The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 26 June 2013

Session 4

Wednesday 26 June 2013

CONTENTS

PUBLIC AUDIT COMMITTEE
10th Meeting 2013, Session 4

CONVENER

*Iain Gray (East Lothian) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
Bob Doris (Glasgow) (SNP)
*James Dornan (Glasgow Cathcart) (SNP)
*Mark Griffin (Central Scotland) (Lab)
*Colin Keir (Edinburgh Western) (SNP)
*Tavish Scott (Shetland Islands) (LD)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Caroline Gardner (Auditor General for Scotland)
Dick Gill (Audit Scotland)

CLERK TO THE COMMITTEE

Fergus Cochrane

LOCATION

Committee Room 1

Scottish Parliament

Public Audit Committee

Wednesday 26 June 2013

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Iain Gray): Welcome, everyone, to the 10th meeting in 2013 of the Public Audit Committee. I ask everybody present to ensure that their mobile phone or anything similar is switched off. We have apologies from Bob Doris, who will not be here—initially at least—because the Health and Sport Committee has an extra meeting this morning to complete a report, which he has had to attend. However, if that work gets done in time, he will join us as and when he can.

Agenda item 1 is a decision on taking business in private. Do members agree to take in private item 7, which is consideration of how to take forward work on the report "Scotland's key transport infrastructure projects"?

Members *indicated agreement.*

Section 23 Report

"Scotland's key transport infrastructure projects"

10:01

The Convener: Agenda item 2 is the section 23 report from the Auditor General for Scotland entitled "Scotland's key transport infrastructure projects". I welcome to the meeting the Auditor General and her colleagues from Audit Scotland's performance audit group: Angela Cullen, assistant director; Carolyn Smith, project manager; and Dick Gill, portfolio manager. I hand over to the Auditor General to introduce the report.

Caroline Gardner (Auditor General for Scotland): Thank you, convener. The report assesses the current progress of five major transport infrastructure projects. Members might recall similar reports on the management of major projects; this one is very much in the same mould. Like them, it deals with some important questions about the control of and accountability for major infrastructure investment.

Despite the financial limits that it must work within, the Scottish Government has prioritised the five projects because of their importance in helping to maintain and grow the economy. The Government is also keen to have the benefit of the economic stimulus that they provide during their construction. Transport Scotland is the Scottish Government agency responsible for delivering the projects. There are three road and two railway projects, with a combined estimated building cost of £3.8 billion. The projects are due to come into operation between 2016 and 2019. Members might find the two-page spread on pages 10 and 11 of the report a helpful summary of our key findings on each project.

At the moment, Transport Scotland expects to deliver all five projects within their current budgets and to complete four of them on time. The exception is the Edinburgh to Glasgow rail improvement project, to which Transport Scotland is now taking a phased approach, with an estimated completion date for a revised scope of work that is some two years later than previously anticipated.

Overall, we concluded that Transport Scotland is managing the risks well but cannot eliminate them completely because of the scale and complexity of the projects and the fact that they are still live. It has good governance in place for two of the projects—the Forth replacement crossing and the M8 bundle—and arrangements for the other three projects are developing well to reflect recent changes to their scope. That is appropriate, but we recommend that Transport Scotland improve some aspects of its management and monitoring of and reporting on those three projects as soon as possible. In particular, good information based on a clear business case is crucial to investment decisions for any major project. We found that Transport Scotland has not always kept project business cases up to date, so we have recommended that it clarify its requirements in that area to help reinforce control and decision making in future projects.

With regard to the Scottish Government's scrutiny of projects, we highlight the important role of the infrastructure investment board, which was established in 2010 to assess and oversee high-value projects. We make recommendations about how the Scottish Government may help the board to develop its future scrutiny of major projects so that that scrutiny is well integrated with major decision points.

I will highlight a couple of points about the costs of the projects and how they are reported publicly. Members will know that the Forth replacement crossing is the single largest infrastructure project since devolution and will cost up to £1.6 billion to build. Transport Scotland is paying for that from its capital budget. However, to live within the capital budget it is financing the other four projects differently, using the non-profit distributing model for the two roads projects and the regulatory asset base financing model for the two railway projects.

It is obviously important to understand the full financial consequences of each project, which our report identifies. In particular, we highlight spending so far and the estimated forward spending commitment from each of the five projects over the next 30 years. The result is a combined estimated budget commitment of £7.5 billion. Members can see the details for each project in exhibit 9 on page 39 of the report.

The full estimated financial commitment from all projects except the Forth replacement crossing has not previously been reported to the Parliament, and reporting of building costs for three of the projects—the Aberdeen western peripheral route, the M8 bundle and the Borders railway—has been incomplete or inconsistently presented. We therefore highlight the need for the Scottish Government and Transport Scotland to improve their public reporting on infrastructure projects.

Finally, I have made a specific recommendation to the Scottish Government about the content and presentation of the major project information that it presents in its six-monthly reports to this committee. I have recommended that it consult the Public Audit Committee, the Finance Committee and the Infrastructure and Capital Investment Committee to ensure that members get the information that they need to carry out their scrutiny role.

My colleagues and I will be happy to answer any questions that the committee may have.

The Convener: Thanks very much. I suppose that the key thing that comes out of the report is the disparity between Audit Scotland's figures around the cost of the projects and the publicly reported costs that we have seen previously. I want to explore a couple of elements of that to be sure that I am clear about what Audit Scotland is saying.

The figures to which you referred are in the second of the key messages on page 7. The combined cost to build is £3.8 billion, but the overall cost—the budget commitment over 30 years—is £7.5 billion, which is almost £4 billion more. The difference between the two figures is the revenue cost over 30 years of paying for those projects that are being delivered by an NPD model—a kind of private finance initiative model. Is that where the £4 billion comes from?

Caroline Gardner: That is right. Because of its commitment to keeping up the level of investment at a time when the capital budget is reducing, the Scottish Government has explored other means of financing investment. That is entirely appropriate. There is no reason not to be using a revenue basis for funding capital investment. However, it is obviously important to make sure that that revenue commitment is affordable, because it extends for a very long period—30 years, in these cases. It is important that that is apparent to the Parliament in decision making and to the public more generally. That is the reason for the difference that we are seeing.

The Convener: So you have constructed that figure. I think you calculate that the revenue costs are around £255 million a year over that 30-year period. That is a long-term financial commitment that the Government is entering into. Has that ever been reported anywhere publicly or to the Parliament?

Caroline Gardner: The figure is £225 million from our estimate. It has not been pulled together anywhere in a way that is readily accessible to the Parliament or can be scrutinised over time. It is worth saying that the Government has made a positive move in setting a cap on the amount of the revenue budget that it is prepared to commit to this sort of investment funding—the cap is 5 per cent of departmental expenditure limit spending. What we now need to see is how much of that cap the commitments that have already been made account for over the time that they will last, along with other commitments to NPD and other financing models.

The Convener: But we cannot possibly know whether those commitments come within the affordability criteria if we do not know what they are.

Caroline Gardner: That is why we are saying that greater transparency against the cap is now important.

The Convener: I refer to the summary of costs on pages 10 and 11. By coincidence, the committee has before it today the regular six-monthly Scottish Government progress report on capital projects. Not surprisingly, these five projects all appear in that report. I was very struck that even setting aside the revenue costs over 30 years and looking just at the construction costs—the completion costs—there is a pretty wide disparity between the figures contained in pages 10 and 11 of your report and the figures contained in the report that the Scottish Government has provided us with today.

For two of the projects—EGIP and the Forth replacement crossing—the figures are the same, which to my simple mind is what one would expect, given that they are the same projects.

Then there are the three other projects. For the Aberdeen western peripheral route, your figure is £745 million and the figure in the Scottish Government's capital projects progress report is £472 million; for the M8 bundle, your figure is £588 million and the Scottish Government's figure is £415 million; and for the Borders railway, your figure is £353 million and the Scottish Government's figure is £294 million. That is a £505 million difference between the reported cost that we have received from the Scottish Government and the reported cost in Audit Scotland's report—a difference of half a billion pounds in expenditure on these projects. Can you explain the disparity?

Caroline Gardner: In broad terms, that reflects the other finding that I highlighted in my introductory remarks: the information that is reported about individual projects in the six-monthly updates is sometimes not complete, with elements of cost not included in it, and sometimes not consistent, for example on the cost base that is being used. If you would like more detail about individual projects, Dick Gill and Carolyn Smith can give it to you. We have made a recommendation about greater consistency and completeness in the costs that are reported to this committee and more generally in relation to progress on the projects.

The Convener: To be clear, you are saying that the six-monthly progress reports on capital projects that the Public Audit Committee receives are not complete and not consistent.

Caroline Gardner: We are saying that there has not been a consistent approach to the information that is included. For example, on the Scottish Borders railway, £54 million-worth of preparatory work and other costs outside the regulatory asset base funding have not been included in previous reports. It is important that there should be completeness for all the projects, and there certainly should be a consistent base for the key stages that are reported to you, and for the treatment of such things as inflation, risk allowances, optimism bias and so on. It seems to us entirely appropriate that the Government should consult you about what you require and then make sure that you get it consistently.

The Convener: Perhaps I am naive, but I would have assumed that when a Government reports on projects, one of which involves £1.5 billion-worth of expenditure, there would be a standard methodology for reporting the costs. Are you saying that there is no standard methodology for reporting on major capital projects' costs?

Caroline Gardner: Interestingly, the FRC project is the one that is most complete and consistent, and it has been over time. We are saying that it would be in everybody's interests to agree a standard template for reporting and to make sure that information is reported consistently to you in line with that.

The Convener: However, that template currently does not exist.

Caroline Gardner: It does not at the moment.

Mary Scanlon (Highlands and Islands) (Con): I will be very naive and ask you a question that I need to understand before I can go further. What is the difference between NPD and PFI?

Caroline Gardner: I will ask Dick Gill to give you more detail on that but, broadly, NPD is based on an agreement over the life of the contract in which the costs of construction and some aspects of management are paid back on a fixed basis. In PFI, there is the potential for the contract to be sold on to other investors over a period, which means that more significant profit can be extracted from it than was originally foreseen.

Mary Scanlon: So, if you take out the potential to sell on—which is only a potential—are they pretty well the same?

Caroline Gardner: Dick Gill is our expert on this. I ask him to talk you through it.

Dick Gill (Audit Scotland): Caroline Gardner has put it quite accurately. The essential feature of NPD projects that is different from PFI projects is that the return to the private sector investors is capped as part of the contract, so there is no opportunity for what are sometimes referred to as superprofits for a project's investors.

Mary Scanlon: It is the non-profit distributing model.

Dick Gill: That is correct.

Mary Scanlon: So are there no profits to be made by anyone? If it is non-profit, does that mean that there are no profits to be made? Is it only social enterprises and charities that build these projects?

Dick Gill: There are profits, but there is a cap on the level of profits that may be distributed from the NPD company.

Mary Scanlon: There will be a cap on PFI profits, depending on the contract that is entered into.

Dick Gill: I am sorry; I did not quite catch that.

Mary Scanlon: There would have to be a cap on PFI profits, depending on the contract that is entered into. No one has limitless profits.

Dick Gill: The same contract mechanism has not been present in PFI contracts as is present in NPD.

10:15

Mary Scanlon: So, there is no cap on PFI profits—the companies can have any profits that they want. Under NPD, there is a cap on profits. Is that what you are saying?

Dick Gill: The profits under a PFI contract are determined by the company's performance. If it performs well, the profits are the difference between what it earns from the public sector for providing the service and what it pays to provide that service. Historically, other audit organisations have highlighted the significant profits that can emerge from that arrangement.

Mary Scanlon: It is the same type of model, except that there is a potential to sell on the contract with PFI, and there is a cap on profits with NPD. Are those the basic differences? They do not seem like big differences to me.

Dick Gill: It is a similar model. As Caroline Gardner has explained, it is a way of finding additional finance to finance significant investment—

Mary Scanlon: So, NPD is a similar model to PFI.

Dick Gill: Yes—I think that that is fair.

Mary Scanlon: I refer to pages 10 and 11 of the report. The bottom line of exhibit 1, headed "Public reporting", says that there is

"No public reporting of 30-year costs associated with NPD procurement, which is commercially sensitive".

The same point is made for each project other than the Forth replacement crossing.

The report says that there is

"No public reporting of 30-year costs",

yet, when I look at exhibit 9 on page 39, which the convener referred to, I note that there is a figure of £225 million a year over 30 years, as the convener has highlighted. I could not quite tie that in. One part of the report says that there is

"No public reporting of ... costs",

whereas another part says that there is £225 million to pay every year for 30 years.

Caroline Gardner: The costs of the four individual projects concerned are still commercially sensitive, because of the procurement stage that has been reached in each of them. It is appropriate for that information to be kept confidential, to avoid weakening the hand of the Government or Transport Scotland in negotiating with potential bidders.

We have been able to examine the business cases that are available and the range of costs that are being assumed, and we have pulled those together at portfolio level to give you an indication of the likely commitment. We recommend that the Government should explore similar options for reporting at a portfolio level to indicate future commitments and how they sit within the cap that the Government has set itself as a good financial management exercise.

Mary Scanlon: You are asking the Government to report more accurately. You are describing what you have worked out as being potentially "the likely commitment", to use your own words.

Caroline Gardner: Yes.

Mary Scanlon: The £225 million per year over 30 years in these PFI contracts for the four major building projects is just indicative. It is not an actual amount. The truth is that we do not know how much we will pay over 30 years. Is that correct?

Caroline Gardner: That is correct, and it is unavoidable at this point. Until contracts are actually let and finalised, there will be an element of uncertainty. I ask Dick Gill to give you a bit more detail about that.

Dick Gill: We talk about the estimated commitment in the report. They are not our estimates. We have published them and nobody else has, but they are derived from privileged information that we have received as auditors for the individual projects. We believe that they are robust estimates of the expected costs that will be incurred, assuming that each of the contracts is satisfactorily completed.

I believe that the first one that is due to enter into contract is the M8 project, although I cannot remember exactly when it is due to go to contract—at the end of this year, I think. If all goes to plan, the figures that we have used for the £225 million cited in the report will provide an accurate estimate.

Mary Scanlon: So, it is possible to have a robust estimate. Previously, it was a “likely commitment”. There is £225 million to be paid per year over 30 years, but the truth is that the figure could go up. Is it possible that it could be less?

Caroline Gardner: Absolutely. At this stage, that is the best estimate that is available. We have pulled it together to give you an overall picture. Until each contract is let over time, however, the detailed figure will not be clear.

Mary Scanlon: The truth is that we do not know what the figure will be.

I had a second problem. We are told that the payments over the 30-year period will be about £5.154 billion, but if we go back to the summary on page 4, the total cost of all the projects—I know that the Forth replacement crossing will be funded from the capital budget, but the others are PFI projects—is £3.8 billion. If the building costs amount to £3.8 billion out of the total of £7.5 billion, that leaves a figure of £3.7 billion for PFI payments in the longer term. If that figure is £3.7 billion, why is it given as more than £5 billion on page 39?

Caroline Gardner: I will let Dick Gill take you through the figures in detail.

Dick Gill: The £5 billion figure that you refer to is the total estimated cost of the revenue commitments for the four revenue-financed projects. I do not see any inconsistency, as that figure is included within the £7.5 billion that is mentioned on page 4 of the report.

The Convener: But some of that is also included in the £3.8 billion. Is that right?

Dick Gill: Yes.

The Convener: I think that that is where the disparity lies.

Mary Scanlon: I am looking at the summary on page 4. The total of the capital costs is £3.798 billion. I am subtracting that from the total cost of £7.5 billion, and I am left with a figure of £3.7 billion. Perhaps I am oversimplifying things, but I am saying that that £3.7 billion is the figure for the long-term PFI payments. I may be wrong.

Dick Gill: Ah, yes. I see what you are getting at.

Mary Scanlon: When I go to exhibit 9 on page 39, I find a figure of more than £5 billion rather than one of £3.7 billion for the long-term PFI payments.

James Dornan (Glasgow Cathcart) (SNP): I would like to clarify something. I know that Ms Scanlon is trying her hardest to conflate NPD and PFI, but I ask her to call NPD what it is, as opposed to what she would like to pretend that it is.

Mary Scanlon: Dick Gill said that it was a form of PFI.

James Dornan: He did not say that it was a form of PFI.

Mary Scanlon: He said that it was a model of PFI.

James Dornan: No—you said that it was a model of PFI.

Mary Scanlon: No—

James Dornan: It is NPD, and the important thing is that it is called what it is.

The Convener: Mr Dornan, colleagues’ contributions are up to them. Ms Scanlon has used both terms, and I think that that is reasonable.

Please go on, Mr Gill.

Dick Gill: Forgive me—I am struggling a bit.

Caroline Gardner: I think that I can help Ms Scanlon to unpick the figures.

The construction costs are £3.8 billion. The £7.5 billion is the total cost of all five projects over the 30 years. Subtracting the £1.6 billion capital cost of the Forth road crossing from that gives the figure of £5.1 billion. That explains the difference between the figures. The Forth road crossing is being paid for over a short period of time through the Government’s capital budget, whereas the other four projects are being paid for through a combination of non-profit-distributing financing and regulatory asset base financing through Network Rail. The total cost over the period is £7.5 billion, but the cost of the revenue funding over that period is £5.1 billion.

Mary Scanlon: Ah, but would you agree that, with the type of financing model that we are looking at today, it is right for us to be concerned about the amount of revenue that is being committed in the long term because, as you say in the report, that can crowd out opportunities for spending at a later date?

Given that Mr Dornan is keen to get in, I will ask my final question. You say:

> “The Scottish Government has capped capital investment from revenue sources but it is not fully clear how well it has assessed the affordability of this part of its investment programme”.

You go on to say in paragraph 96 that the Government

"did not provide information to allow us to test or confirm that this analysis was reliable or how otherwise it had assessed the affordability of the five projects."

That concerns me. I find it difficult to have confidence in such financing models as we move forward when the Government did not give you the information that you needed to assess the projects' affordability.

Caroline Gardner: I should begin by saying that there is no fundamental reason not to fund capital investment through revenue financing models. After all, we all do it when we buy a house with a mortgage or a car with a car loan.

Mary Scanlon: Absolutely.

Caroline Gardner: However, it is also important in any case and particularly at a time of pressure on budgets to demonstrate that such a revenue commitment, which is locked in for a long period, is affordable. The Government took an important step forward by setting its own cap of 5 per cent of the DEL budget for the amount that it would commit through such mechanisms; the next step, which we have not yet seen, is a full demonstration of how the commitments that have already been made and those in the pipeline line up against that cap. We know that the five projects in the report will account for about 14 per cent of the cap in 2014-15. However, we also know that other commitments have been made and that there are other projects in the infrastructure investment plan pipeline. That is why we are recommending such transparency as the next step in demonstrating affordability and ensuring that the investment is sustainable over time.

Mary Scanlon: That is what I am trying to get at. I have to say that I have found that very difficult, because as my questioning has made clear we do not know whether we are at 2, 5 or 10 per cent of DEL. I know that the Government has made the statement about 5 per cent, but when I looked through the report I could find no indication of where we are in that respect.

Caroline Gardner: You are absolutely right—the report contains no such indication. Instead, what we are demonstrating is that the five projects in question account for 14 per cent of the allocation and are therefore recommending that Government transparently report its overall commitments and therefore the affordability of these projects and any future investment decisions.

Mark Griffin (Central Scotland) (Lab): On EGIP, page 11 of the report says:

"Transport Scotland did not update or approve an outline business case before requesting ministers to approve the major changes to scope and cost estimates."

How were ministers able to reach an informed decision on project changes without an updated or approved outline business case?

Caroline Gardner: Colleagues will give me the reference in a moment, but we say in the report that Transport Scotland provided information to ministers through presentations and in other forms to allow them to make a decision about the revised approach to EGIP. Obviously that is important, but we also think it important for business cases to be kept up to date, particularly at such key decision points. Paragraph 58 of the report will give you a bit more information about that.

Mark Griffin: But is it your view that the outline business case should have been updated at the same time as those presentations were being given?

Caroline Gardner: In general, we think it good practice to keep business cases up to date to ensure that when significant decisions are made, the information is available in one place to demonstrate affordability, value for money and sustainability.

Mark Griffin: Ministers have yet to confirm the revised target date for EGIP and will do so only after receiving the full business case from Transport Scotland. According to the report, that business case was due in May 2013. Has the Government received it yet?

Dick Gill: We do not know. We have not updated this since the completion of our field work at the end of April.

Mark Griffin: Did the fact that the Scottish Government's original announcement on changes to reduce the scope and to the phasing of EGIP was made while Parliament was in recess have an impact on the audit and scrutiny of the changes to the project?

Caroline Gardner: I cannot comment on the timing of announcements to Parliament; instead, we have focused on the information that was available when decisions were made. Affordability was clearly an important part of the changes to the scope of the project that were put forward and it is entirely appropriate to review the scope in that way. However, we have concluded that it would have been better to update the business case to provide in one place a summary of all the factors that were needed to work that through rather than the information being provided to ministers in a different way. It is also important for the business case to be in place now to provide a strong foundation for commitment decisions in taking through the project's revised scope as phase 1.

Colin Beattie (Midlothian North and Musselburgh) (SNP): We are in danger of obscuring the fundamental good news in this report that among the biggest capital projects ever carried out in Scotland are happening at this moment. I had considerable experience of large projects in my past life and as far as I can see the report on the whole represents a pretty good news story.

Exhibit 1 on page 10 states that for the Forth replacement crossing there has been

"Full and accurate public reporting of estimated capital costs."

It notes that for the other projects there is

"No ... reporting of 30-year costs"

because that is

"commercially sensitive information at this point."

We would not expect to have those 30-year costs laid out in public at this point.

10:30

Caroline Gardner: First, we make it clear in the report that Transport Scotland has good governance arrangements in place and that all five projects are currently scheduled to be delivered on current cost estimates and four of them on current time estimates, so I agree that there is good news in there.

Equally, however, we think that there is room for improvement in how costs are reported and in their transparency, both at the level of the long-term commitment that we have been discussing and in relation to individual projects.

As I said earlier, it is entirely appropriate while negotiations are still under way that the costs of individual projects need not be reported, but we have recommended that the Government could look at doing that on a portfolio basis, for example. We also identified a number of ways in which the costs of individual projects are not being reported either completely or consistently between projects, and we think that there is room for improvement in that regard.

Colin Beattie: That is probably fair enough.

Looking again at page 15, on the changing scope of the projects, you make it clear that

"The reasons for changing ... are clear and reasonable."

That is important to note.

There are certain individual issues that are perhaps worth exploring a bit further. In the past, we have talked about the quality of some of the reporting that comes from public areas, and I think that this area falls under that heading.

For example, there are issues in paragraph 78 on page 34. The Government has obviously put a cap of £650 million on the EGIP project, but there is still quite a bit of work to be done. As far as I can see—and I ask you to comment on this, Auditor General—what will determine the entire scope of the project is

"whether it is eligible to be added to the RAB."

Do you have any idea when that might happen? It is an important element in that project.

Caroline Gardner: I will ask Dick Gill to respond to your question about timing. It is clearly appropriate to examine whether funding rail projects through RAB is the best method, and we have no concerns about that.

However, we think that, because of the reduction in the scope of the project from £1.1 billion to £650 million, there are now risks in ensuring that the scoping of the project is entirely in line with the budget that is available.

Colin Beattie: But we are at a relatively early stage in that project.

Caroline Gardner: We are, but planning has been going on for a long time on the basis of the original £1.1 billion, and there was quite a short time period between the announcement of the project and the subsequent announcement of the reduction in scope.

I have just had a note passed to me to indicate that the proposed date for going ahead with RAB for that project is October 2013.

Colin Beattie: Okay.

One of the big differences between NPD and PFI is that with the NPD model there is not an open-ended contract under which private investors frequently get inordinate profits from a project. The whole idea is that there is a cap on that.

This is probably an unfair question, but in your opinion is it not really possible to compare the two models—how they are constructed and what the outcome is financially?

Caroline Gardner: We include in appendix 2 an outline of the broad approaches that are used to fund the projects here. We have not included in that other types of private financing, because they are not in play. In any of the approaches, there is a trade-off between cost, risk and time, and it is not possible to make broad assessments about which model is better value for money or better in other ways without looking at the specifics of an individual project. There can be good and bad PFI contracts.

For most projects, whether it is a PFI deal or an NPD deal, the cost to the public sector—certainly the construction cost and associated financing costs—is capped over a period. The big difference is that under traditional PFI models, there is scope for windfall profits or super-profits to accrue to the investors who make up the investment vehicles, whereas that possibility is removed from the NPD model. Value for money has to be assessed case by case, not on the basis of the funding mechanism.

Colin Beattie: On the face of it, however, I would say that it is pretty good for NPD.

Tavish Scott (Shetland Islands) (LD): I am so tempted, but I am not going to.

I begin by thanking the Auditor General and her team for providing clarity on this long-term issue which, as the convener said earlier, is really important. We are the Public Audit Committee, and we and Parliament should know about these things, and, if I may say so, the taxpayer should know about them, so I thank you for that work.

I want to pick up on the point that the convener was driving at in relation to your second key message. It states:

"The Scottish Government considers this spending"—

that is, the long-term spending—

"is affordable in the long term, but it has not fully demonstrated the reliability of its analysis in this area."

In reflecting on that message, what should Government do to pick up the need for robustness in these data?

Caroline Gardner: We would like to see the development of a regular approach to reporting what the cap is, first of all, and how that is calculated over time. The way that it is expressed will change over time as a percentage of budget, which we only know a maximum of three years ahead, and then what the known and likely commitments are against it. A batch of pre-existing NPD and PFI commitments already count towards it. Those projects and others are under negotiation, and we have likely or estimated costs that will firm up over time as contracts are committed, and there is then a pipeline of planned projects, some of which will have revenue consequences if that is the way in which they are funded.

It will take time for that reporting to develop and the estimates will change over time because costs become clearer as contracts are committed. However, a very important and positive step has been made in setting a cap for affordability assessment, and the next step that we would like to see is doing the analysis and reporting against it.

Tavish Scott: Thank you. On the 14 per cent of the cap that the five projects on which you have reported today represent, if we ask the accountable officer of the Scottish Government for the complete figure, or 100 per cent of that cap, will they know it and be able to tell us?

Caroline Gardner: We know what 100 per cent of the cap is by calculating 5 per cent of the DEL budget.

Tavish Scott: I am sorry; the better question is what is being used.

Caroline Gardner: Ah, sorry. Sixteen per cent of the cap is accounted for by those projects. We do not know how much of the remaining 84 per cent is accounted for by other projects.

Tavish Scott: You do not know that. Does the Government know? Does anyone know?

Caroline Gardner: That is a question for Government. We cannot answer that.

Tavish Scott: Across all Government spending that is done using these various financing models that involve year-on-year revenue costs to the taxpayer, we simply do not know what that number is at this stage.

Caroline Gardner: Through our audit work and the access that we have to that information, we do not think that the Government has fully demonstrated it, and it is certainly not publicly available in ways that the committee could scrutinise and inquire into.

Tavish Scott: That is really helpful. How do we deal with the point that Colin Beattie made about some of the information being commercially sensitive? How does the taxpayer understand their long-term, year-on-year commitment to this spending, if the only answer that they get is that the information is commercially sensitive?

Caroline Gardner: That is very much why we have recommended that some of the reporting might need to be done on a portfolio basis rather than project by project. We do not want the Government to weaken its hand in negotiating with potential private partners or providers by being explicit about what it thinks the outcome might be. However, that is not a reason not to be aggregating estimated costs on a portfolio basis or on some other basis that gives an indication of the likely outcome.

Tavish Scott: It is a way of gaining information on behalf of Parliament.

What is the proper body within Government for doing this? Is it, as the convener suggested earlier, the infrastructure investment board? The Auditor General mentioned that in earlier evidence. If it is the infrastructure investment board, why is there so much disparity between the figures that are presented in a later report to the committee and the ones that you presented very accurately today?

Caroline Gardner: Government needs to decide that. The infrastructure investment board has been a good innovation since it was established in 2010, and we have made some recommendations for how it can become more effective in scrutinising and key decision making. However, it would not need to do it; it could be the finance directorate. There are other ways of doing it.

Nevertheless, we think that the principle that we should be developing more full reporting of the long-term commitments is important.

Tavish Scott: Yes, I accept that it is for Government to decide where it does it. However, there is logic behind the idea that an infrastructure investment board would know what the numbers were and would report on them, is there not?

Caroline Gardner: I think that Dick Gill would like to answer that question.

Dick Gill: It is an important and influential body but it is, fundamentally, an advisory body. We make the point in the report that its function is to advise decision makers, not to make decisions itself. The question of what we can afford in the DEL budget is another decision.

Tavish Scott: So we should ask the accountable officer, who is the senior civil servant responsible.

Dick Gill: Yes.

Tavish Scott: That is helpful.

Given the detailed assessment that you have done, do the Auditor General and Audit Scotland have a view on whether Transport Scotland is performing well as an organisation?

Caroline Gardner: I do not think that we have done the work that would let me answer that question, but we say clearly in the report that its broad governance arrangements are effective. Two of the projects here have got strong governance arrangements in place. The other three need to be updated to reflect changes to them. You can draw some conclusions from that without there being a blanket assurance about the management of the organisation overall.

Tavish Scott: So, based on the analysis that you have done, the establishment of the principle that there is a slight separation—only a slight one—between civil servants providing policy advice to ministers on building a new road or railway and advice about the practicalities of contracts and so on, which is the role of Transport Scotland, has broadly been successful.

Caroline Gardner: That is not the question that we were asking in the audit work, but it is clear that planning and managing major investments on this scale require specialist skills, and we have seen nothing to suggest that the broad approach to that is not working effectively.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): In many ways, this meeting of the Public Audit Committee seems to be clutching at straws. This is a good report. Everything in the message that the Auditor General has delivered is good, and her wise advice, which is welcome, relates to issues that we—[*Interruption*.]

The Convener: Carry on.

Willie Coffey: I am sorry, but I thought that there was an interruption from the Conservative and Liberal Democrat members of the committee.

The Convener: Not at all.

Willie Coffey: As the Auditor General has said, the report shows quite clearly that all of the projects are expected to come in on budget, and that four of them will come in on time. The one that is not coming in on time has been reprofiled in a way that will save the public purse £350 million. If those are not good messages, I do not know what is, particularly when we compare these projects, managed by Transport Scotland, with some of the spectacular failures that are happening elsewhere.

Earlier, convener, you said that the cost of the projects is £7.5 billion over 30 years, when the management costs and so on are taken into account. That is nothing like the £12 billion that the United Kingdom has wasted down south on its national health service information technology system, which has just been scrapped. We need to get things in perspective around here and give the Scottish Government a wee bit of credit for delivering major capital infrastructure projects on time and on budget.

A couple of members spoke about the difference between PFI and NPD. I think that the Auditor General hit the nail on the head when she said that, with NPD, there is no scope for windfalls and super-profits for the development partners. Members of the unionist parties should remember that well.

Tavish Scott: He is giving a speech, convener.

Willie Coffey: There is an issue about how the Public Audit Committee can get some additional sight of some of the public funds that are spent on our behalf by our neighbouring Parliament down south. We have no visibility in that regard.

Mary Scanlon: Those are reserved matters.

Willie Coffey: Yes, those are reserved matters. Spectacular failures are the preserve of Westminster, but successes are the preserve of the Scottish Government.

The Convener: Some members of the committee are a bit puzzled about where you are going with this, Mr Coffey. We are the Public Audit Committee of the Scottish Parliament. However, you may carry on.

Willie Coffey: You said that whatever Mary Scanlon said was her business, so I expect the same courtesy.

Mary Scanlon: I was asking questions. You are not asking questions.

10:45

The Convener: Colleagues—

Willie Coffey: I do not remember Mrs Scanlon being interrupted as often as this.

The spectacular list of failures goes on and on but, returning to the Auditor General's positive report, the message—which is the message that we have heard over many years—is that we can always improve systems of reporting and accountability. From the press coverage of the issue so far, I think that there is a commitment on the part of the Scottish Government to do just that. That will be evident when we discuss the next report and look in more detail at the differences between the capital project figures that you mentioned, convener.

The message in the report is extremely positive, with the usual and welcome comments from Audit Scotland about improving systems and processes, which is something that I am sure that we and the Scottish Government are happy to embrace and will continue to be happy to embrace in the years to come.

The Convener: I am not sure whether there was a question there, but would you like to comment, Auditor General?

Caroline Gardner: I would like to clarify something that came up in the early part of Mr Coffey's remarks. We are clear in the report that Transport Scotland expects the projects to be delivered on budget and, in the case of four of them, on time. We think that it is managing the risks well, but we also say clearly that it is not possible to eliminate all of the risks, because of the size and complexity of the projects, which are still live. We are saying in broad terms that the governance of the projects is good, but I need to place on record the fact that there remain risks to their delivery, simply because they are large projects that are still in process.

Willie Coffey: I would not expect anything other than that.

The Convener: I thank our colleagues from Audit Scotland for attending. We will suspend for five minutes for a comfort break.

10:46

Meeting suspended.

10:54

On resuming—

"Major Capital Projects"

The Convener: Agenda item 3 is the six-monthly major capital projects update from the Scottish Government. I draw colleagues' attention to a paragraph in the permanent secretary's covering letter, which states:

"As we are regularly publishing much more information about the progress of major capital projects, I would welcome the Committee's views on whether this might mean that reporting arrangements to the Committee should be updated."

I think that the permanent secretary is suggesting that he would like to provide less information because the information is being published elsewhere. Obviously, that is relevant to our previous agenda item as well.

Does anyone want to comment?

Tavish Scott: In light of all that we heard earlier, taking into account both the positive arguments that some colleagues were making and the challenging numbers in the report, I think that there must be a decent argument for having that discussion with the permanent secretary. Could we invite him to come before the committee in the autumn to discuss the issue around publishing more information, not least given the discrepancy in the figures?

As the Public Audit Committee, we need to understand the discrepancy between the figures that were given by the Auditor General this morning and those that are in the permanent secretary's paper. Obviously, it would be helpful if the permanent secretary could clarify the issue that the Auditor General raised around the 5 per cent of DEL budget cap and what those figures mean. It seems to me that, as the accountable officer, he would be the most appropriate person to ask about that.

I would very much welcome the permanent secretary's advice on how the hub territory for schools and other projects works. I simply do not understand what percentage, for example, of the north hub's £700 million spend, which is mentioned in one of the annexes, relates to the 5 per cent cap on DEL. In light of the Auditor General's report that we discussed this morning, it seems to me that there are compelling reasons, not least of which is the paragraph in his letter that you mentioned, to ask the permanent secretary to appear before us in the autumn to discuss these matters fully.

James Dornan: Further to the convener's reference to the covering letter, perhaps we could write to the permanent secretary to ask what he means by

"reporting arrangements ... should be updated."

Does that mean that we would receive less information and simply be signposted to other reports? I take on board Tavish Scott's points, so it may be worth while inviting the permanent secretary to come before the committee, given some of our other concerns.

Colin Beattie: The permanent secretary also states, in the same paragraph:

"I have asked officials to liaise with the Committee secretariat on possible options that might be acceptable to the Committee."

Do we know what those options might be?

The Convener: Has there been contact on that from Scottish Government officials?

Fergus Cochrane (Clerk): In the initial discussion that we had with Scottish Government officials several weeks ago, they raised the issue about how the information might be provided and the permanent secretary's letter is consistent with those discussions. There was an indication that information through the infrastructure investment plan and other documents that the Scottish Government regularly provides could provide the same level of information. Beyond that, there have been no further discussions.

Colin Beattie: Would those documents provide the same level of information?

The Convener: I think that the permanent secretary is suggesting that they would, but Audit Scotland suggested rather the opposite this morning. Actually, Audit Scotland proposed that the content and presentation of the information in the report could be improved and listed some ways in which that might be done, so we have had some contradictory suggestions. I suggest that it is for the committee to explore what we want.

Willie Coffey: What does the Finance Committee get by way of financial reporting on capital programmes?

The Convener: I do not know, but we can certainly ask that question of the Finance Committee. We should perhaps also ask the Infrastructure and Capital Investment Committee, which is also relevant in this context.

Willie Coffey: If other committees receive better information or other information, I would not mind being able to see that in this committee rather than a new system or process being invented just for us.

I would be happy to hear from any officer about the discrepancies in the figures. I think that we are entitled to ask that and we might as well do so now rather than wait until the autumn. In one figure in the report, there was a difference of about £270 million or so. I think that we need an explanation for that at the outset and I would prefer not to wait till the autumn for that.

11:00

The Convener: There is a fair bit of overlap in members' contributions, so I suggest that we ask the permanent secretary to come to the committee to discuss some of the committee's issues around the capital projects report as well as his issues with it, because he is clearly looking to change things as well.

Given that we are going into recess next week, I suggest that in the meantime we write to the permanent secretary and ask about the difference in the figures that are given for the five projects here and in the Audit Scotland report. That would allow us to have some correspondence from him as well to inform that discussion. Would that be a way to take this issue forward?

Mary Scanlon: Yes.

James Dornan: We are crawling into agenda item 7 now as well.

The Convener: I accept that, but to be honest there is a sense that it would be good to have that discussion and Mr Peter Housden himself seems to want to have some discussion about that capital project report. I agree that it might overlap with how we take forward the other report when we come to discuss it under agenda item 7. However, do members agree to write to the permanent secretary about the discrepancy in the figures and to ask him to come before the committee so that that discussion can take place?

Members *indicated agreement.*

Scottish Government Progress Report

11:01

The Convener: Agenda item 4 is the Scottish Government progress report, which we get twice a session on issues that we have flagged up to the Government and on which we would like to see some progress. I have some comments on the evaluation of keep well, which arose out of our work around cardiology and health inequalities. In particular, the Information Services Division submission was quite worrying, in the sense that ISD said that it was involved with the keep well project early on but had little success in ensuring that

"complete and consistent data were collected"

and that it then withdrew from the project once it went beyond the pilot, a situation that ISD describes as "disappointing". Perhaps even more significantly, later in the ISD submission, it draws attention to the difficulty of accessing data from

"GP systems",

which

"if left unresolved could potentially undermine the integration of health and social care."

Although this is just in relation to a progress report, ISD seems to have quite serious concerns. I wonder whether we should draw those concerns to the attention of the Health and Sport Committee, which will be dealing with the integration of health and social care.

Colin Beattie: The fact that we are unable to evaluate keep well is a problem. A lot of money goes into the project and it is more than just disappointing, as they say, that we are not able to evaluate it. The question is, what do we do? What is the measurement? How can we measure keep well? There seems to be a feel-good factor—yes, we think that it is doing something good. If the project is axed simply because there is no measurement, that could have a negative impact on the people who are benefiting from it. It is a no-win situation, and I am straying a little bit, but how can a public project be justified if it cannot be evaluated?

Mary Scanlon: That is a constant theme of Colin Beattie's and, to be fair, of the committee, as the Auditor General for Scotland highlighted in her letter to the committee on the progress report.

Take the second paragraph of that letter:

"many of my and my predecessor's reports to the Public Audit Committee have highlighted gaps in the availability and quality of data."

To be honest, every report that comes in front of the committee is about the gaps in, the availability of and the quality of data.

I seek guidance as to who in the Government the committee can call in to demand that, after 14 years of the Parliament, we get proper facts, figures, data and comparative data. We have been asking for that for 14 years and every report that we get in 2013 still says that there is not enough data and that the quality of data is not good. We are a small country of 5 million people. Is there not somebody in the Government or the civil service who can crack the whip and bring some accuracy?

The Convener: We have just agreed to invite the permanent secretary to come to the committee. That might be an opportunity to discuss the matter, as it seems to be a problem that cuts across all departments and portfolios.

Mary Scanlon: Could we question the permanent secretary on the report?

The Convener: With the committee's agreement and as long as we indicate to him that that is our intention, that would be a reasonable thing to do.

Mary Scanlon: That would be helpful.

Willie Coffey: It is not all doom and gloom. There is a positive message on page 3 of the report, where Derek Feeley says that evaluation of the keep well programme is under way and we will find out in the summer of 2014 what its impact has been.

The convener commented on ISD's concerns. We would want to alert our colleagues on the Health and Sport Committee to those concerns. Members will notice Ian Crichton's comment in the second-last paragraph on page 5 of the paper about the fact that ISD will have a major role to play in assisting us with monitoring the integration of health and social care. It is a good time to alert our colleagues in the Health and Sport Committee to our concerns about the consistency and quality of data gathering and how we can improve the contribution that ISD makes for us.

The Convener: We are agreeing two actions. The first is to write to the Health and Sport Committee to draw its attention to ISD's concerns, particularly with regard to the impact that poor data gathering or difficulties with data gathering might have on health and social care integration. The second is that, when we invite Sir Peter Housden, we indicate to him that we would like to talk about the quality of data gathering across the Scottish Government as well as the infrastructure projects. Is that agreed?

Members *indicated agreement.*

Section 23 Reports

"Management of patients on NHS waiting lists"

11:08

The Convener: Agenda item 5 is a response from the Scottish Government to our report into the management of patients on NHS waiting lists.

I welcome the response. As far as I could see, the Scottish Government accepted all the recommendations that we made, with one exception. The one that it did not accept concerned the inclusion of out-patients in the data. That aside, it was a positive response to our report.

James Dornan: I agree. Even the way in which the Government responded to the recommendation on out-patients—it refers to the use of text reminders—indicates that it took everything on board.

Mary Scanlon: It is quite positive. It addresses the issues that we raised. Given that we will have an update from the Auditor General in December, I would be content to note the response and consider the management of patients on NHS waiting lists in that update.

The Convener: Mary Scanlon helpfully suggests that we note the report in the knowledge that we will have an update on the issue before the end of the year. Is that agreed?

Members *indicated agreement.*

"Managing early departures in the public sector"

The Convener: Agenda item 6 concerns correspondence from the Scottish Government and Scottish Enterprise on the section 23 report, "Managing early departures in the public sector". I open up the matter for comment. I think that the correspondence was largely provoked by Mr Scott.

Tavish Scott: If I am being honest, I cannot quite remember what initiated it all.

The response halfway down the first page of annex A is interesting:

> "The Scottish Government does not collect or hold information centrally on the number of compromise agreements used across the wider public sector."

There may be really good reasons for that, but the paragraph does not explain why that is. If it is an issue of some concern—perhaps it is not—it would have been helpful for the Government to set out why those figures are not collated.

The Government's response with regard to central Government staff is that such agreements are used infrequently. I accept that; it is clear from the evidence that that is the case. However, Scottish Enterprise clearly used them and the committee does not know whether they have been used more widely across the Scottish public sector.

Would it be worth exploring with the Government not how many such agreements have been used, because it does not know, but what its reason is for not holding that information? I would like to ask that question.

The Convener: I am relaxed about writing back and asking why the Government takes that position, if other committee members are agreeable.

Members *indicated agreement.*

The Convener: If there are no further comments on the correspondence, that ends our public business and the committee will continue in private.

11:11

Meeting continued in private until 11:24.

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

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

For details of documents available to
order in hard copy format, please contact:
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk

e-format first available
ISBN 978-1-78351-465-6

Revised e-format available
ISBN 978-1-78351-481-6

Printed in Scotland by APS Group Scotland