House of Commons

Public Accounts Committee

Oral evidence: Government’s use of private finance for infrastructure, HC 821

Monday 12 May 2025

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Watch the meeting

Public Accounts Committee members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Mr Luke Charters; Peter Fortune; Sarah Green; Sarah Hall; Chris Kane; Sarah Olney; Rebecca Paul; Michael Payne; Oliver Ryan.

Treasury Committee member present: Bobby Dean.

Gareth Davies, Comptroller and Auditor General, National Audit Office, Simon Reason, Director, National Audit Office, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-88

Witnesses

I: Darryl Murphy, Managing Director, Aviva Investors; Bruce Dalgleish, Partner and Co-founder, P2G LLP.

II: James Bowler, Permanent Secretary, HM Treasury; Conrad Smewing, Director General, Public Spending, HM Treasury; David Lunn, Interim Director of Corporate Finance, HM Treasury; Jean-Christophe Gray, Interim Chief Executive Officer, National Infrastructure and Service Transformation Authority; Matthew Vickerstaff, Deputy Chief Executive Officer, National Infrastructure and Service Transformation Authority.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Lessons learned: private finance for infrastructure (HC 767)

Examination of witnesses

Witnesses: Darryl Murphy and Bruce Dalgleish.

Chair: Welcome to the Public Accounts Committee on Monday 12 May 2025. Private finance has been a significant source of finance for public investments in economic and social infrastructure. There are a wide range of public financing models, including the most extensively used: private finance initiative, or PFI. Investment in new infrastructure has been identified by the Government as central to their mission to grow the economy, and they have indicated that they plan to deliver this investment by working in partnership with the private sector. There are, however, risks involved with that approach.

Today, we are fortunate to have with us two witnesses with a huge wealth of knowledge and experience in the field of infrastructure finance and public sector partnerships, ahead of questioning of Government officials later this afternoon. We hope to hear from them what they think are the costs, benefits, risks and opportunities associated with the Government's plans for delivering infrastructure investment, in conjunction with the private sector.

We have, as I say, two very experienced and knowledgeable witnesses, who I will now introduce. Darryl Murphy is the managing director of Aviva Investors. Darryl is responsible for the origination, structuring and execution of new infrastructure debt transactions, and has more than 27 years of experience in infrastructure finance. Bruce Dalgleish is the partner and co-founder of P2G LLP. P2G provides PFI contract management services for complex, long-term public-private sector partnerships. Bruce has 25 years' experience of major projects, including 150 PFIs in all sectors, and senior positions in investment, FM and construction. We extend a very warm welcome and thanks to them, and to Bobby Dean, who is a member of the Treasury Committee.

Q1 **Oliver Ryan:** Thank you, Darryl and Bruce, for coming today. Do you think that the Government are clear enough on their preferred financing structures for PPP deals?

Darryl Murphy: Let me explain how I would frame this. We would look at UK infrastructure in the broadest context. We obviously have capital to deploy. Basically, we would then have to react to the models that are put forward. If you think, "How do we define infrastructure?" I would refer to the common approach of saying that you have energy, utilities, transport, digital increasingly, and social infrastructure.

The UK has a wide array of different models that are used to finance or fund infrastructure, which PPP is a very small part of. In fact, for the last number of years, it has been an extremely small part, because it has only really been utilised in Wales in probably the last five years or so. On that basis, we look to see whether there is clarity in each asset class around whether there is an opportunity for private finance. That is a policy decision that we then have to react to.

If we take social infrastructure—schools and hospitals; a simple example—PFI/PPP was utilised over many years. The policy changed a number of years ago, and for the last two Administrations, we have really had a situation where that has effectively been delivered through public borrowing. In a sense, we just react to that.

I am in danger of perhaps conflating this with another question, which is that as we look forward to the national infrastructure strategy, all we are seeking is clarity, across all those sectors, on what the model is and what the opportunity set is. Once you have that, it is not a debate about whether it is right or wrong; we can then react to the models where our capital is welcome, for want of a better term, and other areas where public borrowing would be utilised.

Bruce Dalgleish: I absolutely agree with everything Darryl said. Obviously, June will see the policy announcement. Probably the biggest question that the industry is waiting to hear about and what drives the model more than anything is whether you are desirous of off-balance sheet transactions or on-balance sheet transactions, because ultimately Government can borrow money cheaper than the private sector if it is off-balance sheet, and off-balance sheet comes with a risk profile associated with it that is not always conducive to value for money.

Q2 **Oliver Ryan:** Indeed. Thank you both. I think there is a lot of big politics around the PFI stuff—there certainly has been for the last 10 years— and we will not get into some of that, because you probably do not want to touch it. However, just on some of the reforms that you have mentioned, do you think that they are ambitious enough and that they will work in making the system clearer for you and for the taxpayer?

Darryl Murphy: Apologies—I am very granular about this. If you think about it, I only have to worry about infrastructure in a sense, so I am very granular about each of the sub-sectors. You could go through each of them, which I am sure I am about to see in the national infrastructure strategy, and see the articulation of what is required and how it will be delivered. At the risk of repeating myself, that is all we are looking for. If you sit here today, it is reasonably clear to me what we would expect to see in an area like renewable energy, because the model for renewables has broadly existed for some time—the use of contract for difference, etc.—so you have one small piece there.

The area that probably has had the most debate, to be fair and to pick up on Bruce’s point, has been this: is there going to be a return of the use of PPP? That has not been utilised, other than my reference to MIM in Wales.

In industry terms, from what I understand that is probably an area that has had less certainty about how it eventualises. In the other sectors, it is much clearer in terms of the models. I think that all we are looking to see in other areas of the economy is: what is required, at what pace and what delivery model? There is a little more granularity if you go into detail on anything aligning to energy transition, for example.

As I say, PPP is getting a lot of the spotlight, because there has been greater debate about it. It is a very important area, but I would anticipate seeing that it is a very small part of a much bigger pie, which is UK infrastructure.

Bruce Dalgleish: Working in conjunction with the private sector is a really huge broad spectrum. Obviously, we are talking about the use of private finance in infrastructure today, and extending private sector and public sector working in partnership together covers an awful lot that does not necessarily involve private finance. Private finance is a choice as to whether that can increase or speed up the amount of investment in UK infrastructure. That is down to a policy decision that we are all expectantly waiting for.

Q3 **Oliver Ryan:** You both mentioned that specificity and long-term sight make for a good market for you. What changes would you bring forward if you were in the Government now with a whiteboard in your office and were looking at what you could do?

My second question is a slight tilt away from that. How effective do you feel the Government are at the contract management side of PFI/PPP?

Darryl Murphy: Gosh, they are deliberately unconnected.

Oliver Ryan: They are unconnected.

Darryl Murphy: You threw that as a bit of a curveball at the end. On the first part, I refer back to what I said previously: I am unashamedly granular about it. I have always encouraged that across Government. Again, I appreciate that this is a very minor world for many, but the world of infrastructure is kind of like this. To be incredibly granular around the solution for each sub-sector is not one size fits all. What I have always encouraged is to find the right models for delivery, but also fundamentally there is normally policy around what is required. That is the No. 1 thing, if I were in government. I do think that, generally, the Government have a good handle on what is required. I think the private sector is frustrated by when and, moreover, by how. That needs to be produced, not just in areas which may be pertinent for PPP, but even generally where the private sector is delivering overall.

To your second point, I think one has to remember that—I keep coming back to the broad landscape—a lot of investors fall into this trap as well. I sit among my peers and they say, "I want a pipeline. Just give me a pipeline." The problem is, I do appreciate that Government do not procure a lot of infrastructure directly anymore. By that, I mean that they create the investment environment for it to happen. The whole energy industry works by private sector delivery and private sector financing only because the Government create an investment climate that suits that investment. Digital infrastructure happens on its own, in effect, with some reasonably light-touch regulation. We have seen large areas of our economy in infrastructure being delivered without procurement. Your question is very pertinent to areas where we are seeing direct procurement. It has really only been in PPP to some degree. That model has not really existed. You are then into the detail, which Bruce can go into chapter and verse on, of the good and bad examples of contract management. The point is, can we learn from that going forward? I am not sure it is going to be needed, but if we are going to do something again, I think we are all much better at learning from the past and utilising it going forward.

Bruce Dalgleish: That is true. Going back to your first question, the biggest thing the industry is looking for is cross-party support, because the investment horizons for infrastructure go way beyond a single Administration. The fear is that, if there is not cross-party support for whatever initiative that involves private finance, ultimately policy may change, which then creates a different environment that people are working in and investing in.

On your second point, from my perspective, there are probably 650 different public sector bodies that are all involved in contract management of PPP. A huge amount of really good work has been done by what is now NISTA in terms of producing guidance, but that is a huge amount of data and guidance for people to try to swallow, particularly with a backdrop of not necessarily being able to afford good contract management, either at local authority level or at the level of NHS trusts.

Disaggregation is absolutely fantastic in terms of decision making. It does not necessarily build you a cohort of specialists who can manage contracts of whatever form; it does not have to be private finance. Sometimes with private finance there is, because of the risk transfer element, potentially a misplaced assurance that risk transfer equates to risk management by the private sector, and therefore people feel assured that this is all someone else's problem that they don't need to worry about. At the point that you get too assured, that can become a problem. Equally, if you centralise everything, that probably is not the answer either. Somewhere in the middle might hold the right answer.

Q4 **Chair:** I am going to bring in Sarah Olney in a minute. Bruce, you hit one of my inflection points about the on or off-balance sheets that you mentioned. Given that we are at 100% of GDP on our debt, there must obviously be a temptation to try to keep it off the balance sheet. On the other hand, now that we are no longer subject to the European accounting regime, we can put it on the balance sheet. We have had evidence from the New Economics Foundation, which states that "the UK government now has the choice to include PPP payments on the government balance sheet and, in doing so, can remove the primary incentive that drove the failures of PFI. Placing new PFI costs on the balance sheet would subject them to the same scrutiny and spending rules as traditional public procurement, potentially fostering greater discipline and focus on value for money. Should we have them on or off the balance sheet? I might bring the C&AG in afterwards.

Bruce Dalgleish: Rather than going straight to what is the right answer, because I am not sure there is a right answer, you have to stand back and say, "What am I trying to achieve? What are the raisons d'être for bringing in private finance?" The danger with driving an off-balance sheet solution is that in order to create an off-balance sheet transaction, you need a certain amount of risk transfer, and that risk transfer does not always equate to value for money. For example, we have on all PPP transactions a requirement for the private sector to take a general change in law risk for 25 years. We are procuring as a society the projects. We are the ones that are passing the legislation, so why would we ask someone to crystal-ball-gaze and price that at the outset over a 25-year period?

It does not necessarily equate to value for money, but you are driving a certain mentality towards risk in order to achieve an off-balance sheet. An off-balance sheet might be the right answer for certain transactions, but it is about understanding what you are trying to achieve. Out of a pipeline, if you are trying to achieve speed and value for money infrastructure delivery, then probably, from the NAO Reports, PFIs take longer to actually sign as a contract. They are complex beasts and will not necessarily deliver infrastructure as quickly as other forms of transaction. Equally, you are then bringing it back on to the balance sheet and you are making a choice in terms of what funds to use to build it.

Q5 **Mr Betts:** Can I follow up on one point you were making about the oversight of contracts? When risk is supposedly transferred, the public sector does not necessarily think it is their job to look at how things are going. Do you accept that there is anything that equates to a self-monitoring or self-managed contract? I have heard those terms so often around these issues.

Bruce Dalgleish: I would liken it, and have likened it on many occasions, to asking society to report themselves to the police at the point that they have driven down the motorway and exceeded the speed limit—get to the other end and pick up the phone. It does not work as a behavioural concept.

Q6 **Chair:** I am going to bring the C&AG in because he ultimately is the man who has to audit all the Government accounts to see what the technical position is in terms of on or off-balance sheet.

Gareth Davies: It has obviously changed a lot since the early days of PFI and PPP, where it was easy to suspect that the driving force behind the growth of it so quickly was because it was treated as off-balance sheet in the early days. The clarification that has come through in later years is that, if essentially the substance of the transaction is that it is a public asset being used for public purposes and the public sector is bearing the risk/rewards of ownership and so on, it is much clearer now that they have to be on the balance sheet. That is how they are accounted for and audited nowadays.

Actually, the decision-making criteria are now more where they need to be: what is in the long-term interest of value for money and the service requirement of a particular asset. I do not think accounting considerations are driving decision making in the ways they did in the early days of PFI, and I think that is an important step forward.

Q7 **Sarah Olney:** I will come to Mr Murphy first. How would you characterise current levels of investor confidence when it comes to UK infrastructure investment?

Darryl Murphy: In terms of UK infrastructure, there are two common areas. I think there is a level of frustration in so far as activity levels feel relatively low on that side. It is very hard to get data on that explicitly—we certainly find it hard.

Q8 **Sarah Olney:** Can I ask what that data is on? Is it on new projects or activity—

Darryl Murphy: Data on new investment being made. I appreciate that, from the Government's point of view, there is a heavy focus on new greenfield infrastructure—the Government want to see new things being built. The investor market is slightly more ambidextrous, in that there has been a lot of activity around investors buying existing assets. You have seen that quite heavily around utilities, with assets that have already been built or operated being sold, which can create investor opportunities. The investor world is a little bit wider. The area I would focus on, in respect of the Committee, is that new infrastructure investment levels appear to have been very low on that basis.

Q9 **Sarah Olney:** By historical comparison?

Darryl Murphy: Yes, and I am saying that from an intuitive sense of our own cross section of transactions. That may feel slightly odd, given the environment we are in. We feel that we are at the dip before there should be the immense level of investment that is required, whether that be driven through economic growth or the pathway to net zero. A huge amount of investment will be needed across the whole sector, as many of you will know. It is a trite comment to make, but what is often put forward is that there is a large amount of capital for relatively little opportunity. But I think that is going to change quite quickly, so it is important to be ahead of that. The amount of investment over the next five to 10 years and beyond should pick up considerably, on the basis of the demands that I explained earlier.

In general terms, I totally agree with Bruce that investors have been concerned about long-term political stability, especially around regulation, et cetera. The role of the regulator has been a separate topic of huge debate, as has—dare I bring this up—the role of Thames Water. Such issues raise a question mark and a little bit of fraying in the confidence in the system. That is going through a reset at the moment, but investors, even the utilities, recognise the huge amount of investment that is needed. In answer to your question, confidence is a little strained in part, but what I find more often than not is a feeling that the activity is not quite what it should be. However, our sense is that the new Government have a very clear focus on delivering the increased investment that is going to be needed.

Q10 **Sarah Olney:** Mr Dalgleish, do you have anything to add?

Bruce Dalgleish: Confidence levels are high. We are certainly talking to people who have capital to deploy. The lack of deployment of capital has largely been a product of not knowing where to deploy it. The constraining factor, and the thing that would worry me more than anything, is our ability to deliver the actual construction, as opposed to the money. We have a construction sector that has obviously had a lack of investment, even in terms of the expiry challenges we are seeing with infrastructure post-Grenfell.

Q11 **Sarah Olney:** So you are talking about skills and labour.

Bruce Dalgleish: Yes, skills and labour. If you look at the private finance deals that have been done recently—often using large multinationals in the UK, as opposed to mid-sector UK construction firms—and if you look at how to increase the capacity to deliver infrastructure, the constraining factor is probably resources rather than capital.

Q12 **Chair:** Is the cross-party consensus you were talking about at the beginning some of the answer to those skills shortages? Tunnelling, for example, is a worldwide asset and skill, and the people who own the tunnelling machines know they have a pipeline of work for the next 10 years and they are not going to take the machines off one British project and take them over to Holland or wherever. Is having a proper pipeline of projects part of the answer?

Bruce Dalgleish: Almost what you need is a long, thin pipeline of projects, as opposed to a very short, fat pipeline of projects, which is probably politically counterintuitive if you are trying to achieve something within one Administration, but from the perspective of the sector and the retention of skills and labour, absolutely.

Q13 **Bobby Dean:** Continuing on this theme of the infrastructure pipeline and how investors need certainty, you have talked about cross-party support and wanting to see sector-by-sector model preferences. Is there anything else, more specifically, you will be expecting to see from the Government later this summer in order to feel confident in that pipeline?

Darryl Murphy: A lot of it has been addressed. Another very hot topic that you will be aware of is that a lot of investors, including myself, who have engaged in renewables or other wider construction projects have had an issue around delivery. If you bring it to an area in which investors are not so well versed, which is planning and consenting, the Government have made steps towards improving the planning process. The frustration for many investors has been that, in general, it takes too long to deliver any construction in the UK. That has a knock-on impact on the timeframes for investing in projects, and it has a knock-on effect, to Bruce’s point, for supply-chain contractors, and therefore indirectly for investors.

There are some very big themes that the current Government, certainly, have tried to improve. The important thing is that now results in the deliverability of the pipeline, otherwise the danger is that we will identify the right sort of assets, as well as the goals that we are trying to achieve, the deadlines and the types of models being used, but that the assets themselves are not being built to that timeframe. That has sadly been a bit of a UK phenomenon.

Q14 **Bobby Dean:** Can I push you on the sector-by-sector bit? Does that mean you also want to see sectors ruled out to reduce uncertainty, if there are no plans at that time? For instance, the new hospital programme is ongoing, and it is a sector you might potentially be interested in, but if it is not mentioned you might have continued uncertainty.

Darryl Murphy: If I were to be incredibly academic, I would say it is particularly around the debate on PPP, which for the most part is central to the discussion of what to do with new social infrastructure. To a degree, this has been the policy of the previous Administration, and it used public finance in the main part. As I said earlier about reacting to policy, the plan should clearly say that social infrastructure is where the policy may allow private finance to be utilised, or not.

To be honest, from the industry point of view, getting away from debating whether or not it should be used would be helpful, so that we can either deliver it or not. People like me would then have to think, "My money cannot be utilised in the health sector," so we will focus on the universities, energy and so on. It gives absolute clarity. We should be at a point in time when there are fewer debates about the model. This is the chance, in terms of the plan, to say, "This is where you should divert your energy."

Bruce Dalgleish: Building on that, I guess there are two things to add, most of which we have already touched on. Looking at PPP in the wider sense, a lot of PPP is still happening where, ultimately, the Government or society are taking the risks on them being successful projects. The water industry is doing PPPs, as are universities. Ultimately, there is still UK infrastructure happening using PPPs.

In terms of the ask of Government, the one I would add is a sensible procurement strategy. The whole direction of travel is largely devolution of administration and decision making. But if you are only ever going to procure one PPP in your region, you are unlikely to have a chance to do a better job the next time and to build up a cohort of professional managers who are able to do this time and again, learn the lessons, move on and refine the process. We all make mistakes—that is human nature. Therefore, building resilience into the system is one thing that I would look for from Government.

Darryl Murphy: With respect, I slightly disagree with the point about the water sector. Water companies are procuring projects directly that are based broadly on PPP terms. But the point to bring out is that "PPP" has become a bit of a pejorative term. It is not formally called "PPP"; what water companies are doing themselves is actually called "DPC". I want to raise the point that "PPP" has become both useful and not useful in that it is being used in a generic sense to mean anything where there is a public and private connection, rather than to mean a very specific model.

When we talk about PPP, we think about PFI, which itself has not existed for a long time; it is funny how we still use "PFI" as a term—is the model where procurement, particularly for social infrastructure, is tax-funded. Universities will be an area where it is debatable as to—

Bruce Dalgleish: Not tax-funded, but ultimately, if they go wrong, they still manifest as a problem that probably sits at the Government's door, society's door or the door of the people who pay the water bills.

Chair: That is really helpful. I might come back to that if I have time.

Q15 **Sarah Hall:** My question is for Mr Murphy first. What aspects of the infrastructure pipeline do you believe are in most urgent need of attention at the moment?

Darryl Murphy: We would look towards overarching points about delivery. A lot of our focus would be on the clear goals that are set out. A very obvious statement would be the mission around clean power 2030. If you look at the amount of renewable energy, offshore wind and grid investment that are required, as an investor it is very hard to see how we can get from where we have been. Even though offshore wind has been a great success at one level, we have had a number of years where there have not been significant amounts of investment, and you will be aware that what we are looking at is significantly greater than what we have done in the past.

That is an example—there are others—where, in order to hit the goals that have been set, we need to go much faster and with a lot more certainty. That is the area that people are looking at and asking, "How do you go from the goals to delivery, and how do you start to see that manifest itself in activity on the ground?"

Q16 **Sarah Hall:** Mr Dalgleish, what do you think are the constraints that prevent construction and delivery companies from providing quality assets in an efficient and timely manner?

Bruce Dalgleish: A successful construction project, or design and construction project, has a whole series of things that can affect it, going from its inception all the way through the planning process and the design process. Where we see projects that have gone wrong, they started too early. One of the big benefits of PPP, in its broadest sense, is the restraints, to some degree, that funders place on those models through due diligence and making sure they can be delivered.

If I think back to the early days of my career with construction contracts directly procured by Government, often they were started before they should have been because there was a desire to get a shovel in the ground—that is what made the headline. Therefore, you ended up changing your mind partway through a design and construction process, and therefore costs went up and delays crept in. One of the huge benefits of PFI and PPP is the discipline of being able to due diligence a project before it moves forward to construction.

Q17 **Michael Payne:** I have a question for both of you. What are your views on the biggest drivers of cost overruns and poor performance in infrastructure projects?

Darryl Murphy: Gosh, I suspect Bruce will give you chapter and verse from practical experience. A lot of this comes back to hindsight, but practically we were seeing a lack of understanding of some of the key risks that we were facing, particularly with contractors and what they were taking on. You can see that issues have arisen that were not necessarily foreseen. As Bruce said, lenders do their due diligence, and it was not necessarily identified. To my mind, everything is a little idiosyncratic in so far as the specifics are concerned. However, in general, the issue is probably just an overestimation of how straightforward the project was to deliver, and there is probably an incentive—this goes to Bruce's point—to drive the project more quickly than it was ready for. The track record will be mixed on that front. I think that a lot of complex projects have been delivered to time and budget. Equally, you can see a lot of clear negatives, but Bruce will have many more practical examples.

Bruce Dalgleish: I do not have the statistics, but if you look back at the history of PPP and compare it with publicly procured infrastructure, I am pretty certain that PPPs would come out very strongly in the delivery of the construction phase within time and to budget. Equally, there are a whole bunch of risks, particularly if we are going to see an increase in infrastructure spend and what we are trying to do.

This almost comes back to procurement, but how many nationally significant projects do you want sitting with one contractor? Where is that oversight coming from in managing a portfolio and placing work? Obviously, we all saw the collapse of Carillion a few years ago, which created issues. Carillion was not the first, and I am sure it will not be the last. Looking at that from a macro level is important to make sure that we are managing not only the procurement pipeline but the sector in a way that ends up delivering what we need it to deliver.

Darryl Murphy: I can talk about one or two specific examples of what Bruce mentioned. I look at it from our perspective, particularly as a debt investor, and I think about it practically. The two areas that you get most worried about in evidence, where there has been a delay, is effectively contractor insolvency, such as the issues created with Carillion. There have unfortunately been others, but in many cases there are subcontractor insolvencies. They are the risk issues that really affect you on that side. Generally, a contractor who can manage a project that is slightly running over time is more manageable and certainly causes relatively less stress.

The other area that is important to stress, because we are thinking here of relatively straightforward civil engineering projects, is technology projects. If you look at areas like energy from waste or biomass, et cetera, there are a lot of examples and evidence where it is the technology risk that is why the project was late. Cautious investigation into projects in which there are new technology risks will be important.

Q18 **Michael Payne:** I have one further question for Mr Dalgleish, but Mr Murphy may wish to come in as well. What do you think needs to change to improve the preparedness of public bodies for contract expiry?

Bruce Dalgleish: Part of that is education and guidance, and I think there is a huge amount of work being done. We did the first education expiry and we have done the first health handback, but the bit that we have not really tackled yet is the level of resource it takes. For one individual authority—to come back to the portfolio approach—it is really difficult if you have one PFI or one PPP coming through the expiry process. If we can look at a different way of working whereby groups of individuals are moving from one project to another and then another, even within a region, and learn from those experiences, we will get better, both as an industry and as a public sector.

Darryl Murphy: I think we would agree that the steps we have made to date to manage that centrally have been welcome. The role of what is now NISTA—and previously the IPA—in providing more standardised guidance is welcome, because a relatively unique feature of UK PPP/PFI, globally, is the widespread nature of the counterparties, in terms of local authorities, trusts and so on.

For that reason, centralisation is very important, particularly for the very idiosyncratic risks of an individual project and its expiry. But being able to have the right framework is welcome.

Q19 **Chair:** I have one or two questions. Coming back to what you were just saying, Bruce, in terms of encouraging people to actually bid for those contracts—which costs a lot of money, and which are often very slow and very long to negotiate—one of our witnesses, Affinitext UK, has a few suggestions, and I would be interested to get both your reactions to them. Very quickly, they are: "Mandate digitised contract repositories"; "Standardise contract metadata"; "Leverage AI-powered analytics for live contract"; "Embed structured collaboration and agile variation processes"; and "Build capability across the public sector." I accept there is a lot in that, but do you want to comment on any or all of that?

Bruce Dalgleish: I think all are valid. I am not entirely sure where variations come into that—variations are probably a topic in their own right in terms of PPP contracts, whether it is changing your mind or there is cost escalation. Coming back to something Darryl said earlier, having clarity of the model is a huge aspect, because you do not want to be playing with risk profiles and making changes to the structure within a live bidding environment; you need the rules of the game set out.

One thing I would say about PPP projects is that, in some ways, they drive an anti-competitive nature through the bidding, because you are asking people to form consortia. Rather than having a competitive dialogue or competitive tendering process for the design and construction process itself, you are asking people to wrap into a consortium funding, equity, long-term operation, and design and construction. That means you may often end up in a position where a consortium is winning even though it is not the best design and construction solution, because on a net present value basis it works out as great value for money compared with another; whereas, if you disaggregated and tendered the constituent elements, then brought together a consortium partway through the process, you might get a better outcome.

Q20 **Chair:** Darryl—and Bruce, do come in on this question—you talked about the Tideway tunnel, which was a different model—a regulated asset base model, not a PFI model—and it was extremely successful, not least because it was struck at very low interest rates. However, one of the features of that model was that the Government provided guarantees for some of the unknown unknowns in it—notably, if the special purpose vehicle were to be suspended for a period of time. What role do you think Government guarantees play in making those models simpler and easier to understand for both sides?

Darryl Murphy: I think they are very effective when targeted at particular points. We are a large debt investor in the Thames Tideway tunnel, and you are absolutely right: the Government support package was intrinsically important. It covers, as you may be aware, a number of things. The thing it covers that investors are most worried about is, in engineering terms, the tail risk—that is, the catastrophic tunnel-collapse risk that we faced, particularly given something that may have been uninsurable, in a sense.

Back to the point of the consumer, what happens if you cannot even put that cost on them? Who will pick that up? In that instance, the very pragmatic approach was to look at the technical risks involved. There are other risks covered, the need for which, in hindsight, is perhaps more debatable. There was concern about the state of the financial markets and so on, and as it happened, that was not necessarily needed.

It is a very live topic. I am aware, given the potential future use of similar models in the water industry—around reservoirs, for example. I was consulted on one last week, and I said openly that we need to progress from the old thinking, which was, "Well, we had that cover on this project, so we want it on the reservoir." The risks of a reservoir could well be very different from those of building a tunnel under the Thames. On that basis, do you need to have that cover? But the use of a guarantee in general, to focus on specific risks, is very effective.

Q21 **Chair:** Is it even more important for projects with unknowns that simply nobody knows? For example, in building a nuclear power station there are risks that no private financier or constructor could possibly know, and therefore you need a sovereign guarantee.

Darryl Murphy: In those examples, it is always the unknown unknowns that get you. It comes back to the value-for-money consideration: are you paying to pass that risk, indirectly or directly? Is it better value to take that risk off the equation to get a better price? It is a very extreme version of a more general value-for-money consideration. I refer back to the comments about the balance sheet. From a risk point of view, we were led too much by balance sheet considerations, rather than value for money. This is perhaps more a matter for Government policy, but if you took balance sheets off the table, you could achieve a better balance on appropriate risk allocation, and therefore achieve the best value for money.

Q22 **Chair:** I have one final question. I do not know if either of you are aware of the Stockton[1] schools issue. The basic problem appears to be that the local authority has run out of money and cannot afford the PFI annualised payments. I wonder what knock-on effect it would have on you, as financiers, if the Government transferred—as they seem to wish to do—more of these big funding issues to the new mayors created by the strategic authorities. If you have a big contract like that, if there was a risk of non-payment of those annual fees, should there be a guarantee that the Government would step in if the local authority could not afford to pay?

Darryl Murphy: The issue that you are talking about is, more broadly, the credit risk of local authorities, or similar. We have done a lot of work on that because there is a lot of indirect or direct risk that one can take there. It is the same generic question all round: are you at risk of paying more for that service in the cost of finance relative to what you would be able to pay if you put a backstop in? It would be fair to say that a lot of investors are forced to take a view on that risk transfer. Even though it is not written clearly, the suggestion is that the guarantee is implicit, in so far as you believe that the Government would not step away from a local authority. There is an interesting balance. Do you get a solution with a better value for money by making the guarantee overt, rather than forcing people to take an implicit view?

Bruce Dalgleish: When foundation trusts were first set up, the funding market required a deed of safeguard against the insolvency of the foundation trust. It is no different from that. The question is, having paid for a certain risk profile when borrowing, do you now give a guarantee part way through? Would you expect a betterment of terms as a result? Probably not. Again, it is all about value for money. Rather than sitting there and saying, "This risk profile should apply to every type of transaction," we should say, "Where is the risk best managed?" If we are taking credit or insolvency risk, is that risk ultimately best kept with Government, in order to provide better value for money for individual transactions?

Chair: I cannot thank you enough. You are both busy and experienced people. You have given us the benefit of your wealth of knowledge this

[1] The Chair misspoke. He intended to say Stoke.

afternoon and it has set us up very well for our session with officials. Thank you both very much indeed. We will resume at 4.25.

Examination of witnesses

Witnesses: James Bowler, Conrad Smewing, David Lunn, Jean-Christophe Gray and Matthew Vickerstaff.

Q23 **Chair:** Welcome back to the Public Accounts Committee on Monday 12 May 2025. We now move to our main session. We have just heard from an excellent panel of witnesses on the costs and benefits of private finance for infrastructure investment, which the Government see as central to growing the economy. In the autumn Budget last year, the Chancellor announced that the Government would increase public sector net investment to 2.6% of GDP during the current Parliament, with over £100 billion of additional capital to be invested over the next five years.

The Government have also made a number of changes to the framework for infrastructure investment. They took the decision to combine the National Infrastructure Commission and the Infrastructure and Projects Authority to create the National Infrastructure and Service Transformation Authority, NISTA, which we will be hearing from now. In the light of these major changes, we will this afternoon be exploring the suitability of private finance for infrastructure investment and questioning Government officials on how they plan to create the right conditions to support investor and public confidence in the use of this financing model for infrastructure.

We are very pleased to have with us one of our regular attenders—the Permanent Secretary at the Treasury, James Bowler. A very warm welcome to you, James. Conrad Smewing, who is also a regular attender at this Committee, is DG for public spending at the Treasury. He joined the Treasury in 2003 and has held a number of roles there, including director of public spending. Welcome, Conrad. David Lunn, interim commercial finance director, joined HMT in 2009 and, in 2021, led the establishment of the UK Infrastructure Bank, both as a board member and as the bank's first chief operating officer. Welcome, David. I believe this is your first time attending this Committee.

David Lunn: Second time.

Chair: I was going to give you a special "first time" welcome, but welcome back. Jean-Christophe Gray took on the role of interim chief executive of NISTA in April '25. Before this, you were a member of the strategic defence review expert team. Is that right, Jean-Christophe?

Jean-Christophe Gray: It is.

Chair: Great. Finally, but by no means least, Matthew Vickerstaff is deputy chief executive of NISTA and head of the Government's project finance profession. Also, a particularly warm welcome to Bobby Dean, who is a member of the Treasury Select Committee. You are very welcome too, Bobby.

I will start, and this question is to James Bowler. How do you plan to use the lessons learned from past projects to improve the implementation and management of privately financed projects?

James Bowler: Ah! That is a very big question. Thanks for having us.

Chair: We thought we would give you an easy opener.

James Bowler: Well, it all started when I was young—*[Laughter.]*

The NAO's Report is an excellent Report. It builds on 140 individual Reports, I think, and contains 12 recommendations, just as you say, Chair, to improve how we go about using private finance for infrastructure in the future. We are happy with all 12. I would say that the key lessons learned—you could pick many, but I would look to four things that we need to improve.

Setting the right conditions for success is No. 1. We can talk further about that; it is about certainty for investors. No. 2 is appropriate risk allocation between public and private sectors; we have learned a lot, particularly from many of the examples of that. I would say that No. 3 is end-to-end contract management and delivery of projects right through to their expiry and the potential handing over of assets. Dealing with the risk of failure—for example, the reports and realities of the Carillion experience—is No. 4. There are many more you could point to, but those are the buckets I would choose.

In conclusion, there is no one size fits all to the financing model, but with the rich lessons we have learned, which are included in the Report and which I have just summarised, I think we are well on our way to ensuring that we are in a better position to do exactly as you said—to increase PSNI and private finance into public sector infrastructure delivery.

Q24 **Chair:** That is a very concise reply to my question. While I am addressing you directly, I do not know if you were present at the previous session, but we had a discussion about whether these PPPs should be on or off-balance sheet. What is your view on that matter, as Permanent Secretary to the Treasury?

James Bowler: It depends what they do. Classification is not an end or an aim. The aim is the outcome of what you are trying to achieve, and the aim is value for money. The Green Book, which you all know very well, and we follow concisely and obviously write ourselves, is very clear that classification is not an end of a project's means. You really want the correct structure for any particular project to be delivered well, and that can be on or off-balance sheet. The most prescient example at the moment—a very large example—is the Sizewell C expansion we are going through. That is likely to be on-balance sheet, but we still think the regulated asset model that we are pursuing there is the right one to pursue. We still involve quite a large amount of private finance in that as we are crowding in, and we are planning on that to deliver the project to time and to budget.

Chair: Thank you very much, Permanent Secretary. That has given us a lot in opening, and I am sure we will examine a lot of those aspects.

Q25 **Sarah Hall:** My questions will be directed to Mr Gray. Investors have previously highlighted the fact that the infrastructure pipeline has been too short term, that decision making has made it difficult for investors to make longer-term decisions, that it has lacked consistency, that it has caused issues with future planning, and that it is not a viable way to plan for investments. What are you doing to create a pipeline for investors that supports long-term decision making?

Jean-Christophe Gray: I think one of the expert witnesses may have picked up on that in the previous session. I will pick up a couple of things. First, it is very important that it is done in the context of a 10-year infrastructure strategy, and David, at some point, may wish to talk a bit about that. That sets out, with a commitment to publish such a strategy regularly, a long-term trajectory. On the pipeline, we have previously had a more construction industry-focused pipeline, and it has not always been done annually, for example. We are trying—building on some of the lessons in the Report—to develop that into an investor-focused pipeline, because this is all about trying to crowd in investment.

There are a couple of things that I think are salient to that. The first thing—and the first of the pipelines will accompany the 10-year strategy this summer—is that there will be a commitment to update that and republish that pipeline on a very regular basis. My expectation for that would be around every six months.

The second thing is to go from a construction pipeline that has tended to give information around just cost and schedule, to one that gives greater granularity to investors on the types of financing models that various projects are willing to entertain. It is fair to say that it will take a little time, following the publication of the infrastructure strategy and the first pipeline, to continue to develop that, as Departments, once they have their settlements, can work through the types of financing models and procurement models that they may wish. To borrow the phrase, we very much hear the point from earlier that a longer and thinner pipeline is better than a shorter one.

Q26 **Sarah Hall:** One of the issues that was raised about the pipeline before was that there were gaps in 2019-20 and 2020-22, which then caused issues in analysing the data, as it was very inconsistent. It is good to have that long-term strategy, but ensuring that it actually is refreshed, reviewed and analysed on a regular basis is important for consistency and investor confidence.

Jean-Christophe Gray: You are absolutely right. That is something that Treasury Ministers' and officials have heard loud and clear through the British Infrastructure Taskforce. The Chancellor and the Chief Secretary have had, and have been giving, insights from the investor base. As you say, regular publication every six months is really important.

There are some other things that you will want to accompany it with, and maybe this is an opportunity to describe NISTA a bit. NISTA has an important responsibility for the pipeline, but some of the things around that will be important elements—in particular, sources of financing; how you might interact with the National Wealth Fund; how we can help investors better understand the geographical allocation of some projects that NISTA will develop, or is currently developing, in partnership with MHCLG; and an enhanced spatial analysis capability that will try to describe more comprehensively the full range of infrastructure and the interaction between those in each area. I am sure we will get quite a lot of feedback, to put it directly, from investors on the first pipeline and which we will want to learn from.

Q27 **Sarah Hall:** Finally from me, how will you prioritise projects within the infrastructure pipeline to ensure that resources are focused on critical investments?

Jean-Christophe Gray: In a sense, that will flow from the prioritisation that is in the 10-year infrastructure strategy. First and foremost, from a policy perspective, are the ones that the Government believe are best aligned to the important productivity and growth-enhancing objectives that it has. Secondly, and perhaps I should have said this in my previous answer, both the strategy and NISTA—in a way that was not the case with the National Infrastructure Commission, for example—are looking across economic and social infrastructure. The NIC, as it was, was very much focused on economics. We will want to go across the full range.

The flipside is that you also want to be careful about not getting ahead of yourself. It will be very important that projects that are on the pipeline are accompanied by an appropriate level of detail, particularly around financing models that investors can take. There will be a role for NISTA and the centre of Government to challenge contracting authorities and say, "Have you got the appropriate level of detail required?"

Q28 **Chair:** Jean-Christophe, is there a danger, bearing in mind what the previous witnesses said, that the more you do a similar type of project, the better you become at it, so you go for the easy ones, and the more difficult ones—the nuclear power stations, the Sizewell Bs and the CCUSs of this world—get left behind because they are so difficult? So the easy ones get built first.

Jean-Christophe Gray: It will be important to guard against a range of risks. We are progressing with Sizewell and CCUS. At the risk of picking another tricky area, the Government are really ambitious in the area of small modular reactors, for example, which is a new type of technology. I have certainly got the message, as the interim CEO, about the importance of really unlocking the big projects that will make the biggest impact on growth. But I am sure that we will need to guard against a range of things.

Q29 **Chair:** Thank you very much. James, do you want to come in?

James Bowler: Just to help widen things out. I guess this comes back to the one-size-fits-all point. You will want to take a particular structure to some of those projects, and with some of the other projects, you might use similar things again and again. But on the very large projects, some of the structures are unique and you will want to take your own way of doing them. That is why you don't do one size fits all; otherwise, you end up doing the easier things.

Q30 **Sarah Green:** Sticking with the pipeline, I will address my question to Mr Vickerstaff. What risks or challenges do you see relating to successfully building a credible pipeline?

Matthew Vickerstaff: The real challenge with the pipeline is developing investable models. We have a number—so we have the regulated asset base model and contracts for difference. If we take carbon capture, utilisation and storage, we now have dispatchable power agreements. We have types of contracts for difference that work with emitters. We are evolving those, but the real challenge is not so much working up the finance; it is working up the funding models. So it is about developing an investable set of projects that will attract not just domestic capital, but international capital, because if you do that, you will drive down the price and get a better out-turn, in terms of overall projects.

Q31 **Sarah Green:** I will address this question to you, James. How will you ensure that your approach provides potential investors in UK infrastructure with the information that they need?

James Bowler: Through the 10-year strategy that we are going to publish, through the pipeline, and through a renewed and expanded Office for Investment that will be actively out there, selling the opportunities for investment in the UK. Taken all in all, after a period of quite some volatility—with global crises, etc.—you are looking for a period of clarity, stability and long-termism.

I add that we have a set of fiscal rules that no longer incentivise moving money from capital to resource spending. That has led to a disruption in the funding available for capital projects and has been accused of bringing short-termism into things. The spending review intends to set out five-year capital budgets. All those things point to a much more long-term approach to that, and we are very clear that investors want clarity, stability and transparency.

Chair: It is very hot in here. Jean-Christophe has very wisely taken his jacket off. Everybody else is welcome to follow his example if they wish.

Jean-Christophe Gray: Should I have asked for permission?

Chair: No, you are the trendsetter.

Jean-Christophe Gray: Oh, right. That's the first time that's ever been said.

Q32 **Bobby Dean:** I want to move on to skills, and perhaps I will start with you, Conrad Smewing. It is a long-running criticism that the public sector simply does not have the skills to manage large infrastructure projects like this, particularly when it involves private finance. I have a report from 2017 stating that the civil service recognises the capability gap and says that it is going to work on it. Can you bring us up to date on what the Treasury has been doing to address the skills shortage, and what the plans are for the future to gear up for more infrastructure investment?

Conrad Smewing: I will start, but Matthew and NISTA might want to say a bit more. The primary thing we have done is pull together, first in the IPA and then moving into NISTA, a central capability of people who can help in structuring these sorts of contracts and deals, and support authorities in the management of those deals as things go on. Obviously, in individual Departments that do a lot of this kind of stuff—for example, the Department for Energy Security and Net Zero does a lot of contracts for difference and RAB models, which Matthew was talking about—they have their own expertise. But he may want to add a bit more on that.

Matthew Vickerstaff: I think this was a question you focused on in the previous session, and both Darryl and Bruce flagged the fact that we are dealing with local authorities, NHS trusts and other contracting authorities that do not necessarily have the right expertise, skills and capability. We are running a number of programmes—so training is something we have been very successful with, both online and in person. You really need to train contract managers within the public sector. We have guidance and toolkits that we provide, and we have just published the asset condition playbook—that is, how you go about taking a survey of the built environment, whether that is a hospital, school, police station, court etc. It has real practical steps to help contract managers manage their underlying contracts.

Probably the most influential thing, on a hands-on basis, is that we have developed an associate pool of 60 people who are experts—ex-accountants, bankers, lawyers, facilities management contractors, surveyors and technical experts—who provide advice and support to local authorities, NHS trusts and so on. The good news is that it is cheaper than hiring expensive consultants, and it is also a way of giving on-the-shoulder advice to get contract managers through understanding how to manage their contracts.

James Bowler: I want to take a step back and say that compared with where we were—certainly at the outset of private finance initiatives and even by the 2017 report—the Government has recognised the need for professional skilling.

Let me talk to three points. First, we have NISTA and that brings together the strategy of the NIC and the delivery of the former IPA. In particular, it brings in a lot of focus on contract management, and I am sure that you will have quite a few questions on that. It really wasn't there as much as it should have been at the outset. That is point one.

The other thing to say is that we now have these public financial institutions—most obviously the National Wealth Fund—where we are going to say that they only do the big financial transaction projects and that is because they have the skills to do them properly. You will know that we have expanded the National Wealth Fund, for example, and the British Business Bank, and they will oversee those things. Then we have UK Government Investments, or UKGI, which had some forerunners but is now an expert Government shareholder.

I point, at the centre, to being in a much stronger position to have the professional skills to do this. It still requires the role that Matthew has set out—of making sure that we reach all the different elements of the public sector that might be contracting—but of course in 2018 we finished the PFI projects, as we had before, so that is very much an advisory role on contract management.

Matthew Vickerstaff: For every project now, seven years, five years and three years out from expiry, we undertake an expiry health check. We sit down with the chief executive or finance director—the section 151 officer of the local authority—and the contract manager to go through how well prepared they are for expiry. That basically means identifying ways that we can support them with tools, advice or support, or just in getting their governance structure right so that they really own that expiry process. We have now done around 250 of those and that has added into our next phase, where we are collecting a lot more data about asset condition and expiry processes so that we can go back to all local authorities. You will have seen in our data collection that we are monitoring all expiries and there is a bow wave coming in 2030 and another two bow waves in 2036 and ’37. There are still £135 billion of payments to be made under those contracts, and we have to ensure that we get value for money for them.

Q33 **Bobby Dean:** It sounds like you have tried to reduce your reliance on external consultants and almost to build your own sort of consultant team that can provide that advice to Departments and other contract managers, like local authorities. Is that accurate?

Matthew Vickerstaff: There is an element of that. What we would really like to do is keep the lawyers out of it, because there are too many disputes and costly processes involving very expensive lawyers. If we can head things off at the pass, just like good project management, front-load it and stop disputes happening, then we can keep the really expensive part of professional services out of PFIs.

Q34 **Bobby Dean:** I guess that is a kind of rejection of the argument that there is something unique about the public sector that means it cannot have these sorts of skills onboard, whether it be, for example, due to culture or pay, but is the pipeline a risk to that? We spoke about the pipeline earlier as well, but if we do not have the pipeline, it will be harder for us to retain such talent. Is not having a sufficient pipeline of projects a key risk to the retention or building of a team like that?

Matthew Vickerstaff: I think there is no doubt that in both the private sector and the public sector, if you have that kind of stop-start dynamic, in terms of there being a high workload and then a low workload, the talent will fly—and there is talent flight. Somewhat ironically, there is almost a renaissance in PFI because people can see that in the next 15 years—the final contracts are actually 2048—there is a huge amount of work to be done, money to be spent and projects to be undertaken. It is kind of odd: there is almost a renaissance, attracting talent back into the sector. That will help new projects and the new initiatives in the pipeline.

Q35 **Chair:** Can I follow that question up? With these three and five-year MOTs that NISTA will give all of these PFI holders—

Matthew Vickerstaff: Is giving.

Chair: Is giving—I am delighted to hear that. There are going to be 600 of them over the next decade. Do you do more than that? If I am a local authority with one of these projects for a big school or something, but I do not have the estates management team to be able to conduct the negotiations that you are talking about, will you then step in and help that local authority?

Matthew Vickerstaff: The other pillar—the advice and support using our associate pool, but also working with technical consultants—is that we provide that on-the-shoulder help, advice and support.

James Bowler: There are certainly examples of NISTA intervening with the relevant Department, the DfE, to reset and reconsider some contracts as they reach expiry.

Q36 **Mr Betts:** How is a decision made about what is the best way to fund an organisation or a major project? Is it down to cost, value for money or a mix of the two?

James Bowler: It is down to value for money, and it is set out in the Green Book. It is not the case that it should be privately financed or publicly financed. It is not the case that there is one particular part of private finance over another, so you need to test each of those as you go through, thinking about that question. The overall driver is: how do you achieve the outcomes you are trying to deliver, and how do you do so with the best value for money? Conrad could take you in detail through how you go through it.

Q37 **Mr Betts:** Perhaps you could give us more information then, Conrad. How do you decide which method of private finance would be most appropriate?

Conrad Smewing: Fundamentally, as James is saying, you are weighing benefits and costs. On the benefits side, you are looking at what the benefits are of involving private finance in some way in any of these projects. It is fundamentally that they have much sharper incentives for risk management, and they therefore have incentives to access, both in terms of doing a lot more front-end due diligence on the projects and tending to have access to more skilled and experienced people for delivery of these projects. If you are thinking of building power stations, the best people in the world for building power stations tend to be in the private sector, rather than in the public sector. That sharper set of incentives for delivery can lead to better performance and outcomes, so that is kind of fundamentally on the benefits side.

On the cost side, you are looking at a couple of things. First is the extra cost of the private finance. The NAO did some really good work in the Report to look at, on average, what those extra costs would be. It showed that for the debt portion of private finance, you are looking at 1 to 2 percentage points above the gilt rate of finance cost. You have to be careful in interpreting that, because that is a pricing of risk by the private sector. That risk does not go away if you use public finance.

When we are making the calculations in the Green Book of whether to go for public or private finance, you have to take account of the risk that the public sector is retaining—if you are going for public sector finance—and do that risk adjustment. The Green Book does that. You are weighing up a public sector comparator—publicly financed, cheaper, cheaper finance from gilts, but all the risk in the public sector—versus different options for involving the private sector and different risks to transfer to the private sector. This is a long, complicated answer because it is different for every project. You have to do quite a lot of careful options appraisal to see whether it is worth it in these circumstances to transfer that set of risks.

Q38 **Mr Betts:** For the layperson looking at this, it seems very strange that when you are doing the assessments about where value for money lies, of which cost is a key part, you do not take account of the different costs of borrowing—that it is more expensive if the private sector is doing it rather than the public sector. You just mentioned risk, but in the end, it is not just risk that the private sector is fighting for; it is profit as well. You are not taking that into account.

Conrad Smewing: What you are comparing is the expected cost to the public sector under the privately financed version, which will include all the costs of the finance, whether you want to refer to it as profit, reward for taking risk or whatever—you are comparing that stream of payments to your assessment of what the cost would be in the public sector. So you absolutely would take into account the extra cost of the private finance.

Q39 **Mr Betts:** The NAO Report says that that is not done, but is done in other countries.

Conrad Smewing: The NAO Report says that the Green Book does not do a direct comparison to the gilt rate. The Green Book uses the social time preference rate. I think what the NAO is pointing to is that in some other countries, they redo the calculation as gilts go up and down the whole time. We have a more basic, more straightforward approach of using the same discount rate in the Green Book all the time. We can ask Simon, but the NAO is not saying that we are ignoring the extra cost of private finance when we are doing the calculation.

Q40 **Mr Betts:** That is not what was implied in the NAO Report.

Conrad Smewing: It is the case that we take into account the extra cost of private finance.

Simon Reason: We are talking about paragraph 3.24. We have lots of previous Reports where we have talked about the Green Book and the use of the social time preference rate as a discount rate versus the Government gilt rate. Government gilts are implicit in the social time preference rate, but it is not a direct comparison, unlike in other countries where they explicitly take into account the cost of Government borrowing.

Conrad Smewing: It is about the risk-free rate, rather than the cost of private finance. That is the point that I am making.

James Bowler: It is worth saying that, fundamentally, you can do this in the public sector. There are lots of reasons why you would do things in the public sector. There are lots of things that the private sector will not be very good at, such as national security or big uncertainty. That is why you have a public sector comparator that you compare it against. Ultimately, taking in the technical point about the costs of finance, you would need to be convinced that, by bringing in the private sector, they are managing a risk better than you could in the public sector and therefore overall either bringing the cost down or the benefits up. You would want to prove that to yourself.

Q41 **Mr Betts:** So it is transfer of risk vis-à-vis the higher cost of borrowing—those are the two key issues you are looking at?

Conrad Smewing: That is basically it. There are other things that need to be taken into account as well, which are harder to take into account in that kind of comparison. One of them is the flexibility—or not—that you might require from a contract in future. If the asset that you are procuring is one where the public service using it frequently gets reconfigured or needs changes, the inflexibility of a very long-term private contract can mean that is less worthwhile. But if you have something relatively clear, like you need renewable power stations in order to try to take power from them, that works much better.

Q42 **Mr Betts:** Yes. It is the cost of changing the contract midstream that really hits the public sector, isn't it?

Conrad Smewing: Yes, exactly.

James Bowler: That has been one of the big lessons—you want stability. Private finance works best with stability.

Q43 **Mr Betts:** And the longer the contract, presumably the more that comes into play?

James Bowler: It depends what you are delivering. If you are delivering a road, it is pretty timeless to a certain extent, but if you are delivering something that can change due to political decisions or if there is a lot of flexibility, it is difficult to write a contract for both sides. With more flexibility, people are probably going to ask for more risk cover.

Conrad Smewing: It also comes back to the question of which risks you want to transfer to the private sector and which ones you want to retain for the public sector. You want to transfer only the risks that they are in a better position to manage. Construction risk is the absolute classic example of that. If you look at the design of a contract for difference or one of the regulated asset base models for Sizewell, they transfer some elements of construction risk to the private sector so they have a better incentive, but they do not transfer long-term price risk, which is difficult for them to take.

James Bowler: Another example—I am genuinely trying to be helpful—is the recent delivery of the Thames tideway tunnel. The Government took on some of the extreme risks, which might have meant that the project would have otherwise not gone ahead in the private sector, or would have gone ahead in a way that would have ended up putting large costs on billpayers or whatever. With the Government taking over some of the more extreme risks, the project was able to go ahead, whereas it potentially would not have done otherwise.

Q44 **Mr Betts:** But if there is no risk transfer to somebody, it should not be done privately, should it?

Conrad Smewing: Certainly. The whole purpose of this is to transfer those risks properly and give the private sector the incentives to manage them, so if there is no risk transfer, it would not be worth doing. To expand on what James was saying about the Thames tideway tunnel, there are ranges of risk that the private sector can manage at a reasonable cost. You can also get into extreme levels of risk that they would have to charge a large amount to take and they are not actually well placed to manage. You can design structures that keep those risks in the public sector, and that is how Thames tideway was designed.

Q45 **Mr Betts:** Should the returns that the private sector will get for these projects be directly related to the risks that they are having to take on board?

Conrad Smewing: They should be, and the returns that they get should be determined in a competitive market. They are bidding against each other given their assessment of the risk in the contract and the difficulty of delivering it, so they are incentivised to give the best price for both finance and the contractor to deliver it.

Q46 **Mr Betts:** I am just thinking of the examples you are using. Going back to what happened under PFI, I will give you an example I have used in other contexts. If a school has been funded under PFI, what is the risk? The school is there. The local authority is going to give the money for certain elements, or the Government are. It is a guarantee, basically, to have money for that project. The only change might be that the number of children falls and you don’t need as many services, but you carry on getting paid for them, which has happened in a lot of schools. Is there not a difference there compared with building a leisure centre where you have to attract the customers through the door, so you are not guaranteed?

Should we really ever be building schools through PFI?

James Bowler: It is probably worth saying that PFI went on a very long journey, and there are no new PFI things after the ones already done from 2018. To start with, there were excessive returns in some areas, and so-called value leakage, which colleagues can define better than me. It started in 1992. It went through a number of guises to try to address that and, in particular, the so-called PF2 was much developed on that. Matthew, do you want to come in on how you do a school's project to transfer risk appropriately?

Matthew Vickerstaff: From what we are seeing on school projects, leaking roofs is a consistent, constant drumbeat. There is also fire stopping doors, acoustics, lighting levels, the ability of classrooms to be operable in a new whiteboard environment if they have been delivered historically, problems about—funnily enough—leisure centres or sports facilities, contamination of land that old schools were built on, and, if you are doing refurbishments of very old buildings, latent defects creating real problems. As you perhaps know, in construction, wall ties are a problem. Edinburgh schools had that problem; Lancashire has an issue. Those are risks that need to be managed. One could say, "Are they being properly managed by the private sector?" but they are still risks that need to be managed and controlled. It is not always as simple as saying, "These buildings look after themselves", because in reality, they do not.

Q47 **Mr Betts:** Have any of those problems occurred with PFI?

Matthew Vickerstaff: Oh yes, absolutely. That is my point. We are trying to—

James Bowler: I think his point is that they are going to happen regardless.

Matthew Vickerstaff: With leaking roofs, there is a dash to get the roof ready for September. I cannot tell you how many PFI schools have got that problem, and we need to get the private sector to fix that, and acoustics and LED replacement of lightbulbs. Some students are wearing sunglasses in classrooms because that has not been properly done. That is where we have got the private sector managing it. Some facilities are really good quality and are being managed really well. It is not one size fits all, I would suggest.

Q48 **Mr Betts:** You are almost making the point that perhaps we should not have gone down that route, because it is not actually working—but anyway, I think Jean-Christophe wanted to come in.

Matthew Vickerstaff: I think we are making sure that the private sector are fixing it, and they are showing signs of wanting to do exactly that.

Chair: Jean-Christophe?

Jean-Christophe Gray: Actually, I was about to say that Mr Ryan is trying to come in.

Q49 **Oliver Ryan:** Sorry, Chair, this is just very briefly. Mr Vickerstaff, following on from the point that Clive Betts just made, there are schools in Lancashire, as you say, with this wall plug problem, problems with roofs, problems with lighting, acoustics and stairs, and all sorts of issues. They blame their PFI for these problems. They do not blame the building they had before. I accept your point, but the point from a lot of these schools, and hospitals too, certainly from my neck of the woods, is that those problems arose through their PFI. Now, because of their PFI and the not quite litigious, but sort of onerous, nature of dealing with the contractor, they do not get solved in the fashion that they used to. There are some serious problems with this—I think you were making the point for Clive Betts, if I am honest.

Matthew Vickerstaff: Absolutely. In terms of the lessons learned, making sure that construction is monitored by a clerk of works and independently certified would be a really important factor in moving forward. Construction defects have been a problem, because the construction contracts, whether it be in public sector or private sector, have not been well monitored and controlled.

Q50 **Mr Betts:** Yes, but I was making the point of, why go to PFI or privately financed initiatives if they are more expensive in terms of raising the money? What benefits do you get? Well, you transfer the risk, but the risk here is a risk that is being created by the contractor themselves, by building shoddy buildings.

Matthew Vickerstaff: I would say that, compared with 20 or 25 years ago, the asset managements, the building information systems and computer-aided facilities management have vastly improved, so we are dealing with a generation of contracts that are certainly improved, whether it be public sector or private sector.

Mr Betts: Well, exactly.

Matthew Vickerstaff: I am ambivalent, but we need to make that we learn from the mistakes and definitely get them to fix the problems that we are experiencing in some situations.

Q51 **Mr Betts:** Jean-Christophe, I assume that this now helps local authorities-a hospital trust or whatever—at the very beginning, if they are involved in these contracts, to have that expertise to assess the risk and make sure that they are properly taken account of right at the beginning.

Jean-Christophe Gray: Yes, and the Chief Secretary to the Treasury has said that one of the things that NISTA will be responsible for is a new approach to approvals of projects right at the outset.

Q52 **Bobby Dean:** Conrad Smewing, you said earlier about the Green Book having to take account of some assumed risks to the public sector—I guess that might not necessarily be explicitly part of the contract with the firm. I guess it is potentially firm failures, or if some RAAC were discovered in a roof or something, the public sector would be expected to come in. Where you make such assumptions, does it not make more sense to have them up-front in the contract negotiations? Would that not drive down the cost to the taxpayer?

Conrad Smewing: What the Green Book methodology is trying to do is precisely to make a fair comparison between a contract in which we have transferred a bunch of risks to the private sector and, in theory at least—according to the contract—it is responsible for maintaining that asset in a manner that allows it to deliver the services it needs. In the case we are discussing, it has to be a school that is available, so that is their risk. If we build the school in the public sector, we still have to maintain the school and it might still have problems down the line. We have to make some allowance for that when comparing the two things. Those are the kind of risks that we are trying to build in, plus risks around overruns in construction and the whole range of other risks that there might be in in a project.

To come back to the point that Clive Betts was making a moment ago, for risks around revenue streams—for example, if running a leisure centre, a power station or something like that—the private sector can be quite well placed to manage those kinds of risks. It is the sort of thing the private sector does a lot of and, in those sorts of circumstances, we might have more of a case for using private finance. The Government are not doing PFI, having discontinued it in 2018, partly because of an assessment of whether it was value for money to transfer risk in the way that PFI was doing at the time, considering all those sorts of things and the lessons that we have learned so far.

Q53 **Chair:** I will bring you in, David Lunn, on two different points. First, surely what we ought to be doing—taking into account this dialogue we have just had—is to try to reduce risk. If you started going down the line that NHSE has been going down and producing standard designs for hospitals 2.0—presumably the same thing could be done for schools—not only do you get the optimum design, having discussed it with the medics, the teachers or whoever, but presumably you can build in best practice to stop all those roofs leaking, at least for a considerable period, or light bulbs going and so on, and make them easier to fix when they do go. What work is the Treasury doing to reduce risk in those contracts?

David Lunn: I should also let Matthew give a view here, because I am sure he has strong views. There are a number of examples of where that is happening. If you were to look at the prison programme at the moment, it is a very similar thing: standardised contract forms and standardised design. My understanding is that that is working very effectively, as it stands. That is a really good example of lessons learned from the earlier PFI programme. Even within the PFI family, if you like, PF2 in its later stages was moving in that direction.

That technology is not specific to PFI; it is something that we can use in any world. If we have a programme of projects going forward and we can standardise it, we should standardise it. You need to understand that there may be shortfalls around that as well, because it might mean that we end up giving everybody a cookie cutter and building that, when they may have good reasons for having a little more flexibility. You need to lay those trade-offs against one another, but in principle, I would agree. If you can run it as a programme, you should; and if you can standardise, you should.

Q54 **Chair:** I have a completely different point, which might be for David or for Matthew. Paragraph 4.17 on page 32 of the report says, "Around one-quarter of respondents from central government and local bodies (including the NHS) to a survey stated that contracts did not contain any information on how and in what condition assets should be returned. Poorly drafted clauses open to interpretation resulted in differing views between authorities and PFI providers." Is that not a lesson that we really have to learn? Whichever way you are going to finance this, the clauses in whatever agreement you have must be absolutely crystal clear so that it is fully understood at the outset who is taking on what risk, and what responsibility.

David Lunn: I absolutely agree. Part of the answer here depends on which stage of the programme you are looking at. The early contracts—those going back to the '90s and early 2000s—were much less clear in this area than some of the later contracts.

Matthew Vickerstaff: I absolutely agree. There was a standardisation of contracts that became known as SoPC4. There was also an SoPC4A—the final version—and that absolutely had handback provisions in the contract. There was an evolution. Our problem is that we are now dealing with the pre-standardisation contracts that were done in the late '90s—and which are maturing, 30 years later—which are very weak in that regard.

Q55 **Chair:** Going back to your three-year and five-year MOTs where the provisions are not clear, how are you advising a public sector body that is having to deal with this matter?

Matthew Vickerstaff: With our asset condition playbook we have worked with the private sector to say, "Whatever the contract says, we know you are responsible for maintaining this asset. If it's not well maintained, if you're not doing your pre-planned maintenance regime—your PPM—you are going to have availability problems. We would like a transparent approach to expiry such that you prepare, through a survey, to say, 'Well, actually, we are maintaining the assets.'" We therefore do not have adversarial situations, where we have to withhold payments, because we are comfortable that they are doing the work.

David Lunn: Matthew, I think that the argument would be that the transparency in the handbook around the end of life is actually in the interests of the private sector, as well as those of the public sector.

Matthew Vickerstaff: Yes, there are no surprises for both sides, which is the ideal situation to be in. They are co-operating with that process. Inevitably, when there is a complicated contract people will look at it, and the early versions are not as good as the later ones, for sure. That is perhaps where the interview results are coming from.

Q56 **Oliver Ryan:** I was reading some of the correspondence from previous reports of this Committee and found an interesting stat. Matthew, you sent the Committee a letter in 2021, probably under a different hat, which stated that 52% of projects that were ready for expiry at that point were rated amber or worse, in terms of their readiness to be handed over to the public sector. That probably speaks to the points that the Chair has raised.

This session is a little bit surreal for me, as somebody whose school was rebuilt under a PFI. One of you probably signed it off over the last 20 years. We will leave that for another day. We are on lessons learned; I do not want this to be a gripe session.

James Bowler: Look how well you've done. However, we are not here to cheerlead for the private finance initiative.

Q57 **Oliver Ryan:** Conrad, you mentioned lessons being learned from this. What measures are in place to prevent accounting classifications unduly influencing the reason for going into PFI and PPP contracts in the future?

Conrad Smewing: I have a few things to say on this. First, the guidance on how to choose is crystal clear that accounting treatment is not a reason to choose to pursue private finance. You can see that that guidance is being followed because a number of the recent uses of private finance in the public sector are on-balance sheet. As James mentioned a moment ago, we are expecting Sizewell C and a series of the CCUS projects to be on-balance sheet.

Secondly, the on-balance sheet and off-balance sheet need to be assessed with respect to an independent set of standards. Unfortunately—and confusingly—in the public sector, there are a number of standards. But for the whole of Government accounts, and for departmental accounts and budgets, we use the international financial reporting standards, which put most of those things on the balance sheet anyway.

Q58 **Oliver Ryan:** This brings me to my second question. I know you are in the middle of answering and I do not want to jump the gun, but perhaps, Mr Bowler, you may want to comment as well. From what I understand, the NAO Report makes it clear that the national accounts do not include the sort of exposure, if you like, to those off/on-balance sheet arrangements. But we do use, as you say, the international financial reporting standards for standard accountancy practices. Why is that, because it does not feel very transparent?

Conrad Smewing: The national accounts have to be drawn up using internationally comparable standards, and what they use is the European system of accounts 2010. When you are producing national accounts, you need to be able to say, "This is the UK level of debt; this is the French level of debt; this is the German level of debt," all using a comparable measure. That is why they are following ESA10. It is obviously the independent ONS that produces those accounts—we do not produce them.

In that circumstance, what is important is to be completely transparent about what is going on, which is why we have IFS reporting in WGA and departmental accounts. We have a reconciliation between that and national accounts, and the extra transparency around the future unitary charge payments under those old PFI contracts that Matthew was referring to a while ago. So it is about following the international standards but being as transparent as possible, and basing your decision making on value for money, not accounting.

Q59 **Oliver Ryan:** On the value for money element, I suppose this is the billion pound question, literally. Mr Bowler, you said at the start that the classification is not the aim; it is the value for money, which is good, because that is what this Committee is interested in. The NAO mentioned that there is an obvious problem with shifting the immediate costs of building some of those things to the long-term costs of upkeep—this phrase around a "fiscal illusion"—and that the eventual costs of dealing with those assets, when they are handed back to the public sector, are not necessarily accounted for. I do not want to get into a big political conversation about the Green Book, but do you feel that the systems that are currently set up are adequate for judging long-term value for money—specifically in relation to new public-private finance partnerships? Looking at it from the outside, it feels to me that some of those much longer-term assessments we are making now—around upkeep, the cost of handback or whatever—do not feel like value for money for the public.

James Bowler: It is probably worth saying—because I do not know whether it has come across—that the NAO report, which is excellent, looks primarily at the private finance initiative as it was done, and that changed over the while. The way of doing that ceased in 2018, so obviously the first thing you would do is not do things as you did before and learn the lessons. By not doing things the way we did things before, that has been there.

I would say that people tend to look at the shorter-term set of numbers in the coming years, rather than the longer term. Transparency, I think, is the answer to that. To try to be clear, we publish all the PPP liabilities in the whole of Government accounts, which this Committee is a huge supporter of. We publish all annual unitary charges and equity returns for PF2. We are also committing—this is a major change—to publishing business cases for major projects.

We can tell you we have followed the Green Book and all those things, but other people can do that. The light of transparency is the answer, I think. You can see from all the lessons learned here that we are setting up processes to make it very clear that we are not just chasing a classification style decision. It is the case that accounts are measured in different ways for different things, and that is slightly beyond our control.

I come back to where we started: the case for saying yes or no to a project is about value for money, the best way of doing it and the outcomes you are trying to deliver. We are not doing PFI as we used to do it. We are still using private finance, and it is often on-balance sheet, very explicitly and often in a regulatory asset base model, as in Sizewell C, for example. We are saying that we actively think that the construction costs will be lower by bringing in that sharp overview of what we are doing, and that things would not have gone ahead—the Thames tideway tunnel—at a cost that would be manageable unless we took on some of those extreme risks.

You are also seeing that we are trying to crowd in private finance. We have these expert bodies, like the National Wealth Fund, which are taking equity and loans, not just giving Government grants, so that if a project is a success, the Government will share in that success. But it is making investments that would not go ahead in an acceptable way without them. Things have moved on quite a lot from the PFI of the ’90s, and perhaps we have not made that clear enough. I hope that that helps.

Q60 **Oliver Ryan:** That is helpful. Bringing it up to the current day, the NAO Report states that “out of the government’s 108 most complex and strategically significant projects in its Government Major Projects Portfolio, only nine…were evaluated robustly, while 77…had no evaluation arrangements.” I put it to you that at some stage a political decision has been made: “We recognise these things probably don’t represent the best long-term value for money, but they deliver projects now and allow spades to be put in the ground today.” It is that sort of political short termism, but it leads to a lack of value for money in the longer term. That is why we are here, 20 years later. Does that sound accurate to you?

James Bowler: The evaluation point—the 8% of 100-plus things—is deeply unacceptable. Our predecessors and ourselves have been sitting in front of you for 20-plus years on this issue, and there have been 100-plus reports. I think this is in the Report, but at the initiation of private finance, people were talking about it being self-monitoring. That clearly has not proved to be the case. Contract management is required—hence what we have had to set up.

I will bring in Mr Smewing, if I may, on the evaluation front, but we have had on a long programme to get that in a significantly better place. Conrad can correct me, but 60% of major projects now have high-quality evaluation in place, and we want to go a lot further and have an action plan to deliver that. I do not know whether I have left you any meat on the bone there, Conrad.

Conrad Smewing: That 8% figure came from some internal work that we did on the GMPP some years ago—2021, or maybe a bit earlier, in 2019—as part of work that we are doing to improve and increase the amount of evaluation across Government. We saw the GMPP part of it as a serious lacuna, so we have had a several-year project, working first with the IPA, and now with NISTA, to ensure that the number of robust evaluation plans in these projects goes up and has increased.

Also, the 63% number that James quoted is 63% of a much larger GMPP—the size of the GMPP has increased over that time. I am pleased that we have got that far, but I still do not think that that is enough. Is it right that 40% of these projects do not have an evaluation plan? No, I do not think it is. There is still more to do, and the evaluation taskforce has an action plan to keep pushing that number up. We agree that that was too low, and have been doing our level best to get it up.

Oliver Ryan: Thank you for that answer on the macro level, but on the micro level, and on value for money, if in 2025 I speak to a local authority that manages schools, to the health trust, or to anybody who has had some kind of PFI or PPP arrangement over the last 20 or 30 years, they all tell me that they do not have the revenue to deal with their contract. Is that taken into account when you are looking at these assessments and evaluations at a later stage?

Conrad Smewing: There is certainly an issue—one difference between these old PFI contracts and things publicly procured at the time is that the implicit interest costs of assets that were built using public finance do not fall on the budgets of the schools or hospital trusts concerned, whereas these PFI unitary charge payments do. Obviously, those trusts and schools have had to find the money to pay those unitary charges from the beginning of the contract when it was available, so it is not a new thing, but these things are creating less flexibility in the budgets of the public authorities concerned.

You do not escape that lack of flexibility; it is just held in a different part of the public finances if you are doing the public financing. We have to pay debt interest on all of the gilts sold for the ordinary capital. The inflexibility is there whichever way you are doing capital finance, and you have to find a way of managing it. But it is certainly an issue that we take into account when we are setting revenue budgets in spending reviews going forward.

Q61 **Oliver Ryan:** When you—or your predecessors—were sat in front of this Committee in 2018, talking about a similar sort of review of PFI, a debate was had about benefits data, whether it was collected, and whether it was adequate. For new PFI—or PPP, or whatever you want to call it—of that class, are you now intending to collect that benefits data as you go, instead of trying to capture it later?

To jimmy in another question, because this is my last one, do you feel like the value-for-money judgments that are being made over the longer term—a 20, 30 or 40-year period—are robust enough to assure us and the taxpayers that these are value for money for the longer term?

James Bowler: There are a few things there. First, I think that the models that we now have in place on using private finance learned the very hard lessons of those 25 years as much as possible—although I am sure that, unfortunately, there will be exceptions—so we are in a better place, and have a better understanding, to do that. And these are run by much more highly skilled people, who have learned those lessons.

Secondly, I think you are right—and the Report points to this—that you asked the IPA, as was, I think in 2020, to deliver the data on the benefits, and they had a go on it. NISTA colleagues might have to speak for themselves, but I think they found that the data just was not available for what the private sector had done and what the public comparator would have been; they tried and did not get there. The outcome, then, is that we absolutely do make sure that that is available going forward.

Then, just because it is your last question—and we are giving you detailed answers—it is notable and worth saying that, obviously, in 2018, with all of the issues around private finance, the decision was taken not to carry on doing it as it had been done. I guess, you know, if we had not said that—that covers some of the bases.

Matthew, do you want to say anything more about the data? I don't know whether I have answered your question, Mr Ryan.

Matthew Vickerstaff: Certainly, we absolutely agree with you on "if anything were to be done moving forward". What we now have is a huge amount of lessons learned. I referred to the data focus with our programme; we are building up more and more data around performance, and it is about ensuring that we can learn the lessons for in-flight delivery, future expiries, or for application to other sectors. We have talked about the energy transition—renewables, and so on—and they are related.

Oliver Ryan: Great; I really hope so. I won't get on to a soapbox about the Green Book now, but we will do it another day. Thank you.

Q62 **Chair:** On Oliver's theme of getting best value for money, Permanent Secretary, the Committee was shocked when we had a hearing on carbon capture and storage, to which the Government have committed a staggering £22 billion over 25 years, because when we asked the Department whether they had thought about how they might get a return from any of that money, they hadn't even thought about it. If you were a venture capital fund putting money into a project that had an uncertain outcome, an uncertain timetable and an uncertain cost, which is what this is, you would certainly want to be building clauses into the contracts to say that if it worked, the taxpayer would get some of that money. If you were a venture capital fund and put seedcorn money in, you would expect to have either a quite considerable equity stake in that project or some profit-sharing agreement for when it did come into success. And when profits start flowing to the private sector, why shouldn't they flow to the public sector as well?

James Bowler: I did see that and I saw the Committee's response. The thing I would say, which probably does not wholly answer your question, Chair, is that the very nature of the regulatory asset base model that they are pursuing there means that the regulator—in this case, Ofgem—will regulate the return that the private sector is getting. I think that might go some way to saying that the return can't just be exponential and entirely one way. If the project does really well, the benefit will be in, essentially, lower prices for the consumer. I don't know whether my colleagues said that to you in the Committee, but that would be my understanding of the regulatory asset model, and that is why that model has more checks and balances in it than if you just wrote a contract and said, "You get the upside"—unspecified. Do you want to come in on this, Conrad?

Conrad Smewing: That is also my understanding of the CCUS design, although I am not an expert on it. I would say more broadly that one impact of the move to public sector net financial liabilities—rather than public sector net debt—for the fiscal rule is allowing for an expanded role for things like the National Wealth Fund, investing alongside private investors. That is something that previously would have been difficult under the old framework, which did not make a good distinction between the sort of venture capital, equity investment or lending that you are talking about and just granting the money. So the incentives are there to do it if it works well in the project. I don't know enough about the detail of the project or whether, given the regulatory asset base model, it would make sense in CCUS, but in other areas you could certainly do something like that. I know the National Wealth Fund do invest alongside private investors in a number of these emerging technology sectors.

Q63 **Chair:** That is a very helpful answer, but what we are asking for, Permanent Secretary, is that when these big projects are designed and particularly when there is an uncertain outcome and uncertain technology, the Treasury will look at how the taxpayer might get a return if the project goes better than expected and produces profits.

James Bowler: That is very much the case and, indeed, we will expect both—one of NISTA's new roles will be to examine big, major projects before they even come to the Treasury for sign-off. This Committee has repeatedly pointed out—to build on Mr Smewing's point, are we giving grants when we could be taking equity or doing loans? The move in the fiscal rule and the existence of things like the National Wealth Fund are to try to do just that and to recognise there was no incentive under public sector net debt, where a grant counted the same as a loan, counted the same as an equity share. Now, the financial asset you create is on there as well as the liability, so there is an incentive in the thing. So we are trying to get a system that works better. On major projects, it is absolutely the case that we need to look at so-called gain share as well. There are projects referenced in the report that have done that—Hinkley Point C and the dispatchable power agreement in Teesside—but we should absolutely be looking at that because it is an uncertain world, so you need to prepare for eventualities including upside.

Chair: That is very helpful, Permanent Secretary, thank you.

Matthew Vickerstaff: We did talk in detail with the Department for Energy Security and Net Zero throughout the 18-month construction of both the transportation and storage companies and the dispatchable power agreement regarding super profits and refinancing benefits, which the NAO has previously considered. We have a checklist of those things. We came to a balanced solution. I would that your £22 billion investment is slightly different. That is actually the revenue stream—both from consumers and taxpayers—which is different from the £9 billion that is going into the Teesside projects and the £4.5 billion going into HyNet. You are not comparing apples and apples there; you are comparing apples and pears. I am happy to go through that in more detail.

Q64 **Chair:** I am not going to argue with an expert, but that was my understanding of the situation.

Matthew Vickerstaff: I do not want to give you the wrong impression—absolutely we went through striking the right balance between upside returns and getting the best outturn for consumers and taxpayers.

Q65 **Bobby Dean:** Looking to the future and adopting commercial strategies, we saw a lot of evidence in the report about lengthy and fragmented procurement processes putting off, or driving up the cost of, some of the contracts in the past. I want to know a little about the lessons learned from that. David Lunn, could you explain the lessons learned on that front and how we can ensure that when we go to the market procurement is efficient and competitive?

David Lunn: Part of the answer comes back to the standardised contracts in the earlier set of questions. The more that you can have a programme of projects which follow a similar path and have a similar contractual form, that should help smooth, ease and quicken the procurement process. That is part of the answer. You cannot do that in every circumstance. Particularly as you get to the bigger projects they become more bespoke and unique and there is more complexity that you need to work through—well you can work through, but you absolutely should.

It is not always procurement, there are other things going on which can drag these things out. In particular, planning is often an issue on these bigger projects. Some of the planning reforms that are going through will hopefully help there in a way that will also allow you to move more quickly through the procurement structures as well. It is not just procurement narrowly; it is the wider environment of the project that you need to work within. There is something to be done around engagement with bidders or potential investors at as early a stage as possible, so that you do not fully cook the scheme before you go out to the market, but instead talk to them early and take advantage of the lessons learned through those conversations, so that when you do go, it is more likely to move through the process quickly.

Do others want to add something on that question?

Matthew Vickerstaff: Your question is excellent. Bidder fatigue is an issue, especially when people do not feel that a process, and the work that they are doing, is moving at pace—ultimately, time is money. On David's point about front-ending the risk allocation and identifying the risks—we have talked about those that are high-impact and low-probability and are very difficult to predict and price—to see whether you can take those and put them to one side, work on the design and work with bidders to move at pace. There was some success in the PF2 programme: the Department for Education had a centralised team which worked with local authorities but actually had a model form contract. It worked at pace and got done within 18 months. With bid processes of two years and beyond you just end up with bidder fatigue and everybody loses interest and focus.

Q66 **Bobby Dean:** Going back to a point I made earlier about pipelining, you may be prepared to do that procedurally, but if you have not got a Government that has certainty about which projects it has committed to and when—we heard earlier from the investors about needing a long, thin pipeline that has got certainty in it—is that something that we need to hear via Government directive this summer: that this is the pipeline and here is the certainty to deliver that scheme security?

David Lunn: I would absolutely agree with that. It is not just about the format or the website; the more important thing is the information that is in the pipeline and the flow of projects coming through. And the aim and the ambition is definitely for that pipeline to be there—these are things that are going to happen, and we have got certainty on this. And if we haven't got certainty, we must be clear about where we haven't got it and about when we expect to get it. Then you might want words around it, saying that these are the things that we are thinking about and these are other projects that we have in development, but they are not yet at the stage where they are sufficiently committed that they could make their way into the pipeline and we don't yet have the full range of detail.

That is why, as Jean-Christophe said earlier, the projects in the pipeline will develop over time—every six months, at least initially, will be the expectation of when they are updated—and the pipeline itself, and the types of information that you would look to include in there, will also need to develop. We will talk to investors and to market, in order to get feedback on what information they would find helpful, and then look to develop the tool itself over time as well. So, this summer will be the start of a process, rather than the final endgame.

Q67 **Bobby Dean:** At the start of this process, it seems to me that it is just as important that they are clear on what is out and when it might come in, rather than just saying, "This is what is in at this time."

David Lunn: Yes. It has to be a conversation, doesn't it?

Q68 **Bobby Dean:** Moving on to the monitoring of the projects, we have discussed how self-monitoring basically did not work as far as we are concerned, so we will need to have much more active public sector monitoring of the contracts going forward. How ready do we feel for that? Do we have the skills in place already, or is that something that we still have capacity gaps on? I do not know if that is a question for you, Matthew Vickerstaff. Are we shovel-ready to get going with the long thin pipeline of projects that investors are waiting on?

Matthew Vickerstaff: We have been doing more than research in this area. We are actually implementing and building up—there is a tendency to use AI technologies, downloading contracts and then using machine learning to review them, especially on performance.

There are now bits of software and skills and capability that allow you, from a contract management point of view, to vastly improve your knowledge of your contracts and how you monitor them and also, as I mentioned earlier, to build information systems and the technology from a self-diagnosis perspective. How the building is working from an asset management point of view can spew out performance and payment data that you need to have.

So, there is actually a huge amount that we have been thinking about. And if that could have been specified up-front in some of these PFI contracts, albeit 25 or 30 years ago—there has been somewhat of a paradigm shift around contract management, the expertise and the technology that could be deployed.

Jean-Christophe Gray: May I just add two other elements about the skills which you were asking about? They are both the skills within Government and the skills in the sectors that need to build and supply the services. In a sense, NISTA has an important role in both of those areas. It will involve some change, but one of the things that it needs to continue doing is to be the home, as the IPA was, for the Government's project function and professionalism. There are 26,000 project professionals in Government and the project function dates back to about 10 years ago, and there is still some way to go to improve skills across Government. That is going to be an extremely important role for NISTA to continue.

Then, there is another question: do the sectors—construction, etc.—have the appropriate skills and workforces? NISTA, in collaboration with the Department for Business and the Department for Education, has a role in supplying the information. Again, it comes back to the pipeline and the 10-year strategy that organisations such as Skills England will use to try and identify what the long-term skills needs for the UK are over 10, 15 or 20 years, in order to ensure that that infrastructure projects and the like can be delivered.

Those are two other skills-related elements that I thought I would mention. I dare say the Committee will come back to how NISTA is doing on those in the years to come.

David Lunn: The construction industry and suppliers will tell you that the pipeline is one of the things that they look to as they think about their scores and look at their internal apprenticeship programmes, so it has multiple uses.

Q69 **Bobby Dean:** I guess one of the reasons behind my question is not just the availability of skills, full stop, but who holds them and who drives the accountability process for the project. We have heard in the past that certain contracting authorities do not have anybody whose full-time duty is to monitor the contract, so they rely on their relationship with the contractor. Those people in turn might have various subcontracting arrangements, so there are not enough people on the public sector side whose sole focus is to drive forward the delivery of the contract. Do you feel that we have learned the lesson that the public sector should have more of a direct grip over project delivery, rather than relying on external consultants or subcontractors? Do you think that is an issue?

Matthew Vickerstaff: There is a shortage of skills in the public sector, but also in the private sector. These projects are managed in a fragmented way, certainly in the PFI world. You have a special purpose vehicle that contracts out and subcontracts to facilities management companies, and also uses a management support arrangement, which means that it is very fragmented. Absolutely, having more skills and capability, and not having subcontracting arrangements where there are interface issues—I hate to do finger-pointing, but that is your fault, not ours—is a very good way to think about the way forward.

Q70 **Bobby Dean:** When you talk about the availability of skills, is it simply that we don’t have enough trained, or is it that they are working elsewhere—in other European countries, for instance, driving forward their projects instead? Does the UK have the skillset available? Could we attract them back into UK projects? Do they exist?

Matthew Vickerstaff: I am confident that they could be attracted. Again, if the pipeline is there, people will say, “Okay, I need a bid team and a contract management team. I need to assemble a team to actually bid on that pipeline.” For sure, there are projects happening in Europe and internationally that have attracted some of the talent away. Saudi is a big problem at the moment, but perhaps that will suppress a bit as they have their financial problems with the oil price. If you are on LinkedIn at the moment, you will see that infrastructure specialists are in high demand globally.

Q71 **Chair:** Can I just follow up on those questions? Matthew and Jean-Christophe, you said that you would be involved in managing the end state of existing contracts. Will you be involved at the beginning state, particularly the big and novel ones?

Matthew Vickerstaff: Absolutely. Front-end loading of contracts is what NISTA will be all about. You have to get involved at the front end. The CST is absolutely keen that he gets early sight of the approval process for big projects—the most complicated ones in Government.

Jean-Christophe Gray: To build on that, we are currently working with the Government Commercial Function and the Office for Value for Money, which will make some recommendations to Government about mega-projects and the best way of ensuring success in those. We will draw on both those areas of expertise as we develop a new approvals process at the front end.

Q72 **Mr Betts:** I want to go on from those comments and look at winding up—ending—PFI contracts that have been in place for quite some time. Is one of the real problems the fact that they were set up with very little contract compliance oversight from the customer? Is a real difficulty when it comes to ending the contracts that the customer doesn’t really know what they have because they have not been looking at it in detail for a long time?

Jean-Christophe Gray: That is absolutely the case in some cases, for sure. It actually speaks directly to what Matthew was saying earlier about the exit health checks at seven, five and three years. Central to that is trying to help the contracting authorities better understand and plan for, for example, the asset condition that will be returned to them.

Matthew Vickerstaff: There are a number of modules to that. Given your question, you might be interested to hear that the first module is understanding your contract. The first question we ask is: have you got it? Have you actually got your contract? It might sound odd, but these projects sometimes were done 10 to 15 years ago. There might be a bible from a law firm, but it might not have been updated to take into account variations that have occurred over that period.

We then ask, "Have you read it?" The contract management software we talked about is a really useful tool. We then ask, "Have you got your financial model?" Again, that is seven years out. There is an information-gathering exercise that is absolutely critical. Then we will go on to governance relationships, commercial strategy and also future services. "What are your plans?" I hate to say it, but you are right. They will not always have everything that they need, which is why we need to go so early.

Q73 **Mr Betts:** Right, so what can you do to help local authorities, health trusts and others? One of the problems in my experience with PFI contracts is that the local authority denuded itself of the expertise and capabilities to look at these issues and understand them, so they are going to need help.

Matthew Vickerstaff: We have training programmes online, in person, assisted. We have helpdesks afterwards: are there any questions? We run network sessions. We get the same people together in the room and they talk about what they are doing to manage their contracts and the issues that they find. Also, we work extremely closely with Departments to make sure that the support they are giving to local authorities and NHS trusts is targeted, enabling and helpful. There is a lot more guidance that we have learned since 2018. Guidance is all very well, but toolkits and helpful ways of assessing what you have and then taking action is a lot better than, say, a 40-page document that sets out what your guidance should be. It really should be toolkits to help actual contract practitioners.

Jean-Christophe Gray: Is it worth giving an example, perhaps, of the very practical impact where we have had some challenges like that? If I may, I will pick an example that has been very controversial—understandably so—and very problematic. It has had quite a lot of media attention around schools in the Stoke area and the like. I am slightly stealing your thunder. Matthew has been directly involved in that. One of the consequences of that so far—there is a way to go—is that in working with the private sector provider, the provider has had to set aside or has agreed to set aside multimillion pounds—

Matthew Vickerstaff: £30 million.

Jean-Christophe Gray: A £30 million asset condition improvement fund. That is as a direct result, largely driven by the contracting authority, but with involvement from IPA, as was, as part of that. I do not know whether you want to add anything to that.

Matthew Vickerstaff: Exactly that—it started about two and a half years ago going to Stoke town hall, sitting down with the CEO and just flagging that there were real problems here and that a strategy needed to be put in place to manage the contract out. To be fair to him, he made himself the senior responsible owner for that contract and really rolled up his sleeves and got involved.

Q74 **Mr Betts:** And you can do that with any sort of contract.

Matthew Vickerstaff: I can talk to you about satellites, which are expiring with the MoD, and heavy equipment, transporters, field equipment, power supplies, which are taken around, as well as police stations, courts, street lighting and water and waste projects. I am very happy to discuss all the work that we do across all those sectors.

Q75 **Mr Betts:** Local authorities are obviously very hard up for cash. Are you charging for your work?

Matthew Vickerstaff: We have a special arrangement with MHCLG. That Department has provided that contract support for local authorities, and that will continue this year as well.

Q76 **Mr Betts:** So individual authorities are not paying for it.

Matthew Vickerstaff: We are not in the business of resource substitution, so generally we are providing support, but sometimes local authorities are willing to pay for it as well.

Q77 **Mr Betts:** That seems a rather vague answer.

Matthew Vickerstaff: Well, it is purposefully so, because we do not want to create the moral hazard of everybody queuing up. We have to go through an appraisal process to say, "Can we provide the support, do we think the support is really impactful, and do we think the local authority is doing everything they should do to warrant the support?" What we have not done, because we think it is problematic, is said, "Here is a budget. Everybody put together business cases," and so on. We know well enough the projects, the investors and FM companies, and the situations where we can lean in and provide that real support. The associate pool I mentioned—the 60 associates—really is how we provide the support directly to the local authorities. We are not giving them money; we are actually giving them resource support.

Q78 **Chair:** Matthew, regarding Stoke-on-Trent, we have a long brief on this. Are you reasonably confident that schools will get a satisfactory outcome at the end of the day?

Matthew Vickerstaff: We are confident. There is a certain amount of academy trusts—88 schools. As I referred to earlier, some of them should never have been in the programme, because they were old Victorian schools that had big latent defects, which were taken on by the local authority. That is where the interface problematic issues have been. There is a £3.5 million payment that the local authority is looking to make to address some issues that are, shall we say, quite contentious and potentially could result in legal action, but the £30 million has been provided by Innisfree, the investor in the underlying project company. We are actually almost at the end of that process. To be fair to the investor, they have agreed to go beyond the final date of the contract to finish off some of the works. They have been co-operative. As I say, there are lots of parties involved, which is why there is some quite noisy press around that project.

Chair: That is really helpful. Thank you very much.

Q79 **Michael Payne:** On the well-rehearsed point about the potential failure of the private sector to deliver public infrastructure projects, we all remember the incident with Carillion. In particular, the NAO Report in 2020 highlighted that the Treasury, the Cabinet Office, the Department of Health and Social Care and NHS Improvement all had to step in with public funds to complete two hospital projects that Carillion had started but could not complete, after it went into liquidation. The current NAO Report draws attention to ISG Ltd, a key Government construction supplier, which went into administration in September 2024.

I have two questions. One is to you, Permanent Secretary, and then I have a follow-up question for Mr Smewing. The question to you, Permanent Secretary, is: how do you support Government Departments to prepare for and manage potential supplier failure? The question to Mr Smewing is: what contingency plans are in place to address supplier failures, particularly for critical services, in order to avoid over-reliance on Government support?

James Bowler: That is a perfectly reasonable question. At the start of this session, I listed being ready for failure as one of the lessons learned. Certainly, there were a lot of lessons learned out of Carillion that the NAO and Government pointed to.

To answer your question directly, I think some of the lessons involve so-called living wills. That would be that this company provided a whole set of services that risked stopping and therefore leaving everything, if memory serves, from school dinners to prisons providers and all sorts. There is a whole lesson in living wills to have in your contract, from the outset, what will happen to ensure that those services will continue. There is a second lesson, which you talked about more generally, which is that Departments need contingency plans for all these things. We have published four playbooks by sector, 12 guidance notes and a sourcing playbook, which includes some of the resolution plans on this.

You also talked about the projects they were building—in the construction phase. There is absolutely the need for termination provisions that are clear and reflect the reality that lenders are unlikely to step in halfway through these construction projects. That was another lesson learned out of Carillion, as was the need to monitor and have indicators of distress. All those things might be relevant to how to structure a project overall, and to whether you give one provider so much provision.

Before I hand over to Mr Smewing, I would say that, by the time that ISG happened—I think it was three years later—the lessons we learned from Carillion had been implemented, and that mitigated quite a lot of what would have been significant impact from recent supplier behaviour. I would add that I know that this Committee is interested in ensuring that companies pay their subcontractors promptly, and we have also looked at that. It was another issue that came out of Carillion, because its supply base was unpaid. I am happy to come back to more failures, but perhaps you want to add something, Mr Smewing.

Conrad Smewing: I don't know that there is more that I can add to that answer. Post Carillion, the guidance and sourcing playbook that James was referring to requires people to think much more carefully about exactly those contingency plans—call it living wills or call it whatever you like—and both the monitoring of the financial health of your counterparties and what you do if they get into financial distress, including much more rigour around planning ahead. I think the reference to ISG Ltd in the NAO Report is an indication that that has worked. I do not think that ISG was quite on the same scale as Carillion, but I would much rather have that indication that it was working than one that it was not working.

Q80 **Michael Payne:** Drawing from the point on ISG, I have a question that is perhaps for Mr Vickerstaff, but you may also want to add something, Permanent Secretary. Getting ahead of the risk, what mechanisms are in place to ensure that the Government avoid contracting with companies that are at risk of administration? As a follow-up—I think you have touched on this a bit, Mr Vickerstaff—how are you sharing knowledge of supplier and project performance across Departments and other public authorities to learn from that?

Matthew Vickerstaff: On ISG, having been through Carillion, the Government Commercial Function really had a very smooth management plan; the markets and supplies team did a superb job. You can take this in two ways. The other interesting thing about ISG is that the problems were with its private sector clients; those caused the problems with its financial position. The public sector contracts were seen as profitable. You might say, "Is that actually bad?" There was a way for contractors to step in, but they were being paid a reasonable return, and we want to make sure that that is the case, so actually we are getting something right about contract management there—about setting and calibrating the profitability right, as well as about our fall-back plans.

On the Government Commercial Function, we work with Crown reps when we have problems—I refer to some of the construction issues with contractors. We work with the Crown rep, but absolutely we work across Departments, especially DfE and DHSC, to manage the relationships both with the contracting community and with the FM community. This is a whole-of-Government thing. We should be taking a strategic approach to managing all these contracts and making sure that the problems across Whitehall can be addressed from a Whitehall perspective.

James Bowler: It is absolutely the case that we do far more enhanced supplier monitoring, with indicators of distress, and improved contract writing, which would include the health of the bidder in the first place. Any indicators of distress are also monitored through the life of a contract, trying to get well ahead of an administration or bankruptcy.

Q81 **Michael Payne:** Are you confident, Permanent Secretary—on Mr Vickerstaff's point—that the knowledge and monitoring is being shared broadly across the whole of Government, accepting that this responsibility does not fall just on HMT?

James Bowler: Yes. Well, I am not confident that no company will ever go bust again. I am confident, however, as Mr Vickerstaff said, that the commercial function that took that through—which is centred not in the Treasury but in the Cabinet Office—went through that, learned those lessons and is applying them. A commercial director in every single Department reports into the commercial function, so they have the ability to spread information very quickly around Whitehall. The Carillion experience was a very deep and sobering one for Government as a whole, and so the lessons are really well learned. We remain on our guard, and the commercial function, which is a specialist and professional function, is looking at that. They engage much more—they engage already, but they are engaging very regularly with all Government suppliers. That is proving to be a better way of going about things.

Q82 **Chair:** In Matthew Vickerstaff's answer, all the actors are involved, but the one you did not mention was the regulator. I am wondering whether we should have a change of attitude among regulators, in that they should pay more attention to the strength of balance sheets in, particularly for utilities, so-called monopoly positions. After all, when we get a Bulb, it always ends up costing the consumer more than if we had managed to prevent it from going into insolvency in the first place.

James Bowler: That is a very topical point on regulators—have they regulated too much for price in the past and not enough for investment, assets and sustainability? Jon Cunliffe is doing a review of the water regulatory system, and a review is under way on Ofgem. I gave evidence to you with colleagues from DESNZ about Bulb and about having to go down the SAR model because, for the operator of last resort, it was too large and had too many customers. There are lessons to learn there. As it was, as you might recall, there was quite a risk with Bulb, partly because of the wholesale price that we bought into. The Government, I think, made a £1.5 billion return on that investment, so it is not always the case that these interventions lose money for the taxpayer.

Q83 **Chair:** Thank you. May I ask a couple of questions at the end, if we have got to the end? Yes, we have. I am going to ask anyone who wants to answer it the same question that I asked the previous panel—about the evidence we got from Affinitext UK. It is this whole business of getting people to bid—whatever model of private-public finance we go for, we have to get people to bid for it. In the past, it has taken too long, it has been too complex and it has been too costly for people to bid, and they have not bothered to bid for it.

Affinitext UK came up with a few suggestions, and I would be grateful for your observations, because this is exactly the same question I asked the previous panel: "Mandate digitised contract repositories and shared data access for all new and legacy PPPs"; "Standardise contract metadata"; "Leverage AI-powered analytics for live contract"; "Embed structured collaboration and agile variation processes"; and "Build capability across the public sector." Do you think there are things there that we could do better to encourage more people to want to bid to keep the cost of contracting down and by hopefully having greater competition?

James Bowler: My answer will be pretty high level, and colleagues might want to pick up on that. Certainty and confidence build a strong competitive bidding process. Investors will have certainty that the UK is going to go along with a consistent and unchanging set of long-term policies, which I think the 10-year infrastructure investment strategy is all about. I am answering above those points, really. That is probably the key driver. That is the thing that is going to get international people saying, "Okay, the UK is very serious about this: it has a 10-year plan; I can see what is in it; it has the pipeline; it has the funding; it has allocated five-year budgets. I can see what is happening." There has been quite a lot of chopping and changing in the past. They did not say that to you, but that would be my prerequisite.

Chair: That is very helpful.

James Bowler: Many of the things you mentioned are categorically what we intend to do.

Matthew Vickerstaff: I would just say that other suppliers apart from Affinitext are available. We are talking to them, especially about that.

Chair: There was no special pleading on behalf of Affinitext—it is just that they happened to give us that evidence.

Matthew Vickerstaff: I know, but more seriously, life has moved on. In terms of some of the things that we have explored and where we have deployed digital contract management, sometimes it can come with an offer of consulting services. You need to define what you want and how you are going to utilise it, and also link it to asset management. As I have said, in terms of building information services and the way of diagnosing performance, you can link it to the contract. That is an advance in technology that is really powerful. What you have just set out is exactly what I was referring to earlier. It is more machine learning, but I am sure that AI is also worth thinking about, and we already are.

Q84 **Chair:** So it needs to have modern computer systems—none of these legacy systems that cannot cope with the latest AI.

Matthew Vickerstaff: On our analysis of the Government's major project portfolio, we are already using our Scout tool, which is an AI tool that is helping us to go through assurance. There is a huge amount of data and information to work through when you carry out an assurance review. Our

Scout tool does exactly that, reducing the amount of time that is required to undertake the assurance and making sure that you are covering all the information that is provided around the project.

Chair: I am delighted to hear that you are on it, Matthew.

Matthew Vickerstaff: My colleagues in the data area would be interested to share that with you, because they do great work.

Q85 **Chair:** Many an offer has been taken up in the past. Permanent Secretary, I have one more question, and then Luke Charters has a final question. Paragraph 3.4 on page 22 says: "The Autumn Budget 2024 introduced the Financial Transaction Control Framework, with the objective of using the principles of the framework to drive value for money by addressing market failures;"—which we have been talking about—"securing risk-adjusted returns on investment and economic capital; minimising market distortion; demonstrating additionality; and evaluating the value for money of alternative options." It says that it is too early to assess whether the Government's objective will be met, but you were an integral part of that Budget. Do you want to say anything about your design of it and how it is working?

James Bowler: Yes, absolutely. We have already talked about the change to the fiscal rules and the investment rule with net financial debt—so-called PSNFL. Unlike public sector net debt, that recognises financial assets as well as financial liabilities. It is the reason to treat a grant, a loan and an equity thing differently, because with a loan and an equity the public sector gets a return. That would be scored under this levelling. That in and of itself would encourage the take-up of more financial transactions.

We were very alive—not least because of learning the lessons of things like guarantees and contingent liabilities that we have had in the past—to say, "If we are going to say that that is a more mature and better way of measuring financial debt that will lead to more financial transactions and, hopefully, to some substitution from grants to loans and equity—if we are going to get more financial transactions from that—how can we set up a control framework that makes sure that we do those well with value for money?"

We came up with a set of things and we have mentioned a few of them. We would expect these financial transactions, on balance, to get a return greater than the cost of Government borrowing. We said that, in the main, these financial transactions should be done through the brilliantly named "puffins"—the public financial institutions, of which the National Wealth Fund is the one in which we have increased the capital—so that they will be done professionally and at some arm's length from Government to a certain extent. And we have said that we will report on these financial transactions and that the NAO will audit them, so that we are doing fair value and are not looking away.

The idea is to say, "Okay, there will probably be more of these things, but let's set up the control framework from the outset." Obviously, much of what we have been saying today has been that the control framework is coming in some way down the line on PFI, so we are trying to set it up correctly from the outset.

Q86 **Chair:** That is a really helpful answer. I have a final question. I suppose the ultimate test of your success is how much you can shrink the margin between bonds and what the private sector is offering you in terms of finance. That also depends on your being able to attract international finance as well. How will you measure that?

James Bowler: What we have been talking about today is that private finance in a project requires an appropriate return, and no one is going to be interested if there is not an appropriate return, but it cannot be an excessive return. More so, from a public sector point of view, whatever return it involves has to include the better management of risk than could otherwise be the case, so that the benefits of doing it that way outweigh the costs, and that is the option that we approve, and an evaluation shows us after the event that that was the right thing to do.

I will come back to where I started, which is that there is no one size fits all here. We are not saying—in fact, we are far from saying—that we will deliver an expansion of the school building programme only through private finance. We would say that you need to look at the right model, based on value for money, as to what you should do.

Chair: That is very helpful. Thank you very much.

Q87 **Mr Charters:** Has the British public sector had too much of an allergic reaction to the use of private finance, particularly for smaller-scale projects? I will give you one example. I met a GP consortium in my constituency, and they have a healthy balance sheet. They would love to be able to access private finance, but they cannot do so because of borrowing constraints. Do you think that it is because of some of this red tape that doctors' surgeries are not getting built in our constituencies?

Conrad Smewing: I think it comes back to this question of when you should use private finance. You should use it when it is best value for money. I think that the constraints in place across the public sector, which involve putting those kinds of finance leases on the balance sheet and scoring them just like any other kind of capital borrowing, are what people are talking about there. That gives you a level playing field between going down the private finance route or going down the public finance route, and doing the one that you think is best value rather than the one that looks affordable in the short term if you took the private finance off the balance sheet.

I think you should look at the affordability and the allocation of public capital in the round, including all the different options here, and choose the financing route only if it is better for the taxpayer in the long run.

Q88 **Mr Charters:** I was not quite convinced there. For smaller use cases, like GP surgeries in limited scenarios where there is a viable finance route via the private sector—should red tape really get in the way of building GP surgeries?

Conrad Smewing: I would question whether it is red tape. It would tend to be the case for smaller projects—one of the costs of involving private finance that we did not talk about is that there tend to be much larger transaction costs, because you have a lot of structuring to do up front. You need to pay the costs of bankers and lawyers and all of that. So, it tends to be the case that smaller projects find it harder to pass the VFM angle.

I am not saying anything about any particular set of projects but, in general, you can see from the kind of projects that have been using private finance more recently—since PFI was retired—you are talking about things like £20 billion power stations and big CCUS projects, rather than the smaller ones that might be better value being directly financed.

James Bowler: In the past, and I hope I get this correct, the so-called LIFT project would have taken vast numbers of GP things all in one project, I think, because it would have been very difficult for a small—I think they possibly could get access to their own balance sheet, because they are self-employed.

Mr Charters: They report to me that there are borrowing constraints. I guess the point is that, while there are borrowing constraints across the public sector that are blocking outcomes that we all want to see, such as GP surgeries being built—

Chair: As a helpful suggestion to both of you, I wonder whether the DHSC, because it must be doing quite a lot of doctors' surgeries each year, could put forward a portfolio and put it into one private sector partnership of some form or another.

Conrad Smewing: We could look at that.

Chair: I thank our witnesses very much. It has been a long session today, particularly with this panel, but we are very grateful to you. You have been very helpful in this quite technical inquiry. An uncorrected transcript of the hearing will be available in the next few days. We will be producing a Report, with recommendations, which hopefully you will take some notice of. Thank you again.