bundling in the hub programme. For example, there are three health centres in the north of Scotland—

Malcolm Chisholm: There is one in Edinburgh, too, I think.

Barry White: Yes. Those health centres are being bundled because they are being financed through the NPD programme and in order to attract a funder, enough projects need to be put together. Bundling projects allows them to happen now, using the additionality that NPD brings. The health centres in Tain, Aberdeen and Forres will open because they were bundled and procured together. Generally, we do not bundle. Other health centres are being built through the hub programme, but are not part of the NPD programme.

An example of what is happening in the hub programme that is a real change of behaviour is that a major contractor has agreed to mentor an SME to help it to provide the right level of service to the public sector in developing a number of health centres. An appropriately sized SME is working with that contractor. One thing that we are trying to achieve through the hub programme is zero defects when projects are handed over, because one of the great challenges in construction is to get buildings finished to a high standard. Through that mentoring process, a major contractor is showing a change of behaviour and an SME is getting involved in a project, which is helping to improve the SME's skills so that it can take a bigger role in the future. That change in behaviour is a remarkable shift.

As I said, a huge amount of work is flowing to SMEs from the main contractors in the hub programme. The NPD programme, by creating additional work, is having a huge impact on the flow of work down to SMEs. Recently, we have been working with an SME in Clackmannanshire through the national housing trust. We have had to work in partnership with that SME to help it get to a point at which it can develop a national housing trust proposal and deliver that for us to build houses in Clackmannanshire.

The SME voice is well heard, and rightly so. Bundling is being used appropriately to ensure that projects go ahead. However, where projects are funded through capital, they tend to proceed as isolated single projects, rather than being bundled to allow the financing to work for a design, build, finance and maintain contract.

Malcolm Chisholm: As far as I understand it, the north Edinburgh health centre is also in a bundling arrangement.

Barry White: Yes, but that it is probably one of the ones that is financed—

Peter Reekie: Do you mean that it is being delivered through the hub, Mr Chisholm?

Malcolm Chisholm: Yes.

Peter Reekie: In that case, it is also in a bundling arrangement.

Malcolm Chisholm: My final question is on maintenance. We have not heard much about that, although you made the interesting point about an estimated £28 million of savings from the central estate and £500 million from the local estate. Is that over a specific period? Do you have savings targets that you have to achieve annually or are those the savings that will, eventually at some unspecified date, be accrued?

10:30

Barry White: There are two different approaches. In the central office estate, we took the view that it would take a number of years to implement the changes. Therefore, the £28 million saving was estimated to be in place from 2017 onwards and will take a number of years to work through. There will be some incremental shifts during that time, but the saving will depend on leases, lease exits and all sorts of other things, so there is a timespan to it.

The £500 million saving is on-going; £500 million of disposals and other things will emerge during the five-year period. It will be more easily updated as we go through the process, and we will issue periodic updates on it. It will include, for example, disposals or collaborative working to manage operational PPP projects. Another example is that, at the moment, we are working on three pilots with local authorities to try new ways of working so that, as they develop strategies to rationalise their office estates, new ways of working can be built in.

The £500 million saving will be incremental over the five years, whereas the £28 million saving will occur at the end of that period.

John Mason (Glasgow Shettleston) (SNP): We started an hour ago by asking whether you are overoptimistic about some of the figures. I have listened for an hour and still think that the answer to that is yes.

Would it have been better to say that some of the figures—the £335 million and £686 million, for example—were the maximum possible, rather than “estimates”, and that there was no way that they could go up but there were many reasons why they could come down?

Barry White: From our perspective, it was always understood that the figures could change.

That is one of the key points. They have changed and have done so for good reasons.

When dealing with 50 projects across 30 procuring authorities, there is always a judgment to be made as to how quickly things can progress. To take the phase 1 and 2 schools as an example, although there were a number of projects, we did not identify projects A, B and C as those that would advance most quickly; rather, we said that a number would advance more quickly than others.

As it has turned out, the projects that largely sat outwith the local authorities' capital plans had to be pulled in and took longer to get up and running than was anticipated. Those phase 1 and 2 projects have taken longer in preparation than was originally assumed, but for good reasons.

John Mason: I accept that point. Did any project go more quickly than was expected?

Barry White: No.

John Mason: Right. So the figures that were mentioned were the maximum possible; they could not go up but could come down.

Barry White: Yes. The bit that is going more quickly is the procurement phase. It is now reaping the dividend of that preparation period.

John Mason: The procurement phase is faster than under PFI and PPP, but how is it compared to traditional funding from straight borrowing?

Barry White: I will make two points on that. With any project that is procured, many of the issues about which we have talked—such as the land issue on the Edinburgh royal hospital for sick children—would have to be resolved whether the project was funded through capital or NPD.

The difference with an NPD project is that the funding is not interchangeable but sits with the project. If the Edinburgh royal hospital for sick children project had been a capital project, the funding could have been reallocated to another smaller project or a number of smaller projects that could have proceeded. With the NPD programme, if a project hits an obstacle—such as the negotiations with the bank in the case of the Edinburgh royal hospital for sick children—the funding sits behind the project and cannot be relabelled across other projects.

John Mason: Will an NPD project always take longer, in the grand scheme of things?

Barry White: NPD projects can take longer. The funding issues and funding competitions about which Peter Reekie talked can add time to the process.

John Mason: You said that there are good reasons; I accept that, project by project, there are good reasons for delays or whatever. The first

page of your report gives some reasons. The first, which I accept, relates to the Borders rail project. The second reason is

“the need for necessary and thorough project preparation”,

which I assume applies anywhere, and

“the complex and strategic nature of many of the projects”.

That is hardly a big shock—of course they are complex and strategic. Land acquisition is another aspect, but—surprise, surprise!—land always has to be bought.

The report also refers to

“ensuring the asset will support service delivery models”.

I am not even sure what that means, but it sounds like a good thing. Other tasks are

“enabling works; legal process; and statutory consultation.”

None of those is a big shock, is it?

Barry White: On the point about

“ensuring the asset will support service delivery models”,

I can give the example of Dumfries and Galloway royal infirmary, as the shift from refurbishing on the existing site to the new site was backed by a strategy for delivering healthcare in that area. Perhaps I could have used plainer English, but that is the essence of the meaning. Combining the clinical neurosciences building with the sick children's building in Edinburgh is another example. Such matters must be addressed in the project preparation phase.

I return to what I said about Audit Scotland. Audit Scotland normally judges project progress after an OBC and a final business case have been developed. In the project preparation phase, we deal with projects that are in the early stages of preparation, when there is a great deal of unpredictability in the issues that might arise and the time that might be taken. For instance, the Borders rail project switched from one financing method to another. These things happen. In managing the programme, we deal with that.

John Mason: I agree completely that preparation is very important. The biggest disaster is to start constructing a building but then to replan it as it goes along—I believe that that happened with the Scottish Parliament building. However, the other side is that, if a project is delayed by six months or a year, people sit unemployed for six months or a year. If the money were made available, a project elsewhere could happen, which cannot happen if the money is not available. Do you take into account the fact that building something more quickly is good for the economy and boosts jobs?

Barry White: Absolutely. If an ill-prepared project goes into procurement, one of two

outcomes is likely: the procurement will take substantially longer, which will have a negative impact by pushing the project back further, or—as John Mason suggested—the project will start to be built but will be changed significantly; there are examples of that. That outcome is often incredibly expensive for the public purse.

Across all our programmes—the tax increment financing, national housing trust and NPD programmes—we are hungry to get projects into procurement and on site. However, not preparing does the public and private sectors no good. As I know from working in the private sector on bidding for public sector projects, ill-prepared projects waste public and private sector resources. The private sector would not thank us for allowing ill-prepared projects to proceed, because that wastes that sector's resources, as well as public sector resources.

John Mason: I take that point.

I was encouraged that you said that more flexibility would be available—for example, you have taken cleaning and other maintenance work out of projects. It struck me that PFI projects had a distinct lack of flexibility. Will you expand on how far the flexibility will go?

Traditionally, if a council was tight for money, it might postpone replacing the windows in a school that it owned; it would weigh that against other things. It strikes me that councils lost that freedom under PFI projects, because windows having to be replaced every 15 years—whether or not it was needed—was built into contracts. Will there be more flexibility on such issues?

We had a PFI secondary school in Glasgow to which we wanted to add a primary school or a special needs school. That became a nightmare because of the PFI project. Would doing that be easier under NPD projects?

Barry White: I ask Peter Reekie to field those questions, as he can respond in more detail.

Peter Reekie: There are different levels of change, and it is important to think about all of them. Criticisms in the past have involved awfully small things that make a big difference to the everyday operability of a building, such as schools putting up posters with Blu-Tack and installing notice boards. We have made some clear simplifications and changes in contracts that will give the occupiers of buildings more rights to do such things as and when it makes sense to do so. We have also been a lot more transparent about pricing of small pieces of work that the contractor will, rightly, do at some point. We have tied that down so that the pricing is well understood and the layers of cost are not added to it as the project goes through the system. We have made a big difference in terms of minor day-to-day flexibility.

On more significant changes, some of the early PFI deals gave rights to the banks and the funders to stand in the way of changes through use of an absolute veto. That is not the case anymore. In the case of the Royal infirmary of Edinburgh we have had to deal with a group of 11 funding banks. When one of those was not keen on the change or to do the work that would make it happy with the change, we had to spend a lot of time and effort on dealing with the funders so that we could do something that we should have had the right to do. That has changed.

On maintenance of a building and the lifecycle and replacement of things in the building, there are good reasons for maintaining a building in good condition. When you pay for something annually, you do not have to deal with the lumps and bumps that occur when things get replaced, and that overall annual payment is set at the outset of the contract.

John Mason: The paper suggests that, because we are spending more on capital, there will be a big saving on maintenance. I accept that that would be the case in some instances. However, I presume that when you build roads, you increase the need for maintenance, because there are more roads. Do you have solid figures on that? Will you be able to do a report in due course that shows how much spending on maintenance has been saved?

Barry White: The recent “State of the NHSScotland Estate 2011” report says that estate replacement and upgrade will reduce the backlog by £256 million in forthcoming years. That is partly to do with the non-profit distribution model, and it also involves the new south Glasgow hospital project, which sits outside of NPD. The report also talks about a reduction in the backlog due to the fact that some properties are due to be disposed of that have maintenance backlog.

That is not the only way of tackling maintenance. There have to be reasons to make such a significant investment other than backlog maintenance, such as south Glasgow hospital producing a single-room-type facility to replace an outdated facility. There is a big shift in clinical care, as well. A side effect, if you like, is the impact on the backlog of maintenance.

John Mason: There might not be savings in respect of what is spent on maintenance, but the buildings will be in better condition and the backlog will be reduced.

Barry White: Yes. As Peter Reekie said, if you look at history, you can see that some decisions—for example, decisions not to replace windows, to use your example—would have been good decisions, given that, a few years later, the windows would have to be replaced. In some

situations, there has been a cumulative effect of delay, which has meant that there are backlogs now.

As John Mason has articulated, one of the challenges in the current climate in which money is in shorter supply, is to ensure that new investment is maintained at the right level.

10:45

Michael McMahon (Uddingston and Bellshill) (Lab): You have given a few examples of bundling that you believe has helped to take the process forward, but I have to tell you that, in local examples in which the method has been used to take things forward, I have not seen the process being speeded up.

I declare an interest in the M8 bundle, as the work is entirely within my constituency. I have the glossy brochure, which I bring out every now and then to remind myself of the timescales of the three projects that were bundled in 2005 or 2006. The M8 completion was to start in 2009, followed by the Raith interchange and then the M73 and M74 widening project. As the procurer, can you tell me whether it was Transport Scotland that decided to bundle those projects, or was it on your advice that it did that?

Barry White: It was Transport Scotland's decision to bundle those projects, but our opinion is that that was the right thing to do, rather than to procure them as three single projects. I will explain why we believe that. Given the constraints on the capital budget, NPD is allowing the projects to happen now, rather than our having to wait for many years. There is not sufficient capital to allow all the projects to go ahead without NPD.

Michael McMahon: So it was the change to NPD that caused the decision. The M8 completion, which was a standalone project, was envisaged to begin in 2009. The decision to bundle the projects put it together with the Raith interchange project, which was envisaged to start in 2010 and was subject to a public inquiry.

Barry White: I believe that bundling is important because, with NPD, roads maintenance will be part of the projects. A stretch of road is built, and afterwards it is maintained. If a project such as the Raith interchange is done as an isolated project, the roads maintenance will be an isolated, small bit of roads maintenance. If we do roads projects through NPD, the contract is to design, build, finance and maintain. It makes sense to bundle projects, because doing them in standalone packages does not necessarily represent good value for money for the taxpayer.

Michael McMahon: That sort of verifies what I was told by construction companies and people in

the construction industry. The three standalone projects were not very attractive to the private finance companies that might have financed them. It was the decision to go to NPD that caused the M8 project to be bundled with the M74 project and the Raith interchange project, to make an attractive proposition and attract the private finance that is now going to finance the bundle. Is that correct?

Barry White: I would look at it the other way round. The bundling is there to secure better value for the taxpayer. It is not to help the private sector; it is to help the taxpayer.

Michael McMahon: I totally appreciate that. However, I will explain the problem that I have. My constituency is identified as a logistics and distribution hub. Many companies have located there over the years with the expectation that the projects would, as envisaged, begin in 2009 and 2010 and be completed by 2014. We are in the first month of 2013, and according to you—and it has been verified by ministers—the procurement process is now whittling the number of bidders down from four to two. In January 2013, we are in the tendering process for projects that the glossy brochures from 2006 stated would begin in 2009. It was the decision to go to bundling that delayed the construction of the projects.

Construction companies that have been looking for the work to come along have not had it; it has just been tendered for. Anyone who knows the area at all knows that, for two or three hours every morning and every afternoon, logistics companies are losing a fortune because the M8, Raith interchange, M73 and M74 are more reminiscent of car parks than viable transport links. Have you calculated into all the efficiency savings that have been achieved through bundling the cost to the economies of Scotland and Lanarkshire and the loss of revenue and added costs to distribution companies that are located in the area and are waiting for the roads to be built?

Barry White: Without NPD, the project could not happen for many years, especially given the capital constraints that exist. I would therefore say the opposite of what you say—NPD is enabling projects to move ahead that would otherwise have to wait for several years for the capital to be available to allow them to happen.

Michael McMahon: I was told that the capital was available for the M8 in 2007.

Barry White: I cannot comment on—

Michael McMahon: It was the decision to go to NPD that stopped the money. The M8 project was then added to the M73, M74 and Raith interchange projects, and it was the decision to bundle the projects that delayed procurement to the point that we are at now, in January 2013,

when we are still talking to the tenderers. The projects were expected to start in 2009.

Barry White: Without NPD, the project would not be started now. NPD is allowing the project to move ahead now, and the confidence that people now have that the project is happening has come about because of NPD.

Michael McMahon: So the project will be completed in 2017 rather than 2013.

Barry White: It might have been completed much later if it had had to wait for capital. That is the reality. In times of declining capital—

Michael McMahon: Capital was not declining in 2007 when the project was in process. The public inquiries had been conducted and Transport Scotland was talking to people about the tendering process. That was stopped and, after the projects were expected to start, they were bundled to make them a more viable prospect under NPD.

Barry White: The capital constraints are being mitigated by the NPD programme.

Michael McMahon: Those constraints did not exist in 2007 when the M8 project was already in the pipeline.

Barry White: The decision about whether the M8 project was done through capital or NPD was made by Transport Scotland and ministers. From the point of view of the Scottish Futures Trust, which is delivering the NPD programme, NPD is supplementing the capital budget.

Economically speaking, you are right to say that the M8 is incredibly important. Doing it through the NPD programme will mean that it will happen earlier than would otherwise be the case. That is also true of the AWPR and the other projects in the programme. Over the next four or five years, as the NPD programme rolls through all its projects, that will make a significant difference to the construction industry and the wider economy.

The commitment to start procurement for the AWPR, which is due to start shortly, is giving companies in and around Aberdeen confidence in the project, which has been talked about for a very long time, as has the M8. We talk to people in the construction industry who bid on the M8 project many years ago, before the procurement was cancelled. We have known about the strategic importance of the M8 for a very long time.

Michael McMahon: I also have the glossy brochure for another project that has been known about for a long time: NHS Lanarkshire's picture of health programme. NHS Lanarkshire envisaged building 14 primary care facilities. A number of them have been built—they were in the pipeline and the outline business cases were completed. NHS Lanarkshire decided to review the 14

projects and decide on the ones that it would go ahead with because the commitment had already been made. A hiatus then occurred, and the timescale for all the other projects that came later, and for which the outline business cases had not already been approved, was changed.

Those projects have not been built. I was told in recent discussions with NHS Lanarkshire that they are now part of a hub—they are a bundle—and a procurement process has started for building the outstanding projects, which were already envisaged in the 2006 picture of health programme for capital investment projects. Again, those projects were already in the pipeline—there was a timescale and a programme of construction was expected to take place, but that did not happen.

A gap has been created and we are now in a procurement process to talk about building those projects under NPD. If those projects had not been bundled—if the financial arrangements that were in place in 2006 had not been changed—some of them would already be under way. They would be being built and people would be getting employment because of that.

Do you build such considerations into your decisions when you talk about the efficiency that your NPD procurement process is creating? The projects could have started two or three years ago, but in fact I think that the private financial institutions are still only being talked to about the hub in Lanarkshire, so the NPD project is starting only now. It may well be more efficient from now until completion, but we have had five or six years in which projects that should have been built have not been built because they have been waiting for the go-ahead to start to be built under NPD.

Barry White: Fundamentally, without NPD, the five or six years might turn into five or six more years before the projects could be built. Either those projects or other projects would have to wait. NPD is providing additional investment that is allowing the projects to go ahead now. If it was not for NPD, the projects in Lanarkshire would have to be prioritised above something else in the capital programme and something else would have to wait. With NPD, they can go ahead now.

Michael McMahon: But they were already allocated in NHS Lanarkshire's capital programme.

Barry White: I cannot comment on NHS Lanarkshire's capital programme. What it put in the programme and how budgets were allocated are not my responsibility. What is known and very clear is that those projects can happen now only because NPD is providing additionality; it is providing additional headroom over and above capital budgets. If it was not for that, those

projects would not be happening at all or other projects elsewhere would not be happening at all.

Michael McMahon: When the projects were in the picture of health programme in 2006, they were standard procurement projects in the capital programme. They had to be stopped and they are now going to be built under private finance—NPD.

Barry White: I really cannot comment on how NHS Lanarkshire asked for funding from central Government or elsewhere, but a lot of projects are happening only because NPD is allowing them to happen. For the construction industry and for the health service, delivering those projects is good news. It is a positive part—

Michael McMahon: It has not been good news for the local people who were expecting to have primary care facilities that they do not have because they have been waiting on an NPD project to go ahead years after it was envisaged that the facilities would be built.

Barry White: The dates that you are talking about predate the NPD programme being announced, so I cannot comment on what was happening in 2005 or 2006. As regards Inverness College, the City of Glasgow College and the schools, roads and hospitals that we are working on, the choice has been made to do them now through NPD and get them done. That is the right thing to do and I think that NHS Lanarkshire and Lanarkshire as a whole will benefit from the projects coming through. The M8 project being built will benefit the community as well. Those things are happening only because NPD is in place—without NPD, they would not happen.

Michael McMahon: I think that you are missing the point, Mr White, to be perfectly honest with you.

The Convener: Thank you, Michael, and thanks to other colleagues for their questions. The witness session has run for about half an hour longer than I expected, because I wanted to give colleagues as much free rein as possible to ask questions on this important area. I did not want to restrict colleagues in any way.

I will finish with one question. Given some of the discussions that we have had round the committee table and some of the questions that have been asked, how confident can the committee be about the Scottish Futures Trust's financial projections, given the variance that we have seen in the estimated value of NPD-financed capital investment over the three-year period?

Barry White: As projects move from project preparation to procurement, they pass the initial approval stage—the outline business case. That increases certainty about timescales and project size.

We have not touched on the good news as regards the report that the civil service submits to the Public Audit Committee on the capital programme. Inverness College dropped out of that report because the report deals only with projects of more than £50 million. The cost of procuring some of the projects is going down, so projects such as Inverness College are being procured at a lower cost than was first envisaged.

There is greater confidence in the figures for any project that is post-outline business case, which is the initial approval stage that Audit Scotland recognises, than there is in the figures for those that are in project preparation. There is increased certainty about the figures, but there is still caution, because of some of the things that we talked about earlier.

The Convener: I thank our witnesses for their significant contribution to the meeting. I am sorry that we were not all here at the start—Michael McMahon was not, which was probably because of some of the issues that he asked questions about. I thank the witnesses again—we will see them again soon.

11:01

Meeting continued in private until 11:13.

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