



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 2 Mai 2012
Wednesday, 2 May 2012

Cynnwys **Contents**

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

Papurau i'w Nodi
Papers to Note

Cyllid Datganoledig: Pwerau Benthg ac Ymagweddau Arloesol o ran Cyllid Cyfalaf
Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding

Cynnig Gweithdrefnol
Procedural Motion

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Ieuan Wyn Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Peter Reekie	Cyfarwyddwr Cyllid, Scottish Futures Trust Director of Finance, Scottish Futures Trust
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Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Helen Finlayson	Clerc Clerk
Joanest Jackson	Cynghorydd Cyfreithiol Legal Adviser

Dechreuodd y cyfarfod am 9.29 a.m.
The meeting began at 9.29 a.m.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** I welcome you all to this meeting of the Finance Committee. The meeting will be held bilingually, and headsets are available. Members of the committee will know that translation is on channel 1 and that channel 0 can be used for amplification. Please check that your mobile phones and other electronic devices are switched off. This is a formal meeting, so you do not need to operate the microphones. We are not expecting a fire drill, so, if the alarm sounds, please follow the instructions of the ushers. We have not received any apologies.

[2] We have had an indication that the video-conferencing equipment is ready and that we are just waiting for the other party to join us. For information, we will be joined by Peter Reekie, director of finance at the Scottish Futures Trust. You have had a briefing paper and you have also had written evidence from the trust. So, we will just wait for him to join us and

hope that the electronic equipment does not let us down.

9.33 a.m.

Papurau i'w Nodi Papers to Note

[3] **Jocelyn Davies:** While we are waiting for the equipment to redial, we will move on to the next item. We have papers to note and we have to agree the minutes of the previous meeting. You have all seen the paper to note, so is everyone happy with our response? The paper relates to the clarification of evidence that we had at the last meeting. I see that you are happy to note that. Are you all happy with the minutes of the previous meeting? I see that you are.

[4] **Mike Hedges:** Will we have an opportunity to respond to the paper that has been noted?

[5] **Jocelyn Davies:** You can raise any points about the committee report that you would like to discuss, Mike, when we move into private session to discuss this evidence.

9.34 a.m.

Cyllid Datganoledig: Pwerau Benthyg ac Ymagweddau Arloesol o ran Cyllid Cyfalaf Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding

[6] **Jocelyn Davies:** Thank you for joining us, Mr Reekie. We have received your paper and we have also had a briefing. I do not know whether you would prefer that we move straight to questions or whether you would like to make an opening statement for the record.

[7] **Mr Reekie:** I think that it is probably better to go straight into questions, which I am happy to take now. I am sure that it would help you more than me just talking off my own bat.

[8] **Jocelyn Davies:** Okay, thank you. We noticed from the information that we have been given that your portfolio of projects is worth in the region of £9 billion. I understand that £3 billion of that is over and above the traditional capital budget. Can you tell us what that £3 billion is made up of?

[9] **Mr Reekie:** Of the £3 billion, £2.5 billion is the non-profit distributing programme of work. Those are projects in education, health and transport that will be funded from future revenue budgets of the Scottish Government and are financed through private finance up front and public private partnerships in our non-profit distributing structure, which I am sure that we will come back to. Of the remaining £500 million, just over £100 million comes from the National Housing Trust, which is a joint venture structure for affordable housing that will be funded over the long term by rental income from occupiers and sales of housing units on the market. It is financed up front by local authority Public Works Loan Board borrowing and equity from developers. The remainder is a tax incremental financing scheme, which is infrastructure through a locked private sector development. That will be funded over the long term through increases in non-domestic rates taxation; again, it is financed up front by local authority PWLB borrowing. So, all of those structures allow additional infrastructure to be built over and above the direct, year on year funding that the Scottish Government receives.

[10] I always try to be careful with my language on the difference between funding and

financing. Funding is how infrastructure or anything else is ultimately paid for, whether it is paid for as it is built, or paid for over time as it is used. If we choose to pay for something as it is used, there needs to be finance ready up front to pay the builders for building the thing. You may catch me out, and do buzz your buzzers if you do, but funding is about how a thing is ultimately to be paid for by users or through taxation, or whatever Government funding it may be, and financing is where we need to raise money up front if we ultimately choose to fund something over time.

[11] Those are the three models that make up that additional investment.

[12] **Jocelyn Davies:** Thank you for that, and thank you for clarifying the difference between financing and funding. Your organisation has been set up by the Scottish Government, so what can you do that the Scottish Government could not do?

[13] **Mr Reekie:** We bring together, in a centre of expertise, the people and knowledge to do things differently to how they have been done before. So, none of this funding comes directly through the Scottish Futures Trust, and we do not raise the finance ourselves. We are an expert body that looks at different ways of doing things, and brings the public and private partners together, if that is needed, to innovate with these structures.

[14] I suppose that the important thing about us being separate from Government is that our operational independence allows us some freedom and flexibility to look around the environment at where there could be opportunity to do things differently and to make improvements, and to pursue those, and not, at any point in time, to pursue something that the Government or Ministers may prioritise for us. We absolutely do listen to and treat the Government as a very strong stakeholder in the organisation, but we are operationally independent in what we pursue. Therefore, for example, tax increment financing was not something that was high up on the agenda for the Government or, as far as I am aware, for politicians in Scotland. However, we thought that it could work well. We pursued it with local authorities that were ready, willing and able to give it a go, and we got something moving and happening and we built the support for it afterwards rather than perhaps waiting for instruction or direction as we might have had to do had we been within the Government.

[15] **Jocelyn Davies:** So, how do you interface with the Government?

[16] **Mr Reekie:** We interface formally through a management statement and financial memorandum, which sets out that the Government is, indeed, the owner of our company; it owns our shares. That sets out how we are controlled, and how we have to respond to the Government. Informally, we interact on a day-to-day basis through the finance directorate of the Scottish Government, in which there is a very small infrastructure investment unit, and with many of the other areas of Government with which we do business, if you like, whether that is the housing, energy, or broadband teams. We also have a substantial direct contact with the Minister for infrastructure up here, Alex Neil.

[17] **Jocelyn Davies:** Thank you. All the Members here have questions for you. I will ask Paul Davies to start.

[18] **Paul Davies:** What innovations have you introduced, and how is this being translated into evidence of savings, because I note that you delivered some £129 million of savings during 2010-11?

[19] **Mr Reekie:** First, all of those savings and benefits are calculated transparently. On our website we have a detailed document that sets out how all those have been added up, if you would like to go through it at any point. There are two main areas in which we do our business: one is spending the money that we have more efficiently and the other is bringing in

additional finance, or adopting the structures to bring in additional finance. I should say from the outset that the figure of £129 million is the benefit that is attributable to our organisation. We cannot, and would not, try to do any of this on our own. If you were to go into our sums, you would see that the overall benefits for Scotland were substantially greater than that, but that much of those were down to the local authorities with which we work and the Government with which we work. So, that is the small share that we allocate to ourselves. To break that down, there are some things that might sound obvious but they are actually innovations, and it is probably worth starting with: for example, having a strong and carefully maintained metric for the central funding element of new schools. In Scotland—I am afraid that I do not know about the situation in Wales—there is a programme of building schools whereby a proportion of the funding for each school comes from the centre and a proportion comes from the local authorities. Previously, there had been systems whereby local authorities bid in for their requirements for funding for schools, and there was no strong central evidence or metric on how much a school should cost. We introduced a system whereby we get a detailed understanding of how many pupils attend the school and only fund for that number of pupils. Then we built some evidence on how many square metres of building you should need for each pupil, and we built some evidence on how much it should cost per square metre to build a high-quality sustainable school.

9.45 a.m.

[20] If you have those three figures—the number of pupils, the square metres per pupil and the cost per square metre—you can very easily calculate what the funding should be for any particular school. That has allowed us to drive down the funding allocation centrally for schools without impeding the quality or sustainability of the buildings. It has also allowed us to fund substantially more schools from the programme budget that was allowed by central Government. So, that is an example of spending our money more wisely and adopting a ‘needs not wants’ attitude to specifying and buying buildings and infrastructure. We did not think that we would be doing much of that. When we were set up, we thought that all of our work would be on whizzy financing structures and new ways of doing things, but we are spending quite a lot of our time spreading best practice and sharing the good pockets of practice that are out there in buying and maintaining infrastructure efficiently.

[21] The second area is on the additionality of finance and where we are able to bring in different ways of financing infrastructure. In addition, a third area that is emerging for us is managing the estates more effectively, and I know that a lot of work has been done in Wales on asset management. We are now established as a centre of expertise in Scotland for workplace rationalisation and the effective disposal of buildings and estate that are not needed anymore. To me, very critically, it is about getting public sector bodies, which are all getting a lot better and are quite good at asset management in their own right, to work better together on asset management and to look at a portfolio of estate. The best example of that is local authorities and health boards, which all have quite a lot of buildings and estate, perhaps in one small town. Unless we understand what the combined estate looks like, we cannot rationalise it or make best use of it between the bodies. We have done a lot of work on mapping that estate and putting in the governance arrangements between the bodies to allow it to be managed as a single portfolio. Those are examples of where the benefits and savings have come from, but, as I say, there is a detailed document on the website that sets them out.

[22] **Christine Chapman:** You mentioned the example of schools and new builds. Was there an exercise to monitor the experiences of pupils and staff afterwards? You talked about the amount of space. I was talking to someone who works in another part of the UK where this sort of exercise has happened and there was a detrimental impact on the pupils and staff as a result of the calculations that were made about space. You talk about financial savings, but, in their opinion, there was a detrimental effect on the pupil and staff experience, which is obviously not good value for money. Do you have any comments on how well that is

evaluated?

[23] **Mr Reekie:** That certainly would not be good value for money; I can agree with that to start with. We have a two-stage process for that. The first is to ensure that the staff and pupils are properly involved in developing the brief and the high-level design of the school buildings. In fact, we have just done some work on primary school designs and we have invested some of our funds in developing two designs from leading architectural practices for a primary school in Dunbartonshire. Each of those architectural practices has held a series of workshops with the teachers, the pupils, and, indeed, the parents, as well as other stakeholders in the school in drawing those designs together. We would always encourage that. Those designs, incidentally, will be published and will be openly available as examples of leading practice that meet the space metrics that we have set and also deliver excellent design. The other thing that we do is formal post-occupancy evaluation. For the programme of schools that we are looking after, only one of those is now occupied. Several are in construction, but only one has just been occupied and we are about to start the post-occupancy evaluation. I agree that it is important to feed that experience back into the design of schools in the future.

[24] There is a slight danger in involving or relying too much on a single headteacher currently in post at a school in its design, because they will have their own views and strong thoughts on what would suit them best but school buildings last longer than headteachers. One example of practice that we have seen at Dunbartonshire is that they did not have just one headteacher leading the interaction on building a school, but got a panel of headteachers from the area together to act as the stakeholder group to ensure that the building would suit a wider range of the leadership approaches that we know are out there. So, those two approaches of involving people up front and involving the right stakeholders and then formally evaluating post occupancy and feeding that back in will ensure, to the extent that we can, that there is no detrimental effect and that, if anything is noted as being not ideal, that is fed into future designs.

[25] We have another handbook on secondary schools, which again you can find on the website, where we have reviewed previous programmes of investment in Scotland in secondary schools. We picked out from that, again through workshops with pupils and teachers and other stakeholders, what has been good and bad in the past so that we can build that already into our current programme of work on schools. I recognise the problem that you are talking about, but I hope that we have done what we can to mitigate it.

[26] **Jocelyn Davies:** Thank you, Mr Reekie. Just for you to note, we are on question 3 of 20 questions and we have very little time left, so, if we could have briefer questions and answers, I would be very grateful.

[27] **Julie Morgan:** I think that you have already partially answered my question, Mr Reekie, but does the SFT have a direct role in sourcing or funding cheaper borrowing options and could you explain that role in more detail? I know that you have already partially answered that question.

[28] **Mr Reekie:** With regard to local authorities, for all of the work that we are involved in with them, we will probably use the Public Works Loan Board, because that seems to be the cheapest finance out there at the minute for local authorities. We have looked at other options with them, for example, local authority bonds, which I know have been talked about, but they seem at the minute to be likely to be more expensive.

[29] On other structures, with regard to the private finance through our non-profit distributing programme, we are very much involved in how we can reduce the cost of finance across that programme and involve the pension funds and alternative sources of finance in that. Where we add quite a lot of value is in being a centre of expertise in the public sector

that understands the finance markets and can draw that together across a programme, without relying too much on external advisers.

[30] **Peter Black:** What support have you been asked to provide in preparation for the Scottish Government being granted borrowing powers in the Scotland Bill?

[31] **Mr Reekie:** We are at the delivery end of things and tend to do all of our work within the rules that are in place at any given point in time. So, while we have had some high-level discussions with people in Government about borrowing powers, we are not directly involved in that side of things.

[32] **Christine Chapman:** Could you provide more detail on exactly how the Forth replacement crossing will be financed? I know that it was planned for the crossing to be financed via the traditional capital route. Could you also say how you are involved in this project?

[33] **Mr Reekie:** The Forth replacement crossing is funded by direct Scottish Government capital from the core budget. It is a big call on the budget. We are involved as an external validator and as a second pair of eyes, working with Transport Scotland, which is the lead procuring body. We would describe what we do as something like an MOT test, where we go in at regular points during the process and check how the project is going and what the people who are deeply involved in it are doing. You will know from your own experience that an MOT test can pick up problems with your car early before they turn into breakdowns. That is what that review process intends to do. That is our involvement in that project.

[34] **Ieuan Wyn Jones:** Something important that we want to ask you about is the additional capital money that you are bringing—the £3 billion that the Chair asked about initially. How does the Treasury view that money? Does it view it as additional to the Scottish block or as part of it?

[35] **Mr Reekie:** It is all additional. Our funding is split into two parts. The non-profit distributing programme of public-private partnerships is accounted for as private sector assets under UK national budgeting and accounting rules. That is only a call on the Scottish Government's revenue budget on an annual basis as the unitary charge is paid. The other part is the work that we do with local authorities, where the borrowing from the Public Works Loan Board falls on their balance sheets, but that is accounted for as prudential borrowing and is completely outside the Scottish Government's funding block.

[36] **Ieuan Wyn Jones:** Given that the Treasury is content with that arrangement, is there any reason that that could not apply to any other country in the UK?

[37] **Mr Reekie:** I see no reason why it should not work elsewhere. The accounting and budgeting rules that we work with are UK-level rules. The International Financial Reporting Standards accounting system and the European System of Accounts 1995 for the Government's statistical treatment of the public sector net debt—the borrowing—are all UK-level systems and, as far as I understand, local authorities work under the same accounting regime in different parts of the UK.

[38] **Ann Jones:** Will you explain the role of the charity in the NPD model and what would its role be up to and at the conclusion of the project?

[39] **Mr Reekie:** The charity was present in early NPD projects to receive any surpluses. The NPD model is a public-private partnership, and the critical difference between it and PFI is that it caps the profit that can be made by the private sector partner. There are a number of other differences that are important as well. However, the critical difference is that it caps

profit to a reasonable level, commensurate with the risk being taken. In the early projects, any efficiency gains or anything else that led to a profit being made above that level would not go to the private partner, but to a charity. More recently, in discussion with different public bodies, what the procurers have said is that it would be much better if those surpluses could be directed back to the procurer rather than a third-party charity. There have been some technical changes to the accounting rules that allow us to do that. So, in the current programme, any surpluses over and above the capped profit level will return to the procuring body, which will be a local authority, health board or whatever, rather than to a charity. So, we did have a charity involved in early projects, but we do not use that as part of the structure any more.

[40] **Mike Hedges:** Does the NPD model work only on an individual project, such as a school or schools within a certain local authority area, or could it work across the whole of Scotland?

[41] **Mr Reekie:** We have two different chunks in that programme. We procure for the larger individual projects, such as acute hospitals, roads and further education colleges, as individual, stand-alone projects—it is a case of one asset, one deal. Smaller projects, such as school buildings or local health centres and GP practices, tend to be procured through our hub delivery structure, which is a partnership based on five territories across Scotland. The territory partner is procured for all of the construction in that territory that falls within the hub and the boundaries of what a hub is for, which is community infrastructure. The important point is that within that model, the hub partner has to show value for money for every single building, individually, but we do not run a separate procurement process for each building. So, it can be used all across Scotland for lots of different sorts of assets.

[42] **Paul Davies:** Sticking with the theme of NPDs, has any work been done to assess the level of concentration in the supply market for NPDs? For example, does the capping of profits deter private investors from getting involved?

[43] **Mr Reekie:** We have not seen any lack of competition for NPD projects, which you might expect if it was deterring private investors. So, every project that we have put out as an NPD has had a strong level of competition. There is no evidence that it is putting people off. The other important thing about the supply chain and the market is the ability for local players and SMEs to participate. Particularly, through the hub programme, the early evidence is that a lot of the work on these individual projects is being done by the SME marketplace. Also, in the larger individual procurements that I talked about, we are being very clear through those procurements that the larger contractors likely to bid for those projects bring in the local market and involve local people, giving them training and work opportunities. So, at both ends, in answer to the question of whether we are attracting people, the answer is that we get competition. Are we leaving it open for people to participate? The answer is 'yes'. Within the supply chains, there are good opportunities for local contractors and for the local workforce to participate.

[44] **Christine Chapman:** Is there any evidence in relation to how bidding costs and the length of the procurement process compare with the traditional private finance initiative model?

[45] **Mr Reekie:** Structurally, there is no difference in the length of procurement or the bidding process for an NPD than for what you would call a 'traditional' private finance model. However, SFT has introduced other changes that are shortening that tender process quite significantly. Key among those changes is doing a lot more design work in the public sector before the start of competition. One of the things that has led to long competitive stages in the UK, compared with, for example, the rest of Europe, is the interaction between the design process for the building and the procurement process for the contract. We have

changed that interaction by doing more design work up front, which allows for a shorter competitive process and lower bid costs, and lower costs for the public sector body in the procurement stage. It is not really a product of the non-profit distributing model; it is a product of changing the way we specify and procure, which we have done at the same time.

[46] **Peter Black:** The public sector comparator has been controversial in relation to PFI. What is the public sector comparator model used in the consideration of NPD projects, to ensure that you get maximum value for money?

[47] **Mr Reekie:** The short answer is that we do not undertake a public sector comparator on individual projects. The value for money of the NPD programme is assessed on the basis of its ability to deliver much-needed infrastructure that adds substantial value to Scotland and its economy now, rather than having to wait until budgets become available. That is the programme-level, value-for-money argument. On individual projects, we have published specific guidance on assessing the value for money of projects in this programme, which is—and I will advertise it again—on our website if you want to have a look at it. The value-for-money guidance refers to choosing projects that are appropriate for this sort of financing and delivering them well.

[48] I agree with some of the controversy surrounding the public sector comparator, which was about trying to look forward 20 or 25 years and saying whether it would be 2%, 3% or 4% cheaper in net present value terms to undertake traditional or private finance initiative schemes. Our view is that the range of uncertainty in that calculation tends to be greater than the difference between the two ways of doing it, so it seems to be a bit of a consultant fest, if you like, in preparing those models and doing the comparisons in a way that does not add too much value to projects. That may be a slightly unwise comment, but I stand by it.

[49] **Julie Morgan:** What about the issue of flexibility of contracts? Some of the criticism of PFI has been based on the fact that you are locked into a contract. How are you ensuring that you have maximum flexibility in the models that you are pursuing?

[50] **Mr Reekie:** Flexibility is important to us. The starting position for me on that is that once you have built a building one way, it will cost you to change it so that it looks like something different or it does a different job. The question is whether that cost is more, or substantially more, if it is procured through an NPD long-term contract than if the authority that owns the building has to pay to change it. My view on this is twofold. The first thing that it is important to do is design the buildings to make changing them as cheap as possible. That is to do with the structural solutions and whether you build partition walls or block walls and all of those sorts of things. That is entirely independent of how the building is procured; it is about how it is specified.

[51] The NPD contracts have learned a lot from early PFI and other forms of contracts in specifying the commercial requirements to allow change. We have a clear ability for the public sector to make small changes to the building. We have heard all sorts of horror stories about the costs of putting notice boards on walls and all of those sorts of things. My view is that if a procuring body—a local authority for a school, or a health board—wants to put a notice board on a wall, it should do so itself; our contracts allow for that. If there is a small value change that it makes sense for the private contractor to do, we have a very clear price list and transparency for such things, which do not allow extra layers of management overheads to be put on top, as with some of the horror stories of the past. For larger changes, we have a very clear mechanism for pricing. My view is that there will be costs involved in changing buildings for the future—there always will be. So, we must first design them to be flexible and, secondly, design the contracts in such a way that changes do not cost too much. We have done both of those things.

[52] **Jocelyn Davies:** We will move on to local government borrowing powers. Ann, would you like to ask the next question?

[53] **Ann Jones:** Yes. Can you describe any initiatives where you have used or plan to use local government borrowing powers in Scotland?

[54] **Mr Reekie:** Yes. The two headline ones for us are tax increment financing and the National Housing Trust. I put a little bit about both of those in my note. The first thing I would say about local authority borrowing powers is that the prudential borrowing regime is quite clearly defined and tight. Whenever we have looked at new ways to use that, we have first sought to understand those rules very well. That is the first step. With regard to tax increment financing, that is infrastructure that unlocks private development that brings economic growth, so it is linked to local authorities' responsibilities for economic development and it is important that the local authority owns the asset under its borrowing regime. The tax increment financing structure gives the local authority directly any increase in non-domestic rates from commercial development in future to repay the debt it raises. I would call it paying for growth with growth. So, when the economic growth comes that delivers more taxation it repays the debt that put in the infrastructure that allowed the growth to happen. So, it is a cyclical sort of local authority borrowing.

[55] The other one is the National Housing Trust. The innovation there is blending three things together: local authority borrowing for around 70% of the cost of affordable housing; the developer leaving in equity, principally the land value, of around the remaining 30%; and, within the structure, a Scottish Government guarantee over the local authority borrowing. The creation of the structure that blends together those three elements in what I will call financial engineering, which makes it sound fancier than it really is, is what has allowed local authorities to feel that that is a good use of their borrowing to deliver affordable housing, which is certainly on the Government's agenda and on their agenda. As far as the Government is concerned, it has to budget for the guarantee. It is not free for the Government, but in budget terms it costs the Government less than £2,000 per unit of housing, while a traditional unit of affordable housing has cost many tens of thousands of pounds from Government budgets through traditional routes. So, those are the two main structures.

[56] **Ieuan Wyn Jones:** Do you think there is greater scope to use borrowing powers in Scotland and what might the scale of that be?

[57] **Mr Reekie:** In Scotland, rather than in local authorities, there could be different ways of using borrowing and the use of guarantees in a creative way. The really important thing—and I should probably have talked about this in relation to the NPD programme—is the perhaps simplistic but possibly often ignored approach of not borrowing more than you can afford to repay. In the Scottish Government's budget and the section in the 2011-12 budget that sets out the parameters for that £2.5 billion programme, we have added up all the future commitments, whether through the regulated asset base paying for, principally, railways in the future, whether in the legacy PFI projects that the Government still has a funding obligation for or in new NPD projects, and we have looked at the impact on the total budget going forward of those and set a cap on the use of future budgets to repay historic debt. I think that there will be new ways of using borrowing powers and using Government borrowing, but it is really important that we set an overall cap that, effectively, is a calculation of 'Do not borrow what you cannot afford to repay'.

10.15 a.m.

[58] **Peter Black:** Could you ever envisage a situation in which using local government borrowing powers would displace the need for the NPD?

[59] **Mr Reekie:** Possibly. The prudential borrowing regime is a codification for local government not to borrow what it cannot afford to repay, as you know, and local authorities are getting quite close to that. I can see, in the future, that borrowing powers for Scotland would create a different debate on whether NPD was the best value for money. As I said, the value-for-money test on NPD was very much about getting infrastructure now and the economic benefit that comes from that. I have written a little in our evidence to the Treasury on PFI reform about the majority of the benefits that NPD, arguably, has brought. To me, the biggest of those are the diligence of not signing a contract until you are ready, and budgeting and making budgets available for the maintenance of an asset once it has been built. Unfortunately, in my view, the public sector as a whole—and we are all to blame here, to an extent—has been unable to live up to the moral obligation of maintaining an asset that it has built, and it has, to an extent, required the contractual obligation that NPD projects put in place that say, ‘We will make the budgets available to look after it’. I believe that those disciplines could be embedded in a structure that uses public borrowing in the future. That does not mean in any way that I think that NPD and other public-private partnerships structures were not a good thing at the time, or not a good thing now. I just think that, having learned a lot of lessons from those, there is a possibility that, in the future, we could gain a lot of the benefits with a publicly financed mechanism. We have a little way to go, but we should not shut our minds to that.

[60] **Mike Hedges:** Have you looked at the use of local authority pension funds or pension funds in general as a vehicle for supporting infrastructure investment?

[61] **Mr Reekie:** The pension funds debate is live and I think, as do most people, that they are a natural home for investment in long-term infrastructure. They have long-term liabilities that need to be matched. Many of the pension funds already invest in infrastructure funds, and those infrastructure funds often provide the equity for PPP projects. Many pension funds have some holding in infrastructure, but, with the bulk of the financing for infrastructure in debt that they should be interested in, pension funds on that side of their business are really quite risk averse. They are not particularly keen on the risks involved in construction. They do not seem to mind the assets once they are in operation, but they do not like construction risk.

[62] We are involved in quite a lot of work at the moment on how we enhance the credit quality of that investment, particularly during the construction phase, to meet the needs of the pension funds. Again, that is some sort of financial structuring, possibly involving insurance companies and the banks taking some of that risk in the construction phase and possibly involving performance bonds and other instruments. However, I think that they should be there. It is absolutely right that pension funds—particularly, perhaps, local authority and other public sector pension funds—make their investment decisions in the interests of their pensioners. However, I strongly believe that we should understand what they want as an investment product and try to structure opportunities that they will be interested in. We are actively doing that. The regulations around that industry are making it trickier. If anything, they need to be able to market and to value their investments on a regular basis for audit purposes. So, that narrows down the range of what they are interested in as investments. However, I believe that we can attract them into infrastructure through the NPD model.

[63] **Jocelyn Davies:** Mr Reekie, unfortunately, we have run out of time, but we have not run out of questions. If it is okay with you, we will send them to you, and perhaps you can send us written answers. We will send you a transcript of the evidence that we have had today, and you can correct it if you think that there are any factual inaccuracies. On behalf of the committee, I thank you very much. We have had very interesting evidence from you today.

[64] **Mr Reekie:** That is no problem. I am always happy to continue discussions at another time, and I will provide written answers, where I can, if you send some questions.

10.22 a.m.

Cynnig Gweithdrefnol
Procedural Motion

[65] **Jocelyn Davies:** I am sorry about that, Members. I know that we had got to an interesting point, but it was unavoidable. We have already noted the supplementary evidence and the minutes of the previous meeting, and so I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[66] I see that the committee is in agreement.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10.22 a.m.
The public part of the meeting ended at 10.22 a.m.