HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Managing the expiry of PFI contracts, HC 1114

Monday 8 February 2021

Ordered by the House of Commons to be published on 8 February 2021.

Watch the meeting

Members present: Meg Hillier (Chair); Shaun Bailey; Olivia Blake; Sir Geoffrey Clifton-Brown; Barry Gardiner; Mr Richard Holden; James Wild.

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

Questions 1-96

Witnesses

I: Charles Roxburgh, Second Permanent Secretary, HM Treasury, Matthew Vickerstaff, Deputy Chief Executive, Infrastructure and Projects Authority, and Sean Hanson, Chief Executive Local Partnerships, Local Government Association.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Managing PFI assets and services as contracts end (HC 369)

Examination of witnesses

Witnesses: Charles Roxburgh, Matthew Vickerstaff and Sean Hanson.

Q1 Member **Chair:** Welcome to the Public Accounts Committee on Monday 8 February 2021. Today we are looking at the challenging issue of the expiry of private finance initiative contracts. These were introduced around 25 years ago. They started at different times, but they are coming to maturity now. In the next few years, we are going to see a number come to the end, and that asset will then pass to the public sector body that has been paying for the PFI contract. There are a lot of challenges to make sure that they are ready for that transfer and that the taxpayer is protected. We will be asking the key witnesses in front of us today how ready the Government are and how ready the managers of those PFI contracts where they are not Government on the ground are.

I welcome our witnesses: Charles Roxburgh, representing the Treasury as second permanent secretary; Matthew Vickerstaff, the deputy chief executive of the Infrastructure and Projects Authority; and Sean Hanson, the chief executive of Local Partnerships at the Local Government Association—a lot of these contracts are in the hands of local government.

Before we go into the main session, we also have some questions for the Treasury about excess votes. When money is agreed by Parliament for the Departments to spend, if the Departments do not manage to keep within that budget they can come back with a supplementary estimate. That is additional money that is granted within the normal timeframes, but sometimes even those estimates are breached and Departments have to come to Parliament seeking what is called an excess vote, which is additional taxpayers' money, to fund things.

In 2019-20, five bodies breached their expenditure limits. Three were the result of financial management errors and two were the result of additional expenditure responding to covid-19. We would normally have taken some of these earlier in the year, but covid delayed us on a couple of them. I want to turn first to Charles Roxburgh about the Treasury's own breach of the excess vote. This related to UK Asset Resolution, where the Treasury overestimated the income from the disposal of capital items, and to the way you treat the capital for the refurbishment of Buckingham Palace through the sovereign grant. Could you first of all explain to us why you breached the expenditure limit and need Parliament to agree an excess vote in the next few weeks, Mr Roxburgh?

Witness ***Charles Roxburgh:*** Thank you very much. I am very grateful for the opportunity to explain the excess vote to the Committee. Right at the beginning, I repeat the apology that my colleague Sir Tom Scholar made in his letter of September, when he wrote to the Chair to explain that this breach had occurred and to apologise for it. We take this matter very seriously. I would like to take the opportunity today to explain what happened on the breach and what actions we have taken to ensure that it would not happen again.

The cause of the error arose in the capital annual managed expenditure account—the capital AME account, as it's called—and it arose when we consolidated the accounts from UK Asset Resolution to the Treasury group accounts. UK Asset Resolution is the company that manages the legacy assets acquired in the financial crisis from building societies and banks such as Northern Rock. As a private limited company, it prepares its accounts on the appropriate basis for a private limited company. That is a different accounting basis from the ones we use for the Treasury group, and when the capital account was consolidated from UKAR it gave us a number on the basis of its accounting standards. In our consolidation process, we failed to convert it to our accounting standards. That is why we had an error of £32 million in an account of two-and-a-bit billion pounds.

This had actually happened in previous years, but the effect had been overcome because we normally have quite a lot of asset disposals through that account, the impact of which dwarfed this minor difference arising from the accounting standards. In this year, our asset disposal programme was delayed because of covid, so that effect did not arise, so this error was exposed. It is still an error, and it has now come to light.

We take this very seriously, and we immediately commissioned an internal review. We also commissioned a separate review from the Internal Audit Agency. That review identified a number of areas where we could strengthen our processes for consolidation—additional checks, better guidance—ensuring that the teams preparing the accounts and the consolidation will not make this error again.

As I said, we are very sorry that it happened. Tom has formally apologised to this Committee and the Treasury Committee. We have taken steps to ensure that it will not happen again. I am glad to have had the opportunity today to explain that.

Q2 **Chair:** Could you also please explain to us the issue around the sovereign grant and what happened there?

Charles Roxburgh: The issue with the sovereign grant, which as you know is managed by the royal household, arose because of an error in the classification between the resource and the capital spend. That did not affect the total cost. It happened because the exercise to review and reclassify those spends between those two accounts had not been completed in time for the supplementary estimate and only took place at the end of the year. We have now instituted controls to ensure that those processes will be completed in time and will be done before the supplementary estimates, rather than after. Again, we apologise for that error, and we have taken action to make sure that it will not happen again.

Q3 Member **Chair:** What was the reason for the delay in that case? If it had been done earlier, we would not be in this position.

Witness ***Charles Roxburgh:*** I am afraid I am not familiar with the reason for the delay. It is managed by the royal household. I will go back and double-check the reason for the delay. I am just aware that it was not done in time for the supplementary estimate—

Q4 Member **Chair:** So, just to be clear: it was a delay at that end, not at the Treasury's end?

Witness ***Charles Roxburgh:*** That is my understanding, but I will double-check that and come back to you on the royal household's preparation of the accounts.

Q5 Member **Chair:** Thank you. It is noticeable that there are five excess votes, compared with just one or two in previous years. We have been pleased to see that they have gone down previously. How are you going to address this increase in excess votes, which is not really very good practice, is it?

Witness ***Charles Roxburgh:*** No, indeed. In all the individual accounts, in which this Committee is taking a close interest, as it should, our spending teams—in respect of ourselves but also working with the relevant Departments—work hard to ensure that lessons are learned from these excess votes; that appropriate controls and changes to processes are put in place so that in future years we have far fewer, but ideally none; and, in particular, that the classification errors and the timing errors of getting the funds classified in the right accounts are addressed in time. That has been the focus of the work.

Q6 Member **Chair:** When we were set to look at this roughly this time last year—we were delayed by covid, so we could not have the sessions with officials—at the time HMRC described what happened in its case, where it breached its net cash requirement by £726 million as a result of errors made in calculating its required net cash requirement, as a "technical error" in an "arcane" Government practice. The Home Office was at least able to say, when it breached its net cash requirement by £118 million, that it was an "extremely significant error" arising because it had two separate cash bank accounts. Which do you think is right? Are there arcane processes in Government that give these measures, or is that something you do not have any truck with and are trying to resolve?

Witness ***Charles Roxburgh:*** I think it is important to look at the circumstances around each breach. Those relevant accounting officers have had the opportunity to explain them to this Committee and they are accountable for them. The system is complicated, but it is our job to master it and make sure that we fully understand the details of it. Inevitably, human error can arise in some of these very complicated accounting reconciliation processes, but our job as financial managers and finance teams is to master those processes and try to make sure that we don't make those errors, and, if those errors do occur, that we learn lessons from them and put in place stronger processes in future. The errors fall into the categories of some are more culpable than others, but it is important that we try to eliminate all errors from the system.

Q7 **Chair:** So, Mr Roxburgh, is the Treasury at all embarrassed that you have had errors this year and that you are having to seek an excess vote, when usually you are the police officer of Whitehall, ensuring that Departments meet the rules and don't have to require an excess vote?

Charles Roxburgh: Indeed, it is a matter of great regret to us that this error occurred, and that is why we have apologised for it and I am happy to repeat that apology today. It is a matter of great regret, and it shouldn't have happened. We have taken the steps to make sure it doesn't happen again.

Chair: Thank you. Unfortunately, because of covid, we didn't get the chance to quiz some of the accounting officers of the other Departments, given the timeframe, but this Committee will report to the House off the back of what you have told us, Mr Roxburgh, with our recommendation about the approach to the excess vote. Thank you very much indeed for your time on that. Before we move into the main session, Sir Geoffrey Clifton-Brown has a quick point that you may be able to answer, Mr Roxburgh. If not, I am sure you can write to us.

Q8 **Sir Geoffrey Clifton-Brown:** Good afternoon, Mr Roxburgh. I appreciate you haven't had advance notice of this question, so I would be more than happy if you write to the Committee, unless you are able to give us an explanation this afternoon. You are responsible for financial services in the Treasury, and in particular the prudential management of the insurance industry. A recent court case regarding business interruption insurance to business went in favour of business, yet the insurers are still failing to pay out on these policies, which is causing a number of my small businesses, in particular, great hardship. Is there anything more the Treasury can do to make sure the insurance industry adheres to the court ruling?

Charles Roxburgh: I am very familiar with the issue, but I would like to take up your offer to write back to you with further detail on that. I can say to the Committee today that the Economic Secretary, John Glen MP, has taken a very close interest in this matter. The court case, as you know, was brought by the FCA, and ultimately the Supreme Court ruled in favour of policyholders in large part. The FCA is now the accountable body—the regulator of the insurance companies—to ensure that they treat customers fairly and pay valid claims. I am not familiar with the details or the specifics of the cases you are referring to, but I will mention this to the Economic Secretary and will write back just to reassure you that we are confident that the Financial Conduct Authority is taking the action that it is responsible for, in terms of ensuring that regulators pay valid claims once the courts have determined that those claims are indeed valid.

Q9 **Sir Geoffrey Clifton-Brown:** The problem, Mr Roxburgh, is that if these businesses—particularly the small ones—are entitled to this money, they need it, from a cash flow point of view, now. They don't want to have to wait months, or even years, before this whole issue is resolved.

Charles Roxburgh: I completely agree with that, and that is why the insurance companies are required to pay valid claims, and the court case has resolved the legal uncertainty over which claims were and were not valid. As I say, I don't know the specifics of these instances but I will take it up with the Economic Secretary and then write back to you.

Sir Geoffrey Clifton-Brown: Thank you very much.

Chair: I am sure Sir Geoffrey will be taking that up on our behalf as well. It is certainly a very big and important consumer issue, particularly in this climate with businesses struggling. We are now going to move on to our main session, dealing with the challenges of managing the expiry of private finance initiative contracts. I am going to hand over again to Sir Geoffrey Clifton-Brown.

Q10 **Sir Geoffrey Clifton-Brown:** I am afraid you are in the firing line again, Mr Roxburgh. At the end of these PFI contracts, what would good value for money for the taxpayer look like?

Charles Roxburgh: I think that is a question that will depend on the contract. It is not a simple monetary answer, because these contracts have important aspects, such as the value of the asset that is returned and whether the SPV—the special purpose vehicle—has fulfilled its obligations in maintaining the asset up to the end of the life. What is really important is that, in the final years of the contract, we manage that process effectively, so that when the asset is returned to the public sector—when ownership reverts to the public sector—it is of good quality and all of the obligations have been fulfilled by the special purpose vehicle. I think the test would be around the quality of the asset and whether the contract has been fulfilled. It is not a simple monetary figure.

Q11 **Sir Geoffrey Clifton-Brown:** What would be your role in trying to ensure that every single one of these PFI contracts is satisfactorily resolved at the end of the contract? What would be the Treasury's role? We know you hold a central register of all the contracts, so you know what all the contracts are. What would be your role in each and every one of those 700 contracts?

Charles Roxburgh: Our role would be more around the overall system, and we have provided the funding to our colleagues in the IPA to set up the processes, which my colleague Matthew Vickerstaff can talk about. The Departments are responsible for their individual contracts. The

Department of Health or the Department for Education can draw on the expertise of the Infrastructure and Projects Authority to help them manage it. In some cases, it will be NHS trusts. Our responsibility as the Treasury is to help make sure that the system is set up and properly resourced, which is why we provided the funding to the IPA to set up this capability. The individual Departments and the relevant accounting officers would be responsible for ensuring that they drew on the expertise at the centre, managed the contracts for which they are responsible, and ensured the successful realisation of the value potential at the end of life. Our responsibility is more around the system as a whole, rather than each individual contract.

Q12 Member **Sir Geoffrey Clifton-Brown:** A lot of questions will arise during the course of the hearing about what you have just said, but it seems to me that part of the resolution of all this, so that everybody is as prepared as they possibly could be, is transparency. You hold the central registry of all those PFI contracts, which were, after all, purchased with taxpayers' money. I wonder whether the first step wouldn't be to have a public list of all those PFI contracts. Is that something you might consider?

Witness ***Charles Roxburgh:*** The IPA has been assembling the list of the contracts. Maybe Matthew could come in to talk a bit about the progress on that.

Member **Sir Geoffrey Clifton-Brown:** I was going to call in Mr Vickerstaff next to explain his role, but he has been brought in nicely by Mr Roxburgh.

Witness ***Matthew Vickerstaff:*** We have a list of the PFI projects and contracts. There are over 700 contracts, and those are on our website in an Excel spreadsheet format, with the date they were entered into, the date that construction was completed, the capital value, the remaining unitary charge payments, and also when they will expire. That already exists.

On your point on contract expiry, we have started running a PFI contract management programme, which I would be very happy to go into in more detail. Doubling back on the value for money question, we at the IPA feel quite passionately that that is about better contract management. We should not be waiting till the last day of the expiry of these contracts. We should be working a lot earlier than expiry to ensure that, as Mr Roxburgh outlined, maintenance is undertaken and that key performance indicators are being achieved by the private sector. Until all these projects expire, there is still £170 billion of payments to occur via unitary charge payments to various private sector parties, and it is absolutely essential that we achieve value for money for that expenditure.

Q13 Member **Sir Geoffrey Clifton-Brown:** Could you explain exactly what this contracts management team is going to do and what help would be available to any authority, whether it be big or small, that holds a PFI contract? What help can they expect from the IPA?

Matthew Vickerstaff: Gladly. First, the NAO Report on this issue was extremely timely and welcome. Although we were already working on this PFI contract management programme, it landed just at the right time to get the support from our colleagues in Treasury and for Ministers to support this contract programme.

There are four pillars to the programme itself. First, as we have touched on and I am sure we will discuss in a lot more detail, there is contract expiry. We have worked up a healthcare tool to evaluate expiry risk, so that each project, seven years before it expires, will have a review, and sometimes multiple reviews, to evaluate its expiry risk. I am sure we will double back on that.

The second pillar is better contract management. We are doing a number of deep dives of contracts to work and formulate solutions and ideas, and build ideas around training and capability building for authorities to better manage their contracts. Sean Hanson might want to talk about that in terms of the work that we are also doing with Local Partnerships in that regard.

The third pillar is building that capability. We are working with the Government commercial function to work up training programmes and packages to help authorities to manage their contracts better. That is not just about expiry, but in-flight projects, which sometimes still have 10 to 15 years left—working with them to drive that better value for money.

The final thing is to provide expert support and advice where there are disputes or problems, or indeed major value events such as determinations, variations, refinancings or, indeed, things like risk-sharing about insurance premiums. You touched on it: the Supreme Court case has had an impact on insurance for infrastructure and particular PFI contracts. That is just the type of thing that we are focused on.

Additionally, in that support and advice area there are a number of thematic issues. In particular, we have been working for around 15 months on the transition from LIBOR to SONIA. That is the change—

Q14 **Sir Geoffrey Clifton-Brown:** Mr Vickerstaff, can I cut you off there? We will cover a lot of these aspects later in the hearing. The four principles that you have enunciated, which are contained in paragraph 16 of the Report, are admirable. Let me cite as an example the evidence of my neighbouring authority Wiltshire Council, which has just appointed a PFI officer. I do not know whether you have seen that evidence. Basically, he says that he lacks skills and he lacks—

Chair: She—Ms Brown.

Sir Geoffrey Clifton-Brown: Sorry, Chair. I don't want to cast any aspersions on her because it is a huge job for one person, even with one big PFI contract, but she is short of skills and short of advice. Is your team proactive? Does it go out to everybody in the 700 contracts saying, "Here we are—this is what I can do for you," or does it take the authority that is holding the contract to have to come to you and say, "What can you offer us?"

Matthew Vickerstaff: I will absolutely come to that question, but I would say to the Committee that this all has buy-in from the civil service board. We have an oversight committee involving perm secs and DGs, and we have a programme board involving all Departments and their responsible PFI team officers who are working on this programme. It also involves people like Local Partnerships, who have expertise in this area in a sister body to the IPA and Treasury.

On your specific question, you are absolutely right. There is a huge demand and a need for expertise, skills and capability, and we do not have enough. That is absolutely right. We do not have enough of it, and that is why the third pillar is about creating training and capability, and improving that and focusing on the issues of resources.

The oversight committee that I talked about, where there is perm sec involvement, highlighted the fact that local authorities are the most concerning area. There are a lot of projects involving local authorities, but as we know, contract management expertise and investment in that in local authorities has not always kept pace with the extent that is required. I will also say that things such as expiry are complicated issues involving detail—

Sir Geoffrey Clifton-Brown: We are going to come to that, Mr Vickerstaff.

Matthew Vickerstaff: The third pillar is about building those training programmes and giving capability, but supported by the specialist advisory team who can help deliver advice or, if it is required, provide support on how to procure that advice and support.

Q15 **Sir Geoffrey Clifton-Brown:** This is all admirable stuff—absolutely admirable stuff—but please could you answer my question? Is this proactive or reactive? Is it your role to go out to all 700-plus PFI contract holders and say, "Here we are; this is what we can offer you," or is it the reverse and each of those authorities must come to you and say, "What can you offer us?"

Matthew Vickerstaff: What we have done with the Departments is ask them to put forward their strategies for dealing with their contracts and also their local authority counterparties. We have a team of 17 people covering over 700 projects in a complex environment. That is not enough people to do that, but by working with Departments and focusing on their strategies for managing those contracts, we will get the help and support to those underlying contract management teams.

Q16 **Sir Geoffrey Clifton-Brown:** I might bring Mr Roxburgh back again, as you have twice in your reply talked to me about resources. Given that your role is so vital, so critical, in making sure these contracts are concluded properly, would you give this Committee an absolute assurance that if you feel you need more resources, you will go straight to the Treasury and ask them?

Matthew Vickerstaff: You are kind of opening the net for me to kick the ball in very easily. We have 700 projects that are maturing over time, and we have mapped those projects so that we are not having to deal with each of the 700 projects from an expiry point of view today. We have undertaken about 23 surveys and reviews of the projects that expire soon. We have and will put forward additional resourcing requests, but I would expect Mr Roxburgh to respond to me, as he often does, by saying, “It clearly needs to be value for money and it needs to be reflective of the amount that’s required."

Q17 **Sir Geoffrey Clifton-Brown:** I have given you the open goal and you are now going to kick the ball into it. I am glad about that. Given that there are 10 contracts that will expire in the next five years, and 31 in the next 10 years, how soon will it be before you are totally across all of those contracts?

Matthew Vickerstaff: Just to be clear, in the next 10 years, by 2030, we think 175 contracts will expire. Our programme works on doing a review at least seven years out. We think it is critical to have the first review and then have follow-up action to follow recommendations where those have been carried out by the authority, and then a further review closer to the date—

Q18 **Sir Geoffrey Clifton-Brown:** That is really important. I am sorry to cut you short, but we have so much to get through. Can I ask you, Mr Hanson, on behalf of Local Partnerships—good afternoon, by the way—if you could briefly say what your role is in ensuring satisfactory completion of these PFI contracts?

Sean Hanson: Certainly, I will try. Local Partnerships is a joint venture between the Local Government Association, the Treasury and the Welsh Government—wholly public sector-owned. We have been involved for many years and have retained a small team of experts who have been involved in all aspects of the lifecycle of various different PFI arrangements with local authorities. Our typical involvement would be to assist with savings or issues that might have arisen within the contracts, or to, for example, provide training and assistance where local authorities ask us. For example, in the case we mentioned, a new PFI manager came in and did not have a team or expertise. We would go in and provide that capability.

Q19 **Sir Geoffrey Clifton-Brown:** Can I just stop you there? I will not use that specific case, but in a case like that—Mr Vickerstaff said local authorities are the ones most at risk—where an authority has only one contract, a sort of a one-off big project that they have to do, do you go in and say you will help, or do they have to ask you what help you can provide?

Witness **_Sean Hanson:_** It would usually be the latter, but we try to make sure that all authorities know that we are there in order for us to be able to do that. We do that through the Local Government Association, to make sure that our presence is known to the authorities. We regularly offer training; we write to chief executives and to the people responsible for these contracts to make available those training sessions and lessons learned from some of the cases that we have been involved in. We regularly publish, through the LGA, examples of what we have done with refinancing and the benefits that can be achieved from that type of thing as well.

Q20 Member **Sir Geoffrey Clifton-Brown:** Given that paragraph 8 of the Report says that 30% of those surveyed would welcome more support—this may be a question for Mr Vickerstaff as well—what more support can you provide those authorities that need it?

Witness **_Sean Hanson:_** In terms of the support that we can provide, the first thing that needs to happen, as Mr Vickerstaff said, is that we need to make authorities aware that they cannot start preparing early enough for the expiry of contracts. The seven-years rule is really important for that to be embedded. In terms of making that point, they need to know what they need to do through that process—starting early, making sure that they have done condition surveys and so on. We go in and try to reinforce what would make a good strategy for expiry.

In terms of what more we can do, with more resources we could of course be more proactive in the way you suggest. That would be something we would wholly endorse. We think—I agree with what colleagues have said—that the NAO Report is extremely helpful in that respect, because it puts us on the radar. We are getting an awful lot of requests into our office for more assistance now that there is more publicity around the support that is needed towards contract expiry.

Q21 Member **Sir Geoffrey Clifton-Brown:** Mr Vickerstaff talked about resources and the number of his staff. Do you have sufficient resources in the number of your staff to deal with this increasing workload?

Witness **_Sean Hanson:_** We have some permanent staff, and we use associates where necessary; we can usually ramp up quite quickly. We have become involved with health checks, and we are supporting the IPA with that. However, we can always do with more resources. This is an area that we feel very passionately needs to be done correctly, and the more resource, the better.

Q22 Member **Sir Geoffrey Clifton-Brown:** Mr Vickerstaff, given the size of the problem out there and the number of respondents who told us, in evidence and through the Report, that legal, financial and technical skills are lacking among the authorities—not least the local authorities—I wonder whether you could build up your own team of IPA experts who could instantly be deployed to any authority holding a PFI contract that actually required it, rather than their having to go out and seek expensive consultants to do this work.

Matthew Vickerstaff: I agree with your last point on expensive consultants. We have actually had additional funding, so we have hired additional resources, and we do have some additional resources for the next financial year as well. I think a lot can come from training and building capability for that third pillar. Sean may comment on this: it is not always a good idea for the centre to come with perceived heavy boots, kind of landing locally with a big team, and saying, "Do it this way, do it that way!"

We are working for our next oversight committee on a solution for additional resource, which has a request for additional resourcing. I will be open and say that it has a mix of central resource but potentially additional resource in Departments, and also even some regional hubs, which therefore could work across Departments. Those are options for consideration by the system, to think through as we go through higher peaks in terms of demand here for this resource, so that it can lean in and be available on top of the resourcing, the training and capability improvements that we hope to build to the system.

Q23 **Sir Geoffrey Clifton-Brown:** Let me be very clear, Mr Vickerstaff: what I was not asking you about was some form of team that could go and impose themselves on the authority that holds the PFI. What I was asking you was whether you had a team available—you could have teams, because there are a large number of these—with those skills, particularly legal, financial and technical skills, which would be available to an authority holder of a PFI contract if they asked you for it. Maybe they should even pay you for the time spent on advising them, because, after all, they would have to pay advisers in any case.

Matthew Vickerstaff: We do have resources. You raise an interesting topic in terms of the charging model, which frankly, from Government as a whole in terms of Crown consultancy ideas and other things to consider, is being thought through. I am saying to you that you are absolutely suggesting things that we are reviewing and discussing at the moment, to consider what is the best way to get that help to contract managers.

Q24 **Sir Geoffrey Clifton-Brown:** I have taken up more than my time. The Chair will cut me off in a minute—and quite right too, Chair. What I am particularly concerned about is the 10 contracts that will expire in the next five years—if 10 is the correct number. Or is it 10 a year? It may be 10 a year; I'm not sure. Are you absolutely sure regarding those contracts that will expire in the next five years, which are the key ones, that all of those authority-holders are fully aware of the risks that they potentially face?

Matthew Vickerstaff: As you would expect with our expiry health-check tool, those are the ones we have focused on immediately. Frankly, some of them should have started earlier; they did not do the expiry, but that rule was not in place, so they did not do the expiry test seven years out. But absolutely—we are providing a lot of support to those contracts.

I would say they are quite complex, very early PFI contracts. So you have a combination of quite complex equipment-type projects with the MOD; you have some roads—shadow toll roads; you have—

Chair: Some of these are listed in the Report, yes.

Q25 **Sir Geoffrey Clifton-Brown:** We will come on to the standard procedure in a minute. Can you just give us the accurate number? What is the accurate number of contracts expiring over the next five years?

Matthew Vickerstaff: Over the next seven years, it is 101. We are absolutely going to review those as quickly as possible. And by the end of March, we should be at 55 in terms of the number of expiry reviews that we have already done.

Q26 **Sir Geoffrey Clifton-Brown:** When will you complete the full number?

Matthew Vickerstaff: That will be a rolling programme but, as I said to you, the actual number is that from 2030 there are 175 contracts—

Q27 **Sir Geoffrey Clifton-Brown:** No, no—clearly, you have said that PFI contract-holders were obliged to review their contract seven years out. Clearly, the contracts that will expire in seven years are the vital ones. When will you have concluded your review into all of those contracts that are going to expire within the next seven years?

Matthew Vickerstaff: It will be automatic; we will automatically review any contract that is seven years from expiry.

Q28 **Sir Geoffrey Clifton-Brown:** Okay. Mr Hanson, you looked as though you wanted to come in on this issue.

Sean Hanson: I think the point that Matthew was making about the complexity of the contracts is related to the lack of standardisation and the increasing complexity and ambiguity in those contracts, as well. It is very important to look at those first.

Sir Geoffrey Clifton-Brown: All right, Chair; sorry to take up so much time.

Q29 **Chair:** Thank you, Sir Geoffrey; that has given us a flying start on this. I want to pick up on one figure you gave, Mr Vickerstaff. You talked about 175 expiring by 2030, but figure 1 on page 13 suggests that it is nearer 200. Are you saying that the NAO Report is wrong?

Matthew Vickerstaff: We do have slightly different numbers from the NAO's Report.

Q30 Member **Chair:** Why is that, Mr Vickerstaff? It is an agreed Report. We expect the numbers to tally, usually.

Witness ***Matthew Vickerstaff:*** We couldn't reconcile with the NAO's numbers.

Q31 Member **Chair:** That brings me to the very important issue of data. With the ones that are due to expire, it is absolutely right and good practice that seven years before there should be a review. Are you confident that every body out there has been able to identify its PFI contract, find the contract and start that process? There have been some challenges; it depends on the size of the organisation dealing with it and whatever support has been given to them.

Witness ***Matthew Vickerstaff:*** The issue of data is something we have talked about in previous Committee hearings. The data is not great on PFI contracts. We undertake a survey and a review—we have done that consistently—and we rely upon individual Departments to provide returns, which are signed off by their finance directors. We seek that data. Frankly, in terms of local authorities and PFI contracts, we are not 100% sure that all the contracts are actually reported.

Q32 Member **Chair:** My colleague will pick up on some of the more detailed stuff on local government, but you don't publish data on the 700 PFI contacts that are due to expire. Is that because you haven't got full data? Is there any reason you are not publishing more data and more information about what you have collected?

Witness ***Matthew Vickerstaff:*** The 700 projects come from our Excel spreadsheet, which is on our website, publicly available, and outlines one of the bits of data that we identify—the number of years remaining under the contract. That is where the 700 number comes from.

Q33 Member **Chair:** That is an Excel spreadsheet. Have you thought about providing information in a more user-friendly way? Although they are complex contracts and although there are a lot of issues around managing that asset as it comes to the end of that contract, members of the public who use these facilities might be interested to know when the PFI contract comes to an end and it reverts to the public body that has been the customer, the sponsor. Have you thought about putting that in a slightly simpler format, so that anybody can look at that and find that data, without having to crawl through an Excel spreadsheet?

Witness ***Matthew Vickerstaff:*** We are happy to reflect upon suggestions. If you feel that the number of years until expiry and the actual expiry date should be on there, that is something that, in our next data request, we can look to receive and then publish.

Q34 Member **Chair:** Great. One of my reasons for raising that is that eyes and ears on the ground are often much more aware of everything, from the asset management to its state, than you can possibly be, however good your data is from the centre. On things like bits of a system that people can't get access to the building on, there are going to be people out there who know, so the more information the better, in that respect, given that it is not that challenging to identify, from what you have said.

Sir Geoffrey highlighted some of the challenges around managing the process to the end, and the NAO picked up on the work challenges in finding the documentation and in getting through the complexities. Can you and Mr Hanson give us examples of two or three particularly challenging types of contract that are going to prove to be very challenging to manage in this denouement? I will go to Mr Hanson first, to give you a break, Mr Vickerstaff, and then to you, and I will turn to Olivia Blake in a moment.

Sean Hanson: One aspect that creates that additional complication is that in many of these contracts the situation has changed significantly since the beginning of the contract. It might well be the case that even if we are able to recover the original contract, financial model and assumption, there have been many changes that haven't been recorded. In one contract that we are currently working with there have been seven major variations and 75 notices of change. None of those has been incorporated into a complete document and, indeed, trying to cross-reference them can be very difficult. The level of complication can make it very difficult, particularly for a new contract manager coming in, to try to make head or tail of what has been going on over its life. So that's one of the aspects, I would say.

The second aspect is about the responsibility of the SPV themselves to be reporting and to be carrying out all the things that they are supposed to have been doing through the life of the contract. If they are not reporting properly and if the contract authority is not enforcing the need to report properly, coming back and doing the health check will mean—indeed, the NAO found from its surveys that it is possible, at times, that all the information that is needed to be able to prepare for contract expiry simply isn't there. Apologies for going back on that point, but this is where it's really, really important that we do this health-checking process, because part of the health check has to establish whether all the documents are there and whether there is a clear run-through in terms of all the changes to the contract as well.

Q35 **Chair:** There are some very clear challenges there, and I think we will have some specific examples down the line. Mr Vickerstaff, are there any particular issues that from your perspective will be particularly challenging? And if you have examples, even if they're generic examples, that would be helpful just to drill down to what they are actually going to mean for taxpayers and for people using these services or facilities.

Matthew Vickerstaff: We have had some examples recently. One specific issue is where a residual value payment is required to be made to buy the assets back, which was a particularly unattractive feature of early contracts. As Mr Hanson has said, inevitably the early contracts that we are reviewing now were less and least adapted to expiry, and that is particularly the case if they are for equipment, perhaps, or indeed housing, which may or may not actually be needed by the authority.

We have other examples, if you want them. With roads, a number of the early road ones involved shadow toll payments. That has been particularly complex in a covid world, because obviously the amount of traffic and cars has come down. As we are just about to build up a retention fund to deal with maintenance costs in seven years' time, we actually need to reflect upon what the payment regime should be, especially for next year, when perhaps covid won't actually have had an impact. So there's an annual reconciliation that needs to be addressed.

On street lighting, there are some complex issues, especially when people are starting to think about variations for LED and EV charging, and perhaps smart city adaptions. So, for street lighting—clearly, some of these projects 25 years ago didn't think about that at all.

We have some projects that we have just done reviews of. Schools also have some complexities, especially around fixtures and fittings, where, again, they were not necessarily effectively going to return to the public sector—and may actually not want to be returned, given that schooling has changed. There are some issues around computers and IT as well.

There are other areas of complexity. The MOD—very complex.

Q36 **Chair:** You mention the MOD, but I was thinking really about those ones on the ground. I will go to Ms Blake in a moment, but I just want to go back to Mr Hanson. You talked about the SPV's responsibility to report and said that sometimes that has not been as good as it should have been, but what is the impact on the special purpose vehicle if it has not done its job properly? How are you going to make sure that the taxpayer is protected against its poor performance, when that has been an issue, as we come to the end of contracts?

Sean Hanson: This is one of the things in terms of increasing the capability. It is a question of trying to ensure that the people who are managing the contracts don't step into the role of the SPV. There are many SPVs where, if you don't keep on top of their responsibilities and don't remind them that they are responsible for these things, it can default back to the local authority to, in effect, manage the PFI arrangements. It often happens that the parties who are probably most involved in the running of the contract, particularly for an accommodation-type one, are the authority and the FM provider. The SPV is not present at all, and so they are in effect sometimes allowed to let the contracting authority take their responsibility.

Where that becomes problematic as we come into expiry is that it is very difficult to change the role back again to the point at which the SPV takes its responsibilities—for example, for making sure that condition surveys happen at appropriate times. The condition survey is the most critical aspect of all, so that we know that the asset is in a fit state. There are plenty of risks around either the SPV not doing what it was supposed to, or its being enforced that it should do what it is supposed to.

Q37 **Chair:** Before I go to Ms Blake, can I go back to you, Mr Vickerstaff and Mr Roxburgh, about the central register? We have talked a bit about this. You do not have a central register of all those 700, do you? Don't you think that that would be a useful thing to have, given that there are so many different bodies out there managing them in different ways, and lessons that could be learned if you could see across the board? You talk about your spreadsheet, Mr Vickerstaff, but it is not 100% of the contracts, is it?

Matthew Vickerstaff: I think the NAO Report suggests having a central registry of contracts. I think that is what you are referring to. The only thing I would say is that these contracts are very complex. They involve multiple schedules—construction contracts, operating contracts, etc. There is a huge amount of complexity in there, commonly referred to as "a bible". They are not always that easily accessible. Again, one of the key first questions of our expiry review is: do you have a full suite of contracts? Are they accessible? Have you understood? Given the size of recording that would be required, we do not think—we wrote back to the NAO at the time—that it would be value for money to have one central registry, but we have discussed with key Departments them holding registries of those contracts.

Q38 **Chair:** You are saying not a central registry, but does your Excel spreadsheet give you enough information to go to a Department and say, "We'd like to have a look at this contract for this project, and be able to know where and what it is," just so that you have that overview? Included in that, where there are two similar contracts, perhaps in different parts of the country, where lessons could be drawn across the two, can you identify that from your data?

Matthew Vickerstaff: Our expiry health-check tool will do that. One of the things that is involved in us doing the survey and the review is receiving the key parts of the contract, as well as the financial model and any technical—

Q39 **Chair:** As you say, lots of lessons are being learned about PFI. We have looked at this a lot on this Committee. If I was managing one of the early contracts and you were managing one in a scenario, could you put people in touch with each other about the lessons that they are learning in trying to run that contract to its end?

Matthew Vickerstaff: I did not have the opportunity to say, in terms of the departmental strategies, in an earlier question, that they are working with us in terms of creating networks and response teams to join up those contracting parties so that they can share information and experience of handling expiry challenges. The other element that we are seeking to join up is on the private sector side—so engaging with investors. Again, as the NAO Report highlighted, there has been a lot of concentration there, so we are engaging directly with the key investors to focus and remind them of their responsibilities, and hopefully have an element of protocol around how they should operate in this area.

Q40 Member **Chair:** On the issue of the data that you hold, and expiry dates in particular, I am going to ask the Director of the National Audit Office, Simon Reason, to come in on this point, to make sure that we are absolutely clear on where we are heading.

Simon Reason: Thank you, Chair. This goes back to the discussion about figure 1 in our Report, and the slight difference between the numbers in our Report and the IPA's data. There are lots of data points in that Excel spreadsheet, but what is not in there is a specific date for contract expiry, so we had to look at each of the annual payments that are paid over the life of the contract—the unitary charge payment—identify when the last payment was made and take that as a proxy for the end of the contract.

Member **Chair:** Thank you. That helps to clarify it. We don't like having differences in data, so that is helpful to hear. We are now going to Olivia Blake MP.

Q41 Member **Olivia Blake:** Thank you, Chair. My first question is to Mr Hanson. Do you believe that local authorities in particular, but also other authorities, that have had rather diminished budgets since these contracts were let will manage to have the capacity, or build in the planning for capacity, to manage contract expiry?

Witness ***Sean Hanson:*** Thank you for the question. I think there are some councils that are well resourced. I won't say they are necessarily as resourced as they say they would like to be, but there are authorities that recognise that they have big portfolios. We are working with one big city council that is, in effect, re-establishing the PFI team that existed at the beginning of many of their contracts because they know they are going to have a programme of rolling expiries. Consequently, they are putting the resources in. They know that that will result in a better outcome for them, particularly in preparing for the use of the asset samples.

To answer your question directly, it is really clear that there are a number of authorities that struggle with resource, and that is why they come to us for support. They don't have the skills and expertise. As Matthew said earlier, the expertise that is needed for these types of contracts and their complexity is quite scarce. The people who can do that are few and far between, and local authorities don't typically have the ability to retain them. In some cases, they really oughtn't retain them on a permanent basis, because they are only need on an as-needs basis. For the particular finance and legal skills, sometimes it is wise to buy that in when you need it, rather than retain it.

In terms of general contract management, where we feel that authorities are most prepared, they have been able to retain a team, a link or people, not necessary throughout the whole lifetime, but on a stable basis throughout. We think those are the ones that are best prepared. They have probably continued to retain those resources throughout.

Q42 Member **Olivia Blake:** We were discussing this earlier, but given that PFIs are generally self-monitoring contracts through the special purpose vehicle, how are you bolstering that support for monitoring skills specifically?

Witness ***Sean Hanson:*** We regularly, through the LGA and on our own basis, write to local authorities, contact them, phone them and try to get them to understand that when they don't have the skills, they can come to us for that support. We are regularly asked in to do reviews. It isn't just for PFI, but for other private and public-sector partnerships. We do assurance reviews to look at the status or otherwise of their ability to manage those contracts. It is, for the most part, on the basis of those authorities recognising that they want to have that support. If an authority was determined not to receive our support, there is not very much we can do about that. On that basis, we have to do what we can to ensure that the sector is supported by us how we can.

Q43 Member **Olivia Blake:** It sounds like quite a complicated situation to get into. How are you ensuring that authorities are acting early on these issues? To what extent are you confident that those authorities have the capacity and skills to manage the insourced services that need to be provided once these assets return?

Witness ***Sean Hanson:*** There is another party that is involved in all this: the sponsoring Department, which has a huge part to play. You asked what we are doing. Matthew referred to the gathering together of those contracts that have a particular nature. The DFT runs a number of forums at which the contracting authorities that have similar types of assets get together, learn lessons and share resources. That tries to balance out the uneven nature of the fact that many of the SPVs hold multiple portfolios. That tries to redress the balance so that you have groups of contracting authorities that are able to share resources and lessons. We facilitate that, the IPA facilitates that, and the LGA facilitates that as much as we can.

Q44 Member **Olivia Blake:** Going back to the complicated nature of this, whose responsibility will it be if this goes wrong, and how are you making sure that those lines of responsibility are clear? Would it fall back on the individual Departments, or would it fall back on the authorities? How will you safeguard and make sure that you are in touch with auditors when authorities are not communicating or playing ball, or when you have a concern?

Witness ***Sean Hanson:*** It is typically the contracting authority's responsibility, and they will take responsibility for what happens post expiry. The contracting authority is most responsible, but the sponsoring Department plays a role and is typically the channel through which the funding will have happened. Consequently, they take great interest and should be held responsible and accountable for making sure that they are supporting the contracting authorities. Collectively, we, the IPA, the Treasury and the LGA together will support the sector to make sure, as each layer comes out, that we are doing this. Ultimately, though, we have to hold—I will repeat the point—the special purpose vehicles to account, because they are the people who are, in effect, responsible for the delivery and maintenance of the assets. It is down to all of us to make sure that they do their job.

Q45 **Olivia Blake:** Is there a possibility that SPVs could, in effect, be mothballed over the next 10 years and be there in name only? How would you make sure that you are supporting authorities with situations that might occur?

Sean Hanson: That goes to the question about how we make sure that we do not let them leave us with an asset that is no good or that has no life for us after its expiry. I go back to my point: the earlier we can do any kind of intervention, the better. There is, and there will be, enforcement arrangements within a contract, and that can involve the reduction or deduction of penalties from the unitary charge. Clearly, if we do condition surveys seven years out and the funders are still involved, so that we have the funders squeezing the special purpose vehicle as well as the sponsoring Departments and the contracting authorities, we have more opportunity to make sure that special purpose vehicles do what is expected of them. The difficulty is that if we leave that far too late in the day, so that it is the end of the contract, there is not as much leverage to ensure that the SPV is doing what it should.

Q46 **Olivia Blake:** Do you feel confident that you have all the powers that you need to intervene in SPVs where they are not functioning properly, or do you think that comes down to the authorities, which possibly have a weaker hand than the Treasury?

Sean Hanson: The authorities have the power, and it is the contract and the level of what powers are in the contract that are important. The ones that we worry about are those early contracts that were perhaps not as clear about what would happen towards expiry, what would happen with the asset and what would happen in relation to the inability to check whether the condition of the asset is acceptable. Those are the ones we probably worry about most.

Q47 **Olivia Blake:** Do you have a gold standard for what a good kind of expiry would look like? What lessons have you learned from any good expiration?

Sean Hanson: As far as Local Partnerships is concerned—there is nothing new or extraordinary about this—we have a mantra: "Start early. Make sure that you have the right resources. Make sure you have a strategy for what will happen with the asset after expiry. Plan for that early. Get the contract up to date, so that you are very clear on what you will be making sure happens at the end of the contract." The thing that we will keep repeating is: "Do those surveys. Do those condition surveys as early and as often as you can." It may say in a contract that the condition survey should not be done until a year and a half or a year before the end of the contract. That makes sense, because you want the contract, as it is handed over, to be in the state that you are expecting it to be in. You want the survey to show that it has been handed across properly, but one of the problems with that is that it doesn't give you the length of run-in to be able to deduct from the entry charge any reinstatements, so if the SPV didn't do what it needed to do, you have got limited powers. The earlier you do condition surveys, the better. To your point, if we wanted to reinforce anything, it is to ensure you understand the state of your asset.

Q48 Member **Olivia Blake:** Do you recognise the challenges, which we have heard are facing local authorities in particular, about having multiple PFIs? I think a lot of authorities will struggle to manage one, but I know that quite a lot of authorities went out quite heavily for this, because it was the only way to get funding for some very old assets. How are you supporting those authorities that have between one and 10 of these contract arrangements that are up in the next 10 years?

Witness ***Sean Hanson:*** Ironically, I think those that have multiple contracts might well have retained a team, because they needed to be able to keep people to manage across the receipt. There is additional complexity: if it was 10 schools PFIs, there is a degree of standardisation and combined knowledge that you would have around the types of things that happen, but, for example, if they have a roads contract, an accommodation contract and a street lighting contract, there are things that are unique to those that need specialisms for each. Consequently, that is where there is an additional level of complexity. That is where we go in. We try to make sure that if there is that type of complexity, the level of resource and type of knowledge and expertise is available.

Q49 Member **Olivia Blake:** Given the vast amount of money that is probably in those authorities with multiple contracts, what are you doing to ensure that those with smaller level, but bigger impact for their own individual budgets perhaps, are not slipping through the net?

Witness ***Sean Hanson:*** We keep in touch as much as we can, as I say, through the LGA and other sources with those contract managers to ensure that they know that we are there to provide training. We encourage reviews. We will go in and do a deeper review rather than health checks. I know of examples where a new contract manager has arrived, they have been presented with a CD-ROM of the contract, and we have gone in to explore what it is that they need and what state they should have their contract in. That is the type of thing that we do on a regular basis.

Member **Chair:** Is it even possible to read a CD-ROM these days? I think we are all a bit gobsmacked by that.

Q50 Member **Olivia Blake:** That is why I was laughing, Chair. I don't think anyone has CD-ROMS anymore. Thank you for outlining that.

One thing that I am also concerned about is the availability of your services and whether they are adequately funded, and what you believe in an ideal world would be a kind of fit-on number for the targeted contract reviews, because I think £2 million is quite a low amount given the value of £4 billion.

Sean Hanson: So on the £2 million that has gone to the IPA, I am sure Matthew could answer that.

Matthew Vickerstaff: I think the resourcing requirement is a big, complex subject, as you are highlighting. We are looking at sizing the appropriate level of resource but trying to make it as efficient as possible. If we can work on training and support capability, as well as, to your point, showing what best practice is, by using tools that can actually evaluate where the contract managers are at the appropriate points in time, then we will just make this more efficient and a better value-for-money solution. However, as I said, we have already done a stocktake and got proposals from Departments, in terms of their resourcing plans and how they are supporting local authorities and other arm's length bodies, as well as their own central Department group contracts. Resourcing is often the issue which comes up repeatedly.

Q51 **Mr Holden:** I just wanted to follow up a little bit on some of Ms Blake's questions. I quite understand the situation that many local authorities face, with these contracts being incredibly difficult for them to manage, even currently—and obviously looking to expiry is a big issue for them; but I just wanted to touch on one of the issues around some of the transfers between authorities and different bodies. Obviously, for example, the Building Schools for the Future programme was there under DFE and local authority control, but a lot of those schools are now transferring to academy status, and that is particularly happening in the primary sector. I was just wondering how those issues are being managed by the Departments.

Chair: Who is that to?

Mr Holden: I think Mr Vickerstaff.

Matthew Vickerstaff: You highlight a very complex and very important point. DFE are absolutely focused on this area, and recognise the issue and the fact that some projects originally done with local authorities, now going through to academisation and being around 50% of all schools, means that the responsibility actually comes back to the Department. Therefore, given that they are managed by separate trusts, but then with an ultimate responsibility which has to be clarified in terms of when it was handed off between the local authority and also the Department, they are highly focused on and working on that in the context not just of PFI but funding generally. It is something that the Department is highly focused on. If anything, they have one of the more resourced and capable PFI teams in terms of managing contracts. They are further ahead, also, in managing expiry and the specific risk that you have highlighted there, which is absolutely a real risk.

Q52 **Mr Holden:** And how are local authorities being held to account while those contracts are still ongoing? Surely they are the relevant authority, potentially, and maybe have been for a period of time, so how are you ensuring, potentially, particularly for trusts, which may have none of the resources even of a local authority—how are they able to manage within the system?

Matthew Vickerstaff: It is flipping from schools to trusts, but absolutely local authorities have been responsible up to a point, and then actually when the schools become academies it comes back to the Department, so there is an interface risk there. There is a review that we have done recently where that does need clarification and focus and, absolutely, we are on that issue. In terms of, then, trusts, they are separate, as I am sure you aware. They are separate legal entities and therefore the relationship with the Department—it depends on what the issues are.

Q53 **Mr Holden:** Okay, Mr Vickerstaff, it all sounds quite complicated, so if am a primary school or a secondary school at the moment with a BSF programme which was agreed under a local authority, and it has now transferred to becoming an academy trust, who is responsible—the DFE or the trust? Or does it depend on the individual situation?

Matthew Vickerstaff: The academy itself, a priori, but then, as you get into expiry, there are issues around is there a residual value payment or actually does it expire? So at the first flush it is the academy, but if there is additional funding required—for example, to exercise a purchase action—that is something that the Department will need to look at.

Q54 **Mr Holden:** But, you see, you are saying some of these academy trusts could be taking on massive liabilities, essentially.

Matthew Vickerstaff: No, not massive liabilities. They have the rump of the contract, until expiry; but there then could be a payment that's required, which, frankly, needs to be made. Originally that might have sat with the local authority, whereas now, arguably, it sits with the Department.

Q55 **Mr Holden:** Arguably: does it arguably sit with the trust, as well, potentially? Or with the Department?

Matthew Vickerstaff: In terms of the trusts, it sits with the Department.

Q56 **Mr Holden:** We are also aware of some of the issues, particularly around maintenance. For example, there could be large backlogs in some of these contracts, which were perhaps agreed by a local authority, which have then been offloaded to a trust, which could itself face a potential issue in some of these areas as well, not just the end capital balloon payment.

Witness ***Matthew Vickerstaff:*** Again, that is why it is essential, from a backlog maintenance perspective, to review the contracts very early on—at least seven years. However, if it is felt that there are big backlog maintenance issues, that should occur even earlier than seven years to ensure that the SPV remedies the poor maintenance that has given rise to the backlog maintenance.

Q57 Member **Mr Holden:** You surely see the issue. There is a bit of a lack of incentive for the local authority to do that if it is handing over control.

Witness ***Matthew Vickerstaff:*** I am not sure in the case of a school in its local area—I think there is every incentive to ensure that the school is in a good condition and well maintained. When it comes back to the public sector estate, I think everybody's interests are aligned—the academy, the local authority and the Department.

Q58 Member **Mr Holden:** I think you have a very generous view across the piece there, Mr Vickerstaff, of everybody's views being aligned. In terms of the hit to the Department's balance sheet, has this been quantified yet for the Department for Education?

Witness ***Matthew Vickerstaff:*** We are talking about very early projects—

Member **Mr Holden:** I understand we are talking about them at the moment, but in totality.

Member **Chair:** Mr Roxburgh, on the point about the liability to Government that Mr Holden just raised. Mr Holden, do you want to repeat the question?

Q59 Member **Mr Holden:** Yes. Sorry, Mr Roxburgh. On the liabilities of these PFI contracts hitting the departmental balance sheets, particularly the Department for Education's, have we seen anything in terms of this? How much is going to be transferred on to the Department's balance sheet? Are they aware of how much is going to come forward over the next few years?

Witness ***Charles Roxburgh:*** I cannot answer that in terms of the specific Department. You can go and check with them. The real value of this programme of looking at the expiry is to get a much better handle on the assets as these contracts come to the end of their life and the assets come on the balance sheet of the Department, if that is where they are going to end up. There will be an asset and maybe some offsetting liabilities. That is what these contract expiry reviews can give us much more insight into. I don't yet know what each of the Departments are looking at seven and a half years out.

Q60 Member **Mr Holden:** We are talking about hundreds of billions of pounds of contracts. These are huge liabilities hitting departmental balance sheets over the next few years. Has this work not been done to even give them an indication of this yet?

Charles Roxburgh: We know the remaining unitary charges. That is well understood. Those are the charges that are required under the contracts. Beyond that, once the contract has ended, those liabilities cease and the asset reverts to the Department for Education or wherever.

Sir Geoffrey Clifton-Brown: No, it does not.

Mr Holden: Sir Geoffrey, do you want to intervene?

Q61 **Sir Geoffrey Clifton-Brown:** Let us try this again with you, Mr Roxburgh. What is happening is that local authorities have the liability at the end of the PFI contract, which sometimes requires a substantial capital payment, whereupon they are going to hand over the primary schools that Mr Holden was talking about to an academy that could in the extreme immediately go and sell it off and make a huge profit.

Charles Roxburgh: You are talking about these academy ones?

Sir Geoffrey Clifton-Brown: Yes. That is what Mr Holden was asking about.

Charles Roxburgh: I am not familiar with this particular issue. For the Department for Education, we will need to follow that one up and understand what DFE's forward planning is for that.

Q62 **Sir Geoffrey Clifton-Brown:** Could you let us have a note on this issue of DFE's liability in relation to academies?

Charles Roxburgh: Certainly.

Q63 **Mr Holden:** Just to come back to this, Mr Roxburgh, because this is going to be across all sorts of different areas. We have had massive issues at Bishop Auckland Hospital, just to the south of my constituency, which serves a huge part of the community locally. A huge number of services have had to be reduced. We have seen a lot of this regarding the NHS and the huge bills that we've had to pay. We are now looking down the barrel, it appears today, at an issue around the entire education sector that hasn't been properly considered yet, when these contracts come to expire over the next few years.

It is absolutely essential that we don't see what we saw happening in the NHS happen to education services locally. As Sir Geoffrey has highlighted, we need a note on this, as a matter of urgency. Given the scale of the Building Schools for the Future programme, that is something that we need urgent clarity on, and also in terms of other Departments, perhaps the Home Office, regarding the police estate.

Q64 **Chair:** Just to be clear on that note, it would be helpful to understand where the original contracting authority has handed over or will be handing over the asset ahead of the expiry. They don't have the same skin in the game, in terms of managing the contracts. They are not going to inherit the asset. As Mr Holden has highlighted, it is partly around schools but also around lots of potential sectors, as he just touched on. Thank you, Mr Holden; we are now going to go back to Olivia Blake MP.

Member **Olivia Blake:** Can I ask you all when you will publish guidance on managing *[Inaudible]* expiry?

Member **Chair:** Your sound is a little unclear, Ms Blake. Can you repeat the question?

Q65 Member **Olivia Blake:** Sorry. I will try to speak up. When will you publish guidance on managing PFI expiry? That is to all the witnesses in turn—Mr Roxburgh first.

Witness ***Charles Roxburgh:*** The IPA is managing that programme, so maybe Matthew can go first. He is in charge of the programme. Can you pick that up, Matthew?

Witness ***Matthew Vickerstaff:*** Absolutely, very happy. We will be issuing guidance and technical notes on managing expiry, in addition to the work we are already doing on the ground, over the next year. I can't give you specific dates because covid has impacted the rate that we can build up the capability of training and support work that is required to actually provide technical guidance around the expiry guidance that you are seeking.

Q66 Member **Olivia Blake:** I think that answer suffices. Moving on to Mr Roxburgh, are you expecting Departments to develop and publish their own sector-specific guidance?

Witness ***Charles Roxburgh:*** That will be a matter for the Department, once we have got the overall guidance. Some Departments, like DFE and Health, have very capable teams that could build that into their interactions with the agencies that own the assets. That would be for the Department to follow up on, but building on the overarching framework that Matthew has described. That might, in some Department areas, be a very a helpful thing to do, given that there will be some specific expiry issues common to similar types of assets. That might well be something that Departments wish to take forward.

Q67 Member **Olivia Blake:** Do you agree that that might be advisable, particularly given the questions that we have just had from Mr Holden?

Witness ***Charles Roxburgh:*** I think where there are common issues, across a similar set of PFI contracts, that could be very helpful, yes.

Witness ***Matthew Vickerstaff:*** It is actually in train. It is something that they are planning on.

Q68 Member **Olivia Blake:** Mr Vickerstaff just confirmed it was in train. Mr

Hanson, picking up on asset values, which we were discussing earlier, have you looked into changes in MRP provisions of assets subject to PFI for local authorities? I am aware that these may be changing and might have an impact on asset values.

Witness ***Sean Hanson:*** I am sure that we have. I'm afraid that I cannot speak with any great knowledge, but I will come back to you and to the Committee, if that is okay.

Q69 Member **Olivia Blake:** Sorry—MRP is minimum revenue provision, for anyone who is listening. What assurance can you give that there won't be a bulge in expensive consultants appearing in this sector to help with the management, and that the central pool of experts that you are pulling together will be adequate for authorities to draw upon?

Witness ***Matthew Vickerstaff:*** I absolutely agree, and that is why some of the previous answers I gave are slightly different from the NAO's Report, albeit that the expertise does require experts, and they can be expensive. But outsourcing it to private sector consultants is not the best value-for-money solution.

However, providing that additional resource and making sure it is capable—especially on the technical, financial and commercial, and indeed on the legal—is absolutely critical. That is why there will be a combination of some central resource and some local additional resource that is required.

Q70 Member **Olivia Blake:** In what timeframe do you think you will be creating that central pool?

Witness ***Matthew Vickerstaff:*** Some of that recruitment has already occurred, so the team has increased to 17 this year and next financial year it will increase to 21. On top of that, as I have said, we will be going to the oversight committee with proposals and recommendations about how additional resource is either resourced from Departments or resourced regionally, in addition to the central resource. We are working up those plans and proposals at the moment.

Q71 Member **Olivia Blake:** Mr Hanson, I am just going to ask about the leverage that the authorities have when ending these contracts, and how confident you are that they will not be disadvantaged by the fact that there are 10 large investors that seem to be running the majority of these contracts. Mr Vickerstaff, what actions are you taking to level the playing field?

Witness ***Sean Hanson:*** It is very clear that, in terms of the leverage, the clearer the contract is about what the expectations are, the more you are able to apply that leverage. One of the things that we find quite regularly is that if you talk to a contract manager who has been in place for many years, operating with the SPV, they have a good working relationship. In effect, they sometimes talk about having the contract in the drawer, because they can get around issues that arise on a measured and friendly basis.

However, the problem with that, at times, is that it means you don't get into the habit of making sure that poor performance is addressed, so the leverage that is there is what is in the contract. What we try to do is to make sure that people use that and that they are aware of what their provisions are.

Sometimes investors can be a help to this, particularly if the SPV is not doing what it needs to do, because if you are in a position to be able to make deductions from the unitary charge, that also flows through to the investor. The investor doesn't want that to happen, and consequently that is something that can allow us to have additional leverage. The earlier one applies that leverage, the more pressure that can place.

There is leverage in most contracts, to be able to enforce the contract, and we would encourage people to understand what they can do, and that they do it.

Q72 Member **Olivia Blake:** Mr Vickerstaff, what are you doing to level the playing field?

Witness ***Matthew Vickerstaff:*** I agree with Mr Hanson's comments. The vast majority of those contracts will come back at the end of their expiry into the public sector estate, and they will come back automatically—no payment. They will just come back to the public sector estate, apart from a very few early contracts where there is a payment due.

The critical thing is to ensure that there is no backlog maintenance and also, from a continuity of service provision, that the right preparations have been made if external contracts are required—TUPE arrangements and so on for staff—and that they are actually managed appropriately. That is why one of the core elements of our expiry health check tool is not only asset condition but future provision of the services that are still required to maintain and operate the public sector service.

As Mr Hanson has outlined, the key thing is to get in early, enforce the contracts and ensure that maintenance obligations are being maintained, particularly when there is still any funding and financing within the SPV such that any deductions will really focus the mind both of the equity investors and of any debt investors. Then, overarching that, we already have engagement with the core key investors, which is built off other workstreams that we have, as I mentioned on LIBOR/SONIA, and we are now talking to them about PFI contract management. Some of it, for example, is on Highways England and the large number of roads coming back, but specifically across the programme, we are engaging with the key investors.

Q73 Member **Olivia Blake:** Clearly, we would like to see consistency in that process, where there are the same investors. What are you doing to ensure that Departments have a consistent approach to those negotiations with certain investors, and what are you doing to ensure that there are consistent outcomes as a result of those negotiations?

Witness ***Matthew Vickerstaff:*** I absolutely agree that consistency is critical. That is why the reviews are done on a consistent basis. There is a RAG rating as well as a recommendation in terms of the action that needs to be taken. One of the core key things we do is to identify the key investors in that project. Clearly, we will be looking to read across from different sectors and Departments to those investors, to make sure that those investors have a common approach to both contract management and the expiry of risk.

The final thing I would say is that many of the investors involved in the core investors in PFI are local authorities and the university superannuation pension fund, as well as some major PLCs with pension funds. So it is about getting to the end limited-partner investors and ensuring that those pension funds, local authorities, USS and so on buy into the fact that having that whole estate coming back in a good state is responsible and the right thing to do. That is a protocol that we would like to develop with those end investors.

Q74 Member **Olivia Blake:** Finally, is there any support for early termination where PFI is no longer needed or no longer fulfils a suitable role? I am thinking of an example in my city, where a hospital unit failed fire regulations and could not be used. I know of GP surgeries that are untenanted at the moment and schools that were never used. Is there support from the Department to help authorities out of those situations? Are you concerned that managing some of those trickier situations might prevent investment in transforming some of our key services?

Witness ***Matthew Vickerstaff:*** I will have a first go, and then perhaps invite Mr Roxburgh in. Where a voluntary termination represents value for money, then it is absolutely something, certainly from an IPA perspective—and we have received support from Treasury colleagues for terminating specific contracts. From a voluntary perspective, the types of contracts for which termination might work are those where relationships have broken down, where the original asset is perhaps not needed, or indeed where there may actually be reasons that the asset is orphaned and therefore creates complexity from an operational delivery perspective, meaning that, looking at the broader public service activity, it still makes sense to remove that underlying contract.

The issue with voluntary termination is that the principle behind it in PFI contracts is that the public sector should not receive a voluntary windfall—an economic windfall leading from that voluntary termination—because the investment was undertaken by the private sector. Therefore, if they are complying with the underlying contracts and are delivering on their side, it seems reasonable that they should be recompensed for the voluntary termination.

There is complexity in some situations. You may be aware of Parklands High School in Liverpool, which is the one that is often quoted, where the underlying asset is not now needed and therefore the PFI contract looks very expensive and complex, but actually the underlying asset would not have been needed if it was delivered by public sector capital. With those comments, I invite Mr Roxburgh to comment from a Treasury perspective.

Witness ***Charles Roxburgh:*** The contracts do allow for early termination, but it has to be negotiated. The challenge, not always but largely, has been around value for money, given that there can be a very significant break with those contracts. These are lawful contracts entered into, and they are binding. Therefore, the cost of breaking the contract is one that the Government would have to pay. Therefore, as this Committee would expect, we need to apply value-for-money tests on the way out, just as on the way in. While some have been possible to do with the value-for-money tests being met, others have not.

That illustrates one of the reasons why the Government no longer does PFI or PF2 contracts: they have a cost of complexity that was not apparent at the outset but becomes apparent over time. The cost of inflexibility is one of those costs that meant that, in the end, the Government decided not to do further PFI and PF2.

Q75 Member **Sir Geoffrey Clifton-Brown:** Can I come to you in the first instance, Mr Vickerstaff? Paragraph 2.8 on page 28 of the Report says that conducting asset condition surveys is absolutely key. Knowledge is key in all this, so is it acceptable to leave it until the last two years of the contract, or in order to get people to understand what potential pitfalls there are, should we require every authority to conduct an asset condition survey as soon as possible?

Witness ***Matthew Vickerstaff:*** Yes.

Member **Sir Geoffrey Clifton-Brown:** The table in paragraph 2.10 is worrying, because 70% of authorities seem to think they are going to get their assets back in the condition that they thought they would, but they may be living under a false illusion, may they not?

Witness ***Matthew Vickerstaff:*** SoPC4, which was the final version of the standard model contract, recommends around 18 months to two years. I think that is too late. That is absolutely why we are recommending that the expiry review happens at year 7 before expiry, and that may involve and require an asset condition survey to be done at that stage.

Q76 Member **Sir Geoffrey Clifton-Brown:** I am going to come to Mr Roxburgh and ask him about this in a minute. There is one other area that I want to ask you about at this stage, before I come to him. Paragraph 2.13 says that some PFI contracts restrict the information that can be shared with the authority, such as maintenance and the lifecycle fund. That is ridiculous, because if it is in surplus, it gets paid back to the investors anyway. Is it acceptable that the contracts should restrict information in that way?

Witness ***Charles Roxburgh:*** Was that to me?

Sir Geoffrey Clifton-Brown: Mr Vickerstaff, in the first instance.

Matthew Vickerstaff: There are some early contracts that I think the Report is highlighting. Authorities are making that point: do they have the tools? That is absolutely why we do need to engage with the investors, to actually hold them to account and say that things like asset registers, information on the underlying assets and the levels of maintenance funds and sinking funds are actually made available, in knowledge, in terms of managing the expiry risk. So I am absolutely agreeing both with the NAO and with you in this regard, and I do think that's where the engagement needs to be, with investors.

Q77 **Sir Geoffrey Clifton-Brown:** Mr Roxburgh, you have heard through this hearing today that there is a lot of concern about these PFI contracts, but there doesn't seem to be any urgency from Government to actually want to get to grips with this. Considering they are worth about £60 billion-worth of assets and it is going to cost us over £5 billion for the next 30 years in the uniform annual payment, shouldn't there be much more urgency in Government and much more guidance to authorities that hold these contracts to try to get them to understand the potential liabilities they are storing up for themselves?

Charles Roxburgh: I think it is taken very seriously. The establishment at the IPA have their unit to help manage this, focusing particularly on the end of life, which is where a lot of value is. And there is the work that has been initiated in Departments like DFE and the Department of Health; and Transport also have a very capable team. I think these Departments are taking it seriously. I think the value at end of life has been helpfully brought out by this NAO Report and, as Mr Vickerstaff said earlier, we were already beginning on that, but this has helped accelerate that process.

Managing the stock of these contracts is, I think, an important area of making sure that we get maximum value for the contracted payments, but also that we don't pay any more than we need to. So I think there is now a focus on managing the value of this to manage this legacy. The contracts are complex and inflexible, so it is not always easy, but that just means it is even more important to get the centre and the relevant Departments to build up the capabilities and the processes, insights and understanding to do that.

Q78 **Sir Geoffrey Clifton-Brown:** You say that the individual Departments are taking much seriously the matter of how they manage those contracts. Can we take it from that answer that you in the Treasury will be asking probing questions at every year's annual finance negotiations?

Charles Roxburgh: I will check with my colleagues on the individual spending teams, but, as this is a major item in budgets for the relevant Departments, it would be natural to be going through all the major items relevant to the Departments. If you imagine something like the Department of Health, there is a very large number of issues that they need to go through, but this is an important one that they also need to keep focus on. I think Matthew wants to come in and add to that.

Q79 **Sir Geoffrey Clifton-Brown:** No. Sticking with the Treasury for a minute, I want to get a fairly positive assurance from you that the annual financial negotiations that the Treasury conducts with each Department are a really good opportunity to ask the Departments what financial progress they are making with PFI contracts under their control.

Charles Roxburgh: I will happily take that up with my colleagues. Where it is a material factor, I am sure that they are. I will confirm that that is the case where it is a material factor. It is not for all Departments, but there are Departments where it is a material factor.

Q80 **Sir Geoffrey Clifton-Brown:** Where it is a material factor, could you let us have a note saying that the Treasury will as a routine be doing that? If that is what you are saying, could you let us have a note that the Treasury will be doing that?

Charles Roxburgh: Sure.

Q81 **Sir Geoffrey Clifton-Brown:** Mr Vickerstaff, you had your hand up.

Matthew Vickerstaff: Can I just say that the oversight committee, which is, ultimately, from the Government's perspective, responsible for this programme, is co-chaired by Alex Chisholm and Cat Little, who is head of spending at the Treasury. I can absolutely confirm that she is very focused from a spending perspective. And her co-chairing role highlights the fact that she is absolutely supportive of it from a Treasury—

Q82 **Sir Geoffrey Clifton-Brown:** That is really helpful, Mr Vickerstaff. You have stressed to us many times throughout this hearing that the earlier you can negotiate these contracts, the better. We all understand that and that the bodies that do it the best—maybe Highways England—have done this quite a number of years before the end of their contracts, and they have some of the most difficult ones.

But apart from doing it earlier, can we concentrate on some of the mechanisms at the end of the contract and how you deal with differences? It seemed to me that the NAO had a very good bit in its Report about first having informal arbitration, then having formal arbitration and only then going to the courts. Is this something that, in your advice to authorities, you are concentrating on?

Matthew Vickerstaff: Yes, we are. The dispute resolution procedure under most PFI contracts, of different vintages, as we have talked about, involves first an expert panel—whether it's on construction and asset condition, as it would be here, or indeed on a financial matter if it's in relation to termination. There is always then, if unfortunately there isn't agreement in relation to that expert panel, the ability to go to arbitration before going to the courts. Whether that arbitration is binding or not—generally, binding arbitration is not the preferred route; under most contracts, it has to be voluntary arbitration. But obviously, that can be a cheaper and quicker route than going through the courts, so it is built into most contractual negotiations. However, different vintages have slightly different approaches.

Q83 Member **Sir Geoffrey Clifton-Brown:** Again, the earlier you approach these matters, the more possible it is—as the MOJ have found in terms of amending the wording in their contracts to deal with how staff are transferred—to amend the contracts so that both parties are quite clear on their legal obligations at the end of the contract. Isn't that another reason why the Government ought to be sending some fairly firm directive to all authorities that hold these contracts?

Witness ***Matthew Vickerstaff:*** I am not sure whether you are just agreeing with me or you are—

Q84 Member **Sir Geoffrey Clifton-Brown:** No, I am just trying to get out of you the fact that the Government—maybe your organisation—needs to give more firm advice to all PFI holders that they need to take action not only to negotiate these contracts, but to look at them and see where they could mutually be improved well before—five, seven or 10 years before—their termination.

Witness ***Matthew Vickerstaff:*** I am going to say, again, yes. The expiry reviews that we have done to date have actually—we have been working, over the last couple of months, in terms of actually thinking this through. I think the point was made earlier by one of the questioners that what good looks like and the target that you should aim for is something that we should actually be providing. That is something that we are absolutely working up as guidance to contracting managers. That will slightly differ in different Departments, but actually having something that says, "This is best practice; this is what you should be aiming for"—which I think, again, is essentially agreeing with what you are saying—is absolutely something we are working up.

Q85 Member **Sir Geoffrey Clifton-Brown:** Paragraph 2.13 says that "some PFI contracts" restrict the "information that can be shared with the authority", such as in relation to maintenance and a lifecycle fund. Is that ever acceptable?

Witness ***Matthew Vickerstaff:*** As I say, that is something that, with investors, we will definitely look to—there are some difficult investors who like the idea of asymmetrical information on those key commercial issues, but absolutely we are looking to get the investors to buy into sharing asset registers and also sinking funds and maintenance reserves, because that is absolutely critical in managing the flight path down to expiry.

Q86 Member **Sir Geoffrey Clifton-Brown:** May I go on to some of the individual mechanisms of dealing with these contracts towards their end? Paragraph 3.13 talks about a retention fund. The problem with retention funds is that if the rectification work becomes more expensive than the retention fund's value, there isn't much incentive on the PFI provider to carry out the rectification work. What is the answer to that problem?

Witness ***Matthew Vickerstaff:*** A larger retention fund. That, again, comes back to why you need to pick this up early—to ensure that you can actually size that, to ensure the work can be completed.

Q87 Member **Sir Geoffrey Clifton-Brown:** But surely the PFI provider can't just unilaterally increase the retention fund. This is presumably a contractual obligation, isn't it?

Witness ***Matthew Vickerstaff:*** It is a contractual obligation, although the setting of the percentage and so the retention from the availability payment or the unitary charge is something that is triggered off the asset condition review—so, absolutely, we are going through exactly this point at the moment on some projects.

Q88 Member **Sir Geoffrey Clifton-Brown:** That's why we need to do the asset review or the asset surveys earlier, to go back to my earlier point. Paragraph 3.32 talks about performance bonds, which sound like a really good idea, but it says that the NAO could find only one instance where they were being used. Do you think this could be used more widely, to help out with the difficulties? A performance bond can, of course, build up a fund, which can then be used for deficiencies that occur for a few years after the contracts have expired, so it is a useful vehicle. Is that something the IPA will be promoting more widely?

Witness ***Matthew Vickerstaff:*** No. Performance bonds are very challenging for an SPV to deliver. Unless they are cash-backed, you will need to go to the ultimate investors to provide additional financing support to back off the performance bond and allow the bonding agent to be comfortable that, if the cost is higher, they will provide more contingent capital to support that performance obligation.

Frankly, these are under discussion and negotiation in certain instances, but they are not the best solution. For example, on some of the large property transactions that the Home Office and HMRC have, I think they were a flawed mechanic, which is why we need to go earlier to use the retention fund. So, they are not a preferred solution but they are something that we would consider, but we would need to get further input from the ultimate investors to support the provision of that performance bond.

Q89 Member **Sir Geoffrey Clifton-Brown:** Another thing that the NAO Report mentions in paragraph 3.32 is that the senior lenders tend to be paid off two years, or sometimes more, before the contract expires. If the rectification works haven't been carried out by then, when the contract expires there is no money left to recover it from the PFI provider. Isn't that another reason why we need to make sure that all these authorities start to look at these contracts much earlier?

Witness ***Matthew Vickerstaff:*** The early projects in the late ’90s—you are referring to what is commonly referred to as the tail, which is the time between the expiry of the senior debt and the expiry of the contract. In those early contracts, tails were five to seven years. The problem is that, even with those contracts, they were refinanced into the tail, and sometimes they are now only six to 12 months, maximum. Certainly, later projects had very short tails.

That again means that picking this up really early and saying to the debt service providers, “You might actually risk not having your debt repaid because of poor maintenance,” will force them to encourage the equity and the SPV to maintain the asset accordingly, remembering that there will always be more than one times debt service, so equity generally will be receiving some return, which can be used to supplement the maintenance reserve.

Q90 Member **Sir Geoffrey Clifton-Brown:** To some extent, your problems are front-loaded, are they not? The PFI contracts that are going to expire in the next five years are likely to be the older contracts, which are likely not to have the standard conditions in them, therefore they are much more vague as to what happens at the end of the contract. What is your organisation doing to address that problem?

Witness ***Matthew Vickerstaff:*** I think you are absolutely right: the early contracts were less worked up, focused and perfected in these areas. I have already referred to the model reformed contract SoPC4, which has the two-year hand-back review, which I think is too late. Putting that to one side, you are absolutely right that this is the area we really need to focus on, in terms of some those early problem contracts. That will probably involve more leading in from the centre. The fourth pillar, which I talked about in our original question, is support and advice, which will be necessary in those areas. That is identified as we go through our health check expiry reviews. The last thing we ask is, “What advice do you think this granting authority needs? Can we offer that? Do we have the resources available to offer that?”

Q91 Member **Sir Geoffrey Clifton-Brown:** I really want to go back, slightly repetitiously, which the Chair might not like. The most difficult contracts are likely to fall in the category of the 10 contracts expiring a year in the next five years. Would it not be a good idea for you to be much more proactive in going to those authorities and saying, “Here is what we can advise: these are likely to be your problems, and if you haven’t got resources”—resources keep coming into this conversation—“you should go to the Treasury and ask them for more resources”?

Witness ***Matthew Vickerstaff:*** I am obviously not explaining myself well enough, because we are doing that.

Q92 Member **Sir Geoffrey Clifton-Brown:** Are you being proactive in going to the authorities and saying, "We think these are the problems that you've got"? Are you absolutely being proactive?

Witness ***Matthew Vickerstaff:*** Of those expiries, we have done 23. We will have done 55 by March. We have a programme in place; they are all mapped out and are in the diary to be done. We have already reached out, proactively, for information from those Departments on the contracts, the financial model, the technical analysis. It is all in hand and in focus. Beyond that 55, I just see that flowing on. Obviously, setting up meetings for the next 10 years is not possible, but the programme will continue.

Member **Sir Geoffrey Clifton-Brown:** I think that is all I have, Chair. Thank you very much, Mr Vickerstaff. I am sorry if I misunderstood that, but I am now totally clear and glad of it.

Q93 Member **Shaun Bailey:** I just want to follow through on one point. I am conscious that a lot of the assets that will revert to public ownership require continuity of service. I appreciate that we might have pre-empted this answer, but what modelling have we done around the impact of a worst-case scenario if expiry goes wrong? We have talked a little about returns on this, but what will parents at Q3 Academy Tipton in my constituency end up paying if this all goes wrong? How will they ensure that their children are still educated if, at the end of that PFI, it all goes horrendously bad? What analysis has been done on the cost to the public purse of that?

Member **Chair:** A brief answer, please, Mr Vickerstaff.

Witness ***Matthew Vickerstaff:*** In our expiry tool, we have five pillars: contract awareness; the nature of the relationships around the contract; asset condition, inevitably; commercial risks; and future service provision. Absolutely, arguably the most important part of the expiry is to have continuity of future service. That again is not just about asset condition; it is about planning for continuity of service, which may require, for example, catering and cleaning services still to be resourced after the actual expiry date. As benchmarking and market testing are involved, that can be done, but it needs to be planned to manage that future service provision. I do not know if that sufficiently answers your question, which was perhaps slightly different.

Q94 Member **Shaun Bailey:** It does, partly. We talked a little bit about the lack of data in this, but I am concerned that we are ultimately dealing with public money here. If it all goes wrong, it will effectively require the Government to intervene to ensure that those services, such as education, can carry on. Given that, according to the NAO, the bulk of those expiry contracts are in education—they are DFE contracts—I want to understand the impact and the modelling that has been done on it. I am thinking financially, in particular. I do not know, Mr Roxburgh, whether the Treasury has done anything on that. What is it going to cost if it goes wrong? The bulk of your expiries are in the next 15, 20-year period. I hear what you are saying, Mr Vickerstaff, about the modelling and the tools that you have in place, effectively to ensure that that does not happen, but what happens if it all goes wrong?

Charles Roxburgh: I think the combination of the very strong work that Matthew and his team are doing to highlight, at seven years out, some of these issues gives Departments the time that they need to start planning for that, and the Departments will then be responsible. If those reviews highlighted challenges on continuity of service, they would need to develop their contingency plans for doing that.

I think that echoes the point that we have made consistently, that early reviews—seven years out—are really critical to start the process, both of extracting maximum value in those final years and of planning for the transition back to new ownership, and also of developing, if needed, contingency plans if there appear to be challenges ahead. But I think that seven years gives sufficient time in forward planning for the Departments to identify the risks, develop the plans and then assess what resources are needed.

Q95 **Shaun Bailey:** But, Mr Roxburgh, I assume that HMT would have some sort of oversight over those contingencies and, thinking again in terms of forward planning, would have done some sort of analysis as to the potential impact on the public purse that this may have in a worst-case scenario.

Charles Roxburgh: We would get at that through two ways. First of all, we are putting a lot of effort into managing our contingent liabilities across the whole of the public balance sheet—there are very significant contingent liabilities across the whole of the balance sheet—and putting in a new team within UK Government Investments to manage that, with the Treasury. So we are doing a lot more work on managing contingent liabilities overall.

Then, within the multi-year spending review—when we next do one, which will hopefully be later this year—Departments will think ahead to the costs, liabilities and contingency plans they need to develop within that framework. That would then be picked up within the overall spending discussions with the Departments, and if a Department sees a pressure coming from this area, they will need to highlight it and we will need to discuss with them how that pressure ranks against other pressures. That is the natural give and take of a spending review. Departments have to identify their forward requirements—what are the pressures and what are the risks?—and then the process of the spending review helps to bring that to an agreement for the settlement for the next three or four years.

Q96 **Shaun Bailey:** Given your interaction with other Departments, Mr Roxburgh, are you confident that that is happening in a way that HMT would want to see, in terms of the discussions that are going on?

Charles Roxburgh: I think the management of the stock of PFI contractors is getting much stronger, and I think that this new process, particularly the central oversight, is providing that top-down guidance and top-down leadership to complement what Departments were already doing in their own departmental areas. I think there is very clear recognition that there is a lot of value at stake across these 700 contracts and that it now merits a significant level of attention, depending on the risks and the stage of those contracts. So yes, I think we now have in place a good process and a process—both at the centre and in the Departments—to build up the information and capabilities, and the governance structures to manage it.

Shaun Bailey: Okay. Chair, I shall leave that there. Thank you.

Chair: Thank you, Mr Bailey. I thank our witnesses very much indeed for their time. This is a hugely important issue for so many parts of the public sector. As colleagues have highlighted, getting on top of it early—we are heartened by some of what we hear—is a good thing, but clearly it is massively complex, with so many different public authorities responsible for these complex contracts. And hearing the term "CD-ROM" perhaps reminds us how long this has been going on, and also just underlines some of the practical challenges, let alone the fiscal challenges.

You have agreed to write us a note, Mr Roxburgh; we look forward to receiving that. May I thank you for your time? We will keep a very close eye on this issue with our sister Committee, the Treasury Select Committee.