House of Commons

Committee of Public Accounts

PFI in Housing and Hospitals

Fourteenth Report of Session 2010–11

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons
to be printed 12 January 2011

HC 631
Published on 18 January 2011
by authority of the House of Commons
London: The Stationery Office Limited
£10.00

The Committee of Public Accounts

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Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Contents

Report

Summary

The Department of Health and the Department for Communities and Local Government (the Departments) are responsible for sizeable portfolios of PFI projects covering hospitals and social housing. By April 2009 there were 76 operational PFI hospitals in England and over 13,000 homes had been built or refurbished through PFI, representing a small but significant part of investment in social housing. The letting of contracts and the responsibility for managing them is devolved to NHS Trusts and local authorities. The Departments are responsible for overseeing their PFI programmes and reporting to the public and Parliament on value for money. This includes establishing the funding arrangements, approving contracts and providing support to the local projects.

As with previous Reports, we again found no clear and explicit justification and evaluation for the use of PFI in terms of its value for money. However, we accept that the then Government gave the Departments no realistic alternatives to PFI as the procurement route to use for these capital programmes.

Our other concerns are central government's failure to use the market leverage that comes from overseeing multiple contracts, and the lack of robust central data to support effective programme management.

Whilst PFI has delivered many new hospitals and homes which might otherwise not have been delivered, there is no clear evidence of whether PFI is any better or worse value for money than other procurement routes. There were instances where PFI may have been used where there was no evidence that it was the best procurement route. The Government should be doing more to identify the circumstances where PFI works best, capture the lessons learned from PFI procurements and apply clear criteria to future decisions over identifying the best route for particular public infrastructure investments. For instance, we expect any procurement decisions on the housing projects whose future is now being reconsidered in the context of the Comprehensive Spending Review to be made using clear value for money criteria.

It is clear that the implementation of PFI projects could be improved. Many PFI housing procurements have taken very much longer, and cost a great deal more, than originally planned. On hospitals, most are receiving the services expected at the point contracts were signed and are generally being well managed. There are, however, wide and unexplained variations in the cost of hospital support services, such as cleaning, catering and portering.

There are important developments in the PFI market which affect the profitability of these contracts and we are concerned that government is missing a trick in failing to secure the appropriate financial advantages for the taxpayer. Specialist financial institutions have been bundling projects together. This gives them the prospect of greatly enhancing the value of their interests in the projects through economies of scale. We are very concerned that the Department of Health has not approached the major investors and contractors to negotiate a share in these efficiency gains and economies of scale. Departments should exploit the commercial weight and buying power that comes from letting substantial contracts, but at present neither central government nor the local bodies benefit from this. At a time of

public spending constraints there is an obligation on government to secure better deals for the taxpayer, as government has done before when successfully securing a share of PFI refinancing gains.

A lack of good quality central data undermines the Departments' ability to monitor performance, to drive efficiency savings and effectiveness improvements, and to target support to local providers. For example, the Department of Health does not know whether services provided more cheaply in some locations are better value for money, or alternatively poor quality, or reflect inconsistencies in the way costs are recorded.

It seems that the central team in the Department of Health is already under-resourced and unable to secure proper value for money from these contracts. It would be a false economy to have weak central teams that are unable to implement our recommendations, all of which are aimed at delivering better value for money in the long term. The issues facing housing and hospitals will also be relevant to other PFI programmes.

On the basis of two Reports by the Comptroller and Auditor General,[1] we examined the Department of Health and the Department for Communities and Local Government on their management of PFI programmes to deliver hospital support services and procure social housing.

1 C&AG's Reports: *The performance and management of hospital PFI contracts*, HC 68, 2010-2011; and *PFI in Housing*, HC 71, 2010-2011.

Conclusions and recommendations

1. **There is no clear evidence to conclude whether PFI has been demonstrably better or worse value for money for housing and hospitals than other procurement options. In many cases local authorities and Trusts chose the PFI route because the Departments offered no realistic funding alternative.** There have, however, been long delays and cost increases affecting many early PFI housing projects, as well as wide and unexplained variations in the cost of PFI hospital support services. The Departments should prepare and publish whole-programme evaluations which assess PFI against alternative procurement routes using clear value for money criteria. The evaluations should include the merits or otherwise of including support services in the contracts.

2. **PFI housing contracts have cost considerably more than originally planned and, on average, have been let two and a half years late.** The Department for Communities and Local Government must ensure that the actions it has been taking to address previous programme failings will result in future projects being delivered to time and within cost.

3. **Following the Comprehensive Spending Review, the future of remaining PFI housing projects is uncertain.** In taking forward plans for delivering new and improved housing, the Department should ensure that the choice of procurement route, PFI or otherwise, is based on clear and transparent value for money criteria.

4. **The Department of Health, in failing to negotiate with investment funds centrally, is not using its own buying power to leverage gains for the taxpayer.** Specialist investment funds have interests in large numbers of PFI projects. One fund, Innisfree, has acquired interests in a substantial portfolio of hospital projects. The bundling together of projects by these investors gives them the prospect of taking added value from economies of scale, with no benefit to the public sector at a time of severely constrained public finances. Central negotiations with investors have proved successful in the past in securing a share of refinancing gains for the public sector. Central government is currently negotiating with major suppliers to seek better deals from a range of existing contracts. The Department of Health and other departments with PFI programmes should similarly negotiate with major PFI investors and contractors to secure better deals for the taxpayer.

5. **The Departments do not routinely collate sufficient accurate data on the costs and performance of their PFI contracts.** Monitoring and improving value for money depends on local projects having access to good quality information from across the programmes. Both Departments should define minimum data requirements and then take responsibility for ensuring that information collected from and distributed to local projects is complete, accurate and consistent. The Department of Health and the Foundation Trust regulator Monitor should embed these data requirements in Foundation Trusts' terms of authorisation so that they are mandatory.

6. **There are no mechanisms built into generic PFI contracts to test the continued value for money of maintenance work during the contract period.** The requirement for buildings being maintained to high standards over the life of the contract is supposed to be a key benefit of PFI. Yet around 20% of hospital Trusts were not satisfied with the maintenance service. Unlike services such as catering and cleaning, maintenance is not subject to a value for money review during the contract period, so contractors do not face the threat of losing the contract if they are uncompetitive. The Treasury, in consultation with departments, should identify how value for money tests and incentives to improve maintenance could be built into the life of PFI contracts.

7. **Local procuring authorities will be at a disadvantage compared to the private sector if the Departments do not provide sufficient central support**. Central departments need to have adequate resources to: collect data and carry out programme evaluations; exert market leverage and identify opportunities for efficiency gains; and share good practice with the local projects and offer support to them. It would be very disappointing if the public sector as a whole lost value for money from its PFI contracts because the Departments were losing their capability through reducing the costs of central administration. We look to the Department for Communities and Local Government to deliver on its commitment to keep its support capacity at an appropriate level. We also expect the Department of Health to firm up plans for the future of its PFI Unit and for Trusts to contribute to a club to procure contract management support. Trusts should confirm that they will actively engage with the club.

8. **Our recommendations are directed at the programmes for housing and hospital projects but are also relevant to other PFI programmes across government.** In the Government's response to this report, the Treasury should outline its plans to support all departments in maximising value for money from their PFI programmes in the current economic climate. We expect the Treasury to comment specifically on the evaluation of PFI as a procurement route, on using market leverage and on the sufficiency of central data.

1 Value for money of the hospitals and housing PFI programmes

1. Many PFI projects are procured by local bodies, such as NHS Trusts and local authorities, who are the signatories to the contracts and are responsible for day to day contract management. Central government departments are responsible for managing the portfolios of projects, supporting projects to maximise value for money over the lives of the contracts and providing assurance to Parliament on expenditure and value for money. We took evidence at a single hearing, based on two National Audit Office reports – on the operational phase of PFI hospitals, and on the procurement phase of PFI housing – in order to look at the PFI process in a broader context.[2]

2. As of April 2009 there were 76 operational PFI hospital contracts with a capital value of £6 billion. In addition there are a small number of projects in procurement.[3] Over the past ten years PFI has been the major procurement route for major health infrastructure projects. The Department of Health told us that in 1999-2000 the then Secretary of State had said "PFI is the only game in town".[4]

3. By contrast the Department for Communities and Local Government has made more limited use of PFI for social housing. The Department told us that PFI has accounted for only 2% of investment in social housing where it sits alongside a number of other investment routes.[5] By April 2009 there were 25 signed PFI housing projects which had built or refurbished over 13,000 homes.[6] Together with projects currently in procurement the Department told us that PFI housing projects have a capital value of £2.8 billion, which excludes projects worth £1.8 billion for which funding is no longer guaranteed following the recent Spending Review. It is currently reviewing these projects with local authorities to consider different funding options.[7]

4. We questioned the two Departments about the circumstances in which they felt PFI was value for money. The Department of Health believes that at a portfolio level there has been no difference between PFI and ordinary public procurements in terms of value for money, but that PFI has enabled many more hospitals to be built that would otherwise have been the case.[8] The Department for Communities and Local Government told us that PFI works best for delivering significant transformational change in areas of high deprivation but works less well for straightforward refurbishment schemes.[9]

2 C&AG's reports, *PFI in housing*, HC 71, 2010-2011 and *The performance and management of hospital PFI contracts*, HC 68, 2010-2011

3 Q 129; C&AG's report, *The performance and management of hospital PFI contracts*, HC 68 2010-2011, paragraph 1.2

4 Q 36

5 Q 1

6 C&AG's report, *PFI in housing*, Figure 1

7 Qq 101-103, Ev 20

8 Qq 7-8

9 Qq 2, 159

5. It is hard to get a definitive picture of when PFI is value for money without robust evaluation. The Department for Communities and Local Government has undertaken a limited analysis of capital costs on new build schemes but this did not take account of all project costs such as finance costs. The Department was undertaking a programme level comparison exercise which was due to conclude in December 2010.[10]

6. To be approved, PFI projects should be assessed as being value for money compared to other funding options. This usually involves comparison to a theoretical model called the public sector comparator. The Department of Health noted that in some cases PFI deals went ahead with the PFI option marginally more expensive than the public sector comparator.[11] As comparators involve estimation a marginal difference is not significant, but we are concerned, given that other funding options were not realistically available, that business cases may have failed to challenge sufficiently the choice of PFI as the procurement route. The National Audit Office also reported that local authorities frequently cited PFI as the only realistic route to secure funding for some housing schemes.[12]

7. Value for money is called into question if projects are consistently late or over-budget. The housing projects signed to date have cost significantly more than originally planned with 12 projects seeing increases over 100%. In addition projects have on average been signed two and half years late.[13] The Department for Communities and Local Government told us that insufficient time was invested in the beginning of the process for early schemes. For example project teams did not have a good understanding of the condition of existing housing stock.[14] The Department for Communities and Local Government now spends more time evaluating projects at an early stage and told us that only one project has seen a cost increase since 2006, although some projects may need to reduce their scope to stay within budget in future. [15] On hospitals, most PFI hospital contracts, once operational, are well managed and achieving the value for money expected at the point contracts were signed; but there is no evidence that including operational support services in a PFI contract is better or worse value for money than managing them separately.[16]

10 Qq 111, Q15

11 Qq 25, 38-39

12 C&AG's report, *PFI in housing*, paragraph 1.12

13 Qq 97-99; C&AG's report, *PFI in housing*, paragraph 2.11

14 Q 3

15 C&AG's report, *PFI in housing*, paragraph 2.10

16 C&AG's report, *The performance and management of hospital PFI contracts*, paragraph 18

2 Making savings in operational contracts

8. Contractors and investors are often involved in multiple PFI projects which gives them the opportunity to drive efficiencies through effective management and economies of scale. There is an active market in the equity in PFI projects and some financial institutions have been buying interests in a large number of projects.[17] For example, one fund, Innisfree, has acquired interests in 24 hospital projects.[18] The price at which equity is traded would give an indicator of the current market value attached to PFI projects, but these trades are not tracked centrally.[19]

9. With tight public spending constraints, central government is negotiating with major suppliers to secure better deals and reduce costs. However, the Department of Health has not used its buying power to negotiate with major PFI contractors and investors to secure a share of efficiency gains for the tax-payer. This approach has been successful in the past to secure a public sector share of gains from refinancing contracts even though there was no contractual obligation for such gains to be shared.[20]

10. The Department argued that it was difficult to ask the private sector to share gains when sometimes they made losses and the public sector does not share in those. For example, one construction contractor had lost around £100 million on a hospital contract. The issue, however, is whether, in most cases, the private sector is making greater than expected profits without any gain sharing with the public sector. There is a lack of data on this issue but reports suggest that in some hospital projects the investors are receiving returns of ten times their initial investment.[21] When pressed, the Department accepted that it would be possible to try and renegotiate contracts to reduce costs.[22]

11. Hospital PFI contracts may include support services such as cleaning, catering and portering. These services are usually tested every five years in order to ensure that prices reflect the market. Trusts may not always report the results of this regular testing to the Department of Health but the Department told us that rates had reduced in all the exercises in 2010 that it knew about. Trusts may also choose to change providers or take services back in-house at this stage.[23] The costs of delivering these services through PFI are, on average, broadly similar to those in non-PFI hospitals, although there are wide and unexplained variations between individual hospitals.[24] The choice as to whether to include these services in PFI contracts is left to Trusts and we were told that most recent contracts

17 Qq 17, 48; C&AG's report, *The performance and management of hospital PFI contracts*, paragraphs 15, 3.30-3.31

18 Q 10; http://www.innisfree.co.uk/projects.html – of the 24 projects, seven are overseas and one in Scotland. The remaining 16 are English NHS hospitals.

19 Q 59

20 Qq 142-144

21 Q 13

22 Q 142

23 Qq 27, 78 and 85

24 C&AG's report, *The performance and management of hospital PFI contracts*, paragraph 9

exclude them. The Department has not undertaken any evaluation to identify the merits of either including or excluding these services.[25]

12. One of the stated benefits of PFI is that it should ensure buildings are maintained to a high standard through the contracts' lives, yet 20% of Trusts were not satisfied with the maintenance service provided within their PFI contracts. In addition, unlike support services, the costs of maintenance cannot be revisited and are not subject to regular benchmarking.[26] The Department of Health had not addressed this issue. It had been unsure about the viability of negotiating lower maintenance costs, Trusts had not been very supportive of such action and the Department had consequently not taken up the matter with suppliers.[27]

13. Central departments are best placed to collect and distribute benchmarking data that can be used to understand individual project costs relative to others projects and help local delivery bodies manage their contracts effectively. The quality of data within Whitehall is a systemic problem identified in numerous hearings of this Committee. [28]

14. The Department of Health told us that it cannot compel Trusts, especially Foundation Trusts, to engage with the support it offers and that about 40% of Trusts do not routinely engage.[29] All Trusts, including Foundation Trusts, are required to provide data on the size and cost of their estates using a system known as the Estates Return Information Collection (ERIC). However this does not include PFI-specific information and concerns over data quality, and the fact that since 2007-08 data has only been collected at a Trust rather than an individual hospital level, mean that this data is not appropriate for benchmarking the costs of PFI contracts. The Department has not taken steps to address this.[30]

15. In contrast the Department for Communities and Local Government has found local authorities willing to cooperate in providing data.[31] However, in the past it has not collected sufficient data to evaluate the programme and monitor performance. The Department has introduced new mandatory proformas which should provide more systematic and comparable data enabling it to control cost increases and compare PFI to other procurement options.[32] The Department is still developing its data collection for operational projects.[33]

16. The procurement and management of PFI projects requires there to be sufficient capacity in both central departments and local delivery bodies. The Department of Health has a team of only four people to support Trusts with operational PFI contracts and there is

25 Qq 74-75, 82

26 Qq 54-56, 72-73

27 Qq 58, 69

28 Q 119

29 Qq 90-92, 95

30 Qq 118-119, 172; C&AG's report, *The performance and management of hospital PFI contracts*, paragraph 17 and Figure 11 Notes

31 Qq 88-89

32 Qq 15, 45 and 46

33 Q 88

uncertainty about the future of this team.[34] In addition, 36 % of Trusts have less than one full time person managing their PFI contract and a further 12% do not have anyone spending at least a day a week managing their contract.[35] The Department welcomed the National Audit Office recommendation to form a "PFI club" whereby Trusts would receive the benefits of central support and in return would provide benchmarking data. The club has yet to be implemented but the Department proposes to ask NHS Trusts to contribute financially to such a club so that support could be commissioned to cover for any shortfall in support the Department is able to provide.[36]

17. The Department for Communities and Local Government and the Homes and Communities Agency oversee a number of housing projects that are still in procurement and between them have a team of 11 staff. The Department has also introduced additional support to some local authorities via 'transactors' - a flexible team of people with commercial expertise. The Department told us that it would maintain this capacity for as long as it is needed.[37]

34 Qq 50, 114-117 and 150

35 C&AG's report, The *performance and management of hospital PFI contracts*, paragraph 3.6

36 Qq 114-117

37 Qq 6, 97

Formal Minutes

Wednesday 12 January 2011

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Ann McGuire
Mr Stephen Barclay	Austin Mitchell
Dr Stella Creasy	Nick Smith
Matthew Hancock	Ian Swales
Chris Heaton-Harris	James Wharton
Jo Johnson	

Draft Report (*PFI in Housing and Hospitals*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Resolved, That the Report be the Fourteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 18 January at 10.00 am

Witnesses

Wednesday 24 November 2010

Page

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–11

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Mulit-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 24 November 2010

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon	Chris Heaton-Harris
Stephen Barclay	Austin Mitchell
Stella Creasy	Nick Smith
Jackie Doyle-Price	Ian Swales
Matthew Hancock	James Wharton

Amyas Morse, Comptroller and Auditor General, and **David Finlay**, Director, gave evidence. **Ed Humpherson**, Assistant Auditor General, **David Clark**, Director, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

Examination of Witnesses

Witnesses: **Sir Bob Kerslake**, Permanent Secretary, Department for Communities and Local Government, and **Peter Coates**, Commercial Director, Department of Health, gave evidence

Chair: Welcome to you both. I think congratulations are in order to you, Sir Bob. You've just been appointed as the Permanent Secretary at DCLG.
Sir Bob Kerslake: That's right, yes.
Chair: We wish you well and we look forward to having not too many conversations over the coming period, depending on performance.
Sir Bob Kerslake: Depending on how things go, yes.

Q1 Chair: Peter Coates, welcome to you. This is a new way of trying to do the business: to try to look at PFI in a broader context, across Government. We have a lot of reports to the Public Accounts Committee around PFI, and I thought it would be interesting to have this overview, particularly as the two Reports are rather different. The one on DCLG is about procurement, whereas the one on the Department of Health is about management of the contract over time—the services element, really, of the contract—so it will be interesting. I will start with a general question. There's been a lot of experience in both Departments of procuring and managing PFI contracts over the last decade or so, so what do you think has worked well and what has been a total disaster?
Sir Bob Kerslake: Just a quick word of context first. PFI was one mechanism, if you like, for the delivery of the improvement of social housing stock. It's run for over a decade, but it was a relatively small proportion, in our case, of the way in which the improvement of housing stock happened; in fact, 2% of the total picture. What I think we've found in terms of what works well is it has enabled the transformation of some places and some of the stock, and it has achieved a standard that went beyond purely Decent Homes. I think of Grove Village, for example, in Manchester. For anybody who has been there, it is unrecognisably better than where it was, so I think that's one feature. So, used for the right schemes—

Q2 Chair: What does that mean? What do you mean by that, sorry? What are the wrong schemes and what are the right?
Sir Bob Kerslake: Well, I think where it's worked really well is where you've been achieving transformation or distinctive tasks; for example, the street properties in Islington, where you've had a very distinctive task, where the other funding mechanisms of ALMOs and direct funding and stock transfer didn't work as well; they didn't, if you like, reach the parts that PFI could. It's worked well on those, and it particularly enabled you to do the job where you had to go beyond Decent Homes, particularly to common areas and infrastructure. So, it's worked well in those sorts of circumstances; probably less well, if you like, on the more straightforward refurbishments and those sorts of schemes, where the risk factors have been higher. So, I think that's one area where it's particularly worked well.
I think the second thing I would say that it's worked well on is being able to contain the costs once you've signed the contract. So, to some extent, you go through a lot more pain in the procurement process, but once you've fixed the costs, they're a done deal and the project delivers. Clearly, it's a different story where you're using a more conventional contracting route, where you see some of the impacts—

Q3 Chair: Are all your contracts construction costs? The ones that are around special needs housing or housing for the elderly or housing for people with learning disabilities or whatever it is, is there a management element in there?
Sir Bob Kerslake: That was really the third point I was going to make, which is I think the evidence we have so far—and I have to say—
Chair: It's little.
Sir Bob Kerslake: The number of operational schemes is much less than you'll see on the health side—is actually quite a high level of satisfaction with the service that people are provided when we've done the

scheme. So, I think those are three aspects where PFI has worked well.

Where we've learned about it, I think, is where you invest the time in the process. If you think of the process for PFI in three stages, which is going from approval through to the outline business case and endorsement, then procurement and then construction, I think what we've learnt is that putting more time into the earlier part—the part 2 endorsement—takes you a little bit longer but it definitely helps with the procurement stage. And in the early examples of PFI, not enough work was done on doing the stock condition surveys—getting a really good understanding of the condition of the stock—and then understanding what needed to happen to transform it. As a consequence, you saw cost increases during the procurement phase, and delays, and that's been an issue that we've had to address right through the process.

Q4 Chair: Is that the PFI methodology or is that something else? Is it because of PFI?

Sir Bob Kerslake: I think it's linked to PFI, because, clearly, the nature of PFI is that the risk transfer happens to the private sector, so they clearly will push very hard—

Q5 Chair: But you could argue, if it was a local authority thing, they should know their stock condition and what they want to do to improve it anyway.

Sir Bob Kerslake: What I'd say is it's true for any kind of funding mechanism—you're quite right—but you really do pay the costs of it in PFI.

Q6 Chair: Maybe PFI forced you to do jobs that you should be doing anyway.

Sir Bob Kerslake: I think that's right, and what we've learnt is that time invested at the beginning of the process gets you a quicker result through the process. I think that's one thing we've learnt.

I think the second thing we've learnt is not to allow too much variation from the standard contracts, because that variation process potentially adds cost and it certainly adds time, so, in the later rounds, we had a much tighter process on what's called the derogations process on variations, really. I think that's a second thing we've learnt from the errors that we've made through the process.

Perhaps a third one is it's worth investing extra capacity in support to the local authorities. So, we brought into play what we call the transactors, which is a flexible team of people with commercial experience, who work with the local authorities during the process, and we felt that's really paid dividends when we've done it.

Peter Coates: I've been involved in it since 1995, now, and I tend to see just the big things. I think there's lots of common lessons we've all learnt across the piece around devoting time, attention, the right people and whatever. But for me two things stick out; the first is that, on the plus side, it has empowered the local health service to take control of its budgets and take control of its delivery of assets, and it's taken away from them the stop-go mentality of public capital, where it was given and taken away, given and taken away. Provided, in essence, the trust can afford the revenue payments, it directs and it controls the procurement process.

Now, the relevance of that for me is that, in 2000, the then Government announced, to me, a very ambitious programme to build 100 substantial new hospitals within 10 years, and I've been dealing with trusts that have been waiting 20 years to try to build a new hospital. PFI enabled those trusts to control their own fate, own their own fate, and direct the direction of travel they wanted to go, and that has resulted in those hospitals being delivered. I think over 120 have been delivered or are in construction now, and I think the fundamental change in the state of the estate is a thing that PFI has brought about in a way that public capital would never have done.

Bizarrely, the thing that I think I regretted most about it is that we never confronted the arguments about PFI and the urban myths about PFI, and the perception that it's a bad thing, it's bad value for money, and the taxpayer's been legged over. I think it's a shame that we never tried to win those arguments more robustly than we did.

Q7 Chair: On the whole, with that massive wealth of experience you've had in Department of Health—I think we all understand around the table that it enabled hospitals to be built that would not have been built—was it value for money? Are the arguments about money right or wrong?

Peter Coates: I think, if you look at every individual hospital, you'd say that elements of that would be more expensive or less expensive doing it in a different way, but if you take the whole programme—and all our business cases support this principle—in the round, there's no difference between PFI and ordinary public procurement. The taxpayer, by and large, has the same result in terms of value for money through PFI as they would have done through public procurement.

Q8 Chair: Well, the financing costs are a bit higher.

Peter Coates: But equally, the way we do public procurement is very inefficient. Going back some time now, when we built things ourselves, we tended to charge ahead with the procurement, for example, before we knew what we wanted, and we ended up in a repent-at-leisure-type situation, where you had to pay considerable sums of money to put right what you did in the past. There are, no doubt, lots of examples where public procurement is done very well, and lots of examples where PFI has not been done very well, but if you take all things in the round, the taxpayer is no better or no worse off. In those situations, one says, "Well, what are the other benefits?" and the answer to me is quite clearly, "We wouldn't have got 100 new hospitals if we hadn't done it this way", and it's the other benefits that really spring out from PFI for me.

Q9 Chair: Let me just press you harder: on the negatives, is there anything else that you regret or you think we got badly wrong in the way we took forward PFI over the last decade?

Peter Coates: There are difficult times, I think. When you announce a major procurement process, as the NHS did, the market overheats, and I think controlling the market was quite difficult for us, particularly as trusts were very interested in controlling their own destiny, you might say. I think that was a difficult time and perhaps some of the prices we paid may have reflected the market conditions at the time.

Q10 Chair: It might be helpful, actually, if both Peter Coates and Bob Kerslake had copies, if we've still got them, but let me raise with you how we manage these PFIs, because what NAO have provided us with is something that I'm sure you are familiar with, so don't be worried about it. You are familiar with it. Over time, the private sector has bundled together PFI projects through financing institutions. What are these companies? One is Innisfree and the other one is Semperian. So, Innisfree, if we take that one first, now has taken over and run the contracts for 24 of your hospitals and has interests in transport, education, defence, etc. In doing this, we assume they've been able to extract fantastic value and efficiency savings. Really, the question, therefore, is: that's never translated, particularly in looking at the health things, into any public benefit at all. So, all the added value and profitability has gone into the private sector by the bundling together and the economies of scale; none of it's come to the public sector.
Peter Coates: This was explained to me, this point, by the NAO, and on one level I did struggle slightly to understand it, because if you take, in principle, that all of our contracts were tendered, which they were, then, when Innisfree or any other of these firms were up against each other, with the first one they do the best price they can, but certainly, if they won, say, two or three contracts in the same location, I take your point that they will have economies of scale and they'll be able to operate or offer lower prices. But it does seem to me that Innisfree will always be in competition with someone else at that particular point in time, and the challenge for them as a company is: "Do I keep my prices high and risk losing this tender in competition, or do I make use of those economies of scale and produce a much lower price that guarantees me winning this tender?" Bearing in mind the cost of putting forward these tenders, I would find it difficult to believe that they would want to risk millions of pounds for the sake of, say, 50 pence or a pound lower or higher price.

Q11 Chair: But we're tied in to contracts for 30 years and, in 30 years, it'll come to the housing ones. We're experiencing it now with the health ones. We're spending a lot of taxpayers' money running services. Now, if they're extracting economies of scale, is there one example out of the 78 that you're responsible for where those economies of scale have flowed through into a saving to the PFI in any of these areas, from Bromley to Norfolk and Norwich?
Peter Coates: The only example I can come up with off the top of my head is that, with all of these tenders, every five years, for the support services, we tender the cost of those services. And we've been looking at the rates coming in during 2010 and they've all gone down in 2010; I think the lowest number I saw was an 8% reduction in the cost of support services.

Q12 Chair: Is that because they've re-specified the service and asked for a lower service, or is it that they're eking out better value because of economies?
Peter Coates: I suspect that it's to do with market pressures around where the economy is at present, but there may be elements of economies of scale in there. I can't say.

Q13 Chris Heaton-Harris: I'm obviously a Conservative politician; therefore, I enjoy private companies making profit and paying tax and everything.
Chair: And paying tax.
Chris Heaton-Harris: And paying tax—I did throw that in, just in case. I don't enjoy paying tax though. But some of the profits that are estimated on some of those PFI schemes are actually quite large in the hospital sector, and it's been put to me that, actually, maybe if you did this through traditional government borrowing or whatever, Government would be saving all this money. Examples given to me: the new Royal Infirmary in Edinburgh, a basic £20 million investment. You'll have probably seen the articles in *The Herald* in Scotland, where they're talking about the profit being 10 times that: £228 million. The County Hospital in Hereford: £9 million investment and £92 million profit over the period of that scheme. Now, one, are those figures about right, and, two, I want to understand the kind of cost-benefit analysis that might be done in departments as to whether PFI against traditional government spending, plus political priorities and maybe taking things off-balance sheet—at the end of the day, where it all comes from.
Peter Coates: I think my reaction is that there's two points: the first is there's an element here of cake-and-eat-it for the public sector. We set out contracts that try to allocate risk and reward to certain parties, and then, when that reward and risk pans out, we kind of say, "Well, that's not right, actually. We didn't mean to give you that kind of profit or that kind of benefit, and now you've earned it we'd like to take some of it back from you". I think that's a valid point.
The second half of the answer is that there are plenty of occasions when the private sector has lost shedloads of money on these contracts, and one that comes to my mind immediately is Dudley, where Robert McAlpine lost the worst part of £100 million on the contract. In anybody's language, that's company-threatening amounts of money. It's difficult for me as a public servant to say to McAlpine—if they made £4 million profit at, say, wherever they've got another contract—"Because you've made £4 million profit there, I want it all back. By the way, the £100 million, you've got to swallow that—that's your problem".

Q14 Chris Heaton-Harris: Yes, but at some point in the calculation that you make, when you're looking at PFI contracts, you must look at what the endgame is for the company as well, if managed on the interest rates that you're looking at and, going through the process, what their profit's going to be. I would

suggest that maybe in Dudley something else happened that was a bit of a freak factor in that.

Peter Coates: We don't look at the projected profits the companies make. When we look at the value for money for tenders, we simply look at the price, look at the cash flow that comes in and is paid out by the NHS. We don't then subdivide that between profit and other knowns. We obviously test the margins within the contract to determine they are value for money and on-market, but whether that's profit or whether that's whatever, we don't test that.

Q15 Chair: But in the housing ones, there was, according to the Report, absolutely no attempt to do a comparator exercise.

Sir Bob Kerslake: No, there was a comparator exercise. I think the NAO Report raised two issues about comparators: one was about whether the strength of our database was strong enough on individual project comparisons; and secondly whether we were doing a programme comparison. On the first of those, we have definitely got a very comprehensive database now that enables us to compare the PFI option with the alternative conventional options on a project-by-project basis. We draw our database from information, and since the NAO Report was done, we've strengthened that. The other area that they raised was the programme comparisons, and we're underway with an exercise on that at the moment, which will conclude by December.

If I can just add a couple of points on the profit part, because I think it's a very fair question, I absolutely endorse the point that Peter's made about the risk and reward. These are typically quite risky projects, particularly in housing on things like refurbishment, so you have got a trade-off. The second point I'd make is that we've done this on a phased basis, so if they've got better at it and then seen aggregated benefits, you will see that coming through in the prices that are bid for.

I think the third point is my experience of outsourcing of long-term projects is that the private sector will typically expect to pay more at the beginning and then reap savings downstream, so there's a kind of trade-off here in the way they do their calculations; in other words, they discount for the aggregation benefits in bidding for the projects. The last point is we, in the housing area, have kept an option, particularly on the later phases, of saying, if we're not happy with the cost of the revenue side of it in terms of services, we retain the in-house option.

Q16 Chair: So, you've got a clause in the contract that allows you—

Sir Bob Kerslake: In the later phases, we are keeping the option of in-house if we're not satisfied about the affordability of the PFI option.

Q17 Stephen Barclay: I think, Mr Coates, we all follow that PFI offers the opportunity to transfer risk and then price it more accurately, and that's offset against what the financing costs are and the concern of those going up, and we touched on that in our last hearing on PFI, where the value-for-money savings, I think the NAO calculated, were overestimated by 5% and it came down to what the financing costs were as to whether that would be value for money. I was just a bit confused by your answer, because I follow there's a market issue here, but my understanding is there's been a massive consolidation within the PFI market and, therefore, in the private sector, they are driving economies of scale. The concern is whether those economies are being shared with the public sector and whether the PFI contracts are being managed individually in silos, and we'll get into the detail but I think 12% of PFI contracts in the hospitals aren't even managed at all. They don't even have a contract manager. So, could you just give us some clarity on this issue of the way the consolidation in the private sector is driving economies, and how that is informing the way you're managing them on the public-sector side?

Peter Coates: The consolidation referred to in the papers is that the very small amount of equity in these projects is owned by a fairly small number of companies.

Q18 Chair: A very small amount of the equity in the project?

Peter Coates: Most projects have between 5% and 10% equity; the rest is debt borrowed from banks or bond houses. So, the consolidation is who owns the benefit of the small amount of equity in each of these transactions, and I guess, flowing on from that, how does that drive economies of scale for the public sector? It seems to me that, below that holding company, such as Innisfree, there are special project vehicles that own each hospital or whatever, and they are responsible for driving the value for the trust.

I go back to my point earlier that I can understand the principle of the point made, but I suspect that value from economies of scale is a thing that goes in turn around the NHS, in the sense that, because firms bid for these competitive tenders let by the SPVs, those companies look to put the lowest price they can to that particular trust that has that particular tender at that time. It may mean Trust A and B don't get economies of scale, but Trust C does, because those firms that are tendering want to get the best price they can. But I don't think that Innisfree, per se, are driving economies of scale and that process through the system.

Q19 Mr Bacon: Sure, but you sound like you're talking about the market for foreign exchange. This is an oligopoly with a fairly small number of players; it's not a perfect market. When we had the Royal Institute of British Architects giving us evidence on this, which was some years ago, they said it cost £11 million just to bid for a PFI hospital.

Peter Coates: Yes, that's right.

Q20 Mr Bacon: It's a fairly small number of people, so they keep quite a bit back, and we've seen in PFI over the years that, when they enter into a new negotiation, they will go back to the very early drafts and they know that they will have to go down the road towards later drafts to see how far they have to go, because the Department of Health and the Treasury were relatively slow off the mark in providing advice

to trusts or, worse, were prohibiting them from doing things they wanted. For example, the Norfolk and Norwich wanted to include a refinancing clause, but you wouldn't let them—the Department of Health wouldn't let them—and you were there from 1997 to 2008, so you're one of the people who's responsible for the fact that the Department of Health prohibited Norfolk and Norwich from sharing the refinancing gain, which, as you know, took the internal rate of return from 18% to over 60%. So, I'm with Mr Barclay on this: how do you explain all this huge going around and buying up of assets? There's a relatively small amount of investors going around gobbling up huge numbers of PFI companies. Why? Where's the benefit?
Peter Coates: Well, because they add value in that the cash flows from those concessions are worthwhile in terms of investment, but they're buying a 30-year concession; they're not buying the asset itself. After 30 years or whatever, the asset reverts to the public sector. They're valuing the company as a cash flow entity.

Q21 Chair: Well, the cash flow is the return.

Q22 Matthew Hancock: I want to bring you back to the question of analysing whether public procurement or PFI is the best route, and you said that you do make a decision and you also retain in your contracts the ability to go back to a straight, old-fashioned public-procurement route in housing. Is that correct?
Sir Bob Kerslake: Absolutely. What I was trying to say is that we do a value-for-money test at each key stage of the project, so at the stage where we go from endorsement to procurement, we do a test, and we do it at the stage when we've gone through procurement and we're about to go into contract.

Q23 Matthew Hancock: Do you then look back to see, of all of the contracts that you have done, how the risk has gone? Because, of course, some lose, but you can look at the average to see how well you're doing in terms of driving the appropriate margins.
Sir Bob Kerslake: We have good benchmarking data about how we've done from each of the schemes, so we've accumulated a database that tells us whether or not the scheme still represents good value for money for what it achieves. What I would say is that, when we're making that judgment about VFM, we're very interested in what the scheme is going to deliver. So, it may still be quite high cost, because of the nature of the task for that scheme. A particular feature of housing is the costs vary enormously between schemes. The key test for us is: how does it compare with a typical scheme that is of a similar nature, and does PFI represent good value for money for that scheme? And we can do that.

Q24 Matthew Hancock: So, in health, do you have the same checks?
Peter Coates: Yes. We're clearly not processing any PFI schemes during procurement or appraisal of procurements now, but at the time we kept a running tally of risk and reward in our appraisals, and we always updated those contemporaneously to what had happened in the past.

Q25 Matthew Hancock: Yes, and when you decided that you wanted a new hospital, did you do a test of the relative value of the procurement through PFI or straight public-sector procurement?
Peter Coates: Yes, there's always a public-sector comparator, but it would be wrong of me to suggest that there was money in the back pocket to take it forward if that—

Q26 Matthew Hancock: Right, so this is my next question, which is that you said at some point earlier that it was the same cost, whether PFI or public procurement.
Peter Coates: I think what I said was, in the round, the public purse was no better or worse off through using PFI than public procurement.

Q27 Matthew Hancock: So, PFI has left us with much more constrained contracts in terms of delivery, both in terms of the services available at any one point and the ability for the public sector to drive value for money in the future, because it doesn't get the gains; also, we're constricted to 30 years for every project and no flexibility there, yet you haven't got any savings in cost.
Peter Coates: The gains within a PFI scheme are around the things that can be changed easily, and they are the service costs, such as the cost of catering, the cost of domestics, the cost of portering and suchlike, and they are regularly tested every five years by the trust, either against a benchmarking exercise or a market-testing exercise, to drive value out of it.

Q28 Matthew Hancock: And what about the things that can't be changed very easily?
Peter Coates: Well, of the elements that can't be changed, there's the cost of maintaining the building, which is a 30-year fixed deal, and the cost of build is past; you can't change it.

Q29 Matthew Hancock: No, of course the cost of build is sunk.
Peter Coates: Those are the only elements that there are.
Chair: That's the biggest element.

Q30 Matthew Hancock: Well, of course, but the cost of maintenance is an important element.
Peter Coates: Yes, understood.

Q31 Matthew Hancock: So, is it a mistake that value can't be driven through that as well?
Peter Coates: One of the things we have been looking at is where we now stand on parts of the PFI contracts that may not have worked as well as we had wanted them to do. The long-term maintenance of the asset is one of the areas that, clearly, is a thing that is locking us into something.

Q32 Matthew Hancock: So, for instance, in Hereford Hospital, would you support them in trying to drive an improved maintenance contract?

Peter Coates: We would support them in trying to do that. Whether it is possible, given the circumstances—

Q33 Matthew Hancock: Sure, of course, you've signed contracts. But then I want to compare that with this other statement that you made earlier that really surprised me, which is that you said, rightly, that, of course, taxpayers' money is taxpayers' money, whether it's delivered through PFI or public procurement, but you then said "but we wouldn't have got the hospitals if it wasn't for PFI". What does that mean?
Peter Coates: Well, my experience—and I've been dealing with public procurement since 1974, when I joined an agency that built buildings—is that there tends to be a very long gestation period about consideration whether we're going to build something or not. The Treasury then considers whether they're going to give capital for that or not and the whole thing becomes rather stop-go and we do not have a process we could guarantee that, if you decide to do something from public capital, in the time it takes you to design a hospital, which is often five to 10 years, it will still be available. The consequence of that is the political and economic cycles change and the Treasury says, "I'm sorry, you can't have that money any more," and it stops.

Q34 Matthew Hancock: And sometimes for good reason.
Peter Coates: I understand, but what I'm saying is that public capital comes and goes, and it can stop developments, but PFI—

Q35 Matthew Hancock: So, if you didn't get any gain in cost, which you've just explained, then how can you still say that you would not have got the hospitals under public procurement? That rather implies that you only got them because PFI had certain advantages to your accounting, but it wasn't on the balance sheet.
Peter Coates: I think we'd have got some hospitals, but not so many.
Chair: All the PFIs are now on balance sheet.

Q36 Matthew Hancock: They are now, yes, but not at the point that the decision was made. So, my concern is that, if it's not appropriate to have a hospital if the cost has got to be on the balance sheet, but it is appropriate if the costs are off the balance sheet, and at the same time you're not getting any better value for all of the constraints that you've talked about in maintenance contract and in the length of the 30-year contract, doesn't the fact that you can therefore do it off balance sheet mean that decisions are taken skewed by these accounting considerations instead of by what is the best public policy outcome, which is what we all care about?
Peter Coates: Yes, which is the argument that balance sheet has driven the decision to use PFI. They could only have chosen PFI because of the balance-sheet treatment. All I can say is that the Secretary of State at the time in 1999–2000 said, "PFI is the only game in town".

Q37 Matthew Hancock: And why did he say that?
Peter Coates: He said it.

Q38 Matthew Hancock: So, you just told me earlier that you did do a public-sector delivery comparator, but now you just told me that PFI was the only game in town. So, if PFI was more expensive than the public-sector comparator, would you have gone ahead with a given hospital?
Peter Coates: In certain cases, the PFI comparator was marginally more expensive than the public sector.

Q39 Matthew Hancock: And you went ahead with it none the less.
Peter Coates: Yes, because how we do these things is you estimate for the next 35 years what you're going to spend on certain outcomes, and once you get beyond five years, you are estimating guesswork, and there's a margin of error.

Q40 Matthew Hancock: Of course. You're telling me that, because you have to build things in the future, therefore you don't take into account the fact that it's more expensive; what you're telling me is that hospitals have been built using a procurement process that was more expensive than your best estimate of procuring it through the public sector. That's correct, isn't it, in some cases?
Peter Coates: The only case I can remember was a 1% difference over 60 years.

Q41 Matthew Hancock: 1% every year.
Peter Coates: No, 1% in total.

Q42 Chair: In one case.
Peter Coates: In one case.

Q43 Matthew Hancock: That's the only one you can remember.
Peter Coates: The only one I can remember, yes. Answering your question honestly, "Have you done it?", yes we have, but when you get to that difference, its margin-of-error points.

Q44 James Wharton: Mr Coates, I'm a little concerned. There are two issues I want to touch on, but one is just responding to the question Mr Hancock's been asking you: this idea that the 120 or so—however many hospitals it is in the last 10 years—may not have been built because of the ebbs and flows of capital availability within government. I've always believed that the reason that we elect governments is so that they can make decisions and, quite rightly, as Mr Hancock pointed out, the reason that capital may be available at one time and not an another is that the circumstances may have changed, or it allows a government—which may be a new government; it may be the same one again—to respond to changing circumstances. Are you really saying that the advantage of PFI is that it allows the Secretary of State to tie the hands of his or her successors for a prolonged fixed-contract period in terms of the costs of whatever it is—hospitals in this case—they might want to buy?

Chair: James, I'm going to interfere on that because I think that almost becomes a political question. I'm sure others will come in. There was a view—and now it's an irrelevant view, because PFI is on balance sheet—that, if you wanted to bring forward the investment into infrastructure the route to do it off balance sheet was through PFI; that was a view and these guys had to do it. It was a political view; I don't think it was an administrative view. What I think is interesting from what Peter Coates has said is that, in his view, which I've never heard before, actually the cost-benefit of that—it didn't cost us more; i.e. the benefit came forward but the cost was not greater. Now, I think it's unfair to say, "Was there a political view?" I'm telling you: yes, there was, right? That was what drove it. So, let's try to stick to questions about the value on it.

Q45 James Wharton: Not on an entirely separate point, but something that I want to understand is, Sir Bob, you mentioned—and we hear this a lot at this committee—that, since the Report, the comparator has been strengthened in respect of assessing PFI against any other methods of delivering whatever it might be: in this case, housing. Could you let us know: in what ways has it been strengthened and how significantly better is it now than it was before you had this Report and this information?

Sir Bob Kerslake: I think the biggest change we made was the introduction of what we call Financial Proformas that we required to be completed for each of the key schemes, and that gave us a more systematic and comparable set of information across the different schemes that we were working on. That was the biggest single thing that we did.

Q46 James Wharton: Do you anticipate that that will make a significant difference to outcomes?

Sir Bob Kerslake: I think it's made a significant difference to the quality of the information we have when we consider schemes, and it's also enabled us, I think, to be much more robust about potential cost increases during procurement. It's worth saying that, since 1996, other than Brent, we haven't seen an increase in the credits for a housing scheme during the procurement phase, and I think, in good part, that's linked to us having robust evidence to push back on situations where the costs might increase.

Q47 James Wharton: Okay. It sounds quite positive that this change has come about and is going to allow you to make better comparisons going forward; is that the only major area in which you think there have been deficiencies looking back over when that comparison has been made? Are you comfortable with the quality of the answers that you've got when running the comparisons previously and decisions were being made based on that information?

Sir Bob Kerslake: I think there was evidence there. What I think the NAO Report quite rightly said was that it was patchy in some instances and it needed to be more consistent and consistently strong, and I think that's what we've done. I don't think it says that there was a set of bad decisions made before; I think it says that we're making decisions now on better evidence than we had then.

Q48 Austin Mitchell: I'll climb under your cloak of value for money. I'm worried about the balance of power, actually. You've got these big organisations—and I see that Innisfree has 24 hospitals, and then there's Semperian, wherever these names come from. Now, this could be compared to the kind of rolling-up of debts and CDOs which were securitised, which led to the sub-prime crisis in the States, but it does give these big organisations great power and great weight, because they're facing little trusts, medium-sized trusts that don't have the management expertise, don't have the experience, don't have the staff and the time to pursue performance and value for money.

Now, it comes to a question, therefore, of what help you can give them from the Department of Health, and I'm concerned to see that page 9, paragraph 19 says that these big bodies will "seek to maximise their profit margins", which is a normal capitalist function, and we've seen examples where this is at the expense of the trust. It's a concern, therefore, that the Department's support for them is limited. Do you have the mechanisms for monitoring the costs and the performance and for driving value for money into these contracts at the centre in the Department, where you've got the weight to do it?

Peter Coates: Essentially, the trusts are running contracts face-to-face with the SPV. The company that runs that hospital runs the services for them. These are tendering for services in which the trust should know outcomes, quality and standards. These are things like catering, domestics and portering.

Q49 Austin Mitchell: Well, the trusts don't seem all that satisfied overall, particularly with the costs of maintenance.

Peter Coates: The maintenance is an exception, because the maintenance is not tendered on a regular basis, and it is the area that trusts seem to be most dissatisfied with, I accept. But, by and large, most of the work that interfaces between these in terms of market value is through services the trust is familiar with.

Q50 Austin Mitchell: I don't think that's a satisfactory answer. The question was: do you at the centre have the expertise, the knowledge and the ability to assess what's been screwed out of the public sector by these big bodies?

Peter Coates: I have four people working on PFI full-time.

Austin Mitchell: Four?

Peter Coates: Four. When PFI tenders were being let, the team was about 20 to 25 in strength, and I have to allocate resources in a bidding process with my peers according to the pressures on me. The pressures, at least for me, were, "When are the big risks and rewards there?" that's during the tendering process, and "When do they subside?" and that's during the operational phase. By and large, we have to say that trusts must operate these hospitals. They are some 10,000 people with very skilled individuals managing them and, at some point, we have to accept that they

have to own the outcomes of the contracts they're letting.

Stephen Barclay: To support you, I'd just reference page 8, this line: "The Private Finance Unit's ability to further support Trusts to manage their contracts is limited … by a lack of performance and cost data", and it goes on to say, "The Department does not use its leverage over the market from having 76 contracts in force". I think that's where your—

Q51 Austin Mitchell: I'm taking that answer as a no in any case, but let's move on from there, because the whole Health Service, the whole Government is now under pressure to make efficiency savings. People are being laid off to cut costs, and yet they've no ability to cut the costs of these contracts. I see that five of the six trusts with deficits have PFI contracts, which have to be fulfilled. You're not providing them with much help to screw those costs and get more value for money out of the thing; therefore, hospital porters, surgeons and doctors are going to be laid off to economise and to give them the efficiency savings, because you can't get the money out of the PFI contract which has caused the problem in the first place.

Peter Coates: To go back again, the majority of the flexible costs within this contract relate to the provision of services.

Q52 Austin Mitchell: I've asked you to say how you're going to save money on these contracts.

Peter Coates: Well, all of the trusts in these services either benchmark or market-test those services against the market on a regular five-yearly basis. That's how they will get value through to their patients and their staff.

Q53 Mr Bacon: Except for maintenance.

Peter Coates: Except for maintenance, and we talked about—

Q54 Mr Bacon: One of the biggest underlying arguments for the PFI philosophy—correct me if I'm wrong—was that, in 30 years' time, you'd have an asset that had been beautifully maintained and was in the same condition it was on the day you entered into the contract.

Austin Mitchell: And these are new buildings.

Q55 Mr Bacon: But if you can't actually, in an environment of very strong cost pressures, revisit that, because that's set in stone, then you have to look elsewhere, don't you? Is that right?

Peter Coates: What I don't know is—

Q56 Mr Bacon: Is that right?

Peter Coates: It is right that the contracts prevent you undoing that deal, yes.

Q57 Mr Bacon: So, it's right that you have to look elsewhere for your cost savings.

Peter Coates: That is right too.

Q58 Chair: And from what you said earlier, are you looking as to whether there are any opportunities for you to revisit those clauses on maintenance, or are you telling us there are no opportunities?

Peter Coates: We don't know yet, because we haven't had the vigorous debates with the private sector generally, but I did say earlier that the argument will run, "I've lost £100 million on building this hospital and now, because I've made £4 million on maintaining it, you want that back". They're difficult tensions as well.

Q59 Ian Swales: Just before we leave this question of value, I know that, when PFI schemes first started, once a few had been completed, it wasn't very long before a company set up to trade in PFI deals. The chief executive was paid £750,000 a year. I forget the name of the company now, but clearly, trading in these deals is very active. We've just heard about the consolidation. One of the tests of the value of these deals is, obviously, the price at which they are then traded in the market, and I know, from working in a big construction company, that they were making far more money trading the deals later than they were from the actual construction. How much information do you have about the price at which these consolidators are actually building their portfolios, and what does that tell you about the value of the original PFI arrangement?

Peter Coates: Well, to answer your two questions, we do not track the value, because it's quite difficult to do so. And the second is, "Is the thing worth more after you've built it?" Well, it is, because the risks are all during construction, and once those risks have passed, then clearly there's a much better view about future cash flows and the valuation is much more easily determined. But we don't track, no.

Q60 Mr Bacon: Why is it difficult to do so? All you have to do is to write into the contract at the beginning that "every time this changes hands, we"—the payer of the annual unitary charge—"must be informed of the value at which it changed hands".

Peter Coates: I can provide a note for you, but I think the contracts do say that we have to be asked, but we won't refuse it without good cause.

Q61 Ian Swales: Well, I was going to come on to that, but if, because of the nature of the deal we've done, there turns out to be some kind of super-profits in a particular deal, is it not possible to make sure the taxpayer actually shares in that benefit somehow by the way the deal is structured at the start?

Peter Coates: The history of gain shares is a long one, and the early deals, the Treasury rules were there should be no gain shares and no profit shares.

Q62 Ian Swales: Why would they have a rule—

Peter Coates: Why? The Treasury rules were at the time that way.

Q63 Chair: Do we know? Amyas, do you know the answer to that?

Amyas Morse: No, I don't.

Q64 Mr Bacon: The answer is that—at least this is what I've been told—when the PFI market was quite

nascent, it was seen as a much higher risk because it wasn't so well understood, and it was to encourage people into the market.
Ian Swales: Okay. Well, I can—
Mr Bacon: And the McAlpines of this world licked their lips and saw a good thing.
Amyas Morse: I'm sure that's right. If you will forgive me, Ian, for a second, it's just worth saying something, and I'm going to say this: our Report on Hospital PFI did say that they are currently good value for money. It's just worth reminding you of that before we go on. I don't want the tone to develop so much into—

Q65 Ian Swales: No, I understand. It was just about the structure of deals. Are those Treasury rules still in place or are they under review, and would you like to see them changed?
Peter Coates: I'm not aware of any rules around the trading of equity values, and I think it's very difficult to restrict a flow of equity because of the different ways equity can take the value out of their investments. Other areas of gain share are now different, of course, but the principal area of gain share that's changed is refinancing gains, where it went from zero and then we had, I think, 10% and then 30%, which is now 70%. What the private sector say to us is it's not worth refinancing anymore, because at that share, we get all the benefit.

Q66 Nick Smith: I've quite warmed to your argument today, Mr. Coates. I'm sort of persuaded by your point about stop-go and that, in the round, PFI has led to many new hospitals that may not otherwise have been built. I travel around the country, you do see that, and perhaps it's rose-tinted glasses, but I think, by and large, I give a tick to all of that. It's not quite the return to Victorian investment in public buildings, but you see lots of new hospitals, so, I think, in the round, that's a good thing. But clearly, around the table, we're unhappy about this business of high maintenance costs and poor satisfaction rates around the country, and you are also clearly short of capacity to do something about that, and we'd be very interested in your views about that, because it's got to be put right.
Peter Coates: From memory, I don't think the Report says that maintenance is expensive. I think it says they are dissatisfied with it.

Q67 Chair: It does, on yours, say that maintenance in PFI is more expensive than non-PFI, if I can find the table.
Peter Coates: Okay.

Q68 Chair: It does actually say that. It does say, on anything else—just to put it into context—that PFI is cheaper on catering etc.
Peter Coates: It's so unusual to be asked a question about the Report that I'm a bit shocked.
Chair: But on maintenance, it is more expensive.
Peter Coates: I was a bit shocked to get a question about the Report then.

Q69 Nick Smith: But the thing that perplexed me was this business about the variation in costs of feeding a patient, between £3 and £12. I think we should probably spend more on feeding patients in hospital to help with nutrition and diet and all of those things, but can you just give us a bit more information about this, because it just feels very odd?
Peter Coates: I'll be glad to. May I go back to your question about maintenance, because we have started discussing—we do have schemes that have either just started or are about to start a procurement process for a new hospital. So, PFI isn't over in health; it's just starting a new wave of half a dozen or so hospitals. We've raised with the trusts this prospect of putting in some kind of regular benchmarking or testing on maintenance and, in effect, the right to say "I'm not going to have it anymore because I want to save some money". The feedback is pretty lukewarm about it, quite frankly, because the hospitals take the view that the benefits of having a new hospital that's perfectly well maintained in terms of patient satisfaction and patient experience are such that they actually think it's not a bad use of money. I agree it constrains choices elsewhere, but that's what money's all about in terms of prioritising your choices.
Chair: Nick, will you be really cross if we come back to that when we do the hospitals?
Nick Smith: No, sure.
Chair: We'll come back to the variations in standards, but let's stick with this.

Q70 Nick Smith: Could we have more information on maintenance, then, because the feedback from hospitals and the issue with the costs and satisfaction doesn't quite feel right.
Peter Coates: I agree the Report points out a lot of dissatisfaction with it. What would you like me to do? The Report and the survey say people are dissatisfied.

Q71 Chair: The Report does say—I can't remember the satisfaction rate.

Q72 Nick Smith: It says customer satisfaction is low, but you just said that it's high because good new buildings are being well maintained. Well, where's the truth?
Peter Coates: Well, I'll have to come back with a note on that.
David Finlay: Just to clarify, it's a minority of trusts which weren't satisfied with maintenance, but it was quite a significant minority.

Q73 Chair: It's a third.
David Finlay: 20%.
Chair: 20%.
David Finlay: Yes.

Q74 Stephen Barclay: The Report does say on page 34 that many trusts "are sceptical that their systems and deductions provide sufficient incentives to contractors", so there's also a question as to what extent things are being managed via the contract. Can I refer instead to the hotel services, because I found the comment at paragraph 10 on page 6 interesting, where it says that it's "not clear whether it is better or

worse value for money to include the hotel services", and just relate that to your earlier answer? I was a little confused when you were saying there's a justification for McAlpine in charging high maintenance fees because they lost £100 million on construction. I thought one of the attractions of PFI was that the private sector can manage construction risk better than the public sector, so, to an extent, that is one of the risks one assumes they were taking in assessing that construction risk under PFI. What I'm driving at, really, is your thoughts on decoupling aspects of the PFI deal, so perhaps it's more focused on managing the construction risk and taking out the hotel services from the overall deal.
Peter Coates: My view on this is that trusts were given the choice of whether to include or exclude hotel services in their PFI contract, and various changes in the way in which contractors are paid in the NHS and employed in the NHS mean that the building blocks of cost of the providing of hotel service in terms of staff are exactly the same. In essence, if a trust wants to outsource its domestic or its catering staff in a PFI contract, it employs those people then transfers them on secondment to the private sector and continues to pay them as NHS employees, and those employees have access to the NHS pension scheme and whatever. So, given that all the costs are identical, it's not surprising that it's a very fine call for the trust.

Q75 Stephen Barclay: Well, it's unclear—that's what the Report is saying—but likewise, when you add complexity into a contract, it then costs more to manage, and costs tend to then be opaque. Is there not an incentive in trying to strip out some of the complexity of these contracts; therefore, I might argue it through the other end of the telescope and say, if there isn't a case on value for money grounds in including this, would it not make more sense not to include it?
Peter Coates: Most trusts going forward now exclude hotel services from their PFI scheme.

Q76 Chair: Say that again.
Peter Coates: Most trusts who have signed the most recent deals, and those who are considering procurement now, are excluding hotel services from their PFI contract.

Q77 Stephen Barclay: So, most but not all. Because, again, there's a range of expertise, and the Report makes it clear that some trusts really struggle on the issues of expertise. Is there no firm guidance, then, coming from the Department as to whether these should be included or excluded?
Peter Coates: If the costs are broadly the same, then our view must be it's an operational choice of the trust. Our job isn't to second-guess the trust's operation and the way it's manages its services.

Q78 Mr Bacon: Do the contracts that have a five-year renegotiation point for some of these services typically include a breakpoint for those sorts of services as well, so, even if the contract had initially included these hotel costs, it could, at a later point, stop including them?
Peter Coates: Yes, the five-year point is an opportunity to take them back in-house.

Q79 Matthew Hancock: More broadly, since parts of the future projects that you're looking at now have options of whether to go within or without the PFI, do you look for whether it's best value for money to deliver the whole projects within PFI or through straightforward public procurement?
Peter Coates: It becomes a personal preference thing.

Q80 Matthew Hancock: But surely there's a value for money thing.
Peter Coates: Well, as I said, all the building blocks of the value for money of hotel services are the same whether you outsource or do it in-house.

Q81 Matthew Hancock: No, but the way that it's financed is obviously very different.
Peter Coates: Well, the financing of hotel service is a revenue cost to the trust.

Q82 Matthew Hancock: So, in the future building programme, have you done a comparison between whether it's better value for money to deliver them through PFI or the public sector?
Peter Coates: Well, we would rely on the NAO Report that points out that, broadly, there's no difference between the two.

Q83 Matthew Hancock: No, but if it's cheaper in some cases to do one and, in other cases, to do another, then even if the average of doing either all PFI or not is the same, you might be able to deliver better value for money. After all, you said earlier that a couple of them were cheaper another way.
Peter Coates: The Report implies that in the round there's not a great deal of difference between outsourcing and doing it in-house at present. That must drive us to the point where we say to trusts that this is clearly a choice for you to make. There's one Trust that's keeping its services out-house and that's Papworth. They outsource all their services already anyway.

Q84 Matthew Hancock: Okay, but it's their choice to make?
Peter Coates: Their choice.

Q85 Stella Creasy: The thing that's interesting to me is what you're learning from contracts that are being negotiated. I actually think the issue of maintenance is a bit of a red herring in this because what it's saying in this Report is that 33% of trusts rate at least one service—including those that you are saying they can renegotiate over five years—as unsatisfactory. So I wonder if you could tell us a little more to begin with about where contracts have been broken and where there has been renegotiation on those services that can be renegotiated, and what you've learnt from that process.
Peter Coates: We don't keep all the details of regular market testings that trusts do because it's totally

within their own delegated authority and powers. If they don't want to tell us about those retenders then they needn't. Clearly foundation trusts have no linkings with us at all in the way they operate their hospitals. All I can tell you about is where we are keeping track. We are told in 2010 that the market testings that have happened have all used benchmarking rather than going to the market to evaluate the services. They've all come in more cheaply than the old rate and that's about all we know.

Q86 Stella Creasy: So you have got no examples of external tender, for example, for some of these tenders?
Peter Coates: Not in this year.

Q87 Chair: Can I ask you both some general questions to get this clear? Our job here is to assure the taxpayer that we're getting value for money. If we are to do that we need the data; we need the information. You guys are all reducing your central staffing, so you're going to have fewer to do it. I'll ask Bob Kerslake, to give you a breather. The Report suggests you haven't done it very well in the past, you haven't had the data, you've got a very weak centre in overseeing the PFIs in housing. Can you give an assurance to this Committee that you will have the capability over the next period to both collect the data and make value for money assessments across the piece on PFI?
Sir Bob Kerslake: The short answer to that is yes. I think we've already taken steps to strengthen our knowledge of the process, particularly in procurement and then contract. We've done a baseline assessment of the projects before they go into contract, so we've got a comparison with the operational phase.

Q88 Chair: The Report suggests you haven't, but you're saying you've got enough people at the centre and you've got enough pull on your housing associations and local authorities and ALMOs etc to get from them the data you need for us to be able to say whether or not this is value for money.
Sir Bob Kerslake: As I said earlier I think we absolutely have the data now when we go into contract. The bit we're developing is the operational comparisons once they're in contract. I'd make a couple of points on that. One is that there isn't a local authority in the country that only used PFI, so they themselves have comparative data of other methods.

Q89 Chair: But can we, at the national level, see?
Sir Bob Kerslake: We at the national level can and will capture that information. I believe we've got teams that have got the capacity to do it. We will clearly need local authorities to co-operate in that process, but so far the evidence is that they're willing to do so.

Q90 Chair: Are you in the same position?
Peter Coates: We rely on trusts to buy in the necessary benchmarking data and market tests.

Q91 Chair: When they become foundation trusts, at the moment they will be under no obligation to let us at the centre know—will we have the comparative data and information to give us value for money?
Peter Coates: They'll be under no obligation to do that, no.

Q92 Chair: No obligation?
Peter Coates: Under no obligation, no.

Q93 Stella Creasy: So what are you gathering that information for?
Peter Coates: What are we gathering information for?
Stella Creasy: Yes..
Chair: They don't.
Stella Creasy: At the moment it says in the Report that you're currently supporting 76 PFI contracts within the healthcare system. If, in the future, increasingly these decisions are going to be delegated at a local level, both in housing and in hospitals, even if you have data saying there's different ways and different models for managing these contracts, what actual ability will your teams have to say "therefore this is going to be better for you" or "this is going to be better value in this instance"?
Sir Bob Kerslake: The truth about how we work with local government is this: it's in the interests of local authorities to get value for money because if they can save money as part of the process then they benefit from that. I think our role is working with them to say we can act as a point of reference on value for money and testing. It does require them to co-operate in that process, but it's absolutely in their self-interest to do so.

Q94 Stella Creasy: But they're not co-operating in the healthcare system at the moment; you're dependent on them to tell you whether they've got it right, aren't you?
Peter Coates: That is true, but I would characterise it in a slightly different way than saying that they don't talk to us. What we find is that you have to work together with trusts and try to form a partnership with them, which says "We're not from head office to help you, we want to work alongside you," and build a relationship with them in the same way Bob was saying. We do collect certain data when trusts want to talk to us, and we do understand how markets are moving when they want to talk to us. About 60% of the trusts do talk to us, but what I can't say is that every trust tells us everything they do.

Q95 Stella Creasy: So 40% don't talk to you?
Peter Coates: I said 60% do.

Q96 Stella Creasy: Yes, so 40% don't.
Peter Coates: Well, 60% do.

Q97 Ian Swales: I'd just like to pick up on what you're saying about the central resource on housing and the Report on housing, on page 17, says "21 of the 25 projects which have been signed to date have experienced cost increases" above estimates in the business case, "12 of which were over 100%." So in half the projects we got the costs wrong by a factor of two. Further, we now understand that of the PFI housing projects to come 13 will not happen and

another 12 are under review. So has this programme actually failed and stalled? How would you assess what's been going on?

Sir Bob Kerslake: I don't think it has failed or stalled actually. What I'd say is that, first of all, those cost increases happened primarily on round 1 and round 2. As I said earlier, since 1996 we've only seen one scheme where we've altered the PFI credit figure during the process. That's not to say there haven't been affordability challenges but we haven't increased the sum of arrears. This has been very much a learning exercise. The second point I'd make is that I think it is fair to say that on round 1 and round 2 there was an issue about capacity but it has been strengthened since then. Whilst we don't have massive teams, I think we have teams of the right size and they have support from the organisations. The third point I'd make is the one I made earlier, that we felt that the capacity that needs to go in to support this process is better placed at the front line, i.e. the local authorities. That's why, where we've put in extra capacity; we've put it into the transactors. The last point is that it is true to say that as a consequence of the Spending Review, a number of schemes have now had to be put on hold until we look at the options on funding. That's directly to do with the resources available as a consequence of the Spending Review and not to do with the management of the programme.

Q98 Ian Swales: One supplementary: if you look the dark green lines on figure 6 on page 22, it would appear that in rounds one and two the Department shot these things through very quickly and actually the projects were being done relatively quickly. Now it would appear you've put a lot more resources in on rounds 3, 4 and 5 because the green lines are longer, although projects are now taking more than two years to get through the process, which sounds a long time. Is that resource that you've put in now under threat and are we likely to go back to the problems of poor assessment again?

Sir Bob Kerslake: Just before I answer that, I said 1996, I meant 2006; we hadn't started in 1996, my apologies for that. I don't think the central resource is threatened. We still have quite a lot of projects to deliver, notwithstanding the fact that the round 6 schemes—as it principally is—are now not in a position where we can confirm funding. So we don't intend to scale back our capacity in the central teams to move this forward as a consequence of that decision. What I was trying to say was that the round 6 schemes being put on hold is not a question of capacity, it's a question of resources available after the Spending Review.

Q99 Ian Swales: How would you react to this claim on this chart, figure 6, if you just cast your eye down it and look at the pattern, we're just taking longer and longer now to actually approve and get these things done. In rounds 1 and 2 it was a lot quicker; now we're delaying two, three, in one case, six years to get a scheme done.

Sir Bob Kerslake: I don't think it is taking longer. Some of the differences in the lengths of time are to do with the difference between the HRA schemes, which were essentially refurbishment, and the new build schemes. They've taken different times. The principal causes of delay in the later rounds of the schemes have been down to two things: not down to capacity or expertise but to do with affordability on both capital and revenue. The capital affordability issue has been significantly influenced by the credit crunch and therefore the ability to cross-subsidise from sales. That's meant that schemes have had to look again at their affordability. Manchester Collyhurst is a good example of that.

Q100 Chair: Do you mean because interest rates are higher, it's no longer value for money?

Sir Bob Kerslake: The affordability question has come in two ways really. One is that the financing costs have been higher, and secondly most of the schemes in rounds 3, 4 and 5, had assumptions about cross-subsidies from sales, so they had an element of sales in them.

Chair: Right. Okay.

Sir Bob Kerslake: So that bit has been put in question, so a number of the schemes have had to completely recalibrate the affordability. The second one, which bears on some of your previous discussion, is that there've been affordable issues on the operating revenue element and that's why we introduced the ability in subsequent rounds to have it done in-house, if you couldn't make it affordable.

Q101 Chair: Can I just get a feel for the size? You started with £4.3 billion, round 6 was £1.9 billion and that's come out completely, hasn't it?

Sir Bob Kerslake: If you take the whole programme, including round 6 and two other schemes, the number is £4.6 billion.

Q102 Chair: And what have you taken out?

Sir Bob Kerslake: We've taken £1.8 billion out from the 22 November announcement, which is all of the round 6 schemes and two schemes from previous rounds that got moved into a later stage.

Q103 Chair: And what are you reviewing, further to that?

Sir Bob Kerslake: Those are the ones we're reviewing at the moment in terms of the options for funding them.

Q104 Chair: So there could be more than the £1.8 billion that comes out?

Sir Bob Kerslake: No, we essentially got confirmed funding for the schemes that are in procurement. The ones where we have to look at the options for funding are what we've called the pipeline schemes that weren't in procurement. That's because of the outcome of the Spending Review.

Q105 Stella Creasy: I was just wondering if you'd had any feedback from the contractors about that, and what that then means with regard to the likelihood of their being able to move forward on these kinds of contracts. When you talk about affordability, the other way of looking at that is the risk to them in terms of bidding for these contracts, isn't it? It now poses quite

a big question mark over the revenue to be made on these projects.

Sir Bob Kerslake: Well, there clearly is a negotiation that goes on with contractors about what they do and how much they're going to charge for it. So I don't think we've seen contractors saying they won't come into the PFI process, not least of which is to do with the availability of work in the current construction climate.

Stella Creasy: It's a buyer's market.

Sir Bob Kerslake: Exactly. I don't think we're seeing that as an issue. What you often have to do is go back and look at the scope of the scheme and what you're able to achieve.

Q106 Stella Creasy: So are you negotiating down or up?

Sir Bob Kerslake: In terms of price do you mean?

Q107 Stella Creasy: In terms of price, quality. Is this creating more of an uncertainty about the cost of these things or the quality of what can be delivered, when you say you have to go back again?

Sir Bob Kerslake: I don't think it's creating an uncertainty. What it has required is for those schemes that made presumptions about cross-subsidy from sales and things to go back and look at what they're trying to achieve through the scheme and see if there are ways they can bring it back into affordability. That's taken time, that's really what I'm saying

Q108 Stella Creasy: Is that going to mean a lower cost or higher cost to the public purse, ultimately?

Sir Bob Kerslake: It's not going to mean more cost to the public purse, it's more likely to mean they're going to look at the scope of what they're able to achieve.

Q109 Stella Creasy: So we won't get as much for the same?

Sir Bob Kerslake: Potentially you may get less from the scheme, or you may have to look at doing it in a different way.

Q110 Chris Heaton-Harris: Mine is a very similar point to Ian's. The National Audit Office put out the Housing Report—and the quote that Ian gave was about the 21 or the 25 projects being more expensive—and you now say you've got a comparator that you're comfortable about and you know what the costs are going to be in the future. Is that correct?

Sir Bob Kerslake: What I'm saying is, we had data before to compare on a scheme-by-scheme basis; we now have better and more systematic data to compare VFM at the point we make the decisions.

Q111 Chris Heaton-Harris: On page 7, in paragraph 9 it says "The Department's analysis of new build projects shows that the capital cost of PFI projects is similar to housing association developments. This analysis, however, does not take account of all project costs, for example finance costs." I'm just wondering whether you are actually comparing like with like.

Sir Bob Kerslake: I think the short answer to that is that we've compared what we can compare, which is the base construction costs. That particular comparison was with housing association construction. Where we can compare, such as with the underlying construction costs, clearly you're using very different financing mechanisms and we're not claiming that we can say the totality of the costings are the same. What we've done is look at the bit we can benchmark, which is the construction cost.

Q112 Matthew Hancock: Most of the early data was based on refurb, wasn't it, rather than construction?

Sir Bob Kerslake: Yes it was.

Q113 Matthew Hancock: So how do you use that now to benchmark construction costs?

Sir Bob Kerslake: What we have is refurb compared with other options on refurb, which is the Decent Homes programme and so on. We do have comparisons between alternative funding mechanisms, as well as information over time. You're quite right to say that the earlier rounds were principally refurb, but there was some new build there as well in the non-HRA schemes.

Q114 Stephen Barclay: The NAO makes a number of recommendations in its Report. Mr Coates, you mentioned having just four members of staff. One of its recommendations is to have a formal PFI support club.

Peter Coates: Yes.

Q115 Stephen Barclay: When do you expect to have that club in place and how many staff will it involve?

Peter Coates: I'm still trying to work out in the great scheme of things where I sit in the new Department of Health but it's becoming clear to me that my work will not form part of the Department. We therefore hadn't given consideration to the PFI club until very recently.

Q116 Chair: Does that mean you're not going to do any more PFIs, or it will be down to the Trust to decide whether to do one?

Peter Coates: It will be done in a different way and I don't know the answer about what that different way is.

Stephen Barclay: This Report came out in June, so there's been time.

Q117 Chair: This is quite important. Just sitting back, when I read these two Reports I thought "God, we've got a centrally controlled Department of Health really on top of its PFIs, although there are some question marks over it, and we've got a completely decentralised DCLG, hasn't got a clue what's happening out there and the local authorities are doing it." Now, what you're telling us is we've got a very good unit in the DCLG which would give us all the data and the comparators, and we won't have a clue what's happening in health capital investment because you're not going to be there.

Peter Coates: I think that's slightly unfair. To answer the question about the PFI club; because of the way things are developing now it's clear to me that this is a very useful and very helpful recommendation and I

have told the NAO that we will be progressing this. We have already put together a proposition to trusts that will say essentially that the larger the scheme you have, the more you'd have to pay to join this club, at around £5,000 per average trust. If we have about 100 trusts with PFI schemes, that generates an income of around £500,000. Where I think we're going to go on this is that we will have to find some way of developing a contract in which people can bid to provide that support, so that if circumstances prevail and we are no longer here to support trusts the way we do, the trusts own a society and a club that can provide the advice and support that we currently do. I'm quite a big fan of this idea, because, going to this idea about benchmarking and data, if you start paying someone enough money to make it worthwhile and the Trust own it, I think they will start to respond to it a bit more.

Q118 Stephen Barclay: Perhaps you could give us a note once you know whether that's going to go ahead. I simply observe that it's five months since the recommendation was made public and presumably you saw the Report prior to publication. As a fan of it, there doesn't seem a huge amount of urgency. Could I look to one of the other recommendations? It says that the information that you currently get on the ERIC system is not fit for purpose. When do you expect that data quality to have improved so that it is fit for purpose?
Peter Coates: The ERIC database has been going on for some years and is run by my colleagues in the estates department. It's not a database that is obligatory to complete, so I think the answer in relation to "it's not very good data" is that it's not complete. Any data that's not complete is unreliable.

Q119 Stephen Barclay: Can I rephrase it then? I'm a new member of this Committee but I think pretty much every hearing that we have identifies that data quality within Whitehall is a systemic problem. That comes up in numerous Reports, where data quality is an issue. Could you perhaps give us a note setting out what is the programme to improve data quality and perhaps today just give us an indication as to what is happening and when you think data quality will have improved?
Peter Coates: I will gladly provide you with a note about where we're going on it but there are no plans that I'm aware of to oblige trusts to provide data as regards the information that's currently in ERIC.

Q120 Stephen Barclay: I think that ties in to the Chair's comment around the foundation trusts as well and how the data quality and relationship there plays. Perhaps I can go with the third recommendation of the Report which is about using contractors' reputation risk as a lever. That was behind my earlier question about what is happening in terms of the consolidation on the private sector side. Can I just point that specifically to the very early PFI contracts? So, for example, if one looks at the Hereford Hospital that Mr Hancock cited earlier, that was signed at a time before the 3% efficiency discount was put in as a standard clause of contract. What work is going on to look at the very early PFI projects, and to use, if I may say, the soft power of the Department to leverage some changes within those contracts?
Peter Coates: There is nothing specifically going on in relation to Hereford or any other of the schemes. I go back to the point I made earlier that all of the hotel services within the hospitals are regularly market tested and that generates efficiency savings to the Trust. We are where we are on the building maintenance: we have a 30-year contract that doesn't allow us to change the terms of it. The remaining costs within the trust are basically the building costs and the debt set in the building contract.

Q121 Stephen Barclay: There was an Adjournment debate on PFI and Hereford and the MP Jesse Norman's spoken on this. There are concerns with the maintenance costs, the fact that just getting a TV aerial in the consultants' room costs the best part of a grand. To do that work required a 12-week notice because it's a change to a contract. So there are issues with what I call the older contracts and I don't get a clear sense that anyone is gripping that within the Department. Can you reassure us on that?
Peter Coates: Well I think we do look at this and I think we should try not to confuse minor changes to the building, such as putting television aerials in, and deciding when you replace the windows, when you replace the roof and when you replace the boiler.
Stephen Barclay: Absolutely.
Peter Coates: You are tied into that kind of contract but how you make minor changes to the building of the type described there is open for negotiation by the trusts.

Q122 Stephen Barclay: So in terms of the new contracts, going forward, do you, at least, have a minimum threshold so that some of these very small changes could be made by an odd job man?
Peter Coates: Yes.
Stephen Barclay: So we are not going to have this issue with the new contracts.
Peter Coates: There is a de minimis already. I'll give you a note but I'm certain there is a de minimis threshold now that says that we just do it.

Q123 Chair: Are there new contracts?
Peter Coates: I know at least one trust is out to tender at the moment, if not two. Alder Hey and one other.

Q124 Stephen Barclay: So they would say work below £500, or whatever it is, doesn't have to—
Peter Coates: I don't know, I can give you a note.
Chair: It's left to them.

Q125 Stephen Barclay: Just finally, on the new contracts, the partnership and efficiency savings that are referred to, the Report says "The Department should work with Treasury … to explore ways in

which standard PFI contractual terms can be adapted to best encourage partnering and efficiency savings." Again, how is that being factored into the new contracts?
Peter Coates: Partnership working is a very difficult area it seems to me because it's a relationship point as opposed to a contractual point. I think it's true to say in the early days of PFI, the private sector and public sector found it very difficult to work together in a way that put aside the contract, you might say, and said what was best for the patient and best for the hospital. There are examples in the Report where partnership working has happened and happened to the benefit of the Trust. My personal view is that I think these will increase over time as trusts get to know and understand and work their contracts better. That's a thing it does seem to us they are going to have to own; if they don't own it then things won't improve.

Q126 Matthew Hancock: You said earlier, to one of the questions, that there are four people that currently work on PFI.
Peter Coates: Yes.

Q127 Matthew Hancock: And that a potential PFI club might have about half a million, did you say?
Peter Coates: There are about 100 trusts with PFI schemes; I'm saying the average fee to join this, to make it worthwhile, is £5,000.

Q128 Matthew Hancock: So half a million. Given the size of the financing that goes through PFI, it strikes me as a rather small number, only four people. I know these are at the centre and I understand entirely your point that, especially foundation trusts, but all hospitals run their own organisations as well. Nevertheless the state is a monopoly buyer, more or less, of hospitals in this country and so has market power. It isn't as if this is a market with a very large number of buyers and sellers. So, what are you doing to try to get PFI providers, who are increasingly oligopolistic, to understand the financial constraints the whole country's living in and through finding savings, whether they're in the contract or not, to be able to deliver those savings up to the taxpayer?
Peter Coates: To a certain extent our market leverage reflects where we are in the procurement cycle. When we are just starting the procurement our market leverage is the highest and we did use it. Now we are at the point where we are fixed into contracts that by and large only allow scope around the hotel services and we are focussing our attention to try and get the best value for these things.

Q129 Matthew Hancock: But you're about to procure a few more contracts.
Peter Coates: I think two are in the market at present

Q130 Matthew Hancock: So there are future contracts?
Peter Coates: Yes.

Q131 Matthew Hancock: The people who build these—you mentioned a couple of companies already—deliver a lot of procurement across Government, not just to the Department of Health.
Peter Coates: Yes.

Q132 Matthew Hancock: So you are a large buyer and therefore have market power.
Peter Coates: In relation to dealing with suppliers to Government on a cross-governmental basis, we do work with Office of Government Commerce and Cabinet Office around dealing with those contractors and asking for reductions in overall fees.

Q133 Matthew Hancock: So did you see the 2009 McKinsey Report that showed that a two or three basis point reduction in cost would save £200 million if it could be delivered across 80% of projects?
Peter Coates: Is that in the cost of debt you're talking about?

Q134 Matthew Hancock: Yes, exactly. The cost of debt, were that then to be delivered up to the taxpayer.
Peter Coates: It seems to me it's a pretty mathematical calculation: the amount of money and the cost of debt.

Q135 Matthew Hancock: Sure. Similarly savings could be made if improvements could be made in the efficiency of running the projects that could then in part be delivered to the taxpayer, but you've only got four people working on this. In the new environment that we're all living in, what are you doing to make sure PFI isn't protected from having to find savings when non-PFI services across the public sector are having to find those savings?
Peter Coates: The McKinsey numbers relate to the procurement phase, and when the money's borrowed to build a new hospital. That is past, and we did lots of things at that time to reduce the cost of debt and the cost of those hospital schemes to the taxpayer.

Q136 Matthew Hancock: Although you could refinance them?
Peter Coates: Lots have been.

Q137 Matthew Hancock: Earlier you said there's no interest now in private sector refinancing.
Peter Coates: I don't think I did. It is difficult to refinance schemes now because of the credit crunch and relative cash in banks.

Q138 Matthew Hancock: That will hopefully work through.
Peter Coates: A lot of our deals are also bond financed and they are very difficult to refinance.

Q139 Matthew Hancock: Right, but I come back to this central point: whether through cost savings or through refinancing, what are you doing to make sure that through your market power, which you have both

as a Department and also across Government, the taxpayer benefits from the efficiencies that everybody's having to make? Or are you just saying that the contract is the contract and we're not going to bother trying?
Peter Coates: What we're talking about here are the tendering processes of trusts, who are independent from the state, for hotel services within the Trust.

Q140 Matthew Hancock: Yes, however, the Report says that there isn't much support from the centre for trusts who are trying to do this sort of thing.
Peter Coates: I believe we provide proportionate support for the demand placed upon us by the trusts. The trusts say that they think the level of support we provide is adequate; it meets their needs and their requirements. I'm responding to their needs here.

Q141 Matthew Hancock: I mean some of them are unhappy.
Peter Coates: 77% said they were very happy with the services provided by the Department.

Q142 Matthew Hancock: Which means that 100% minus 77% aren't. My point is that the whole country is going through a very difficult process, but from your answers I gather that you are not looking to try to get anything out of things that are signed off though PFI. I'm astonished that you don't get your PFI providers into a room and say, "Right, we're in a mess and we need to try to sort it out. I would like 5% out of each of you." Some Departments are having to do far more than 5%. Wouldn't that be reasonable?
Peter Coates: I accept we could try.

Q143 Stella Creasy: It's not the Government who deal with it. You're not negotiating the contracts are you?
Peter Coates: They're not our contracts.
Chair: It's the trusts.
Matthew Hancock: No, no—
Mr Bacon: Hang on a minute. Mr Hancock is describing what you and the Treasury did over refinancing. For many of the early contracts where there was no refinancing clause included in the contract, you collectively went to the industry—I see Mr Humpherson nodding—and you said, "We want a share of this. We want 30% by the way, so we will have a 30/70 split and it will rise, and on new contracts it will be 50/50, then it will go 70/30 to us." But on the ones that were the earlier contracts where there was no legal right you said, "We're going to have it anyway. By the way, we have the force in the market if you ever want to work in this town again," and you got it. That is what Mr Hancock's talking about.
Peter Coates: I don't think he is, with respect.
Matthew Hancock: I am actually.
Peter Coates: I thought we were talking about hotel service, I beg your pardon.

Q144 Matthew Hancock: Whether through financing or through improving efficiency in the delivery, across Government at the moment an exercise is under way to squeeze more out of suppliers, and PFI contractors are suppliers. You seem to be giving me the impression that you are not in that process. You have only four people working on it. Even under the new arrangements that you hope to bring in there is only £500,000, which doesn't buy you dozens of people, and I'm astonished that you are not looking for efficiencies here when the whole country is looking for efficiencies in every other part of life.

Q145 Stephen Barclay: Even the Report flags this. The Report says there is a lack of central data on the performance of the PFI portfolio; this restricts the Department's ability to assess value for money and to target all four of its resources towards assisting trusts most in need of help.

Q146 Matthew Hancock: I mean even the Department for International Development is trying to get better value for its money.
Peter Coates: I didn't say we weren't trying to get better value for money. To take refinancing in term, when refinancings occur in trusts we support them fully through that process and agree the refinancing terms to determine that they are consistent with the market and best value for money. The question is then how far down the line you go with support services in 250 trusts that are continuously re-letting contracts for hotel services on a one a week, two a week, three times a week basis.

Q147 Matthew Hancock: And they are being picked apart by a oligopolistic supplier base and then hundreds of different trusts.
Peter Coates: The trusts then tender those services on the open market and the data we have coming back for this year shows that costs have gone down.

Q148 Matthew Hancock: By 8% you mentioned earlier.
Peter Coates: To think that we can sit over the NHS like some great web, manipulating when they go to tender for their catering or when they go tender for their support services—it is just not possible for us to do that.

Q149 Matthew Hancock: You can support them in coming together to make sure that they face their suppliers effectively and get the most out of their suppliers that they can.
Peter Coates: When they ask us to do that, we do do it.

Q150 Matthew Hancock: But you have only four people.
Peter Coates: But 70% of the trusts say that's adequate and that it meets their requirements.

Q151 Matthew Hancock: 30% of the trusts say it's inadequate. Doesn't that upset you?
Chair: I think the real issue is not they don't do it, it's should they do it.
Stephen Barclay: The PFI support club is a recognition that it should be done.

Q152 Chair: But it is this local/central issue. I have been told that we will shortly be called for a vote, so it is a matter of whether you want to come back afterwards.
Matthew Hancock: I want to listen to Austin.
Austin Mitchell: Hancock's point is exactly right. Jesse Norman, the MP for Hereford, says companies should be asked for a rebate. I would suggest prayer. I should add that Mr Coates' four staff are dealing with, I see from the Semperian brochure—if it's pronounced that way—137 highly experienced staff on its management team for 12 hospitals. The odds are pretty much against you. Sir Bob gave us the guarantee that his staff were on top of the situation, and I would suggest that he could only give it really because, of his 50 contracts, half of them have been cancelled or are under review, so there is far less contract work to do. I just want to ask one final question about costs. We were told last month that, because the banks were screwing more money out of the Government, the cost of interest payments rose by three percentage points and that is between £500 million and £1 billion extra cost on PFI contracts. Now, do you expect interest rates to come down and are the banks going to keep on screwing you in the way that they have been doing up to now?
Chair: Let Bob Kerslake take that. I am just trying to divvy it up.
Sir Bob Kerslake: I wasn't going to engage in forecasting interest rates.

Q153 Austin Mitchell: Yes, but we are shoving money into the banks and they are screwing the Government in this.
Matthew Hancock: Bond market rates for gilts are at their lowest rate since the war.
Austin Mitchell: Yes, that is true.
Sir Bob Kerslake: I think the question I can answer is one about resources that you asked.

Q154 Chair: I'll tell you what I'd like you to answer actually, if I may say so. Are you screwing down the contractors who have the PFI contracts, or the ones that you are negotiating, to eke out the extra value that Matt's talking about?
Sir Bob Kerslake: I think the answer is our particular role is in relation to the procurement process and we play a strong role there. We have four people in the CLG team, we have seven in the HCA, plus the commercial transactors who play a role. We have quite a lot of a capacity and we will hold that capacity for as long as we need to do so, basically. We will make the savings elsewhere if we have to. The second point I'd make is, as I said earlier, the PFI projects are one part of local authorities' total housing portfolio. They have an ability to compare and contrast with their other management arrangements, and I think that gives them much more ability to challenge on cost when they don't think it is appropriate.

Q155 Chair: I am conscious of votes; are there questions on the Housing PFI Report that people would like to ask beyond where we've got to? I only had one. The delays are outrageous. You have said that you have got things better, but the delays are outrageous and the cost implications of the delays are outrageous. I wanted to know what that meant for leaseholders. For them the costs of the final contract will then go up; they'll have to ruddy well pay it. What regard have you had to that?
Sir Bob Kerslake: A couple of points. First of all I accept that we need to do this quicker and that is why we have put a lot of effort into doing so; the impact of delays is principally on the tenants in the housing. On the leaseholder side, leaseholders are a challenge in any of the housing schemes, whether it is PFI or Decent Homes. I have to say on PFI, probably their circumstances are slightly better if anything because there are statutory controls on the amount they have to pay towards it and there are other safeguards in the way PFI will rise.

Q156 Chair: They can't control the overall cost of the contract.
Sir Bob Kerslake: No but they can control what they put in towards the costs of the schemes. There are controls on that. I think there are safeguards in the way it works for leaseholders that don't leave them in any worse position as far as I am concerned.

Q157 Ian Swales: I would just like a reaction to one line. On page 7, where I think a lot of the real meat of it is, there's a line in paragraph 9 that says, "There was broad agreement from local authorities, providers and advisers, that PFI procurement can be excessively costly and generally takes too long relative to other routes." That is a very stark statement that to me says, "Why don't we stop doing it?" It is only 2% of what you do, let's just abandon the whole approach and get back to public financing. Why keep on with it?
Sir Bob Kerslake: Because while it's true that some schemes have taken too long and some have cost more than you would ideally want, I think the outcomes that we have achieved through PFI have been significant. PFI works in certain circumstances where the other funding approaches wouldn't have done as effective a job. Yes, it takes longer sometimes. Yes, it is a more complex process on top of what is already a challenge. From personal experience doing housing schemes is tough. But the outcomes in certain circumstances justify it. For us PFI wasn't the only game in town; it was one tool in the toolkit and we think it is worth keeping that tool where the circumstances are right.

Q158 Ian Swales: Surely there must be some alternatives. If local authorities, providers and advisers are saying this, that we're spending money and so on, you can't be saying that there is no other way of financing.

Sir Bob Kerslake: No, I am absolutely not saying that. What I am saying is that PFI works well for certain circumstances and is worth keeping for them, particularly for the big transformational projects. As we go forward in the new financial regime following the Spending Review it will be a direct like-for-like comparison.

Q159 Ian Swales: And you could define exactly where you think it is appropriate in terms of type of project versus the rest?
Sir Bob Kerslake: I think we have a very clear idea of where it works best and that is how we steered the round 6 schemes. We think it works best in situations where you have significant transformational change needed in an estate that has high levels of deprivation and where you need to achieve a result that goes beyond the Decent Homes bog standard.

Q160 Mr Bacon: Mr Coates, could you send us a list of all PFI hospital projects that are extant; not ones that are in negotiation—you mentioned two—but the ones that are currently extant, and include for each of them: the name of the hospital; the value of the annual unitary charge payment; the start date; how many years it runs; the total cash value of the payments over those years going forward; the net present value; plus the owner of the contract.
Peter Coates: Yes.

Q161 Matthew Hancock: Could you also add to that the estimated cost at the start as a PFI project and the estimated public sector comparator for each one?
Peter Coates: Yes.

Q162 Matthew Hancock: Thank you. Also will you meet the Parliamentary PFI Rebate Campaign? There is a group of people who are trying to reduce the PFI costs of their local hospitals.
Peter Coates: Gladly.

Q163 Chair: I wanted to ask one more question on health, as we're not being called to a vote, which is the issue about deductions. I know we are coming to an end, but it struck me in the Report that over half of the trusts don't charge a deduction. Where they do charge a deduction, it's minute. On page 34 of your Report there was this quite astonishing example of Oxford Radcliffe saying, "We don't want to do deductions because that would undermine our relationship with the actual hospital." Yet a third say that at least one service is unsatisfactory. This may be a centre/decentralised issue, but it seems to me that the trusts are not exercising the power that they have within the contracts to eke out best value, even in this field of taking deductions where they should have them.
Peter Coates: I am aware that the PAC said they should always take the deductions if they are due to be taken.

Q164 Chair: But there's nothing you can do?
Peter Coates: We just won't know. We just won't know when this happens. The only reason it was picked up here was because Oxford was one of the trusts that the NAO interviewed extensively. What I can say about this trust is that they, for reasons down to themselves as accounting officers, decided to forgo the £7,000 owed to them because they wanted to build a better relationship with their service provider, who was Carillion.
Chair: Oh my God, we had Carillion.
Peter Coates: I am told that in 2010 when they market-tested their services they decided not to go to the market and keep Carillion on. Their view then was clearly that £7,000 was very well invested because they have now a much better service to them and their patients.

Q165 Chair: Can I just ask this question because I am getting really muddled, and I don't want to make this partisan. Are you under an instruction not to collect the data because of the decentralisation of power to the trusts?
Peter Coates: I can't remember the exact process but there is a mechanism you have to go through in terms of communicating with the NHS, and collecting data like this would fall outside the agreed methodology.

Q166 Chair: What do you need to do? It seems incredible to me that we're not going to have the data to be able to do the evaluation.
Peter Coates: If I may look at the data that is being provided, because it is one of those areas that's interesting. They are on page 24 of the Report. If you look at the information, on all of the areas, starting for example with maintenance, you have a typical distribution of events where you have something that is very low and something that is very high. In maintenance, some trusts are paying over £70 a square metre to have their buildings maintained and some are paying less than £10 a square metre. The biggest one is in portering, where you have some trusts paying £1,000 and some paying £7,000, and all those trusts are non-PFI trusts.
Food is the example most commented on in the Report, and I agree with the Member who said, "It's not the £12 I'm worried about, it's the £3", because I don't see how you can possibly provide three nourishing meals a day to somebody for £3, quite frankly. If you look at how you calculate costs, the problem with food is that you could say that the calculation of food costs is just the food itself. It is the food plus the catering staff; it is the food plus those people who are on the catering staff and those who serve it on the ward. There is all those other things plus maintenance. Food plus depreciation. There are so many different ways you can calculate the number.

Q167 Chair: If I can interrupt you, that's why it's absolutely crucial that the Department sets the framework in which you then collect the data for us to be able to make the—
Peter Coates: We actually went back to the Trust that has £12 and they said that it is £5 for food and £5 for serving it.

Matthew Hancock: Did that make £12?
Peter Coates: At today's prices.

Q168 Chair: Why don't you set that framework of data?
Peter Coates: In the centre, I have to design how best to allocate resources to support trusts to get the best value that they can. Our preferred method of operation is that we intervene when we are asked to do that.

Q169 Chair: I understand about intervention; I am not asking about intervention. I am actually asking about information which would allow judgments to be made here, within the Department, among the inspectorate, among the public, whoever, about relative value. I can't see anyone but you setting the framework that all those trusts jolly well have to fill in, comparative data, so we can then compare apples with apples and come to some—
Peter Coates: The bitter truth is we cannot compel trusts to do these forms.

Q170 Stephen Barclay: The point is, even at a more basic level, the Report says 12 reported no expenditure on contract management. Did you know that 12 of them weren't even managing their contracts at all?
Peter Coates: We did not know that. I did not know that.
Stephen Barclay: So the Department wasn't aware of that?
Peter Coates: The Department may have known; I did not know that personally. I think the Report says that it defines nobody as less than one person a week. That doesn't mean that nobody is doing it or nobody is accountable; it is a very low level. Our view is that all projects, whether PFI or otherwise, should be properly project managed by the trusts.
Chair: Nobody is denying that; we are not interfering with that. I tell you, I haven't used my own Trust, but my own Trust is the worst performing; the PFI contract is a nightmare to it and the revenue costs arising out of it have created—Jackie will know this—complete financial mayhem for that trust. There has to be a way at the centre, even at our level as MPs, that we have the data and nobody but you can do that.

Q171 Matthew Hancock: From my anecdotal experience, although it is only anecdotal, there are trusts who ask the centre for help in managing their PFI and haven't been able to get it. Even in a decentralised system, having good comparable data is not a lack in centralisation—actually that helps the accountability—
Peter Coates: If you would like those trusts to contact me, I would gladly give them any support they want.

Q172 Chair: No, that's not the point.
Mr Bacon: The point is you have come here before Parliament; Sir David Nicholson is the accounting officer for the whole shooting match, but he is not here today, you are. I have a sheet here the NAO has just given me; the payments over the next 10 years to 2019/20 are £10.79 billion. It is the job, not just of the NAO but of this Committee to look at that and say, "Which bits of it were value for money and which bits weren't?" To do that we need some basic information, and you are telling us you're not able to get it. In fact you said the basic fact is we can't compel the trusts to give it to us. It makes it quite difficult for us to do our job.
Peter Coates: I understand that point. One of the reasons why I quite like the idea of the club is it tries to put on to the trusts the importance of doing this function. As it stands at present the Department cannot compel trusts to provide this data.
David Finlay: One of the difficulties with the information, and it is noted here in the bottom of the notes to figure 11, is that after 2007/08, the last year it was entered here, data was only collected at a trust level rather than a site level. Trusts may have a number of different hospitals or a number of different sites, so the way in which data is collected now is less useful for analysing individual projects.
Chair: I think it is clear what one of our recommendations will be.

Q173 Jackie Doyle-Price: Page 39 of the Report says that there are six trusts with a deficit, five of which have PFI contracts. My Primary Care Trust is one of them in South-West Essex, and it has a pretty toxic PFI contract to manage. We have already discussed earlier that we don't have the ability to reduce costs when we're tied into a contract. What monitoring is being done in terms of what that will mean for cutting clinical services? Because I can say quite categorically that that is leading to serious cuts in clinical services in my area.
Peter Coates: I'm sure that the reporting systems that exist within the NHS covering SHAs and Department cover this area, but it is not part of the PFI reporting process. I can provide you with a note but I can't say how individual trusts are managing this problem.

Q174 Jackie Doyle-Price: That would be very helpful and it would be nice if that was a bit forward looking, bearing in mind that some of these contracts are for 30 years, and health needs change quite significantly over 30 years and obviously we are where we are once a contract has been tendered. I think it would be helpful to have a note for the Committee.
Chair: That's interesting. Apparently, foundation trusts' chief executives are directly accountable to Parliament as accounting officers.
Mr Bacon: We could have them lined up down the corridor, Mr Coates, with you at the back and we could have them in for an hour at a time and when we got to 101—
Peter Coates: I am quite disappointed you didn't know actually.

Q175 Mr Bacon: I thought they were delegated accounting officers, but they're accounting officers in their own right now?

David Finlay: Sorry, I didn't hear

Mr Bacon: Are hospital chief executives in foundation trusts, accounting officers in their own right, not delegated accounting officers?

David Finlay: Yes they are.

Chair: We have managed that brilliantly. It is the vote. Thank you so much.

Matthew Hancock: You've managed it brilliantly; it's all down to you.

Chair: Thank you so much. I do recognise the constraints of the work. Thank you very much indeed, thank you.

Written Evidence from Sir Bob Kerslake

HOUSING PFI

I wish to inform you of the outcome of the Department's SR10 position on Housing PFI in advance of the PAC's PFI in Housing hearing of 24 November.

The Spending Review Settlement provides funding for all Housing (also Fire and Joint Service Centre) PFI projects under contract and in procurement but no funding for pipeline projects.

The Secretary of State has agreed projects in procurement should continue to be supported by the Department, subject to rigorous demonstration of value for money.We currently expect decisions on individual projects to be made in December.

However, as pipeline projects can no longer be guaranteed PFI funding at this stage, Housing PFI pipeline projects (including all Round 6 projects) cannot continue to receive funding support.

The HCA will work with local authorities to consider future options. However we will not raise local authority expectations on alternative funding given the Department's tight SR10 capital and resource funding settlement.

We are in the process of advising local authorities of the position on their projects.

I trust that the early setting-out of the Department's SR10 Housing PFI position is helpful to both the NAO and PAC.

16 November 2010

ISBN 978-0-215-55592-2

9 780215 555922

PEFC
PEFC/16-33-622

Printed in the United Kingdom by The Stationery Office Limited
01/2011 007744 19585