HOUSE OF COMMONS

ORAL EVIDENCE

TAKEN BEFORE THE

TREASURY COMMITTEE

PRIVATE FINANCE 2

TUESDAY 21 MAY 2013

LORD DEIGHTON OF CARSHALTON and GEOFFREY SPENCE

Evidence heard in Public Questions 109 - 195

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Oral Evidence

Taken before the Treasury Committee

on Tuesday 21 May 2013

Members present:

Mr Andrew Tyrie (Chair)
Stewart Hosie
Andrea Leadsom
Mr Andrew Love
John Mann
Mr Pat McFadden
John Thurso

Examination of Witnesses

Witnesses: **Lord Deighton of Carshalton**, Commercial Secretary to the Treasury, and **Geoffrey Spence**, Chief Executive, Infrastructure UK, HM Treasury, gave evidence.

Q109 Chair: Thank you very much for coming to see us this morning. Could I begin by asking you why PFI2 was abandoned for use for the Crossrail rolling stock?

Lord Deighton: Yes, indeed. I think the trade-off that the group involved were examining was really making sure that we reduced the delivery risk, the timing risk for the arrival of the trains, and so we wanted, on balance, to make the procurement as straightforward as possible so when the tunnel was ready, the trains were ready. It was a pretty finely-balanced analysis. The analysis was that there was more risk inherent in going with a private finance route than going with a straight—

Q110 Chair: The risk of what being—

Lord Deighton: Delay.

Chair: Not cost?

Lord Deighton: No, delay. It was the timing issue. The analysis from a value for money perspective, if I recall, was pretty balanced and so certainly my perspective is that the principal thing with many of these big infrastructure projects at the moment is to make sure that we deliver and keeping the project on schedule was the priority. So that is why the people involved overall went with the recommendation of a direct procurement route.

Q111 Chair: It was widely reported that the Priority Schools Building Programme would be funded in the majority of cases, or in the majority of total projects, through PFI2. Is that going to be the case?

Lord Deighton: The announcement that has been made is that 46 of the schools, about £700 million, which is just under half the programme, has been—

Chair: So just a little less than half—

Lord Deighton: Just a little less than half.

Chair: —but I thought that the programme had 261 schools in it.

Lord Deighton: If I remember, the original programme was £1.75 billion, so you are right, it is a little less than half in terms of the original programme that was looked at.

Chair: When you say "a little less than half"—

Lord Deighton: £700 million as a function of £1.75 billion, yes, so less than a half.

Chair: Quite a lot less than half.

Lord Deighton: Less than half. £700 million is a sizeable programme by anybody's measure. I think the point you are making is the original idea or the original conception was that the Priority Schools Building Programme would be a PF2 programme. I think this is in some respects a relatively good news story, reflecting the work that this Committee has been doing, because my reflection on how this progressed was that the Department for Education were extraordinarily focused on the relative value for money of each of the respective approaches and decided frankly that value for money was in the balance. There was not a very clear answer in favour of one route versus the other; that the Department did not have a significant analysis of how schools had been delivered in the past upon which to base a decision to move wholly to a PF2 model and that with the introduction of the aggregator—which is the mechanism that is being used to ensure that we can batch all the schools together and access the capital markets as opposed to bank funding—as that was an innovation, they adopted a more cautious approach, which I think is a good thing.

Q112 Chair: You had some exchanges with us on the cost of capital and they took place after we had heard that the overall cost of these projects could go up 10%. You were asked, "Will these projects be more or less expensive? What are your thoughts on that?" to which you replied, "I have no thoughts on that at the moment, but I am looking forward to looking into it."

Lord Deighton: Yes. I assume I cannot get away with that answer again.

Q113 Chair: What is your conclusion?

Lord Deighton: The way I look at cost is by examining the alternatives at any given point in time, because of course so many other variables are moving around, in particular the state of the financial markets. So for me, looking at the cost of PF2 today versus PF1 five years ago is not really that helpful, it is just looking at what you could accomplish in the financial markets today, given the availability and cost of bank finance; given the developments in institutional finance; given the appetite of investors for the equity portion; and so on. The broad conclusion I have drawn about the evolution of the cost advantages or disadvantages of PF2 are that bank finance is less available and much more expensive, therefore we need a structure that can accommodate institutional lending. To do that, we need a structure with more equity in the capital, so let us say moving from a 10% to 20% equity component. I think with that greater degree of equity, we are able to come up with structures from a ratings point of view that can attract what I would describe as the "sweet spot" for the institutional market, which would be in the range of single A-type ratings. I think the cost saving on the 80% of the debt component at that higher rating, which brings in the institutional market, more than outweighs the extra return you have to give on the additional equity capital. So on balance, the weighted average cost of capital in the current markets is better served by the structure that we have developed for PF2.

Q114 Chair: So what is the cost of capital going to be—higher, lower, the same?

Lord Deighton: I think the cost of capital for the PF2 structure will deliver a lower cost of capital today than an equivalent PFI structure would deliver today.

Q115 Chair: Is the overall cost going to go up, as we were told by a number of experts, or not?

Lord Deighton: I think we will have to see, because the way we will negotiate these transactions will be through creating a competitive market, and there are a number of different components that will determine the cost. For me, frankly, probably the single most important component in determining the overall cost is the efficiency of the procurement model we put in place and ensuring that we have people, in the case of schools, who understand how to establish a standard approach to a template for a school, drive out cost, run an efficient procurement process. The financing through the aggregator should be done on the same basis, with people who understand the capital markets and how to negotiate with the equity providers. So I think the approach we have in place should enable us to drive the most efficient outcome both in procurement and financing.

Q116 Chair: You are using very general terms. Perhaps I could summarise; what you are saying is you have now started looking at it; you do have some thoughts; there are quite a lot of things that you are not yet sure about in order to form a firm view, and so you are not able to tell the Committee whether the cost will be higher or not.

Lord Deighton: All my experience in the financial markets tells me the only time you will know the answer to that is when you have completed the deal. The reality is, since I was here we have not done a PF2 deal. In some respects I think that tells a considerable story.

Q117 Chair: Okay. I am just trying to get to that. You don't know, is the answer, but you are not convinced that the cost will be higher?

Lord Deighton: The financing costs are a function of what interest rates are in the marketplace. I think it is too general a question. Is this the most efficient model to transfer risk to the private sector? Is the process in place for examining value for money? When we make the decision to go ahead with a PF2 decision, is it very focused on value for money; are we transferring sufficient risk in terms of construction risk and maintenance risk to justify a higher cost of capital?

Q118 Chair: What we are discussing here is the cost of capital at the moment. Colleagues will discuss these risk transfers in a moment in other questions. I am just trying to get the cost of capital question clear. Will the cost of capital be higher?

Lord Deighton: Than?

Chair: Than it would be if we financed this in the public sector.

Lord Deighton: I am sorry. The simple cost of capital will be higher in return for the supposed risk transfer; that is a straightforward question.

Q119 Chair: How much?

Lord Deighton: We will determine that when we have done the first transaction.

Q120 Chair: Therefore you cannot tell me whether you will get that back in value for money savings from better management of the project?

Lord Deighton: The analysis, for example, that is the heart.

Chair: That is the question, but I have broken it down into two pieces now.

Lord Deighton: Yes. For example, you can construct a value for money matrix, which would define the break-even point. For example, the analysis that was done for the schools programme would show that, broadly speaking, if the construction costs went to 10% above the expected level and the maintenance costs were above the 10% level, the benefit of having taken the private finance route, i.e. having effectively insured yourself against those risks, those risks having been transferred, would be just under 2%—I think it is about 1.7%. So that is the kind of analysis behind the risk transfer.

Q121 Chair: Lord Deighton, I think you probably know we are going to carry on asking these questions in a variety of ways, and they are just going to keep coming every time you come before us, so it might be helpful if you could set out in a note where your thinking has come to on these costs.

Lord Deighton: I think when we have financed the programme—

Chair: Why don't you just say yes to that?

Lord Deighton: No, no, I am delighted to do that—with real examples, I think is the way to do it.

Q122 John Thurso: Can I just follow up this question of costs a tiny bit? You are making the point, quite rightly, that market conditions of seven years ago versus market conditions today means you have an apples and pears comparison.

Lord Deighton: Yes.

John Thurso: I completely accept that. However, if you look at the formula for a weighted average, that remains constant in this respect: if you have 10% equity and 90% debt—and broadly speaking, ever since the 1980s, equity has been relatively considerably more costly than debt finance for reasonable projects—then if you multiply 10% by the cost of equity and 90% by the cost of debt, you arrive at the weighted average. If you then say, "We need 20% to 25%," and you take the 20% to 25% and multiply that by the cost of equity and the other 75% to 80% by the cost of debt, you arrive at a number that is greater than the first number. So the model of PF2 will, in all circumstances, be more expensive than the model of PF1 because of the requirement to go to 20% to 25% of equity.

Lord Deighton: Unless—

John Thurso: Isn't that a no-brainer for a banker?

Lord Deighton: No, not necessarily. I think the point I was making to the Chairman was that if at a lower debt equity ratio you are able to access a different financing market—for example, shifting from the banking market, which has become very expensive, into the capital markets, which are more competitive now—then the lower average cost of that 80% versus the prior 90% could well outweigh the fact that you have a more expensive slug of capital going up from 10% to 20%.

Q123 John Thurso: But if you look at investment grade bond returns and you look at high-grade borrowing to a plc, FTSE100—which I would imagine a PFI ought to be in the region of, because if it isn't, why is it doing it?—there is not a lot of difference in the cost. There is a 1.5% maximum difference, probably less, so it is not a huge difference, whereas there is a 5% difference or more in the cost of capital as between equity and debt, either a bond debt or bank debt.

Lord Deighton: Yes, though it is a smaller proportion of capital.

Q124 John Thurso: Exactly. If you move from 10% to 25%, that is a significant increase in the higher cost for a relative saving on the lower cost.

Lord Deighton: Yes. No, I agree. That is why it is a weighted average cost—

John Thurso: I just thought I would add some clarity to that.

Lord Deighton: —so it depends how much it goes up and down. No, I think we are all agreed on the arithmetic.

Q125 John Thurso: Can I turn then to the question—and I don't know whoever would feel best able to answer this question—of PF2? The proposal is that some of the equity will be taken by Government. Presumably therefore the Government will be receiving some of the dividends. To what extent is this an aim of Government policy? Explain to me how the Government sees having equity as an important part of the overall policy.

Lord Deighton: Let me start off, and then Geoffrey, who has more history in this, can perhaps fill in. For me, Government taking an equity share in these structures is really based on a very simple principle, that what we are really trying to establish here is a partnership—and that was one of the key terms in the original conception—and when you are on the same side of the table at the board meetings, receiving a portion of the same returns, it is a much better relationship in order to both negotiate these transactions initially, but probably more importantly to run them over the very long term that most of them take place. So it works well for both sides, so we are not left with a sense that it is all about extracting profit if you are one side and on the other side you are sort of left at the mercy of a transaction that was done, in many cases, years ago. So for me, the heart of it all is really about trying to establish a true partnership approach to these transactions for the benefit of both sides. So I don't know, Geoffrey, if there any specific policy things there.

Geoffrey Spence: Yes, to build on that, there are probably two other aspects of taking equity in this. The first is that by taking equity, and therefore increasing the amount of equity capitalisation, we do access long-term institutional debt finance, but at the same time, the plan is that the benefit of that equity return—which will be completely in line with the other shareholders—will be rebated back to the authority who is paying for the particular service. So in that sense, if you like, the potential extra cost of having higher equity is mitigated significantly, if not wholly, by the fact that that shareholding benefit in terms of dividends or any other payments that come from that shareholding will go back to the authority that has paid for the service. It will go through Treasury, but the commitment that the Treasury has made is that will go back directly to the procurement authority, so their net cost will be lower than their gross cost to the tune of the equity return. That is one other reason, and then the third reason is to do with transparency. This is a better method in terms of dealing with the private sector to achieve the levels of transparency that Government and Parliament want to see, particularly transparency on the level of equity returns that are made in this context. I think, without having to create a huge bureaucracy to establish that, by us being able to publish on an annual basis a full report on what happens to all of these projects from the point of view of the shareholder, as well as of course from the point of view of the procurement authority, that achieves a level of transparency that everyone wants.

Q126 John Thurso: Can I just be clear, because I think, Mr Spence, you have said that the Government would be looking to take somewhere between 20% to 25%, up to a maximum of 49%, which I assume is of the equity stake and not the overall project?

Geoffrey Spence: That is correct, although the equity can come in two forms, of course. It can come by way of ordinary share capital and subordinated debt.

Q127 John Thurso: Can I just ask you on that, because it is quite a big question, how much are you seeing Government being involved in equity and subordinated debt, or could you envisage a situation where the Government has all the equity and the private side provide all the subordinated debt?

Geoffrey Spence: No. I think that would go against some of the benefits that the PF2 model would give us by way of private sector management.

Q128 John Thurso: So if the equity side is being made up of pure equity and subordinated debt or other capital instruments—and presumably you could go to pref stock or whatever—at that moment, the Government's stake would reflect the other shareholders' stake, in other words, if they had X of equity and Y of subordinated debt, you would take the same ratio?

Geoffrey Spence: Pro rata, yes.

Q129 John Thurso: You would pro rate it. So to all intents and purposes, we can put to one side how it is split into which forms of equity instruments?

Geoffrey Spence: Yes.

Q130 John Thurso: For the purposes of my question, therefore, we can assume it is equity of whatever type.

So you are looking to take between 20% and 25%, up to 49%, and that is of the equity stake, so do you expect every PF2 to have a public sector equity proportion?

Geoffrey Spence: Yes, I do.

Q131 John Thurso: How do you work out what is the appropriate size of public sector equity stake as against the private sector side?

Geoffrey Spence: I think the 49% is an important barrier, because I think for both the private sector and the public sector, we want the private sector to retain control over these entities, subject to various safeguards that we will have in the shareholders' group of the sort you would expect. So I think the 49% is a barrier.

In terms of the minimum amount you would want, in company law there are various shareholding levels that provide blocking majorities for certain decisions, and if you like, that is the minimum. That sets the framework. I think in terms of the specific—

Q132 John Thurso: Can I flesh that out? This will effectively be taking equity in the special purpose vehicle?

Geoffrey Spence: Yes, that is correct.

Q133 John Thurso: So let us say it is 25% equity, so the other 75% is relevant for control and voting purposes, it is relevant for financing. So of that 25%, the Government takes a minimum of 25%, so that then puts it in a position to have a blocking on all of the various triggers for shareholders that run at 75%.

Geoffrey Spence: Yes, and I think the big gap in between, which is where do you go between 25% and 50%, is a very pragmatic matter of looking at each procurement to establish in terms of the dynamics of that procurement what is the right level? Is it the size of the project that may encourage you to have a smaller percentage, simply because you want the other shareholders to have a larger amount of capital at risk? So it is those sort of dynamics that we would want to consider.

Q134 John Thurso: You have made clear that one of the parts of the thinking is the barrier at which you get into having a certain amount of minority control or there are areas where that minority stake has to be taken into account. Will there be some instances where you will not do that, in other words, you might take 10% of the equity or are you aiming to be at that 25% of the equity, somewhere between 25% and 50% on all occasions?

Geoffrey Spence: We will expect to be somewhere between 25% and 50% on all occasions.

Q135 John Thurso: That is a significant investment. That is the level that you make that sort of investment—you are an active investor, not a passive investor.

Geoffrey Spence: Yes, that is correct.

Q136 John Thurso: How is the Treasury going to manage those investments? Let us say you have 50, 60 of these. How is the Treasury going to be an active manager and investor in all of those?

Geoffrey Spence: At the moment we do not have 50 or 60 and it would be some time before that situation would arise.

John Thurso: So you have five?

Geoffrey Spence: So we will have, in the short term, say five to 10 of these positions. What we are doing in response to this is setting up a separate unit within the Treasury. We have appointed someone from outside the Treasury with a commercial background, a former partner in Linklaters, and also with experience of non-executive posts, to help us set up this separate unit that will operate within the Treasury with the—

Q137 Chair: What is the name of that person, please?

Geoffrey Spence: Margaret Bonsall. Basically, we don't think we need very many people. In fact, we don't think we probably need more than three people to sit on the relevant boards. They will work for the Treasury in the sense that they are civil servants, but with the right skills, looking at this from a commercial point of view, and also engaging with the private sector partners.

Q138 John Thurso: Why not the Shareholder Executive?

Geoffrey Spence: We thought about the Shareholder Executive in terms of framing this policy and we came to a number of conclusions. The first is it was rather important, given the transparency objective behind this, that it sat closest as possible to the policy team that is responsible for the policy within the Treasury. The two really have to go side by side if we are going to publish a report annually to Parliament as to what is happening within these investments. I think there is a natural symmetry there. We also looked at what we would have to do to set this up, and I think whether it was the Treasury or whether it was the Shareholder Executive, we would have to bring in people who have experience of this type of investment. The Shareholder Executive didn't have quite those people, so they would have had to build a capability as well.

Q139 John Thurso: Forgive me if I express a degree of scepticism. There is quite a long track record of the Treasury not distinguishing themselves in these kind of things, and indeed there are a number of companies that used to be dealt with by the Treasury that are now in the Shareholder Executive. And of course, for the banks, Treasury set up UKFI, which again has some question marks over it. Here we are, we have UKFI, who does investments; we have the Shareholder Executive with a complete team who do investments; and now the Treasury are setting up a small team of three or four people. Doesn't this have some pretty chunky management question marks over it?

Geoffrey Spence: I don't agree, although I can understand why you can see that parallel. I think the Shareholder Executive skills are in running on a very activist basis shareholdings that are owned by the Government and bringing better management performance. I think what we are doing here is slightly different. We are preserving some public interest through our shareholding, but we are leaving the private sector to run this within those parameters.

Q140 John Thurso: Sorry, can I just double-check that? You are taking a 25% stake so you can be an active investor, but you are not going to actively take part because you want to let the private sector get on with it? Forgive me, which is it?

Geoffrey Spence: I think these are all very nuanced arrangements between the public and private sector. We want to be the voice at the table that preserves key public sector interests, particularly in terms of transparency, but what we do not want to do is to meddle in the day-to-day activities that the private sector is bringing to managing these assets. We also want, with that shareholding, to bring to the table the procurement authority to share in understanding what is going on at the SPV level.

Q141 Chair: It does sound a bit like Groundhog Day, if I may say so.

Geoffrey Spence: We have not done this before, so—

Chair: Not quite this, but we have done plenty of PFI. Sorry, John, do carry on.

Lord Deighton: This is a good debate to have. We have thought about organisationally where is the right place to house this expertise. I think on balance we felt that sitting on the board of a PFI-type business is quite a specialised activity, and that building it up in Treasury, where this kind of expertise exists, probably stood as good a chance of being effective as anywhere, frankly. I mean, that is the rationale.

Q142 John Thurso: Effectively you are seeking to have your influence by placing a non-executive on the board of the particular SPVs, and therefore you are going to go out and recruit the appropriately skilled person to be a non-executive. I mean, they do not necessarily need to be in the Treasury. They can be somebody like any non-executive that goes on to a board—they can do that job. My question started off because the Shareholder Executive are rather good at sourcing non-executives. They have the non-executives for the NDA; they have the non-executives for the Royal Mail; they have the non-executives for the other 14 or 15 companies that they have. I am just slightly taken aback by firstly the concept of a special unit of three people in the Treasury providing non-executives, which is a job that seems to me can be done—

Geoffrey Spence: They are the non-executives.

John Thurso: They are the non-executives?

Geoffrey Spence: They are not providing them.

Q143 John Thurso: Okay. But then there is this whole question of what is the point? You are getting into a bit of not active management, but active corporate governance of the vehicle in order to avoid the pitfalls of PF1, but at the same time sort of leaving it to the private sector. I think there are two conflicting ideas here that have not been fleshed out and worked through, which is where my mild cynicism sort of stems from.

Geoffrey Spence: I can understand the cynicism.

John Thurso: After years of experience of Government.

Geoffrey Spence: I would say there is a question here of partnership between the public and the private sector, and partnerships are a bit messy.

John Thurso: Yes, you are not kidding.

Chair: It is going to be better this time, isn't it?

Geoffrey Spence: One of the aspects that we have looked at in taking this forward has been the model of the LIFT companies for providing primary care, where these sort of arrangements did induce a better sense of partnership between the public and the private sector, and what we have been trying to do is reproduce that.

John Thurso: I am going to stop there, Chairman, because it is slightly circular. I think you have a strong understanding of the concern I have, and one that we will return to in the future.

Chair: I think we will.

Q144 Mr Love: Lord Deighton, in our reports on PFI in 2011, we highlighted the incentive to use PFI because it effectively kept the cost off the national account balance sheet. Experts tell us, in our approach to this report, that that will not change with PF2. Is that correct?

Lord Deighton: I think you are absolutely right. If you look at the history of PFI, it is clear that one of the motivations for using it was to keep the debt off the Government's balance sheet. I think the best illustration of that was the utilisation of the PFI credits, which were a specific incentive to utilise this technique for the Departments. Those of course were abolished in 2010.

In terms of how PF2 addresses that, firstly I can just give my own experience, and if you look at what has been happening, the flow of PF2 transactions has clearly slowed down considerably, which reflects that people are not just trying to pull through projects for which there isn't balance sheet room. The approach I have found in all of the Departments looking at projects is absolutely focused on value for money. It hasn't been focused on, "We cannot do it on our balance sheet because we do not have approval, therefore let us find another way of getting around it." That is just not the way the process works.

In terms of transparency, you are right, the changes to the PF2 do not include putting it fully on the Government's balance sheet. What we are doing is from 2010, we had the liabilities laid out in the whole Government accounts, the contingent liability, and the undertaking that has been given is for the PF2 total—and of course we have nothing yet—that the spending round, which finishes at the end of next month, will lay out the basis upon which a control total for PF2 will be recorded. So we have moved some of the way, but you are right, it will not be on the balance sheet. The behaviour is very focused on value for money, so my experience since I have been in Government is it is not used as a way to spend money for which there isn't balance sheet room. That is not how it is governed.

Q145 Mr Love: Let me ask you, our experts tell us that PF2 has been structured specifically in a way that will keep it off the balance sheet. Would you accept that, that you have gone out of your way to structure PF2 to achieve that?

Lord Deighton: I don't think so. I think the evolution of PF2 was a very straightforward evolution. There were many drawbacks from PFI.

Q146 Mr Love: Let me just quote to you what our expert says, "To qualify as off the national accounts, PF2 need only transfer construction and availability risk. They will almost always do this—the structure outlined has been put together very carefully to ensure this."

Lord Deighton: The essence of the structure is that it does transfer risk and the nature of the test as to whether it appears on the national accounts is that transfer of risk, you are absolutely right. I think it is appropriate because of that to make sure that we have full visibility of the liabilities that are being created, which is what we have now, and that the process that is gone through to determine how these projects are financed, whether they are fully Government financed, on balance sheet or whether they are off balance sheet, is one that focuses on value for money rather than trying to find ways around expenditure limits.

Q147 Mr Love: Given the difficulties of Government expenditure at the present time, how can you reassure this Committee that PF2 will not be perceived as the only game in town for much public expenditure? How are we going to overcome the difficulties about getting value for money from PF2, as we did with PFI?

Lord Deighton: I think that is, if I may say so, a very important question. I think the simple answer to that is by examining the evidence of each deal, each transaction that is put in place. I think you can see from the pipeline we have and the way that these transactions are approached that enormous care is applied to making sure that those that go down this path represent good value for money, and I think that is the test. We have to review them and determine that those tests have been applied and to make sure that we are consistent in that application, absolutely.

Q148 Mr Love: Let me ask you, there has been a lot of concern expressed about public sector comparators and whether they are realistic in the context of keeping things off the balance sheet, but what criteria are you going to use to establish value for money for these projects and who will take responsibility on individual projects to ensure that those criteria are met?

Lord Deighton: Of course each project and sector will tend to have a slightly different approach. If we look at the schools programme, because that is one that is currently about to go through the PF2 model, the focus has been clear that the two risks we are determining or evaluating whether they are better off managed in the private sector are the construction risk and then subsequently the maintenance risk over the whole life cycle of the asset, and those are the ones that we manage there. The process—and maybe I can turn to Geoffrey here, as he sits right in the middle of it—goes through a series of reviews at departmental and Treasury level to assure those value for money tests are fulfilled.

Q149 Mr Love: Before you speak, can I just remind you of what the Chairman said earlier on? We will no doubt be interviewing you again when PF2 is established.

Lord Deighton: Absolutely.

Mr Love: So it will be very clear that we want to hear clearly how you are going to assure value for money on the PF2 programme.

Geoffrey Spence: The value for money process is, Departments of course do a value for money assessment that then at different stages has to be approved by the Treasury if it is above a delegated limit for expenditure, and that is the process that we use. We are giving further thought as to how we assess value for money before PF2, but it is worth just remembering that we have changed direction on Crossrail rolling stock, because we did not think that the solution that we had, which would have been a PF2 solution, was the best one. We have adopted a slightly different approach to schools than the market expected, because we did not think it was the right one. So I would say that shows that, certainly over the last six months, the centres in Government have been far sharper in helping people come to the right conclusion as to what to do next and they are not approaching this on the basis that there is only one alternative, which is PF2, because there isn't: there are many alternatives.

Q150 Mr Love: Let me go on. You touched upon it, Lord Deighton, the new framework for managing off balance sheet liabilities, control totals and transparency in relation to that. Can you explain further how you think that will operate? We have had a paucity of information on this, but I think everybody recognises it will be a contribution towards ensuring a better outcome for PF2.

Lord Deighton: It has not been finalised yet. It will be announced with the spending round at the end of June.

Q151 Mr Love: Can you just confirm that that will happen, because it was meant to come out at the budget, and then it was moved to the spending review.

Lord Deighton: Yes.

Mr Love: You are not going to move it again?

Lord Deighton: No.

Q152 Mr Love: So is there anything you can tell us now about how this will operate?

Lord Deighton: The concept of a control total is clear. The only extra thing you will hear about at the spending round is the precise mechanism, so exactly how we will cap it or what it should be a proportion of, so the exact measure, but the principle, the total amount will be laid out very clearly I think is at the heart of it. It is the transparency that matters. What sort of limit we put on it will just be a particular way of measuring it, and that is the specific detail you will hear at the spending round.

Q153 Mr Love: Can I just press you a little bit, because in making that announcement about the control totals, they also talked about a wider set of reforms for managing the off balance sheet liabilities. Is there anything you can say about that, the wider set of reforms?

Lord Deighton: The Treasury's website includes a very extensive range of information on the historical PFI transactions, so there is already a considerable amount of information available. The heart really of all these reforms has been to lay out the detail of these transactions as far as possible so people can see what is there, even though, as you have already pointed out, it does not appear against the public sector net deficit.

Geoffrey Spence: Can I just add one thing on that? The significance about this is it is a control total, and for the first time what we are proposing to do is to have a mechanism to control what happens in terms of off balance sheet liabilities, so I think that is a major step forward and in many respects a response to what this Committee has argued for for many years.

I think the second thing about it is that what it does give in terms of assessing projects coming forward is a greater focus on the whole of life cost beyond a spending review period. One aspect of why we are introducing this is that definitely with some PFI projects, particularly in the Department of Health, there was an over-emphasis in the early period and not enough emphasis in the later period, and that favoured things like indexation to inflation over a contract life. This is going to deal with the assessments that came up on that sort of issue and that is one of the other reasons that we are introducing this control total, which is to ensure that there is far more of a whole of life assessment as to potential cost that goes beyond a short-term spending review period.

Q154 Mr Love: That is very welcome. We were moving in that direction with whole of Government accounts, but drawing it all together and putting it into one control total will undoubtedly be a contribution to the debate.

Let me just ask one final question, and that is going back again. I want it to be clear, all our experts are telling us that PF2 will be more costly than PFI. Do you agree with that or not?

Lord Deighton: I think in principle—

Mr Love: Not with public sector comparators, but with PFI. They are saying, because of the leveraged structure, the policy structure, it will be more expensive.

Lord Deighton: That is probably the case. I think I agree with that.

Q155 Stewart Hosie: Lord Deighton, there has been a lot of talk about the cost of capital, quite right, but the general public don't care about the cost of capital or the balance between equity and debt in financing. They care about the total lifetime cost compared to the capital cost of the project, which is why the horror stories of the £200 million hospital costing well over £1 billion over its lifetime caused such a scandal. The solution in PF2 appears to be to strip out the soft facilities management costs and so there is a more accurate cost of capital with the other stuff allocated separately. Will that reduce costs overall or will it simply add complexity, that there are now multiple contracts on what is effectively the same project and will risk be priced up accordingly?

Lord Deighton: That is an important question, which I think does get into the heart of some of the things that we are trying to improve. One way of answering the question is to look at the work that has been done on the existing portfolio of transactions in order to reduce their ongoing lifetime costs. The team at the Treasury has been working at this for a year or so now and I think the rolling target of savings now is about £1.65 billion and there is a target to accumulate another about £1.4 billion of savings from the existing portfolio. So that is really doing the work on the existing portfolio, which you are now discussing, should be applied in how we approach the new transactions differently. So I think that is proof that there is some value in doing this differently, and in the schools programme, for example, I think you are absolutely right.

Q156 Stewart Hosie: No, I want to really focus on the new contracts, not trying to pick apart some of the old contracts, which were appalling, and try to save some money. That is all very sensible and good luck to whoever is doing it.

Lord Deighton: It is the same principle.

Stewart Hosie: Possibly, but we are talking here about separating out the cost of construction fundamentally and maintenance from the soft facilities management stuff, which added enormously. The question is—does that put up the overall cost compared to PFI; does it add to risk being costed up the way, and if so, is there some kind of metric there? What are we talking?

Lord Deighton: Look, I think it is more efficient to break up these bundles of services into their different kinds and to place them with people who can provide them in the most flexible, cost-efficient way. I agree with you, there is an element of management or overhead or complexity in order to accomplish that, but I do not think it is so incredibly complicated, and I think the opportunity is demonstrated by what we have done with the existing portfolio.

Q157 Stewart Hosie: It is interesting you say that it can be more efficient, because Noble Francis, the Director of Economics at the Construction Products Association, warned that because in the long term the return on PFI for the private sector investor or contractor is over the course of the service contract, separating the long-term service contracts may impact on those who are willing to invest. So it may be more efficient, but it may impact hugely on those willing to invest, and what would the impact of that be if that were the case? Would it mean a larger public sector stake in these contracts?

Lord Deighton: Like all these things, it is a question of balance. In terms of some of the sort of heavier maintenance and facilities management, I think in many—if not most—cases that works very naturally as part of the construction, because they go together very well. In terms of the softer services/elements, as you effectively acknowledged this, good examples of those are obviously cleaning and catering. I think it works very well to separate those out, particularly as the provision can change over time, you can work very hard at the efficiency. I think certain kinds of services do go better bundled, others are definitely more efficiently delivered on a separate basis under a separate contract from a separate provider.

Q158 Stewart Hosie: But on that specific point that Mr Francis makes, that it might impact on those willing to invest because of the lifetime profit over all parts of the contract, do you think that is a legitimate concern or do you have no additional concerns about the ability to attract investment because of the nature of the contracts?

Lord Deighton: No, I think in every component of these transactions, clearly the return that we provide to the investor, the constructor, whoever it is, needs to be sufficient to bring them to the table. That is the balance that we are trying to establish the whole time, absolutely.

Q159 Stewart Hosie: Just on that point, I think it was said earlier that the public sector will have a stake in these special production vehicles, whatever the stake might be, and I think you said that dividends would be rebated back to the procurement authority via the Treasury. I think that is the way it was described. The public will look rather askance that costs on PF2 are likely to be higher than PFI, which was recognised to be a shambles. The Public Procurement Authority will be funding this through the taxpayer fundamentally at the end of the day, and that by sitting on the board of the special production vehicle they will have dividends rebated back to them, which is taxpayers' money in the first place. It is all rather complicated when we are only really talking about building schools and hospitals, isn't it?

Lord Deighton: The first thing I would say is I think the discussion about the relative costs was focused on the financing cost, if I can just separate the two out. I think what everybody is trying to accomplish on the other costs is that we have a procurement model and a contract structure model that enables us to continue to drive those down to a more efficient level. Again, that opportunity is the opportunity that has been realised in the savings we have made on the existing portfolio. That tells you the efficiency shift, because the new contracts should embody those better terms, which we are now having to extract retrospectively from the existing portfolio. That is the opportunity to do it better.

Q160 Stewart Hosie: I would like myself to go back to the Treasury table that shows the total lifetime ongoing costs against the original cost of capital and see what this potential savings from renegotiation really amounts to as a factor of the total cost, because I suspect it will be rather small.

Lord Deighton: I think we are having the NAO review that, aren't we, the process, so we will be able to give you some facts on that.

Geoffrey Spence: The NAO is validating our claims about cost savings, yes.

Lord Deighton: So we have something you can look at there.

Q161 Stewart Hosie: Sorry, just a couple of other small questions. The Government said they were looking for up to £20 billion of private sector financing for new infrastructure and that the pensions infrastructure platform had the target of around £2 billion. Is £2 billion from the pension funds enough? Are you looking for more from them?

Lord Deighton: Pension funds provide a lot of money already through other funds, so when they are investing in infrastructure at the moment, they do it via other managed funds. The point of the pensions infrastructure platform is so they can develop the expertise to do it directly, which they are hoping would be more efficient. They so far have £1 billion. The intention is to take that to £2 billion over the next year. The £20 billion target that the Government announced when this all started is a sort of 10-year horizon, because what we are really trying to do is just encourage them directly into the market.

Q162 Stewart Hosie: Is there any chance at all that you are going to find that missing £18 billion?

Lord Deighton: Over 10 years, yes, absolutely, if it works, though my view on the market generally is our approach is to ensure that we access the global capital markets for the private money we need. Whether it comes from pension funds, life companies, sovereign wealth companies is less of an issue as long as we get there in total, so we are doing everything we can in each sector to encourage them along.

Q163 Stewart Hosie: Just finally on that then, what efforts specifically have you made to reach out to those bits of the capital markets in order to get some of this extra cash and are there specific projects that you are dangling in front of these investors?

Lord Deighton: There are a number of different ways in that private capital gets involved in these big projects. If we are talking about PF2 specifically, just remember we have at the moment one programme for £700 million, so in terms of the capacity of the markets, this isn't a particular challenge. The broader question of how we finance our overall infrastructure requirements over the next 15 to 20 years is I think where this question is much more valid. If you look at national infrastructure plan, we lay out a pipeline of projects in excess of £300 billion. We expect something like, in round numbers, 70% of it to be found in the private markets. However, much of that comes in the form of existing corporate entities. If you look at the way we finance our water companies, if you look at the way our energy companies are financed, if you look at the way our airports are financed, it is in a corporate form, so the private equity goes into those corporate forms that have both existing assets and that are building new assets.

Q164 Stewart Hosie: So you are expecting private contractors to go to the market rather than you to go to the market and offer up investments that might be worth investing in?

Lord Deighton: It is a combination of all those things. I will give you some examples. If we are rebuilding Terminal 2, Heathrow Airport does that, and it can do that from its own cashflow and from its existing investors, who are institutional investors who very much like the characteristics of infrastructure, and they are bearing the burden of that expansion programme. In the case of our water companies, it is a very good case of a regulated asset-based model, which is an alternative model to a PFI. The regulator will set prices that allow for capital investment to take place, and again that comes in at the asset level.

Q165 Stewart Hosie: Sorry, both of those examples are private companies. One is a regulated model and one is a very important bit of infrastructure, but they are both private. I am more concerned about the stuff that is not in the private sector, where it is dependent on public procurement bodies and Government to raise the cash. So in terms of the schools programme, for example, do you go through a prime contractor to raise the money or do you or somebody else go to market to get the cash?

Lord Deighton: What I was really pointing out was given the scale of them, there are many different ways of doing this, and I think it is important to understand them all. Frankly, the structures where we have effectively created entities that are able to do this independently is probably the most efficient structure, which leaves us with the rump, if you like, of the difficult to do deals that may be of a much bigger scale. You are absolutely right, I spend a lot of my time with all those institutional investors, right from sovereign wealth funds, which have vast sums of money at their disposal, life companies and pension funds. We absolutely spend significant amounts of time with them, on understanding what their requirements are and in looking at the pipeline of specific proposals, so the aggregator structure that has been put together for the schools programme will be the vehicle through which we then discuss with the market their appetite for that deal. So each one is specific, but we have a plan for it.

Q166 Mr McFadden: I would like to ask you about this issue of Government guarantees underwriting infrastructure investment. There was a Treasury press notice from July last year that said up to £40 billion worth of projects that are ready or nearly ready could qualify. The first guarantees are expected to be awarded in the autumn, and to qualify, the projects must be ready to start in the 12 months following a guarantee being given. Could you give us a progress report on this? Of the £40 billion, for example, how much has been taken up?

Lord Deighton: It follows on very logically from the discussion we were just having, this is one of the Government's interventions to support the markets with a guarantee for those projects that the markets cannot quite get done. So the concept behind it is, if there is a risk there that the markets in their current state will not quite absorb, the Government is prepared to step in to ensure these important projects happen. The progress report—and Geoffrey runs this programme, so he can fill in some of the details—but broadly speaking, two transactions have been announced, one completed, which was the conversion of the Drax Power Station from coal-fired to biomass earlier, I think we announced that a couple of months ago. The second transaction that has been announced has been the support of the extension of the Northern Line to Battersea, which of course unlocked the big development in Battersea, for which I think a construction contract is about to be announced. So those are the two that are in the public domain.

Q167 Mr McFadden: Do you know what the value of those two are?

Lord Deighton: The value of the guarantee for Battersea, a round number, it is £1 billion. The Drax is £75 million.

Mr McFadden: £75 million?

Lord Deighton: Yes, £75 million. And then there is a pipeline of other pre-qualified transactions that are in the process of being discussed and negotiated, all of which have various confidential aspects, so we cannot talk about the specifics, but they are pre-qualified and the sponsors involved there are in the process of finalising the deal, so we would expect a series of announcements in the latter half of this year and the beginning of next year.

Q168 Mr McFadden: The press release said, "Now 'UK Guarantees' will use that hard-won fiscal credibility to provide public guarantees of up to £50bn of private investment in infrastructure and exports." That was the Chancellor's claim 10 months ago. The projects had to be willing to go in the next 12 months. We are now 10 months on, so we are not far away from 12 months on, and of this potential £50 billion, these guarantees have been used for around £1 billion and £75 million so far?

Lord Deighton: So far, yes.

Q169 Mr McFadden: There is quite a lot to do in the next two months then, isn't there?

Lord Deighton: Yes, there is for that pipeline.

Geoffrey Spence: We have publicly pre-qualified a further £10 billion of projects.

Q170 Mr McFadden: What does that mean?

Geoffrey Spence: Because we do have commercial confidentiality issues with quite a number of the projects that we are talking about—

Mr McFadden: I understand that.

Geoffrey Spence: —what we have been trying to do is to find a way of communicating what progress is, so the way we have done that is to say, "We have had over 100 people come in to see us with proposals and projects." That probably only amounts to about 50 projects, because some people come in to talk to us about the same project. We probably have at the moment about six to seven a month come in to talk to us in terms of new projects that they want us to consider and guarantee. I think the last public statement we have made is that about £10 billion in total of project value is being taken forward under the guarantee scheme in addition to what we have just referred to.

Q171 Mr McFadden: Just define this "being taken forward". Does this mean that you are saying there are £10 billion of projects out there that we think might potentially qualify for this guarantee or is it more than that, that there is £10 billion that will qualify? I can confidently tell you that in a few months' time, if I was to ask you the same questions as today, you would be telling me, "We have about £12 billion of projects that are using these guarantees." Which is it?

Geoffrey Spence: I think the £10 billion is a snapshot at the date of the announcement as to those projects that qualify for the scheme, and where we are doing further work with them to see what the price of a guarantee would be, given the State Aid rules, and what the risk would be.

Q172 Mr McFadden: Yes, so the £10 billion might not happen? It is under discussion. What I am trying to explore is, is it—

Geoffrey Spence: So we are not saying they have been approved.

Mr McFadden: —a maybe or is it a yes?

Geoffrey Spence: We are not saying they have been approved.

Q173 Mr McFadden: Right. So of those that have been approved so far, it is £1 billion and £75 million?

Geoffrey Spence: That is correct.

Mr McFadden: Of the £50 billion.

Lord Deighton: An interesting observation to make is the ones that have not happened, when they do not happen, they generally don't happen because they manage to pull together the financing on their own, so the key thing for us is getting the projects done and delivered, not just using our guarantees. So we are delighted when they go ahead without our help.

Geoffrey Spence: Just some clarity on the numbers, the £50 billion includes £10 billion that is there for a housing scheme that is run by DCLG, but is not an infrastructure scheme. We probably could not comment on that, because it is run by DCLG. So there is a £40 billion pot, if you want to call it that, of money available, and that was put forward in the legislation. We have not at any stage said that we think that there are £40 billion of projects that are going to need the guarantee. What we did do was an assessment of what we thought could be eligible by looking at the national infrastructure plan, looking forward two years and saying, "Of those, what could come forward in terms of something that could be eligible for a guarantee?" So that was a sighting shot as to how big this scheme could be.

Q174 Mr McFadden: What the Chancellor said is, "Now 'UK Guarantees' will use that hard-won fiscal credibility to provide public guarantees of up to £50bn of private investment in infrastructure and exports," and the Chief Secretary said, "The measures we're announcing today will help work get started on many important infrastructure projects." I am just trying to explore how many have been started since these claims were made, and the answer is two.

Geoffrey Spence: Two have been completed, not two started.

Q175 Mr McFadden: I am just trying to explore the facts. I understand the difference between guarantees and things that get their own financing. Will these guarantees apply to PF2 projects?

Lord Deighton: They could do.

Mr McFadden: They could do?

Lord Deighton: But I don't think our expectation is that they will. The idea is that they are meant to be flexible, because the whole idea is, "What do we need to make sure we get projects moving?" so that is why you would not preclude anything.

Mr McFadden: That is fine, thank you.

Q176 Chair: Just while we are on the guarantees, what criteria have the Treasury set for deciding whether or not to guarantee a project?

Lord Deighton: Do you want to take that one, because we set it out, I think, didn't we?

Geoffrey Spence: So we include all of the projects that are on the national infrastructure plan in terms of saying they will be eligible. We also say that PFI/PPP projects and we also say that in addition, if the projects have national significance that we haven't identified, then Ministers can decide to say that those are eligible.

Q177 Chair: That is the envelope of what is eligible?

Geoffrey Spence: That is the envelope.

Q178 Chair: My question is, how do you rank the eligibility?

Geoffrey Spence: When we go forward with this, there is obviously consideration of value for money in terms of whether these potential candidates offer value for money, and there are also questions of risk. When it comes to questions of risk, we have a separate Risk Committee within the Treasury that grades the project in terms of its riskiness. The grade of the project is similar to what you find in a rating agency, but it is not identical with what a rating agency would do in terms of grading projects from more risky to less risky, and of course there is well-established criteria they use for establishing that, which we mirror when it comes to the Treasury assessment.

Q179 Chair: I think we had better see that, please. We had better take a look at that as a Committee. I think that is essential. The risk-rating agencies' grading systems are published, and I think this had better be published.

Geoffrey Spence: Yes. We have provided some information on the website and will be doing more so, but we are very happy to come back to the Committee on this.

Chair: Okay. I may have interrupted. Was there something else you wanted to add there?

Geoffrey Spence: Yes, I did. Basically the way it works is that the Risk Committee advises the Chancellor as to what the riskiness of the project is and Ministers then decide, as they would on any other type of public expenditure, whether on that basis they wish to proceed with the guarantee or not. The price of the guarantee is related to the riskiness.

Q180 Chair: Okay. The long-run discount rate, the Green Book rules, those are the criteria normally used by Treasury Ministers. Do they have that at their elbow?

Geoffrey Spence: They have very good advice on matters of value for money.

Chair: That is a very careful answer. Have another go at the same question.

Geoffrey Spence: I think they have also read the Green Book too, yes.

Q181 Chair: Okay. They are applying the Green Book in order to make that assessment?

Geoffrey Spence: As to whether the guarantee is value for money, yes. I think the one thing you have to remember though is that the vast majority of these projects are not public procurements. If we take this £10 billion, the vast majority are not public procurements.

Q182 Chair: That is back to the definitional questions we were asking, which is the effect on the balance sheet.

Geoffrey Spence: What that means is that they are completely private projects, so some of the criteria for value for money that we use in the public procurement, it is slightly different when you come to completely 100% private projects.

Q183 Mr McFadden: Just explain to me how this will score, Geoffrey, because the whole advantage of the PF2 thing, as we have been talking in PF2, PFI, whatever, is that it is off balance sheet. The advantage of getting private finance into infrastructure projects is that the Government is not paying for it. If the Government guarantee was taken up in a big way and we weren't at £1 billion, but we were at your potential £12 billion or the potential £40 billion, £50 billion that the Chancellor talked about, how does that score on the books if it needs a Government guarantee to get it going?

Geoffrey Spence: It is a contingent liability in terms of the way it is classified, unless the assessment of risk is such that the guarantee is likely to be called, at which point it is classified as the public sector.

Q184 Chair: So it is defined by more than 50%? Sorry, Pat.

Mr McFadden: That is all right.

Geoffrey Spence: I think it is not as magic as a particular number that you have to go through, but if it is—

Q185 Mr McFadden: Is there a risk here from the Government's point of view that using this guarantee negates the advantage of private finance by bringing these projects on to the balance sheet rather than keeping them off it?

Geoffrey Spence: I think this is the point about these are not public projects.

Mr McFadden: That is why I am asking.

Geoffrey Spence: If you look at Drax—the Battersea arrangement is slightly different—this is a completely private sector company that we are supporting by way of providing a guarantee to enable them to convert to biomass to generate. So the sole assessment for us is where the risks of that venture are such that there is significant risk that the guarantee could be called, and obviously if there is significant risk, the whole transaction gets classified to the public sector, but otherwise it is treated as a contingent liability.

Q186 John Mann: I just want to ask a question of Mr Spence, because you were singing the praises of LIFT Co before and contrasting it with BSF, or that is how I took it to be. Any schools built with PF2, will there be the same bureaucracy as there is at the moment for maintenance, which leads to huge delays in even the most minute maintenance and a hidden public sector cost in the bureaucracy involved?

Secondly, will there be the same restrictions on community use of schools that the current PFI schools have now, both through their charging structure and through their hours, which totally contrasts with non-PFI schools?

Thirdly, if a school has a huge change in numbers, let us say a fall in numbers, but not a fall in standards, so it does not hit any education problems, where will the flexibility be to change the physical structure of the school to allow it to meet its on-cost when it does not have the revenue because of the significant reduction in numbers, which is already a critical problem for a number of schools?

Geoffrey Spence: I think the answer to the first two questions is no. In other words, what we have ensured with the new model is that we retain within the school's control some of the smaller-scale maintenance that otherwise there has been instances where people have charged an awful lot for. We experienced that in the Treasury, because we have to pay at the moment quite a lot of money to shift a TV from one place to the other, so I think we are very aware of that issue, which is why in this model we have basically left the janitor with the school.

I think on the third point you make, that is one reason also why we think there will be benefits of having public sector equity to bring a better process to deal with significant change orders in terms of the configuration of the school and what happens to the school in these various circumstances. We have also changed the approach to life cycle and maintenance costs in such a way also that will not be a given incentive on the private operator to be difficult when it comes to these changes.

Q187 John Mann: The second one on community use, both the cost and the scale of it?

Geoffrey Spence: I believe we have also addressed that issue. What I would rather like to do on that is just confirm that in writing by way of a note.

Q188 John Mann: So it is clear, the absurdity that the local communities see is that they have paid through their taxes for new theatres or new sports facilities that they then cannot afford to use because the costing structure is above the market rates, and the suspicion being because it is not cost-effective to bother with that because the profit level is so low, and that the times of use are so limited because of the way that the contracts have been structured. I want to be sure the taxpayer is involved again, that the community will not suffer such absurdities with PF2 that it did suffer with PFI.

Geoffrey Spence: I agree, and I think that has been addressed, but what I would like to do is just to confirm it in writing to you.

Q189 Andrea Leadsom: Mr Spence, I would just like to ask you, in the context of your risk rating and value for money, how HS2 measures up on that scale as one of your most expensive high-profile projects.

Geoffrey Spence: Of course, HS2 is taken forward on a different basis. We don't do the same sort of benchmarking against the rating agency, because that is not appropriate for that sort of project. That follows the guidance that has been set out in terms of the Green Book by way of how to assess value for money, and there are different points in the process. I mean, this assessment has been made for High Speed 2.

Q190 Andrea Leadsom: My question still stands: how have you risk assessed HS2 and how does it stack up in terms of value for money according to the assessment that you give it?

Geoffrey Spence: I think when you come to HSL2, obviously it is a very large project over a large period of time, and you do take account of the risk when you make the value for money assessment as a Department, as the Treasury and also when it is reviewed by MPRG. Of course it carries quite a lot of risk in terms of construction costs and in terms of operation and maintenance costs, but we take account of that by a concept of optimism bias, which is used in the appraisal to assess what is the potential for cost overrun and for delay and for operating costs overrun. That optimism bias, if you like, is added to the sum whenever comparing the cost to the benefits.

Q191 Andrea Leadsom: Is the optimism bias a percentage added to the overall assumed cost; is that how it works?

Geoffrey Spence: Yes, at different stages. Yes.

Q192 Andrea Leadsom: What is that percentage that is added?

Geoffrey Spence: I would have to come back to talk about that by way of a note.

Q193 Andrea Leadsom: In terms of value for money, can you give us an idea of what your conclusion is in terms of that measure?

Geoffrey Spence: I think this has to be taken at different stages in the project's life as more facts are known, but it does present a positive value for money in terms of the benefits outweighing the costs.

Q194 Andrea Leadsom: Can you be more specific? Can you answer that question directly: what is the value for money measure?

Geoffrey Spence: I think we would have to come back and write to you on that.

Q195 Chair: This is a technical subject, and we have asked for a good deal of further information in writing. We will be wanting to put that in the public domain, but we understand that there may on occasion be material that cannot be put in the public domain. If there is, we would be grateful if you would initially discuss that with the Clerk of the Committee, and if necessary we can have a conversation and decide how to handle it. But we need a much higher level of transparency than we had last time on the PF1 and we have heard quite a number of assurances this morning that I think need to be bottomed out with some substance. Thank you very much.

Lord Deighton: Thank you.