



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Iau, 21 Chwefror 2008
Thursday, 21 February 2008**

Cynnwys
Contents

- 4 Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introduction, Apologies, Substitutions and Declarations of Interest
- 4 Ymchwiliad i Bartneriaethau Cyhoeddus-Preifat
Inquiry into Public-Private Partnerships
- 25 Ymchwiliad i Bartneriaethau Cyhoeddus-Preifat—Cynghorwyr Arbenigol
Inquiry into Public Private Partnerships—Expert Advisers

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi 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

Alun Cairns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Alun Davies	Llafur Labour
Ann Jones	Llafur Labour
Lynne Neagle	Llafur Labour
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Phil Davy	Pennaeth Datblygu Economaidd, Cyngor Sirol Caerffili Head of Economic Development, Caerphilly Borough Council
Dr Heledd Hayes	Swyddog Addysg, Undeb Cenedlaethol yr Athrawon, Cymru Education Officer, National Union of Teachers Cymru
Simon McCann	Cynghorwr Arbenigol i Ymchwiliad y Pwyllgor Cyllid i Bartneriaethau Cyhoeddus Preifat Expert Advisor to the Finance Committee Inquiry into Public Private Partnerships
Gronw Percy	Cynghorwr Arbenigol i Ymchwiliad y Pwyllgor Cyllid i Bartneriaethau Cyhoeddus Preifat Expert Advisor to the Finance Committee Inquiry into Public Private Partnerships
Mari Thomas	Swyddog Polisi Cyllid, Cymdeithas Llywodraeth Leol Cymru Finance Policy Officer, Welsh Local Government Association
Steve Thomas	Prif Weithredwr, Cymdeithas Llywodraeth Leol Cymru Chief Executive, Welsh Local Government Association
Darren Williams	Swyddog Ymgyrchoedd (Cymru), Undeb y Gwasanaethau Cyhoeddus a Masnachol Campaigns Officer (Wales), Public and Commercial Services Union
Rhys Williams	Swyddog Cyfathrebu, Ymgyrchu a Gwleidyddol, Undeb Cenedlaethol yr Athrawon, Cymru Communications, Campaigns and Political Officer, NUT Cymru

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 1.30 p.m.
The meeting began at 1.30 p.m.*

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau Introduction, Apologies, Substitutions and Declarations of Interest

[1] **Alun Cairns:** I bring the meeting to order. We have had apologies from Alun Ffred Jones and Angela Burns, who are unable to make it. Mohammed Asghar has also indicated that he might have constituency commitments; he will try to make it, but he might find it difficult to be here. The usual Standing Orders apply, and you have the right to speak in Welsh or English.

[2] The purpose of this meeting is to pursue the investigative inquiry into public-private partnerships and the private finance initiative. Item 2 on the agenda is about furthering the evidence, but I should add at this stage that there has been a change. Unfortunately, Unison's nominated representative, Howard Marshall, is on secondment to the Welsh Assembly Government, and it is believed that there may be a conflict of interest, so he has decided not to give evidence. I wholly understand that reason, but I was quite disappointed to have only been told yesterday. With Derek Walker from the TUC also unable to attend, it means that one of the agenda items had to be lost. So, there are understandable reasons, but I am pretty annoyed and irritated about the timing. I would hope that we are able to take evidence from them—

[3] **Jenny Randerson:** I hope that you will invite them again, because I think that it is important that we get evidence from them.

[4] **Alun Cairns:** Yes, I think that their evidence will be key, and it is important that they contribute. However, the agenda has had to be changed slightly for today.

1.32 p.m.

Ymchwiliad i Bartneriaethau Cyhoeddus-Preifat Inquiry into Public-Private Partnerships

[5] **Alun Cairns:** I thank Rhys Williams, Dr Heledd Hayes and Darren Williams for attending, and for their evidence and papers. You can presume that the papers have been read, and that Members will want to question you, but I ask that you briefly introduce your headline thoughts at this stage, and perhaps draw attention to some particular areas of the papers. For the record, would you start by introducing yourselves? Would you like to begin, Mr Williams?

[6] **Mr Rh. Williams:** Diolch yn fawr i chi, a phrynhawn da. Rhys Williams wyf i, ac yr wyf yn swyddog cyfathrebu, ymgyrchu a gwleidyddol ar gyfer Undeb Cenedlaethol yr Athrawon Cymru. **Mr Rh. Williams:** Thank you, and good afternoon. I am Rhys Williams, and I am the communications, campaigns and political officer for the National Union of Teachers Wales.

[7] I thought that, because our written submission was done on an England and Wales basis, I would briefly focus on the position specific to Wales, and devolved Wales. There are very few schools in Wales that have been built via the private finance initiative—I can list them for you briefly. There is Ysgol Gyfun Gymunedol Penweddig, which is the Welsh-medium secondary school in Aberystwyth; in Pembrokeshire, there is Pembroke Dock Community and Nursery School; in Caerphilly, there are two, namely Pengam Boys Secondary School, and the Welsh-language Ysgol Gyfun Cwm Rhymini; in Conwy, there is

Ysgol John Bright in Llandudno, and Ysgol Dyffryn Conwy in Llanrwst; and finally, in Rhondda Cynon Taf, there are two Welsh-language schools, namely Ysgol Gynradd Gymraeg Garth Olwg and Ysgol Gyfun Garth Olwg, the latter of which is still sometimes better known by its old name of Ysgol Gymraeg Rhydfelen.

[8] So, there are just a handful of schools compared with the situation across Offa's Dyke. The question is why? After all, the policy of the Assembly Government some years ago was that it was going to be pragmatic about its use of PFI. Considering that there are so few examples of PFI in Wales, one wonders whether this is because the Assembly Government is stubborn, or whether it is a just reflection of the feelings and views of the people of Wales as a whole. Over the years, NUT Cymru has taken quite a bit of notice of developments in education in Wales, and we would say that it is in fact a reflection of the feelings of the people of Wales. You might say, 'It is all very well to assert that, but prove it'; all right, I believe that I can put some meat on the bones.

[9] If you consider—and I am looking at the Chair now—that, 20 years ago, the big initiative for the then Conservative Government in education was opting out. Do you remember that? It was about grant-maintained schools opting out of local authority control. We tend to think that if you worked for a trade union, you were hammered during the 1980s and 1990s. However, there were successes, and, in Wales, we successfully resisted the opt-out of schools. When the Labour Government was elected in 1997, it inherited only 17 grant-maintained schools in the whole of Wales; in England, there were hundreds. In fact, when Labour came to power, there were more education authorities—22 of them—than there were grant-maintained schools. Many of you may believe that 22 local authorities is too many; again, that was thanks to the Chair's party, when it reorganised local government.

[10] **Alun Cairns:** I can assure you, Mr Williams, that I chair this committee independently, and I am not here as a member of a political party.

[11] **Mr Rh. Williams:** I know; I am sorry. One reason why I believe there was a reluctance to opt out in Wales is that there is a closeness between schools, communities and local authorities. When we talk about a collective, community-based spirit—whether in education or in the national health service—I do not believe that it is something sentimental in Wales. I believe that it is something that can be proven; after all, there were votes on opting out. Therefore, the schools and the local authorities worked closely together, and we believe that local authorities should come together now to work together.

[12] There is a principled argument. I am not saying that we use unprincipled arguments as well, but what I mean by that is that I do not want to get involved in an argument that we are mortgaging the future, and so on. It seems to me that you cannot divorce a Government's policies from the buildings. The Assembly Government is proud of its induction phase, and, completely differently, the initiative to raise the standard of food in schools. The induction phase, which means more space in schools for youngsters between the ages of three—

[13] **Dr Hayes:** It is called the foundation phase.

[14] **Mr Rh. Williams:** I am sorry, it is the foundation phase, not the induction phase. The foundation phase means more space in schools for pupils between the ages of three and seven. That has implications for school buildings. Similarly, PFI schools have been built in England that, for reasons of financial economy, do not have facilities on the premises where food can be cooked. If the Welsh Assembly Government decides, 'Right, we want an initiative where the food will, preferably, be bought locally and will be of a higher quality', you cannot divorce that from the facilities of the buildings that are built.

[15] Therefore, what we are saying is that public services should be seen as—to use the

term that politicians like to use—seamless. That means that you cannot divorce the buildings from the delivery. Therefore—if you have not picked this up before—we are fundamentally against the use of private finance initiatives in education, or, indeed, in public services in Wales.

[16] **Alun Cairns:** Thank you for your comments, Mr Williams. I would now like to switch to Mr Darren Williams; I am not ignoring you, Dr Hayes, but as you and Mr Rhys Williams are from the same union—

[17] **Mr Rh. Williams:** She corrects my mistakes. *[Laughter.]*

[18] **Alun Cairns:** I would now like to turn to Mr Darren Williams. Would you make some brief introductory comments on the overview from the PCS?

1.40 p.m.

[19] **Mr D. Williams:** I am Darren Williams, and I am the campaigns officer in Wales for the Public and Commercial Services Union. The PCS primarily represents staff who work in the civil and public services. So, it is mainly those in Central Government, staff in the devolved and non-devolved sectors, in the Assembly Government sponsored bodies, as well as staff in a number of private companies, who are generally those who have been transferred from the public to the private sector. For example, we represent staff working in Atradius next door from the days when it was a part of the old Export Credits Guarantee Department. We also represent staff in the Assembly and the Assembly Government.

[20] Our concern as a union with regard to public services is twofold. First, we are concerned about the wellbeing of our members in relation to their jobs, pay and conditions. Secondly, we are concerned about the quality and accessibility of the public services that they provide. Our view is that public services are better provided by public servants. We prize very highly the public service ethos. We feel that our members, and civil and public servants generally, have shown a great deal of commitment to providing good-quality public services for the people of Britain and the people of Wales, and we are opposed to anything that would detract from that. In terms of other areas of public service delivery, I would say that we do not have a view as a matter of absolute principle; we take a fairly pragmatic position. To quote the supposed view of the present Government, what matters is what works. We would argue that, unfortunately, that Government, like its predecessor, has not been as pragmatic as that slogan would suggest in practice, and has tended to show a predisposition for private sector solutions—particularly with major capital projects—over public sector alternatives arrived at through more traditional methods of funding.

[21] Our opposition to the private finance initiative is based on experience of PFI and other forms of public-private partnership over the past few years. In the paper that we presented to the committee, we have given the number of examples from the Central Government sector of the civil and public services. It is by no means an exhaustive list, but it contains some of the more high-profile examples such as the problems in 1999 in the then passport service, which I am sure everyone remembers, problems with air traffic control, and problems with the benefits agency and the Post Office payment card, among many others. We feel that these projects demonstrate that there are severe problems with PFI. On that basis, we are wary about endorsing it as a method of providing such projects.

[22] **Alun Cairns:** That is useful. As a matter of clarification at this stage, Mr Williams, of those bad examples that you highlighted, how many relate to information technology projects? The Treasury has come out with a clear line on PFI for IT projects. I am not saying that that is right or wrong, but it is relevant if there is a given understanding on it. Do the majority, or all, of those relate to IT?

[23] **Mr D. Williams:** Yes, the majority does, although there is one case study listed here on which I have gone into more detail and which relates to the estate of HM Revenue and Customs. This is not an IT project; it is an estate project.

[24] **Alun Cairns:** That is useful. Before I bring in Alun Davies with the first question, I would like to ask both unions a broad question—please accept that I am playing devil's advocate and that I am trying to test the evidence that we have received so far. The same question will be put to each Mr Williams. Jane Hutt responded to a written Assembly question on 11 February, the week before last, and said that the estimate of the backlog of maintenance repairs for schools in Wales stands at £818 million. The current capital commitment on school repair and improvement is £157 million for the next financial year. Clearly, the bill for £818 million is historic and goes back a long period of time, and I do not want to get into a political argument about it.

[25] **Alun Davies:** It is due to the Conservative Government.

[26] **Alun Cairns:** I am trying to be serious about this, Alun Davies.

[27] In relation to the union, and to your teachers and headteachers who work within the union, and in view of the tight financial settlement that the Assembly Government has received for the next three years, how would your union look at overcoming the backlog in maintenance repairs of £818 million, bearing in mind that it grew from £660 million to £818 million within 12 months?

[28] **Mr Rh. Williams:** You quite clearly identify that there is a problem here. I listed the few private finance initiative schools in Wales, but I know some of the headteachers in those schools and they say to me, 'Look, it is the only game in town, and we are delighted that we had the opportunity to have new facilities through PFI'. As a union, we represent our members, and this is like many issues in education where there is not unanimity of opinion within the union.

[29] Of course, like many organisations, we have a leadership role and we are concerned about—and I said that I was not going to talk about the financial implications—mortgaging the future. In terms of education and educational advance, things are changing rapidly, but possibly not as much as in the health service. Ten years ago, I did not have a computer monitor on my desk at work, but we all have monitors now I suppose; things have changed rapidly. In some ways, we think that it is foolhardy to mortgage the future, not in financial terms, but in terms of buildings that are difficult to adapt.

[30] In terms of the list of schools that I read out at the beginning, I could have said that about half of them are Welsh-medium schools. Why is that? I suppose that when the Welsh-medium school revolution took off about 30 years ago, they were almost inevitably put into shabby, old buildings that the authority had no further purpose for. So, I can understand Welsh-medium schools grabbing the opportunity of PFI to get decent buildings, because many of the schools have suffered for 30 years in unsuitable buildings. If someone like me says to them, 'Look, you're tying up your future for the next 30 years', they would probably reply, 'So what? We struggled for the first 30 years of our existence'. However, ideally, we should be able to have flexibility in terms of buildings. We do not know what is going to happen in the future, and to be tied in by PFI, which involves commitments from private partners to public service, is fundamentally dangerous. The Welsh Assembly Government said that it was taking a pragmatic approach originally, and, in terms of Welsh-medium schools, it has used PFI money.

[31] **Alun Cairns:** To press you further on this, if you were the Minister, facing a backlog

of £818 million and with £157 million at your disposal for the next 12 months, would you, as an union, rather than a Minister, say, 'Okay, we'll ignore the improvement of school buildings because of the finite resources that are available and continue to struggle with the current buildings', or would you think that other sources of funding needed to be pursued, whatever model that might be?

[32] **Mr Rh. Williams:** I do not think that you have given the complete range of options. Sitting in the public gallery during Plenary sessions, I have heard people say many times that the nettle of reorganisation has to be grasped. It is no use having money to renovate schools that are long past their usefulness date. Sometimes, you have schools that educated the great-grandparents of current pupils; although, you could say that some Victorian schools are pretty good. The principle is that you do not want endless cash to be able to renovate schools. The nettle of reorganisation must be grasped, and difficult decisions are being made throughout Wales now. So, it is the effective use of public money that is needed as well, and this sometimes involves renovation. From what I have heard, when local education authorities make submissions for money for their school buildings, they have to include the way in which they are reorganising schools. So, there is a great deal of responsibility on the shoulders of local authorities.

1.50 p.m.

[33] **Alun Cairns:** Okay. I will bring Alun Davies in after this, but I will pose the same 'general principles' question to you, Mr Williams. When the auditor general gave evidence to us at the outset of this inquiry, he said that the costs of a private finance initiative and a public sector project were probably around the same at the end of the scale. However, he recognised that it was a way of managing cashflow. So, bearing in mind the £818 million and the £157 million, and the views of your unions, do we stick with crumbling buildings for your staff or do we look at other potential sources of funding?

[34] **Mr D. Williams:** I would echo some of Rhys's views by saying that those are not the only alternatives. The fact that we appear to be facing those choices is due to a policy decision by the Westminster Government that has ruled out greater borrowing and the use of progressive taxation to raise funding for better facilities through more conventional methods. Those are the kind of routes that my union would look to. Clearly, the Assembly Government does not have the ability to raise funding in its own right, but if resources, new buildings and services were necessary for the public, we feel that the UK Government should raise the funding for those through more traditional methods, namely taxation or more borrowing.

[35] **Alun Davies:** Thank you for clarifying that. I am interested in the approach taken by both unions, because you represent the people at the sharp end in different ways, such as those who work in any PFI school or on new ways of delivering public services more generally. However, you both seem to express similar concerns. Darren, you discussed the wellbeing of members and the quality and accessibility of services. I am interested in that, because if, for example, PFI provides an 'easy' alternative to traditional procurement, meaning that we can equip a whole new generation of schools for the twenty-first century rather than the nineteenth century, surely we should rush out and grab that.

[36] **Mr D. Williams:** First, I take into account the Chair's citation of the auditor general's comments on the comparability of the cost of the two options. It has to be said that there are different views on whether PFI is more costly, less costly or around the same cost as more traditional methods. However, there have been particular projects that have gone way over the original costings. In addition, there are considerations such as the fact that the private sector has to pay a higher rate of interest on its borrowing than the Government does. There is also the issue that Rhys raised on the long-term quality and appropriateness of facilities provided through PFI. Those issues mean that there is a big question about whether PFI is

ultimately good value for money. That is not just an issue in its own right but, if we are losing out, in some respects, from pursuing this kind of approach, it also means that cuts have to be made in other areas, and we do not want to see front-line services and our members' jobs being cut back because of problems with these kinds of projects.

[37] **Mr Rh. Williams:** You have to be careful when you talk about Victorian-age schools in the twenty-first century, even though I say the same things. You are talking about tying in schools for a long time. Bob Ricketts a senior Department of Health official in England voiced some concerns about the inflexibility of the £18 billion-worth of contracts given out under PFI that will lock NHS trusts into paying for facilities for at least 30 years. According to a report in the *Health Service Journal*, he said,

[38] 'We need a fundamental rethink about how much we invest in capital rather than human resources. Some private providers are putting up good, modern, cheap and cheerful builds that will only last five years—which is fine because you cannot guesstimate day surgery in 20 years' time.'

[39] Realistically, I do not think that that is as true for education as it is for health, but you do need a degree of flexibility—and I have mentioned the foundation phase and the growth of IT in schools. Although we talk about schools for the twenty-first century, it may well be that, come the end of the twenty-first century, we will not want those schools to be tied into something that was decided at the beginning of the century.

[40] **Alun Davies:** But it is better to have a school built in the twenty-first century than one built in the nineteenth, surely.

[41] **Mr Rh. Williams:** Yes, but it is emotive, is it not, to talk about the nineteenth century?

[42] **Alun Davies:** It is not emotive.

[43] **Mr Rh. Williams:** You and I could probably cite examples of schools that are no longer fit for purpose but which were built in the 1960s, and have flat roofs and so on. It is not useful—although, I do it all the time—to throw the terms 'Victorian', 'twenty-first century' and 'twentieth century' around too easily. We should look more closely, as there are 1960s slums, let us face it.

[44] **Alun Davies:** We all appreciate that, but we also have a responsibility to deliver a learning environment that is appropriate, modern and comfortable, and that is as important for the individual learner, be it a child or whoever, as it is for the teacher or other professional providing the teaching. For civil servants, if a public service is to be delivered efficiently and effectively to the highest possible quality and standard, which is what we are all looking for, we have to have the facilities. Many of us have criticised PFI and public-private partnerships in different way—and some of us still do—but they are delivering these facilities for people to use today.

[45] **Mr Rh. Williams:** You used three adjectives there: 'appropriate', 'modern' and 'comfortable'. In the case of 'appropriate' and 'modern' in particular, that will change. What was appropriate even 30 years ago is not necessarily appropriate now, and I would imagine that neither you nor I can guess exactly the developments of the next 30 years, so we need a degree of flexibility built in to whatever system of public services we have.

[46] **Alun Davies:** So, your assumption is that PFI cannot deliver that level of flexibility, is it?

[47] **Mr Rh. Williams:** Well, it is true that, with PFI, you are tied in for a minimum of 30 years, it seems.

[48] **Mr D. Williams:** I would echo that view. There is no clear evidence that the level and quality of service that PFI projects have delivered is any better than what could be provided by the public sector were the Government prepared to relax its self-imposed restrictions on borrowing on taxation.

[49] **Jenny Randerson:** I have two or three questions. Going back to Rhys Williams's list of PFI schools and the problems that he noted with the accommodation that they provide, I would cite the example of a school in my constituency, which I am sure you know, namely Corpus Christi Catholic High School, which was built eight to 10 years ago—actually, it must be at least 10 years ago by now. It is very modern and delightful, but it has no proper assembly hall or anywhere to eat the food that you talk about the Assembly Government making so healthy, and I have recently discovered that its disabled toilets have not been properly adapted for disabled pupils. That is not a PFI school; it was provided by the local authority in the traditional manner. Is it not the case that the secret lies not in whether a project is financed by PFI or not, but in the procurement and whether the procurer is prepared to spend enough money on the process? Both of our examples were built by private sector companies. It does not matter whether it is a normal, traditional process or a PFI project; if the procurer is not prepared to shell out enough money to begin with, you will get sub-standard accommodation, no matter how wonderful it looks when you first walk in the door.

2.00 p.m.

[50] **Mr Rh. Williams:** I would agree with you on that. It is just that I would think that there is a greater chance of having a building that reflects the education priorities and initiatives that we have in Wales if the local authorities are in charge. However, I take your point. You said that the school was built eight to 10 years ago, and so that may have been before devolution. I am not arguing that things would be perfect without PFI; of course they would not, but I think that we would be tied in. We would have a greater degree of flexibility and buildings that would reflect our educational priorities under local authorities. We do not think that local authorities have enough control, and many of us look back at the times when there were just eight local authorities in Wales rather than 22. It is much more difficult with the fragmented system of 22 local authorities to manage these big capital projects, and we would like to see greater joint working between local authorities. You have identified a problem, which I would admit to, but I think that it is more solvable if there is some degree of local government reorganisation, rather than saying, 'Well, the old system has let us down completely'.

[51] **Mr D. Williams:** I think that it is absolutely right to say that we cannot assume that the public sector will always provide appropriate facilities unless sufficient time and effort is put into the procurement, as you say. However, I think that the difference is that the overriding priority of the private sector will always be profit, and that will compel private companies to make cuts and to cut corners, which will affect services if they are not careful. So, a lot of the public money that goes into managing PFI contracts is spent on contract management and on trying to ensure that the private companies involved are not selling the public sector short in the facilities provided.

[52] **Jenny Randerson:** I wish to follow on from those answers by saying that, although it is much better now, one of the massive problems that existed in my area in the past 10 or 15 years, if we go that far back, was the total neglect of the maintenance of school buildings, which is probably where your figure of £818 million comes from. One of the benefits of PFI is supposedly that you have certainty on maintenance, so that you do not get these great peaks and troughs that we have had in the past when local authorities are strapped for cash in one

year, must find a way of saving money, and so do not do any routine maintenance that year. That builds up the problem for the future, and they know that, but the situation is forced on them. With a PFI contract, you have that certainty of maintenance. Setting aside your philosophical beliefs on this, I am interested in what reports you have from your union members on the issue of maintenance. Does PFI provide the certainty of maintenance that it claims to provide, or do you have reports to the contrary from your members?

[53] **Mr Rh. Williams:** The fact is that we do not have a long history of PFI. The schools in Wales that I listed at the beginning were all built in the last decade or so. It is much easier to look at public sector schools and say, 'Well, there is one problem after another here'. You said that the care and maintenance of schools was not being carried out, but that started in the 1980s and 1990s. In a perfect world, perhaps you would have an LEA clerk of works, as there used to be, who would examine school buildings. Some of us feel that having 22 local authorities in Wales does not help. It was more manageable when we had eight local authorities in Wales. I accept the problems that you mentioned, but it is something that is common to almost every aspect of Welsh life. I intended to come back from Llandudno on Sunday by train, and discovered that it would take me 10 hours to get to Cardiff, because of the repair and maintenance to the line on Sundays—so I am staying an extra night until Monday. So, care and maintenance is a problem in all areas of life, and there is not a panacea.

[54] **Alun Cairns:** Before Darren Williams comes in, I will press Rhys Williams on this point and ask you to reflect as well, to try to take us to the next level. You mentioned cheap and cheerful models of PFI, and you also talked about inflexibility, and buildings that may be modern and appropriate now, but will perhaps not be in 30 years' time. A couple of questions come out of that. First, if PFI is resulting in cheap and cheerful models, is that not down to the PFI contract? If there was a will that every new school building should be built through PFI, would it not be down to the detail of the contract to ensure that it was not cheap and cheerful rather than that being the experience? I also want to reconcile that with what you said about our not having a long history of PFI—when you say that it is 'cheap and cheerful', I would therefore say that that is not based on a long history, or on much experience.

[55] **Mr Rh. Williams:** The quotation—

[56] **Alun Cairns:** Before you answer, to give you a bit more time, the second question that arises is this: does the public sector ever construct school buildings with a lifespan of less than 30 years?

[57] **Mr Rh. Williams:** No, we have not done so.

[58] **Alun Cairns:** Does that not destroy the argument that PFI is inflexible because the length of the contract is 30 years?

[59] **Mr Rh. Williams:** What I would say—and I do not think that anyone will disagree with me on this point—is that the last two decades have seen the quickest and most dramatic technological changes in a few centuries, and it is quite likely that the next 20 years will be similarly fast-changing. For years, the public has had the idea that teaching involves rows of children at their desks and a teacher at the front with a blackboard. We know that, in the last 20 years, there has been much more interactive learning, and the information technology revolution has changed schools. What I am saying is that there will be changes in the future, and it is much easier to manage those changes if they are in the hands of public bodies rather than private bodies. My understanding of the situation in the NHS is that private companies are not interested in 'cheap and cheerful'—in order to get a return on their investment, they want to build something that will be used for 30 years, with money paid back to the company over that period. So, I do not think that it is an option—local authorities are still the best bodies to provide this. As I say, we are unhappy with the system of local government in

Wales, but although public-private partnerships sound attractive, they provide more problems than solutions.

[60] **Mr D. Williams:** On the question of maintenance, a telling example from the civil service is the PFI contract awarded to Mapeley from 2001 to run the estate of HM Revenue and Customs. This contract allowed a company based in a tax haven to run all the tax offices in Britain—I do not think that the irony needs emphasising. However, in terms of how the maintenance side of that contract worked out—because there was not any new build involved, it was purely about running existing offices—the record is appalling. To quote an example from my submission,

[61] ‘When ceiling tiles began to fall down’

[62] at one office,

[63] ‘Mapeley took out all the ceilings, leaving just bare pipes and concrete’.

[64] In another workplace,

[65] ‘the fire alarm system became dysfunctional. Mapeley declined to repair or replace the necessary equipment because this would be too expensive, and PCS was forced to raise the matter as an emergency health and safety issue’.

[66] So, the record has not been good.

[67] To come on to the more general question that you asked, Chair, I will go back to the comments that I made earlier in response to Jenny Randerson’s question, which is that, of course, having public sector procurement does not guarantee good quality maintenance or anything else, and you must ensure that a contract specifies the level of service that you require. My point is that there will always be tension between good-quality public service and the desire of the private company to make a profit, and thereby to reduce its own obligations to the bare minimum.

2.10 p.m.

[68] **Alun Cairns:** Jenny, have you finished your questions?

[69] **Jenny Randerson:** Yes, thank you, Chair.

[70] **Alun Cairns:** Alun Davies is next.

[71] **Alun Davies:** I believe that many of us could rehearse many of the arguments and the anecdotes that we have heard this afternoon for some time. Is the reality not that the failure of PFI models in the past, as we have seen them, is not so much down to failure of the PFI model, but a failure to manage that model? Therefore, it is not a failure of finance, but a failure of public sector management, or the inability of the public sector—a lack of skills, a lack of experience, or whatever—to effectively manage and harness the private sector to deliver these services.

[72] **Mr D. Williams:** PFI was introduced in 1992, under the last Conservative Government, so we have had 16 years’ experience. Whoever is to blame, if the public sector cannot make good use of the method by now, it may be time to say that there is something fundamentally wrong with it and that we should abandon it.

[73] **Alun Cairns:** Pressing that a bit further, did we not agree earlier—and I say ‘agree’

loosely—that, irrespective of what the model is, the challenge is the procurement, because of Jenny Randerson’s school issue, or the example that you gave of a PFI in HM Revenue and Customs? Is Alun Davies not making the point that it is the procurement and the management of it that is the issue, rather than our just saying that this financial model does not work?

[74] **Mr D. Williams:** In principle, you could draw that conclusion. However, the examples of dysfunction in these kinds of projects do not stop in the early years of the experience of PFI in the early to mid 1990s. The examples that I have given in the PCS paper go right up to the early part of this decade, and it does not seem that the lessons are being learned. That could be due to incompetence on the part of those in the public sector who are doing the procurement and contract management, or it could mean that there is a fundamental problem with trying to harness this kind of private finance to deliver good-quality public services. My union’s view is that, on the basis of the experience that we have seen, we would not have any confidence that PFI could deliver decent services without some of the problems that we have identified. On that basis, we would be wary of endorsing the use of this by the Government.

[75] **Alun Davies:** I wish to clarify that final remark. Therefore, for you, and, I presume, the NUT, this is a fundamental flaw of the model—it is not a matter of management, which may be good or bad, and there are probably examples of both. The reality is that even the best-managed PFI contract will not, in your view, deliver public services of the quality, the standard, and the ethos that you believe that we require.

[76] **Mr D. Williams:** Some PFI projects have been managed better than others—it would be misleading to say that every one has been a complete disaster; clearly, that is not the case. What I am saying is that there have been sufficient examples of major breakdowns, cost overruns, time overruns, costs being passed on to the public, and services being cut as a result of these problems. People talk about the risk being transferred to the private sector under PFI; I would argue that what we have seen is a great risk to the public sector as a result of this method, and it is far less risky to return to more conventional means of financing these sorts of projects.

[77] **Mr Rh. Williams:** The principle is important here. Alun Davies talks about public services, and they are exactly that—they are public, and they are accountable to the public. In a democracy, it would seem to me that it is most appropriate that public services are not delivered by private partnerships. Schools are not like Tesco or Sainsbury’s, which you can choose between and there is competition between them; schools are different. It is a mark of the respect that a civilised society shows towards something such as education that education is accountable to democratic bodies, and not to private partnerships.

[78] **Alun Davies:** So you believe that there is an ethos involved in the delivery of education, health, and so on?

[79] **Mr Rh. Williams:** Yes.

[80] **Joyce Watson:** I would like to ask two questions that are quite separate, but first I will follow on from your previous point and stay on this particular theme. You draw attention to the Audit Commission’s report ‘PFI in Schools’ and the findings of the study on the overall quality of the schools, however they were funded—whether through PFI or not. They say that, statistically speaking, the quality of PFI schools was significantly lower than that of the traditionally funded sample. It said that the expected benefits of a private consortium designing, building and operating schools were not yet widely evident. It is a continuum, is it not? We will continue the theme. That is evidenced through an independent Audit Commission report. I am afraid that we are getting into politics rather than fact in some cases here, Chair. So, I bring your attention to the independent Audit Commission report that comes

to that conclusion. It also fits rather nicely with that comment about who bears the risk, does it not? If you want to make any additional comments in light of what I have just raised, I would welcome them. I then want to ask my next question.

[81] **Mr Rh. Williams:** That is very helpful. I have been arguing very much in terms of what is ideal and that injection of cold fact is very helpful. Thank you.

[82] **Joyce Watson:** I will move on very swiftly, Chair. My next question relates to the workforce. I am sure that, as unions, you are particularly concerned about this issue. It seems that there has been a lot of evidence from the trade unions that there is concern about employee terms and conditions under PFI or PPP and potential for a two-tier workforce. Has the introduction of the Transfer of Undertakings (Protection of Employment) Regulations 2006 plus policy had an impact on that two-tier workforce?

[83] **Mr D. Williams:** I would say that, in our experience, it has not made a great deal of difference. Since TUPE was introduced, there have been a number of disputes over its application. We feel that the most recent version of the regulations recognises the history of legal judgments in this area over a number of years. It appeared that the UK Government, in the first instance, was not applying the European directive correctly. This has been rectified. So, it is a step forward. However, the question of the two-tier workforce remains. To give a local example, in Companies House in Cardiff, the contact centre was outsourced to the private sector. So, the staff who were transferred over from Companies House—from the Department for Trade and Industry, as it then was—retained the terms and conditions that they enjoyed in the civil service. However, Capita then brought in new staff of its own who were on inferior terms and conditions and lower pay. The contract then went to a third company, which put in its own terms and conditions. So, there were now three sets of terms and conditions in the same relatively small workplace. That is our concern. Our union is still dealing with a case that goes right back to the early 1990s, when staff were transferred from the then Employment Service to the training and enterprise councils. They were originally transferred on a secondment basis as a way of trying to evade TUPE obligations. As a result, they were made redundant and their earlier service was not included in the redundancy payments that they received. This case has gone all of the way to the European Court of Justice—there was a judgment in 2006—but those people have yet to receive the money. So, there are many different problems. The recent changes do not really fundamentally alter the situation.

[84] **Mr Rh. Williams:** As far as schools are concerned, teachers are relatively safe. In our written submission, we say that:

[85] ‘Where PFI is used as a funding mechanism to replace schools, this leads in the vast majority of cases to the teaching staff remaining in employment of the LEA but the support staff transferring to the private sector.’

2.20 p.m.

[86] So, you have a sort of two-tier workforce. In the last two or three years, our union has seen an enormous increase in casework involving agency workers—supply teachers who work for agencies. That is part of our experience of private partnerships in education, and it is demoralising and not very effective.

[87] **Dr Hayes:** As my colleague Rhys quite rightly said, it has not really affected teachers very much, as regards their own employment, but, as regards their work, it has affected them because it has affected colleagues who do not come under the teachers’ terms and conditions of service. The others are affected and, therefore, it can have an effect on the education that they provide for the children. I say that apart from the fact that we are concerned about our

colleagues anyway, to put it bluntly.

[88] **Mr D. Williams:** We welcome the fact that the Assembly Government, about three years ago, undertook that the two-tier workforce would not apply within its own workforce. What we are not clear about is how far this has been implemented in practice; it does not seem as if the directive has been universally applied within the devolved public sector in Wales. We would like to see that happen.

[89] **Alun Davies:** I will conclude my questions by going back to where we started, in many ways. Over the last 45 minutes or so, we have discussed the experience of the people whom you represent in delivering public services, and how PFI and PPP models have not delivered quality and the public service ethos, as some would suggest.

[90] Going back to the beginning, in terms of the funding and financing of public sector procurement projects, you both said, in your introductory remarks, that you felt—I assume more as a point of practice and as a point of value for money for the taxpayer—that traditional borrowing methods or raising taxes would be the best way of delivering public sector projects and assets for Wales. Do you have any comments to make on other forms of delivering these projects, outside of a traditional PFI model? I am thinking, particularly, in terms of a not-for-profit model of building and maintaining an asset, such as a hospital or a school. If a community enterprise borrowed and took ownership of that, and delivered it on a not-for-profit basis, would you still have the sort of objections that you would have for a more traditional private sector solution? I understand that bond issues involve legislative change, but, presuming that that would be possible, would you have difficulties with that as a model of financing public sector investment?

[91] **Mr D. Williams:** As a matter of principle, certainly not. There are obvious attractions to the kind of models that you outline, compared with PFI or other forms of PPP. In particular, as I mentioned earlier, the tension between the priority to provide good quality services and the priority to increase profits would not be there. I would add the caveat that, even with a not-for-profit provider that was not part of the public sector, we would not want our own members' jobs to be transferred but, as a way of providing facilities, I do not think that we would have any problem, in principle. The same is true of a bond issue.

[92] **Mr Rh. Williams:** I think that you have reinvented local government. Do we not already have that with local authorities, where schools are answerable to local authorities and local authorities are answerable to the parents? In Wales, some people would advocate the need to return, for example, to catchment areas, where the schools are much closer to the communities. I think that your model is quite attractive, but I do not think that it is 100 miles away from what we already have, with local authorities.

[93] **Alun Cairns:** Unless anyone else has a pressing question, I need to try to draw this part of the agenda to a close. I cannot see any strong indications of wishing to pursue it.

[94] I thank Mr Rhys Williams, Dr Heledd Hayes and Mr Darren Williams for a fascinating session. It has certainly given us a lot of food for thought. We are looking at this objectively and we are looking to test views, so the questions do not necessarily indicate the views of any individual. Thank you for your written evidence and for your time today.

[95] We will now move on to part B of item 2 and take evidence from the Welsh Local Government Association, which is bringing together individuals from local government. They are the ones who are, arguably, at the sharp end of complaints from us that school buildings are crumbling or complaints from parents and teachers that school buildings are not fit for purpose, or, indeed, who receive compliments when the converse is the case.

[96] I welcome Steve Thomas, Mari Thomas and Phil Davy to the committee. It almost feels as though Mr Thomas is a regular attendee. You will be familiar with the format. Would you please introduce yourself and your colleagues and draw particular attention to some of the elements in the paper that you would like us to be reminded of at this stage? You can assume that the papers have been read.

[97] **Mr Thomas:** Thank you for the invitation. I have brought with me today a panel of renaissance men and women. On my left is Mari Thomas, our policy officer on finance, who understands the Chartered Institute of Public Finance and Accountancy's code of international accounting.

[98] On my right is Phil Davy, head of economic development and European affairs at Caerphilly County Borough Council. Phil is an old colleague of mine—well, a young old colleague of mine—who is unique in Wales in the sense that he has seen a PFI through from its inception to its completion. He has also recently undertaken a more traditional capital procurement route for the new Caerphilly corporate headquarters at Tredomen. So, hopefully, between the three of us, you have a range of gifted amateurs who can provide you with the answers that you seek.

[99] I hope that the evidence that we have submitted is self-explanatory. Let us state local government's position on PFI and PPP. The position of our members is that they rule nothing out and rule nothing in. We have used PFI in the Welsh local government sector—not to a great extent, but there is evidence at the back of the documents that we submitted to you to show some of the PFI routes that we have used. We also want to try to expand the debate beyond the private finance initiative to start to talk about other mechanisms that we could possibly use. We have a big shared services project, for example, emerging through the regional board in south-east Wales. I do not know whether private finance would be utilised in that, but, clearly, we have sought private sector expertise to underpin some of the discussions on how we go forward.

[100] We will talk about large-scale procurements on possible energy from waste plants in Wales, which I suspect will be funded largely by private sector money. So, it is a question not only of the supply of capital, but what happens to that capital after you have put it in. Phil will point to the fact that on the PFI for the school in Caerphilly—Ysgol Gyfun Cwm Rhymni—we talked not only about a traditional capital procurement, but used PFI to put in place a range of ancillary services, which came as part of the package. So, I suspect that the committee will want to ask some questions on that. You may also want to consider how PFI was previously funded in Wales, which was largely the top-slicing of the revenue support grant.

[101] The other point that you may wish to consider, to which we have alluded in our evidence, is that—let us be frank—not many PFI projects have been undertaken around Wales, so you have to question the level of current expertise in PFI. When Phil worked on the PFI at Caerphilly, it was over a period of five years, during which time he built up considerable expertise, but all these things shift and change and we are now into different procedures and different financial packages. In essence, the private sector puts a great deal of effort and research into undertaking these types of partnerships. From the public sector view, we have been more confined to traditional procurement routes. I will not say more on that, because I know that the committee has a range of questions that it would like to ask.

2.30 p.m.

[102] To summarise where we have got to, as I say, we do not rule anything out in terms of capital procurement. PFI has a huge range of problems, but it also has some advantages. From our point of view, we are keen to have greater discussions, and not just with the private

sector, but also with the third sector with regard to the commissioning of services. We have been speaking to the third sector, through the Wales Council for Voluntary Action, this morning. We have put something like £160 million into the third sector in terms of commissioning contracts. So, there is a range of routes that we can use.

[103] We would also like to expand the discussion somewhat, because we have seen the emergence of new, community-mutual models in policy fields such as housing, which, although they use private finance, are non-profit organisations. There are plenty of discussion areas, and I hope that our paper satisfies them in terms of your inquiry.

[104] **Alun Cairns:** It certainly does. Thank you for the paper; it is an excellent paper that draws attention to certain areas. I want to refer to one area at the outset. Your paper notes that the withdrawal of PFI credits has wrongly led to the view that Wales has become closed for business for PPP and PFI. Do you think that this has adversely affected the progression of local government capital projects? If so, can you give examples?

[105] **Mr Thomas:** First of all, I do not buy into this Wales-public-sector-closed-for-business argument. We have had many discussions of late with the Confederation of British Industry—indeed, we have caused some controversy by doing so. Part of the reason why we are holding those discussions is that we see that the approach, stemming from Beecham, is about partnership and, in some areas, a mixed economy of service provision. We use the private sector for a huge range of services; when it comes to road building and the like, the private sector predominates in the contracts that we put out.

[106] The withdrawal of PFI in recent years was partly about some disquiet in local government about the fact that the settlement was top-sliced and that the credits came out of the RSG. However, you have to take into account the ideological position of the Assembly Government at that time—there was no great love of the private finance initiative, and that played an equally significant part.

[107] **Joyce Watson:** Can you expand on the view that you present in your paper that it does not really matter where you get your money from, whether you pay in advance or later, the principle being that you pay? Is it not the case that, ultimately, however you source a capital facility, you have to pay in the end from a finite budget? I see that you note that Jeremy Colman of the Wales Audit Office describes the value-for-money test to justify PFI. So, while we might build today and pay tomorrow, tomorrow will definitely arrive at some stage. It is all well and good saying that Wales is closed for business, but if there is no money left in the bank, that is going to be the case.

[108] **Mr Thomas:** That is precisely not what I am saying. My point is that the perception that the public sector is somehow a private-sector-free zone in Wales is a myth. Private sector finance figures very highly in much delivery and many public services, particularly within local government.

[109] Your other point is absolutely key: there is no free money. There is always the principle that you will pay it back, and that is true of PFI, particularly in terms of the return. The private sector does not necessarily enter into PFI contracts for altruistic reasons; it enters into them because it is clear that they will generate a good return. It is one of those issues in which we are concerned about what it means for the public finances, because it can impact very negatively.

[110] **Mr Davy:** I will just add to what Steve said. The principle that, one way or another, you pay, is right. However, what PFI has done is to shift the approach, because it is a long-term contract that you enter into, and the payments actually come out of the revenue budget, as opposed to upfront payments for a capital project. So, the payments are made over a long

period of time. That forces you to approach the whole project from a different perspective, because you are buying a service that is usually backed by an asset. If there are any advantages to PFI, it is the fact that it forces you to look at whole-life costing, because you are looking at what the delivery of the service will cost over the lifetime of the concession agreement contract that you enter into.

[111] One of the other advantages of PFI is that the local authority does not actually pay anything until the service is available, which is a different approach to what we are used to in terms of making staged payments for a capital asset. Normally, if we are building a school, a highway, or whatever it is, we make payments during the construction period. One of the real benefits of PFI is that all those construction risks are passed across to the private sector and the public sector does not actually start to pay for the service until it is available. So, it forces us to look at the delivery of services in a completely different way. However, you are quite right in that the bottom line is that we still end up paying.

[112] **Alun Cairns:** I will ask the next question to Mr Thomas, who may want to hand it over to Mari Thomas. At what stage should a finance director of a local authority become concerned about the scale of funding that is committed to PFI projects?

[113] **Ms Thomas:** That would be pulled together within the management of the capital programme and the prudential system for capital accounting. The changes in the financial reporting standards will bring that to bear, in that most PFI schemes will end up on balance sheets and will therefore need to form part of those discussions within a local authority regarding what is prudent and affordable. So, that should be considered when local authorities are setting out their programmes and considering projects.

[114] **Alun Cairns:** In terms of cash flow, income and expenditure, if a local authority has such exposure to PFI projects that 1 per cent, 5 per cent or 10 per cent of the revenue support grant is committed to those projects, what would be deemed to be a reasonable level of commitment, bearing in mind the need to be financially prudent?

[115] **Ms Thomas:** That would have to depend on the individual authorities. As part of setting their limits within the prudential framework, they would take that into account and make their own decisions as to how risk-averse or pro-risk they are.

[116] **Alun Cairns:** What I am getting at is that you might well end up with a school being built now, but the longer-term projection may expose subsequent local authority administrations to the commitment for a long time, which would therefore take away their flexibility. That is what I am trying to tease out. Should there be an Assembly Government policy that states, 'This is the criteria under which PFI should be accepted or rejected, assuming that everything else is satisfied'?

[117] **Mr Davy:** The more PFI contracts that are entered into by a local authority, the less financial flexibility it will have because it will build up long-term commitments as these are long-term contracts—they are typically 25-year or 30-year contracts. Generally, a substantial part of the unitary charge will be index linked. The schools in Caerphilly have been operational for five years, and we have just reached the first benchmarking of the catering and cleaning services, which is likely to result in an increased cost to those services, because of the way in which the market has moved. So, yes, entering into any PFI contract immediately creates a long-term commitment that the finance director must be mindful of, because you cannot easily get out of it.

[118] An interesting aspect of this from the private sector's point of view is that, under the Local Government (Contracts) Act 1997, which was introduced during the early stages of PFI, the private sector operator will want to see the signature of the finance director, showing

that the authority is in a position to commit to that contract.

2.40 p.m.

[119] **Alun Davies:** Thank you for that; it was very interesting. I would like to take you back to what you said earlier about assessing the whole-life cost of an asset or a project. There are two aspects of PFI that I would like to explore. First, there is the financing of the project itself, whether it is a highway, school, hospital or whatever, but we will assume, for argument's sake, that we are building something. Is it fair to characterise PFI as essentially being like buying a hospital on a credit card, because you are paying much more for it over a longer period of time than you would if you paid upfront? I am sure that, in many ways, that would not be seen as good financial management.

[120] The second question is about the whole-life cost. I am sure that local government, in traditional procurement, would assess the cost of an asset—it would not build a school without thinking of the cost of teachers to teach in it. From my experience of running a business, I would be averse to locking myself into a contract for 30 years; what I would like to do, in 18 months or two years, is market test whether I am getting the best value for money. I do not want to go to the same provider every time—I would prefer, if I was managing a project of that sort, to have the choice of what is available in the market and to choose in 10 or 15 years' time the most cost-effective and appropriate supplier of whatever service I required at that time.

[121] **Mr Thomas:** To go back to the project that Phil and I worked on in Caerphilly, the decision to use PFI was taken by a large-majority Labour administration at the time. Why did it take that particular decision? The reason was because PFI was the only show in town at that time, which was, I believe, in 2000—

[122] **Mr Davy:** The initial decisions would have taken in about 1998 or 1999.

[123] **Mr Thomas:** The council went from being controlled by a Labour administration to a Plaid Cymru administration. As I said, the reason that the Labour administration took that decision was because PFI was the only show in town. There was no other capital route available. You are right to say that it would be a damn sight easier to go to the bank and borrow the money, but we are not allowed to do that, because of the public sector borrowing requirement, and so on.

[124] In terms of the whole-life cost, one thing that is put forward by many private sector suppliers—and you can see it in certain cases—is that the level of maintenance over the specified period by the private sector can be very good. So, when you have an asset that is maintained to a certain level over a certain period of time, then in terms of whole-life costs, certain PFI deals provide a level of maintenance that is not always there in the public sector.

[125] **Alun Davies:** That is interesting. I asked about the timescale because previous witnesses, particularly before Christmas, said similar things—that it was the only game in town. One of the striking things about that statement is that a lot of the projects involved decisions that were taken between 1997 and 1999, when the UK Labour Government was sticking to the spending restrictions of the previous Conservative administration. When more money has been available to the public sector, and when greater investment has been made, it appears to me that most local authorities and health trusts have seen that PFI is not the only game in town, and, in fact, when it is tested against more traditional procurement models, those models usually win out.

[126] **Mr Davy:** I think that the reason Caerphilly went down the route that it did was because of the very fact that the PFI credits were available. That gave us the additional

revenue support that we needed to fund the project. If we have access to capital resources, we can look at a wide range of alternative models. Steve mentioned at the beginning that we are on the point of completing a new, £20 million council headquarters, which we approached through a fixed-price design and build contract as another way of procuring a major capital scheme. So, there are different models that we, as a local authority, would look at, depending on the sources of funding that enable us to do it.

[127] **Alun Davies:** Thank you for that as it is very helpful. One of the criticisms made by previous witnesses in this inquiry is that PFI has failed not because it fails as a financing and operating model, but because we all too often do not have the skills in the public sector effectively to manage private sector delivery vehicles, whether it be an individual business, a consortium, design and build delivery or a long-term operation. We in the public sector do not have the sufficient skills, and that is the reason for the failure rather than finance.

[128] **Mr Davy:** Negotiating through a PFI requires a different skill set to perhaps what local government officers are generally used to. Delivering anything involving the private sector requires an understanding of how to work with the private sector. PFI is all about negotiation in terms of agreeing a set of contract terms to deliver a project and, I suppose, traditionally, we are used to operating in a fairly strict, rule-controlled process. PFI is all about trading positions and negotiating acceptable terms, and that process is iterated over a period of time until you get to the point where you can agree something. That requires a different skill set.

[129] The other characteristic of PFI schemes is that they tend to be multidimensional. It is not just about procuring a building; it is also about the services that are going to be delivered in that building. You get into areas like the transfer of undertakings (protection of employment) regulations, and pensions issues. So, it is difficult for any single contract manager or project manager coming from a typical local authority background to have that skill set. You have to build up that expertise over a period of time. You need to have opportunities to learn from best practice in other projects operating across the UK and bring that experience to bear in terms of negotiating what are very complex contract arrangements. Bear in mind that, as I said before, you are looking at 25-year or 30-year contracts and you are trying to predict every eventuality that might arise because, although this term 'partnership' is bandied about quite loosely, any relationship with the private sector is generally within a contractual framework, and you need to ensure that you get that contractual framework right, from the beginning.

[130] **Alun Davies:** I am grateful for that. Would you like to expand on what was said at the recent conference in Swansea? I was not at the conference but I read the reports and the subsequent correspondence about the involvement of Welsh local government with the private sector and others in terms of the delivery of public services. Would you like to expand on some of that from a policy point of view, giving practical examples if you have any?

[131] **Alun Cairns:** That is an important question, but I want to follow up the previous point, if that is okay, Alun, so forgive me for interrupting. In terms of the procurement and contractual basis, which we have just been talking about, can you give me a view on Partnerships UK and 4ps and on whether there needs to be a Welsh version? Let us say that the Assembly Government adopted a unique policy. Would that warrant a Welsh version of Partnerships UK and 4ps, or at least something that could advise and support in that respect?

[132] **Mr Thomas:** The body 4ps is a top-sliced, national local government body and we, in the WLGA, withdrew from it four years ago when PFI looked like it was dead and buried. We did not use it that much in any case in terms of the advice that we sought in Wales. Again, using the Caerphilly example, a lot of the advice that you need in order to go forward is in the private sector, if you are going to go for the cutting-edge stuff. We also used the private sector

legal team and a range of other people.

[133] We are now using Partnerships UK in Wales again. We had the first meeting the other day of the new waste board, which Jane Davidson chairs. Partnerships UK made a presentation to the board. That was about the possible procurement of waste facilities in the Welsh context. It is a Government agency and it has huge experience of this within the English context, so we are starting to draw that across.

2.50 p.m.

[134] That is being done through your Value Wales team in the Assembly. We currently have four WLGA employees in Value Wales, although they are starting to withdraw from that to work on wider procurement projects in local government. However, I do not think that you can hold that level of expertise in the Welsh context. Some of the people whom we are talking about are incredibly expensive in consultancy terms and are incredibly knowledgeable, and that knowledge is used not just on a UK basis, but on a European basis.

[135] **Alun Cairns:** Thank you. Sorry, Alun, please pursue your point.

[136] **Alun Davies:** My question was in relation to the conference in Swansea and the consequences of that for policy direction in local government.

[137] **Mr Thomas:** It has been a strange process, since that conference. I even had a letter from a trades council the other day, condemning the agreement that we had struck with the Confederation of British Industry, which is fascinating since we have no agreement with the CBI as yet. I found it very interesting to see something condemned that does not exist.

[138] The conference that we held in Swansea was primarily not to talk about extending private sector business into public services, as such; it was about a dialogue that we had commenced with the CBI and British Telecom about the fact that it is not particularly content with the size of its market in the public sector in Wales, in comparison with England and Scotland. That came on the back of a dinner that we held with the CBI, on the theme of the Wales public sector being closed for business. The speech that councillor Vaughan made that day was to assure BT that Wales is not closed for business. We want to work with the private sector; there is no anti-private-sector stance in the WLGA. What we also want to do, as I have said, is work with other sectors—the community sector, the third sector, the whole gamut. The way that that conference was portrayed in the *Western Mail* was very interesting. I had an e-mail shortly afterwards from David Rosser from the CBI asking, ‘Did you attend that conference, because it certainly was not the one that I attended?’. I think that it ran a story that was a real red herring on privatisation. We are not about privatising services, as we very much value the public sector workforce, but, in the current financial climate—in any financial climate—we will look to use private sector finance to fund certain projects. It may be that we will look to use joint ventures, and so on.

[139] As I have said previously, I sit on the Rhondda Cynon Taf homes board, which is a community mutual vehicle for housing stock transfer. The other evening, we borrowed £130 million from Lloyds TSB Bank to undertake the first phase of the work to upgrade all the kitchens in the former council housing stock in Rhondda Cynon Taf. Rhondda Cynon Taf has set up that community mutual not-for-profit organisation, because the local government organisation itself cannot go out and borrow that amount of money. There are some advantages that come on the back of models like that, because, I have to say, the tenant involvement in that body is pretty profound. There are five tenant representatives on the board and they have a very large say in the types of repairs that are done to their houses as well as in the running of the mutual. It is a new way of delivering public services. Beecham said it clearly in his report, ‘Beyond Boundaries’, that we must look to all these mechanisms in a

‘Making the Connections’ environment.

[140] **Alun Davies:** Thank you for that. I am interested in what you said on that, particularly the last example that you used. Some people may argue that the requirement to create a mutual or a social enterprise illustrates a failure of the present model of local government. There is no reason why local authorities in any part of Wales cannot involve tenants in the operation of their housing stock. If we were able to create a different financial environment for local authorities, there would be no requirement to go to these different models.

[141] **Mr Thomas:** Without going into too much detail, go back to the great Victorian councils that were up to their mayoral chains in private debt. They borrowed money to put sewerage and utilities systems in place, as well as a huge range of things. That has all changed over the past 20 years, with the bearing down on public sector expenditure and the need to control inflation. If you associate any terms with Gordon Brown, they are ‘golden rule’ and ‘prudence’. It is not just the current administration, as previous administrations have all borne down on the ability of the public sector to borrow money in the private market. What we are doing, in effect, through community mutual and stock transfer vehicles is trying to get around that partly. You are right—there has been a build up of problems with housing repairs, but the problem that we have had is that we have not had the money through the public sector route to deal with the level of repairs required. Some of the stock that we are talking about is appalling, and we are talking about £3 billion-worth of repairs across Wales. You do not have that money in the Assembly and we do not have that money in local government, so we have to go searching for it in the private sector.

[142] **Alun Davies:** You are right. We talk about housing stock, but we could be talking about any other element of the public sector, and the Chair mentioned school maintenance budgets in the previous session. When we are searching for this £3 billion, do we not have a responsibility to the taxpayer, and to the citizen, if you like, to ensure that we get the best possible value for that? The best value for that is surely through Government borrowing, rather than paying a private company to borrow, is it not?

[143] **Mr Thomas:** That is one of those situations that would be one way forward in an ideal world; however, to be frank, we have not seen any indication of a shift from the public sector borrowing requirement in recent years—in fact, there has been a tightening of the PSBR, and I do not sense any debate at the UK level about any movement on that. So, as a result of that, the use of stock transfer vehicles in the housing field, for example—and Lynne knows all about them, as we have one in Torfaen—is a way of attracting a new range of money in to deal with an old problem.

[144] **Alun Davies:** Would you like to see local authorities having greater freedom to borrow?

[145] **Mr Thomas:** Yes.

[146] **Alun Cairns:** Alun, I will have to close down that line of questioning now, because of time.

[147] **Lynne Neagle:** You referred to the community mutual model that you have been involved with. Are there any other alternative models of procurement that you feel offer particular advantages, and which you think we as a committee should be considering?

[148] **Mr Thomas:** There is a recent Audit Commission report in England on strategic partnering, which is basically about joint ventures between local government and the private sector, and that is a model that we can employ. There is a range of other procurement models

that we could take on board. Where we might be missing a trick is in drawing on the private expertise that we have out there at the moment, as we do not necessarily do enough of that. The debate is often cast as one between the public sector on the one side, which is good, and the private sector on the other, which is bad, and never the twain shall meet. That is a rather crude view of how the debate should be.

[149] We in the public sector could learn a great deal from the private sector, particularly on procurement, added value, and quality standards, and I would not deny that. However, the problem that we have, in local government at least, is that the debate has partly been cast as being the legacy of compulsory competitive tendering, which was pretty awful—and I say that as someone who took part in it—and we must move on from that. Alun Davies mentioned the conference with the private sector. One thing that I find slightly disappointing about the reaction to that conference was that it seemed to bring forward those old debates about adversarial relationships between the public and private sectors. We will use the private sector in local government where there is a strong, added-value business case to do so; we will not use it, on an ideological bent, just to privatise services.

[150] **Alun Cairns:** I have a few closing questions, which I will ask all together given the time.

[151] Mr Thomas, you said earlier that it would have been easier to go down to the bank to borrow the money to build a school. Is that really the case, or does the private sector expertise that comes with a PFI project help you to deliver it on time, on budget, and more efficiently?

[152] Secondly, Mr Rhys Williams from NUT Cymru gave evidence earlier, and said that cheap and cheerful buildings are the legacy of some of the PFI projects. Could you comment on that?

[153] My penultimate question relates to the inflexibility of a PFI project, because it is committed for 30 years. Do you recognise that as an issue?

3.00 p.m.

[154] The final point is in relation to shared services, which both Messrs Williams talked about earlier on, particularly in south-east Wales. Does that lead to a two-tier staff, and what has been the reaction to that so far?

[155] There is a list of things there that I have brought together because I am conscious of the time. If there is anything that anyone wants to jump in on, please feel free to do so, but please bear in mind the time.

[156] **Mr Davy:** I will pick up a couple of those points. There are some benefits to the PFI procurement route, and they were definitely exhibited in the Caerphilly example. As I said right at the beginning, we did not start to pay anything until the asset was in place, which transferred risks to the private sector, because it had the construction and time risks of delivering that on time and in accordance with the agreed costs. In fact, one of the private sector partners, the building partner, caught a bit of a cold, insofar as it hit a major snag on building one of the schools and was faced with a significant landslip, which cost in excess of £0.5 million to put right. That cost fell on the private sector, because, as a construction risk, it was a risk that we had transferred. Had we procured that project through the traditional route, it would have fallen on us to deal with the fall-out from that particular issue.

[157] **Alun Cairns:** So, would it be fair to say, in a crude way, that you are quids in?

[158] **Mr Davy:** For the construction costs, yes. It is for flexibility that the contract terms

need to be drafted carefully. If you have a long-term contract, everyone recognises that things will change over the lifetime of that contract. Therefore, you need to be in a position to negotiate variations to that contract. Indeed, we are involved in one currently for one of the schools: the school would like to invest in an all-weather running track, which is a significant variation to the PFI concession agreement, so we are looking at how we can effect that as a variation to the current contract. So, there are ways in which that can be handled, depending on how you constructed the contract in the first place.

[159] **Mr Thomas:** On shared services, I would cite the example of the big shared services project in south-east Wales, on human resources, training and payroll, where there is a clear political decision that that project be based on a public sector ethos, in the public sector. The option of putting that group of workers into the private sector was ruled out from the start. In any case, if that were to occur, which it would not, there would still be the transfer rights under the various transfer of undertakings (protection of employment) regulations, which mean that those employees would take their existing terms and conditions with them. However, as I said, the philosophy behind the shared services contract and project in south-east Wales is primarily one of a public sector vehicle. In fact, we hope that it is a multi public sector vehicle, and is not just about local government. We are having discussions with a range of public sector bodies about coming on board for that.

[160] **Alun Cairns:** What about cheap and cheerful buildings? Are they a reality or a myth? Part of the purpose of this investigation is to drill down to get to the facts rather than the rhetoric that has come from all sides until now.

[161] **Mr Davy:** It comes back to the affordability issue, because, in essence, you get what you pay for. It does not matter much whether you go down a PFI route or a traditional route, there is still a cost to the quality of a building, and you must manage that process by trading overall quality against what you can afford. I would like to buy a Rolls-Royce, but maybe I can afford only a Ford. We had to deal with those sorts of examples when we were looking at the design issues for the school. We consulted with the governing body, the headteacher and the teachers, who all had lots of aspirations for the building, but we had to keep bringing them back down to earth by reminding them of what was affordable. That was reflected in the ultimate quality of the product at the end of the day.

[162] **Alun Cairns:** However, that does not necessarily differ from the cost constraints or opportunities in the public sector.

[163] **Mr Davy:** No, that will always be an issue.

[164] **Mr Thomas:** The school that the PFI school replaced was in an absolutely appalling condition, and anything would have been an improvement on that. I do not think that Ysgol Gyfun Cwm Rhymni is a cheap and cheerful building; it is a very nice building. I have seen so much literature on PFI that contains what is almost a binary argument. Some people will argue that 10 per cent is awful; some in the private sector say that 10 per cent is absolutely wonderful. It is really somewhere in the middle, is it not? It depends on how much you put into it.

[165] **Alun Cairns:** I thank the three of you, Mr Thomas, Mr Davy and Mrs Thomas, for the excellent evidence that you have provided, for the paper, which was extremely accurate, concise and useful, and for the frank responses that you have given to our questions. We are very grateful for the time and support that you have given to the committee, not only on this issue, but on the range of other issues that we cover.

3.05 p.m.

Ymchwiliad i Bartneriaethau Cyhoeddus-Preifat—Cynghorwyr Arbenigol
Inquiry into Public Private Partnerships—Expert Advisers

[166] **Alun Cairns:** For this item we bring Gronw Percy and Simon McCann to the table. I ask you to reflect on the evidence that we have received so far, not only today, but also the written and oral evidence that we have received in previous sessions, and maybe offer some alternatives as to how we can take the inquiry to the next stage and who else we potentially need to consider taking evidence from. I will hand over to you, Simon.

[167] **Mr McCann:** We have submitted a paper to you, which Gronw will outline shortly, and then we will take questions and give further information as you wish. We just wondered whether it would be helpful, at this point, for us to give our views on a few of the salient points that we noted in the evidence this afternoon, or whether you would prefer that to be built in later.

[168] **Alun Cairns:** That can be built in later.

[169] **Mr McCann:** I will therefore hand over to Gronw.

[170] **Mr Percy:** Diolch yn fawr, mae'n **Mr Percy:** Thank you very much, it is a bleser bod yma heddiw eto. pleasure to be here again today.

[171] I propose to just very quickly run you through our findings. We submitted a detailed report on what has come through from the evidence to date and I will talk a little bit about the areas that I think that we need to delve into in more detail. As the committee is aware, we had 19 written responses and two oral responses before Christmas, and we have had a couple subsequently.

[172] I think that we have received a reasonable cross-section of evidence, but there are some gaps in the responses that we have had. There are certain sector areas that I do not think have been particularly well covered, compared to the areas where we have a lot of PPP and PFI in general. There are some notable gaps in terms of the areas from where responses have come: I would specifically mention the operator market, where we have had limited coverage, and we have perhaps limited coverage from the sponsor market. I think that we need to consider that. The other area on which we have probably had a limited response is the consideration of alternative models, and what other forms there are. The body of evidence has focused, probably understandably, on the PFI marketplace and, within that, I think that there has been more evidence from organisations that typically oppose PFI than the ones that typically favour it. However, I guess that that has been fairly standard in most inquiries that have looked into this area.

[173] There are some broad themes coming out of the evidence and I think that we need to explore some of them. I guess that our approach would be to say that we need to widen our evidence base a little bit and look at some specific operator evidence, and maybe look at that in some sectoral focus and make sure that we get something from certain sectors. If you remember, we talked earlier about the housing market and there are some interesting models there that we need to look at. I think that we need to have a session to look at some of the alternative models, so that we can explore the not-for-profit models, look a little bit at the bond models, and maybe look at the housing mutual models. There are some themes coming out of the evidence in terms of value for money and issues around the workforce, risk transfer and contract flexibility. We need to make sure that we consider those effectively.

[174] **Alun Cairns:** Are there any questions on that to begin with? I see that there are none. Therefore, Simon, it is back to you. Did you say that you wanted to summarise or point out

some of the issues that came out today?

[175] **Mr McCann:** Yes, if that would be helpful. It is really just to follow up on some of the interesting points that came out in the evidence. In both the union evidence and the Welsh Local Government Association evidence, there were a lot of references to potential inflexibility, 30-year terms and that kind of thing, which is and has been a major problem for the earlier generation PFIs. However, I think that the key thing, as Mr Davy said, is getting the contract terms right and building in the flexibility that you need to accommodate change, particularly for contracts with an IT element. You can build in future proofing to deal with future technological change.

[176] **Alun Cairns:** However, if you are not going to go for the 25 or 30-year project and you build in flexibility, I assume that there would be a cost to the public sector for that greater amount of flexibility.

3.10 p.m.

[177] **Mr McCann:** It would come at a cost, yes—obviously, every variation that a client makes has to be priced, and there is the initial cost of varying the financial model and so on, which is an additional element.

[178] **Mr Percy:** You also look at what you are purchasing to start with, and what service you are looking to buy. There are examples in the health sector in England where short-term contracts, over five years, are being looked at, for example, and a more mobile kind of solution. So, it is looking at a totally different delivery mechanism from the traditional hospital-type build—I do not think that it would be appropriate in every sector, but, again, that comes back to the question of what you are trying to buy, and what service you want to procure.

[179] **Mr McCann:** The second point that I had is linked to that—I think that it was Alun Davies who mentioned that 30 years is a long time to be locked in to a contract, and, in the normal course of events, one would want to be able to market test. That was a fault with some of the earlier PFIs. The standard procedure now is to build in market testing at five-year intervals. A recent example is Cardiff Community Hospital, which is a PFI-run hospital. It did a re-tender for its hard and soft facilities maintenance last year. There was a change of provider because it got a cheaper bid, so that reduced the cost to the health service, and that market testing happens on a rolling basis every five years.

[180] The other thing that I wanted to mention was the joint-venture model that was raised by Rhondda Cynon Taf County Borough Council. It is also doing a joint venture for its engineering services, which involves transferring staff and assets to a jointly owned joint-venture company. Obviously, as a private company, it can raise its own finance. The benefits of the growth of that company are then ploughed back into delivering cheaper services for the authorities. So, the joint-venture model is possibly one of the other alternatives that we should be looking at when we come to have a session on alternative models, because it seems to be working fairly well in at least two examples in Wales already.

[181] **Alun Cairns:** Is there anything else that you want to draw attention to at this stage?

[182] **Mr Percy:** Those are the main areas.

[183] **Alun Cairns:** Are there any questions or points in relation to what has been said? We need to consider where we go from here. We discussed, at the informal meeting, looking at best practice. What options are there for analysing best practice?

[184] **Mr Percy:** There are some interesting models. We have talked about the not-for-profit model, and perhaps looking at what is happening in one or two other jurisdictions, and we probably need to explore a few of those options and find out a bit more detail on them. The not-for-profit option, and the way that it ties into PFI, would be something to look at.

[185] **Lynne Neagle:** What do you mean by ‘other jurisdictions’? Do you mean over the border?

[186] **Mr Percy:** I mean England, Scotland—

[187] **Lynne Neagle:** I would like us to do that. Obviously, PFI has been used much more extensively in England. It would be good to look at that experience, because we may get an interesting viewpoint.

[188] **Alun Cairns:** In the pre-meeting we talked about Edinburgh—Gronw, would you like to highlight what you mentioned earlier?

[189] **Mr Percy:** I think that you are right that there has been more use of PFI outside Wales than inside. The UK is probably leading the way in the PFI market. There have been some interesting developments in Scotland over the last few years, in the way that it has interpreted things—it has created the not-for-profit model, and the Scottish Futures board is now looking at how it can create some sort of joint-venture vehicle, perhaps using bonds, and so on. That could be an interesting one to find out about, because it is, effectively, pulling together a couple of different strands. It gives an opportunity to get the evidence and perhaps to speak to the Scottish Government, about its views—it has made far more use of PFI, so what has it thought that the benefits or disbenefits have been?

[190] **Alun Cairns:** Jenny Randerson mentioned at the pre-meeting that one option, if we decided to visit Scotland, might be to talk a current member of the Government about their attitude, but also to a member of the previous administration, because its approach was very much more enthusiastic than that of the Assembly Government over the last four years, for whatever reasons. That was one suggestion.

[191] We also talked about the royal group of hospitals in Belfast. Do you want to give us a précis of that?

[192] **Mr McCann:** I mentioned it in some of the communications that we had previously—it was an interesting example of a managed service provision of PFI, rather than it producing a building. What is interesting about this is that the hospital effectively contracts for a number of scanners to be online, working for a minimum period, which I think is about 97.5 per cent of its required time. So, it effectively buys that working time and a number of patient support and monitoring IT systems that go with it. If that service model fails and there is a financial penalty, future proofing is also built in and there is a planned replacement of items on a rolling basis, which takes away the worry about procurement and maintenance, and so on, of ageing equipment. A level of functionality is built in. There are four bands—a cutting-edge band, the next best and the next best again; I cannot remember the exact terminology. Each piece of equipment that is purchased at the start has to be maintained to that level. As you mentioned, if a better scanner comes along and replaces the current scanner as the market standard, it must be replaced with the better scanner. All this is costed for, obviously, but the advantage for the health body is that it has a predictable spend in each year for its scanning budget, which is notoriously expensive. It also loses the maintenance headache and the worries about replacing it when it becomes obsolete. So, there are a number of interesting factors to it. I do not pretend that it does not come at a cost, but it is an interesting model.

[193] **Alun Cairns:** How would that model compare with the Treasury's view that PFI and IT do not quite mix?

[194] **Mr McCann:** It is primarily an equipment contract and the IT systems are subordinate to the equipment. It is not an IT contract in that sense: it is not a contract for an IT system. The systems, such as on cardiology and so on, supplement the equipment.

[195] **Alun Cairns:** Are there any thoughts, concerns or views?

[196] **Alun Davies:** I broadly support what is being said here, but what is important is that we have a clearer understanding of the financial basis to those agreements. You are absolutely right on the elements of flexibility that have been developed and brought into different models. Of course, as soon as you introduce that flexibility, you take away the certainty of profit, and you do that at a price. In terms of delivering best value for the public purse, I think that we have to keep a clear focus on how we deliver these particular assets, projects or services and secure the best value for money. It is that focus that I would wish to give my attention.

[197] **Mr Percy:** I concur that that is the important thing. That goes to the very heart of the risk transfer argument, effectively.

[198] **Alun Cairns:** If we are broadly in agreement on that, we need to come up with some dates, and we will get the clerk to circulate some options in that regard. It is always difficult to arrange things away from here, but if there is a broad wish for that, we will try to do so.

[199] I have a final issue on which I ask for Members' reaction. It is an interesting point arising from the papers. Some evidence highlights individual projects as good practice, while other evidence highlights the same projects as bad practice. Is there any way that we can look at some of these—whatever amount is feasible—in detail in order to drill down to establish the figures behind them? Let us take Baglan Moors Hospital, for example, which has been highlighted as both good and bad practice. Its capital building cost has been deemed to be £60 million, but the real cost is £300 million. Rather than take those figures as they are, can we try to drill a bit deeper and have a session on that?

[200] **Mr Percy:** Yes, Chair. I think that we agreed last time that we would do an analysis of that costing, and I believe that we are trying to get detail to present a paper on that.

[201] **Alun Cairns:** So, if there are any projects that Members would like to look at in more detail, would you pass on the information, assuming that it is available?

[202] **Mr Percy:** Yes.

[203] **Alun Cairns:** Do Members have any further issues to raise at this stage? I see that you do not. Do you have any other final points, Gronw or Simon?

[204] **Mr Percy:** I presume that you would like us to discuss with the clerk potential evidence from contractor providers for a future session.

[205] **Alun Cairns:** Yes. Finally, on the supplementary budget, which we discussed during the pre-meeting, there was a broad view that we would seek to have an additional, brief meeting next Thursday, as was mentioned in the e-mail, assuming that the Minister can attend. Thank you very much, I declare the meeting closed.

*Daeth y cyfarfod i ben am 3.20 p.m.
The meeting ended at 3.20 p.m.*