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De Chair,

AUDIT COMMITTEE REPORT ON THE LG PROJECTS

The Clerk's letter of 21 January requested my advice on the Welsh Assembly Government's response to the recommendations made by the Audit Committee in its report *Protecting Public Money in the LG Projects, Newport*.

The Assembly Government's response is positive and accepts in full all five of the Committee's recommendations. Recommendation (i) asks for a response also to the ten recommendations I had made in my report on the LG Projects published on 13 March 2007; the Assembly Government has accepted fully all ten of those recommendations as well.

The Assembly Government reports that it has already implemented all the recommendations, by strengthening the provisions of legal agreements and avoiding the front-loading of grants. Front-loading is not ruled out for the future – and the Committee's report did not recommend a ban on front-loading, since that would remove a potentially valuable element of flexibility for officials when they are negotiating with potential investors – but the response to recommendation (ii) gives commitments that the attendant risks will be appropriately managed. By adopting a more rigorous and open approach to state aid (recommendations 1-4 in my report), the Assembly Government is most unlikely to encounter the same problems with state aid that bedevilled the LG Electronics project.

The response to recommendation (iii) assures the Committee that a full risk assessment will be undertaken for all projects under the new Single Investment Fund, which brings together several of the forms of financial assistance commonly offered to large-scale investors. Such an assessment should enable officials to

identify the risks that caused such problems with the LG projects, especially the changes to standard terms and conditions of grant requested by LG's lawyers.

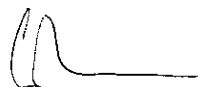
The Assembly Government has agreed in essence to recommendation (iv) on the announcement of projects. Press releases are now made only when conditions and milestones have been agreed, and the appraisal process has been concluded; hence there is no need to include in announcements the caveat in recommendation (iv) that aid packages are subject to due diligence and completion of contracts. Of course, the Committee would expect such a caveat to be included if an announcement were to be made before a project had been subject to due diligence.

The response to recommendation (v) assures the Committee that clear milestones and trigger points for funding are now set for all projects, with all projects being presented as a single phase with clear claw back conditions that apply to non-achievement of job numbers (recommendation (i) 9). Such clarity should avoid the uncertainty that occurred over the Welsh Authorities' ability to recover grant when the second phase of the LG Electronics project failed to proceed.

The Assembly Government's response is comprehensive and positive and indicates that the lessons of the LG projects have been learned. I will draw to the Committee's attention any areas where I consider that further action is merited.

Yor Smith,

Jeremy



JEREMY COLMAN
AUDITOR GENERAL FOR WALES