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Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Angela Burns
Chair, Finance Committee
National Assembly for Wales

8/5/10

Dear Angela,

Finance Committee Inquiry into the allocation of capital funds

Thank you for your letters to my Ministerial colleagues regarding allocation of capital funds in their departments. The First Minister has asked that I collate a single response to you on behalf of Assembly Government departments.

As additional background material, I have provided you with in annex 1:

- a breakdown of the departmental capital budgets for the financial year 2010/11
- Ministers and Accounting Officers for the relevant departments

In addition to the individual departmental breakdowns requested, which are included in annex 2, I feel it would be helpful to provide you with the high level corporate position to put departmental responses into context which I address below.

How is capital managed as a strategic resource and coordinated with the Strategic Capital Investment Framework?

The strategic priorities of the Welsh Assembly Government are taken into account in the process to derive the annual budget. In accordance with Standing Orders, the proposed budget is submitted to Plenary to be approved by the National Assembly for Wales.

When capital budgets are allocated to departments as part of the budget process, the responsibility for the management and utilisation of these budgets to optimise the delivery of One Wales commitments and departmental strategies rests with the Director General who is the Accounting Officer for that department. Annex 1 shows the Accounting Officer structure, departmental budgets and SCIF allocations to departments.

The Strategic Capital Investment Framework was created to strengthen the Welsh Assembly Government's approach to the planning and delivery of capital investment through cross-cutting and collaborative programmes and projects. Budget and Performance Cabinet Committee sits at the centre of the Framework and makes the investment decisions.

Any application for SCIF funding should be supported by a Business Case compatible with the 5 Case Model (Strategic, Economic, Financial, Commercial and Management cases) and complying with the SCIF criteria.

An independent Panel was appointed on 17 September 2008 to provide the Cabinet Committee with the benefit of its expertise and commercial experience in developing and delivering large capital projects. The Panel's terms of reference included providing **strategic** advice to Cabinet Committee, the Minister and departments as well as **investment** advice to help deliver cross-cutting and strategically important investments.

When projects are approved for support from SCIF, a budget transfer is effected through the supplementary budget process. Supplementary budgets, as with the main budget are subject to tabling and agreement in Plenary by the National Assembly for Wales. This process enables the SCIF funding to be integrated within standard departmental contract allocations and ensures that any external delivery organisations have only one point of contact (even if funding is coming from a combination of SCIF and normal departmental capital budget allocations).

How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

All departments are bound by the requirements laid out in the *Managing Welsh Public Money* manual (for example, to comply with the HM Treasury's investment and appraisal guidance as published in the Green Book). To maximise efficiency and value for money, the detailed procedures and processes used by each department to implement these requirements will clearly differ (annex 2 presents departmental responses).

Capital programmes are managed and monitored on a day to day basis, with comprehensive monthly reporting at official and Ministerial levels. If under, or over-spends arise, decisions are taken on how best to re-allocate resources in-year to maximise delivery while remaining within overall capital budgets.

I report regularly to Budget and Performance Committee on spending from the Strategic Capital Investment Framework and am advised by an Officials Group which monitors SCIF project spend at the individual project level.

Reallocations can be made within and between business areas. Any re-allocation in-year between different Ministerial budgets requires the approval of both departments' Ministers, the Business and Budget Minister and ultimately the Assembly via a Supplementary Budget. Prudent levels of reserves are held to ensure there is flexibility to respond to developments. Stocks of EYF provide additional flexibility in-year. Decisions on allocations from reserves or EYF stocks are made by the Business and Budget Minister.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

To maximise the efficiency and effectiveness of Welsh Assembly Government capital spend, the regular monitoring of performance enables the in year virement of funds between budgets, as expanded at length in the previous question.

I am pleased to see that the Strategic Capital Investment Framework is influencing the way departments manage capital spend. In particular, the Independent Panel is now engaging directly with Directors General to offer its significant skills in procurement, project management, construction, etc in advising on non-SCIF key capital projects.

Yours,

Jane

Annex 1 – Capital spending by Welsh Assembly Government departments

Department	10/11 capital budgets £m	Potential SCIF allocation for 10/11 £m ¹	Total
Health and Social Services	297	110.2	407.2
Children, Education, Lifelong Learning and Skills	183	60.3	243.3
Economy and Transport	431	45.6	476.6
Social Justice and Local Government	78	10.0	88.0
Environment, Sustainability and Housing	349	53.0	402.0
Rural Affairs	17	0	17.0
Heritage	15	21.8	36.8
Central Administration ²	36	0.5	36.5
Public Services and Performance	0	0	0
Total Welsh Ministers	1406	301.4	1707.4

Ministers and Accounting Officers

The questions you ask specifically relate to the functions of Directors General as Accounting Officers. For clarity, I have set out below the departments from which you have requested the information, the minister responsible and the appropriate Accounting Officer.

Minister	Department	Accounting Officer
Ieuan Wyn Jones	Economy and Transport (DET)	Gareth Hall
Jane Davidson	Environment, Sustainability and Housing (DESH)	These departments are collectively referred to as 'Sustainable Futures' headed by Clive Bates
Alun Ffred Jones	Heritage	
Elin Jones	Rural Affairs (RA)	
Edwina Hart	Health and Social Services (DHSS)	Paul Williams
Carl Sargent	Social Justice and Local Government (SJLG)	Emyr Roberts
Leighton Andrews	Children, Education, Lifelong Learning and Skills (DCELLS)	David Hawker

¹ These SCIF allocations will be made to Ministerial budgets in year in the supplementary budget

² The Accounting Officer for the Central Administration and Performance block is the Permanent Secretary

Annex 2 – departmental breakdowns

Department for Health and Social Services

Managed as a strategic resource

The HSS capital allocation baseline is £319 million. This is equivalent to c. 5.5% of the HSS revenue allocation (of £5.8 billion). As you are aware, this is a critical resource which has to be prioritised each year across the following broad requirements:

- To underpin the **strategic changes and improvements** which are essential to the future clinical sustainability, effectiveness and affordability of the NHS (including the buildings, equipment, information systems and information infrastructure it uses) – this requirement is increasing in its importance given the growing pressures of demography and the changed economic outlook
- To facilitate the introduction of **new diagnostic and treatment technology**, such as digitised mammography and digital x-ray, to increase efficiency and improve the effectiveness of clinical interventions for patients; and
- To ensure that **existing NHS estate and equipment** remains fully operational, fit for purpose and meets statutory operating requirements – this includes the challenge to reduce the historical “backlog maintenance” which is a characteristic of much of the NHS estate.

In endeavouring to balance these competing pressures for investment we place a greater emphasis on strategic investments, in preference to perpetuating investment in outdated facilities and equipment. This is evidenced by the fact that only £56 million of the £319 million allocation is distributed to NHS Health Boards and Trusts for discretionary purposes (ie. investment in the upkeep of existing estate and equipment).

We invest £12 million per annum in the programme replacement of our ambulance fleet and £7 million each year for information systems. The balance of our investment plans, approximately £250 million, is used to support the strategic development of the NHS and its estate. This underpins the 10 year All-Wales Capital Programme (AWCP), which was established in March 2007. The AWCP includes a diverse range of schemes across Wales.

Coordination with the SCIF

The 10-year All-Wales Capital Programme and business case process we have adopted have put the DG in a strong position to target valuable supplementary funding through the Strategic Capital Investment Framework, which has allowed other priority investments to be progressed via the HSS baseline capital allocation.

Assessment of cases for investment

We recognise the importance of having in place a robust framework for assessing our relative priorities for capital investment. At the heart of this framework is the requirement for all investment decisions to be justified by a systematic options appraisal set out as part of a business case. The business case justification for major investment proposals - ie. schemes costing over £5 million – has to be prepared by the sponsoring NHS organisation using the *5-case model*.

Before capital is approved for release, the scheme case is subjected to a detailed appraisal to examine and test; the projected benefits and outcomes, and the arrangements for

delivering the project. We have provided training to NHS staff to ensure they understand these requirements and the evaluation process and issued guidance and templates.

For major investment proposals we operate a three stage approvals process, as follows:

- At the first stage, a **Strategic Outline Case (SOC)** has to be made demonstrating clearly the need for the investment in service terms
- At the second stage an **Outline Business Case (OBC)** is prepared to; develop the preferred option, test its validity against other feasible and short-listed options, set out the procurement process, provide a costed appraisal, set out risks and the risk management strategy, and outlining the project management arrangements
- The final stage is the preparation of a **Full Business Case (FBC)** which identifies and explains any changes since the OBC and reflects the detailed design and costing which have been generated following joint work with the organisation's supply chain partner.

Ensuring maximum flexibility

The overall management and co-ordination of the above processes is undertaken by the DG's *Capital, Estates and Facilities Branch*. The team also:

- Holds regular review meetings with the NHS organisation to monitor scheme progress, the commitment of expenditure and any key issues which may affect the successful delivery of the project
- Monitors the allocation of capital a monthly basis via formal capital resource limits, in liaison with our Finance team, ensuring that the potential to respond to any in-year or new priorities is maximised and that capital slippage is quickly captured to be redirected.

Ensuring value for money in delivery

Delivery and implementation of individual schemes is the responsibility of LHBs and Trusts using the *NHS Supply Chain Procurement Framework*. This Framework enables organisations to procure major capital developments (in excess of £5 million) efficiently and competitively. The scheme was formally launched in July 2006 and is based on the development of long-term strategic partnerships with construction partners, integrated Supply Chains and collaborative working.

The initiative provides for a call-down framework of three Supply Chain Partners who can deliver the design and construction requirements of the project. To assist LHBs and Trusts in fulfilling their requirements under the contractual arrangements, support frameworks have also been put in place for project management, construction supervisory, and cost advisory roles. Organisations are able to draw-down these services if they have insufficient in-house expertise.

The key objectives for the framework are to:

1. Implement the Assembly's construction policy to ensure that the NHS in Wales complies with best practice models of procurement
2. Ensure that the NHS in Wales is an exemplar client for all major construction procurement projects; and

Create an environment of continuous improvement where team building and skills development help deliver better value for money for the NHS in Wales in the procurement of major construction projects.

Department for Children, Lifelong Learning and Skills

How is capital managed as a strategic resource?

The Department for Education, Children, Lifelong Learning and Skills (DCELLS) has its own Strategic Capital Investment Framework which provides the framework, plan and governance arrangements to deliver necessary facilities and infrastructure, including ICT, for Welsh learners and communities, enabling education services to deliver *One Wales* commitments

As a framework it sets the strategic direction and priorities for investment in educational infrastructure investment and is the principal DCELLS strategic tool for ensuring that its capital investment secures sustainable and high quality learning opportunities.

It identifies the long term, medium term and short term capital investment priorities and projects for all the education sectors: early years; schools, further education and higher education, is underpinned by DCELLS Asset Management Plan and is fully integrated with DCELLS key policies, plans and programmes. The key objectives and principles of this strategic framework are detailed at **Annex 1**.

The framework enables capital investment to be planned coherently across the department reinforced by the centralisation in the management of capital funds in the Business Improvement and Resource Investment Division. In the actual deployment of funds the department is operating a period of transition whereby significant step changes are being implemented in readiness of implementation of new long term programmes of investment; both for schools and colleges.

For example, the 21st Century Schools Programme as a long-term strategic investment programme will create a generation of 21st century schools. The strategy, and programme, is being developed by DCELLS in partnership with the Welsh Local Government Association (WLGA).

How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

The process of assessment is as follows:

- Strategic Outline Programmes are developed
- Programmes assessed
- Capital Projects within these programmes that seek capital grant support from DCELLS submit business cases incorporating the principles of HM Treasury's 5 Case Model
- Business cases are assessed by a DCELLS Assessment Panel at each stage and recommendations of funding then submitted to a DCELLS Capital Investment Panel (comprised of the DCELLS Departmental Directors)
- The capital panel approves projects for submission to the Minister who approves the process for each round of funding

With implementation of long-term investment programmes Gateway reviews will be undertaken at the appropriate stages of business case development.

Investment review is carried out at programme level and at project level at key milestones, on a frequent (quarterly basis) to ensure project spend is delivered without compromised to the efficient and effective use of resources and reported to the DCELLS Capital Investment Panel. Post-projects reviews and benefits realisation reports are required and being

enhanced in readiness for both the 21st Century Schools and Post-16 Transformational Programmes.

How are department allocations coordinated with the Strategic Capital Investment Framework?

The DCELLS Strategic Capital Investment framework requires that capital investment plans with other Assembly departments where appropriate. For example, DCELLS seeks to lever wider outcomes such as regeneration and the provision of integrated services through education investment.

Examples of this where this planning has been successful is evidenced by the following projects where SCIF financing has been used to lever in funding from DCELLS core budgets and other sources:

- Ebbw Vale The Works; £35 million SCIF funding to develop school provision for 3-16 year olds, a regional centre for excellence for special education needs, 16+ learning zone, a sports/leisure facility and arts centre. The project will drive the school reorganisation and transformation agenda in the Authority and will be a catalyst for regeneration of an old industrial site
- Taf Ely Learning Campus -£12 million SCIF funding to expand Coleg Morgannwg's Nantgarw campus to include vocational learning, early years provision supporting young mothers and the creation of a borough library headquarters.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

Investment reviews are carried out at both programme level and at project level at key milestones and on a frequent to ensure project spend is delivered without compromised to the efficient and effective use of resources and reported to the DCELLS Capital Investment Panel. A quarterly monitoring system of the capital budget is in place where options for re-profiling, re-scoping, and in extreme cases termination are reviewed and considered.

If any adjustments are required due to revised estimates of project spend, or other changing priorities, then this is reported to the capital panel so that corrective action can be taken within the overall funding envelope available.

Annex 1 (to DCELLS paper)

Objectives

The key objectives of the strategic capital investment framework are to:

- i. Ensure that the DCELLS investment in educational infrastructure contributes to the One Wales agenda in addressing economic activity, poverty and unhealthy lifestyles by maximising its impact on community and socio-economic sustainability and providing a sustainable environment. More specifically DCELLS capital investment will:
 - support regeneration
 - enhance skills for jobs
 - accelerate reconfiguration and collaboration thus enabling release of land for alternative developments such as housing

- provide improved shared services such as integrated community services into include libraries, sporting, social care and health care facilities
 - tackle the issue of climate change with investment in sustainable buildings that are built to the BREEAM standard of "Excellent" and accelerating the progression towards the aspiration for zero carbon by 2011
- ii. Ensure that expenditure on educational and learning assets leverages significant gains in educational attainment. This requires that:
- an educational outcome underpins all decisions, including location, facilities design, technology, learning programmes and organisational design; and
 - a coherent framework for needs analysis, planning and decision making on expenditure for buildings and other assets is established
- iii. Improve learning opportunities and outcomes in all locations in Wales through ensuring that location and structure of educational facilities/settings and other capital assets provide high quality and diverse learning options and pathways.
- iv. Position DCELLS to maximise the opportunities to lever-in additional sources of funding for capital and access improvement, from, for example:
- The Welsh Assembly Government's Strategic Capital Investment Framework
 - Public/ private partnership
 - Joint projects with Welsh Assembly Government departmental partners in DE&T, DHSS, and Heritage and Environment Departments; and
 - The Convergence (ERDF)
- v. Support the effectiveness and sustainability of schools, colleges and universities within their communities and regions.

Principles

- i. The principles guiding the DCELLS strategic capital investment framework are to:
- Provide a whole systems, coherent and transparent approach to educational and life long learning capital and asset investment which is consistent with One Wales and has Welsh Assembly Government inter-departmental, stakeholder and community involvement
 - Support schools, Local Education Authorities, Further Education and Higher Education within communities and regions to collaborate and cooperate in meeting the needs of learners of all ages
 - Ensure that educational capital infrastructure, including ICT infrastructure, meets twenty first century learning and teaching needs
 - Ensure that asset investment is cost effective and supports the highest quality local services and experiences
 - Facilitate the provision of multiple transition pathways that bridge the various stages of learning, that function with and across sectors and support the transition to employment; and
 - Establish conditions where learners can exercise reasonable choice and access a twenty first century curriculum in which ever setting or institution they learn

Department for Economy and Transport

How is capital managed as a strategic resource?

Within the overall Assembly Government strategic priorities, driven by the achievement of One Wales commitments, long term strategic planning is undertaken for each capital spending programme area and subsequently managed through annual planning reviews, for example major road upgrade and construction projects, rail infrastructure, sustainable travel centres initiatives. Capital programmes are developed to meet strategic policy aims and objectives and individual projects/ schemes are subsequently developed in order to meet those aims.

How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

For each project/scheme a robust business case is worked up with specific focus on Value for Money elements, and appropriate assessment tools are used as part of this process such as Welsh Transport Planning and Appraisal Guidance. Major investment initiatives are subject to the production and formal Ministerial approval of a business case in accordance with Treasury Green Book requirements.

Commencement or continuation of individual projects contributing to the delivery of major initiatives is subject to annual review and decision making as part of the business planning process. Approval is dependent upon the availability of resources within the planning period and prioritisation of projects through an agreed prioritisation framework. As the programmes of work progress a robust system of gateway checks are deployed based on the size, complexity and value of each scheme/project, thus allowing us to better manage and flex schemes appropriately. Programmes of work are monitored and managed by management groups with the support of a strong central finance team. Individual projects are controlled throughout the project life through an internal project management system and the Assembly Government financial and performance reporting systems. Financial and performance review of projects is undertaken monthly through comparison of achievement against planning targets and budgets and analysis of variances from plan.

How are departmental allocations coordinated with the Strategic Capital Investment Framework?

Currently, capital budgets are significantly greater than Strategic Capital Investment Framework funds made available. The Strategic Capital Investment Framework acts as a catalyst for programmes and projects, enabling them to be taken forward earlier or more quickly than would have been allowed under normal financing arrangements. Where projects are of a significant strategic importance and evaluation of the funding resources referred to above identify a funding gap, consideration is given to the appropriateness of seeking SCIF funding, and if appropriate, an application is submitted.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

Capital expenditure projects are considered within broader programmes with the aim of ensuring maximum flexibility. By taking a strategic approach to capital expenditure this allows us to adjust programmes to ensure the most appropriate delivery schedule. For example, where bad weather has affected a project we would manage the capital expenditure so that any slippage in delivery could be addressed later in the project. By managing capital expenditure across all programmes, we can ensure that all projects are delivered on time and to budget.

Once capital schemes are initiated it is often difficult to halt progress due to initial 'sunk' costs. To manage the risk associated with this, capital projects taken forward are assessed in their own right as well as the bearing that they have within a broader programme of works. By breaking up large pieces of work into discrete projects we can speed up, slow down or stop programmes as appropriate. Projects taken forward will deliver the most appropriate value for money option available as well as delivering benefits to a wider programme of works

Public Services and Local Government Delivery

How is capital managed as a strategic resource? How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

The total capital budget for 2010-11 is £78 million. However, it is important to note that £38 million is unhypothecated funding that is paid to local authorities as part of the local government settlement. This comprises capital grants of £23 million and unhypothecated Supported Borrowing of £15 million. The latter enables local authorities to borrow or use other forms of credit to finance capital expenditure, with WAG providing a revenue stream to support repayment of principal and interest. This is distinct from prudential borrowing where local authorities finance any additional borrowing themselves.

Of the remaining £40 million, a certain amount of the funding is contractually committed to long-term UK wide Fire and Rescue Service (FRS) programmes. The funding for these programmes was transferred to WAG as part of the devolution of the FRS. The Fire and Rescue National Framework for Wales sets out the strategic importance of these programmes which increase resilience and provide interoperability.

The New Dimension (ND) programme is a key part of the UK Government's investment to enhance the UK's resilience and ability to respond to major catastrophic emergencies. Over £220 million (across the UK) is being invested in the delivery of vehicles, equipment, training, procedures and support mechanisms that will enable the FRS to provide an efficient, effective and sustained response to major incidents. Sustaining the ND capability in the long term is a vital element of the management of the programme which is being driven by the UK National Resilience Board on which WAG has a seat. The Firelink project is aimed at delivering a state-of-the-art digital wide area radio system to the 56 Fire and Rescue Authorities across England, Scotland and Wales. WAG opted to join the project which was managed and tendered by DCLG through a constituted Firelink Team in March 2006. Wales' share of the contract cost over the whole 10 year life of the contract represents a £47 million investment by WAG which is part of the UK Project Board.

The remainder of Social Justice and Local Government's capital budgets are organised with an emphasis on safeguarding and supporting vulnerable people, combating social exclusion and reducing inequality, and promoting safe and sustainable communities. Capital investment is targeted in line with Ministerial commitments towards some of the following areas:

Substance Misuse – capital funding amounting to £7 million per annum aimed at improving the number and quality of premises and facilities available across Wales which are used to support substance misusers. This funding helps our partners across Wales, both in the voluntary and statutory sector, to expand treatment capacity. It is a key element of the Substance Misuse Strategy "Working Together to reduce Harm" which commits us to make a step change in both the quality and access to substance misuse services in Wales.

Gypsy Travellers - £2.5 million per annum of grant funding is provided to refurbish and build new sites for Gypsy Travellers in Wales. This was a priority agreed by Cabinet back in 2007 in response to the Niner report on the Accommodation Needs of Gypsy and Travellers in Wales. Recommendation 13 of the report stated that "WAG should make available funding for the capital cost of providing local authority sites. This should be equivalent to 100% of approved costs and should be ring fenced both from other forms of social housing and Gypsy Traveller site improvement". Technical assessment of bids under the Gypsy Traveller site grants are undertaken by Value Wales.

Post Office Diversification Fund – originally this capital grant scheme operated between November 2002 and March 2006. It was opened again in December 2008 fulfilling a One Wales commitment for a re-focused Fund. Under the new Fund sub-post masters and mistresses are able to apply for both capital and revenue funding which can be used to improve the non post office side of their businesses to increase overall sustainability. The original Fund was evaluated in May 2006 and reported a positive impact on the commercial viability of post offices and the wider community. The re-focused Fund will be evaluated during 2010-11.

Community Facilities and Activities Programme – this is a capital only grant scheme launched in November 2002, open to community and voluntary organisations and provides funding for the provision of facilities within communities, and for activities which engage local people and help promote the regeneration of communities. It is intended as a fund for organisations to draw upon to fill remaining gaps in finances after all other sources of support have been explored.

How are departmental allocations co-ordinated with the Strategic Capital Investment Framework (SCIF)?

The department has not received any SCIF funding directly associated with its capital programmes. The department's main SCIF interest is in relation to bids from local government which are targeted to the relevant portfolio departments (e.g. schools to DCELLS, waste to DESH etc).

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

The Senior Management Team receives monthly financial progress updates from the Head of Finance. The Head of Finance also meets monthly with the Minister to discuss changing priorities, pressures and any emerging underspends. On the basis of these discussions, adjustments are then agreed and arranged to reflect changes in delivery profiles and priorities.

Department for Environment, Sustainability, Housing and Regeneration

The capital allocations within Sustainable Futures for 2010/11 are as follows:

MEG	Budgets 2010/11 £m
Environment, Sustainability, Housing and Regeneration	418 ³
Rural Affairs	17
Heritage	15
Total	450

The above figures exclude SCIF allocations.

Environment & Sustainability

The total **Environment & Sustainability** capital budget for 2010-11 is £76 million. The large areas of spend are shown in table 1.

Table 1: major areas of capital spend in Environment & Sustainability – 2010-11

Area of spend	£ million
Home Energy Efficiency Scheme	19
Flood Risk Management & Water Revenue	18
Local Government Environment General Support	18
LA investment facilities and equipment (EU targets).	7
Access	4
Waste Procurement Infrastructure programme	3
Local Environment Quality	2
Local Government Flood & Coast General Capital	2

It is important to note that the Environment & Sustainability Department has no discretion over the £18 million Local Government Environment General Support and £2 million Capital Support for Local Government Flood & Coast. This is unhypothecated funding that is paid to local authorities as part of the local government settlement.

How is capital managed as a strategic resource? How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

Environment & Sustainability has a set of strategic outcomes which are drawn from our policy documents, and the capital budgets are organised to deliver these in the most efficient and effective way possible within climate change, waste, energy efficiency and fuel poverty, and sustainable development.

These objectives include a *One Wales* commitment to achieve greenhouse gas emission reductions of 3% a year by 2011 onwards, statutory commitments in the Climate Change

³ This figure includes £69m which will be transferred from the DET budget for Regeneration subject to approval in the supplementary budget

Act (2008), a *Waste Strategy* commitment to increase municipal recycling to 70% by 2025 and to move progressively towards zero waste by 2050, and also the Assembly Government's energy policy statement, *A Low Carbon Revolution*, which sets out the goal of producing more than twice as much renewable electricity as we consume as a nation by 2025. We also have a commitment to eradicating fuel poverty as far as is reasonably practicable.

Utilisation of our budgets to deliver these outcomes is considered in the round: recognising that different objectives require different proportions of capital and revenue, and available budgets may be used in a variety of ways. This is considered at senior management level and agreed with the Minister. Officials regularly monitor and review progress within the projects to ensure that they are completed on time and that projected outcomes are achieved.

Home Energy Efficiency Scheme

The Welsh Assembly Government has a commitment to eradicate fuel poverty, as far as reasonably practicable, by 2018. The Home Energy Efficiency Scheme (HEES) is the Welsh Assembly Government's main vehicle for tackling fuel poverty. Capital funding is invested in HEES to provide free energy efficiency measures to eligible households under a formal contract with the HEES Scheme Manager. The management and delivery of HEES funding is focused on improving the energy efficiency and access to adequate warmth of households in Wales who are living in fuel poverty. Progress is monitored monthly and quarterly to ensure efficient and effective use of the resources.

HEES has been in place since 2000. The scheme has been reviewed over the years in line with the strategic policies of the departments and ministers who have held responsibility for tackling fuel poverty. Responsibility for HEES transferred to Climate Change and Water Division in 2008 and the Division has undertaken a review of the scheme as part of a revision of the Assembly Government's Fuel Poverty Strategy and the requirement to re-tender the contract for the Scheme Manager. A consultation process has been undertaken to seek views on how best to meet One Wales objectives, achieve statutory targets for the eradication of fuel poverty by 2018 and reduce greenhouse gas emissions by three per cent a year from 2011 in areas of devolved competence. The final Strategy and proposals for the future of HEES have been influenced by research and responses to the consultation process. In addition, a soft market testing exercise has been undertaken to assess how the energy efficiency market has changed since the HEES contract was last tendered in 2005. Work is underway now on developing a new contract through competitive dialogue that will deliver the objectives set out in the Fuel Poverty Strategy, maximise the funding available from Assembly Government and other sources, and ensure we achieve value for money.

Waste

The provision of waste funding has underpinned the substantial progress made by local authorities. The programme uses 5 Case Model methodology and was approved by Director and the SCIF Board, and has a full QA regime. Each project within the programme is developed in the 5 Case Model format. i.e. production of a Strategic Outline Case (SOC) to demonstrate fit with the programme and policy objectives; then an Outline Business Case (OBC) to explore the options for project delivery and establish the preferred way forward and a Full Business Case (FBC) to finalise costs and procurement arrangements. The programme operates a grant and scrutiny regime: specific conditions are attached to grants which set out the governance requirements. These are specific to the project, but include:

1. WAG approval of the Project Initiation Document (PID) prior to commencing OBC production;
2. WAG approval of the OBC prior to commencing procurement;

3. WAG approval of an independent health check prior to entering the competitive dialogue process;
4. WAG approval of a second independent health check prior to appointment of a preferred bidder;
5. WAG approval of the FBC prior to contract award.

The process releases elements of the funding according to progress at each of the key stages, which rely on both Gateway reviews and health checks as illustrated above. Health checks include consideration of strategic fit with the Waste Strategy; ensuring robust governance arrangements; demonstration of whole-life affordability; commitment of all project sponsors and stakeholders; risk management; planning, permitting and other statutory processes have been factored in; commercial interest remains for the project. These health checks help to ensure that the project is being delivered with maximum effectiveness and value for money.

The WAG contribution to local food waste treatment projects is capped at 25% and the robust procurement arrangements in place are driving costs down to minimise the final cost which will be determined at FBC stage.

There is a 3 Ministers' Review Group attended by the Minister for Business and Budget, and Minister for Environment, Sustainability and Housing and then Minister for Social Justice and Local Government and the DFM takes paper which links the four portfolios.

A quarterly Waste Ministerial Programme Board is held, including CEOs of Local Government, Steve Thomas of the WLGA, and chaired by the Minister DESH.

A monthly Waste Procurement Programme Board of internal WAG stakeholders plus WLGA and Partnerships UK oversee the progress of the different aspects of the project.

Flood Risk Management

Welsh Assembly Government Grant in Aid capital funds are allocated to Environment Agency Wales (EAW), and are used to deliver flood alleviation schemes. Potential schemes are identified from a strategic approach to managing flood risk, which is informed by processes such as Catchment Flood Management Plans and Shoreline Management Plans. The recently published assessment of the potential future costs of flood defences ('Future Flooding in Wales', published March 2010) also informs the strategic context. Local modelling and mapping of flood risk, sense checked by local knowledge on the history of flooding, are also used to identify capital investments.

Potential schemes are then prioritised by EAW on the basis of the outline cost-benefit, the number of properties protected, risks to life, impact on businesses and key infrastructure, and any local factors such as the history of flooding or the presence of any particularly vulnerable social groups. Schemes that are appropriate for further development then undergo a rigorous appraisal process, using the standard methods in the Flood and Coastal Defence Project Appraisal Guidance. This Guidance is used by all flood operating authorities in Wales and England. (Note: this Guidance has been updated in March 2010, and replaced by the Flood and Coastal Erosion Risk Management Appraisal Guidance, which will initially be used by EAW for all new projects). The appraisal process considers technical, economic, social and environmental criteria and identifies the optimum solution for delivery. Where the solution is cost effective and fits within the programme budget, the project will then undergo detailed design and construction. Each stage of project development is assessed by an independent appraisal panel, commensurate with the cost and risk of the project. Approvals, including financial limits, must be gained before projects progress to the next stage. On completion, projects

undergo an appropriate post project appraisal to identify lessons learnt to improve delivery of future projects

Once projects have gained approval the procurement process is applied. EAW has in place a number of frameworks for contractors and consultants that we use to deliver our capital programme. Selection of both engineering consultant and contractors is via a "mini competition". The supplier's ongoing performance is measured throughout the project by means of a number of Team Performance Measures (TPM's). The contractor is also incentivised to deliver to programme and budget, with a "gain/pain" share methodology applied.

EAW follow the Prince2 methodology and follow the project governance and reporting procedures. These are set out by the Office for Government Commerce and there are a series of gateways and milestones at which formal project reviews are undertaken by the Project Board. Costs are monitored and reported on a monthly basis. Quarterly updates of value registers, team performance measures and lessons learnt are gathered and disseminated.

EAW produce a medium term plan for delivery of schemes over a 5 year horizon. After that timeframe it becomes increasingly difficult to plan projects, because of budget and deliverability uncertainties. However, this process is fed by a longer term strategic approach to flood risk, informed by processes such as Catchment Flood Management Plans, Shoreline Management Plans and Flood Risk Management Strategies.

EAW closely monitor in-year project spend and delivery of the project outcomes through rigorous project planning, monitoring and reporting processes. Variances are reported. If they are significant, then projects may have to gain further approvals. The delivery of the overall capital programme is monitored by EAW's internal Programme Board, and by the Flood Risk Management Committee. This is a Committee with external appointees.

How are departmental allocations co-ordinated with the Strategic Capital Investment Framework (SCIF)?

Environment & Sustainability submitted a number of SCIF Bids to support strategic priority areas within DE&S, these bids were prioritised within the department prior to submission. Business Cases were put forward for each of the SCIF bids and the following bids were successful for Tranche 1:

Flood Risk Management:

An investment to expand and expedite the building and maintenance of flood defences in key sites in Wales.

FY2009/10 £3m

FY2010/11 £5m

AD Food waste programme:

Supporting LAs provision/procurement of treatment capacity for food waste to meet EU targets

FY2009/10 £2m

FY2010/11 £2m

Low Carbon Building Programme

The Low Carbon Building programme is a retro-fit programme for existing housing stock focused on private sector properties.

FY2009/10 £9m

FY2010/11 £15m

The Strategic Capital Investment Fund has been used to draw in funding from EU, Regeneration, Social Justice and Local Government, as well as the UK Government

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

The Senior Management team receives monthly operational and financial progress updates from each division with the Director of Environment & Sustainability /Head of Finance arranging adjustments where appropriate to reflect changes in delivery profiles and political priorities.

Housing

The total housing capital budget for 2010-11 is £273 million. The large areas of spend are shown in table 2.

Table 2: major areas of capital spend in housing – 2010-11

Area of spend	£ million
Social housing grant	42
General housing capital	78
Major repairs allowance	108
Renewal areas	24

It is important to note that the housing division have no discretion over the £78 million general housing capital fund. This is unencumbered funding that is paid to local authorities as general capital funding as part of the local government settlement. In addition the Major Repairs Allowance, £108 million is targeted towards meeting the One Wales objectives around 21st century housing. The funding is specified aimed at helping local authority and stock transfer landlords to achieve and maintain houses at the Welsh Housing Quality Standard (WHQS). This is monitored at a national level via stock condition surveys. Housing is working with Statistics Directorate to consider ways on measuring compliance with WHQS at individual landlord level.

How is capital managed as a strategic resource? How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

There are three strategic documents that drive capital spend in housing; the new housing strategy, One Wales and the outcome of the Essex review. For example the Social Housing Grant (SHG) is key in helping deliver the One Wales target of an additional 6,500 affordable homes.

The local authorities will identify housing priorities through a bidding process based on broad strategic themes. In response the Welsh Assembly Government will commission housing schemes from Housing Association consortiums that meet these priorities. WAG will then allocate SHG resources to consortia and agreed development programmes.

The consortia will be responsible for procurement and delivery of the schemes and the Assembly will assess individual scheme submissions, issue grant approvals and pay grants to consortiums. Payments are made at particular points in the scheme. The role of the Local Authority is to be responsible for developing and implementing local housing

strategies and the role of the Assembly is to agree multi year development programmes in line with identified strategic housing priorities in line with the published documents highlighted above.

It is the responsibility of the consortia to manage their development programmes within the resources available. The Assembly expects consortiums to respect the investments targets provided by the Assembly. Individual schemes are monitored by officials whilst keeping an overview of the overall programme to ensure that we deliver the best return from our overall investment.

How are departmental allocations co-ordinated with the Strategic Capital Investment Framework (SCIF)?

Housing has made use of SCIF in a manner complementary to its normal capital budget allocation. SCIF has been and continues to be used to help reach the One Wales target on affordable homes.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

The single largest budget is the major repairs allowance, which is paid over to either those local authorities that have retained their stock or those new social housing landlords that have taken responsibility for council housing stock. This money is paid primarily to raise and maintain the quality of social housing. On the whole this budget is committed in so much as the local authorities or stock transfer landlords' business plans assume that the amounts are payable on an ongoing basis. As set out above there is no discretion over the £78 million general capital funding. There is more flexibility with the renewal areas and social housing grant.

Regeneration

The total regeneration capital budget for 2010-11 is £69 million. The large areas of spend are shown in table 3.

Table 3: major areas of capital spend in regeneration – 2010-11

Area of spend	£ million
Regeneration areas	41
General regeneration capital	18
Preparing future strategic regeneration areas	3
Legacy regeneration areas	7

It is important to note that the regeneration division have no discretion over the £18 million general regeneration capital fund. This is unhypothecated funding that is paid to local authorities as general capital funding as part of the local government settlement.

How is capital managed as a strategic resource? How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

Regeneration capital spending is allocated on a strategic basis. Where we are supporting regeneration across Wales, we concentrate our efforts in seven designated regeneration areas. These areas are agreed with the Deputy Minister for Housing and regeneration. This represents a change in approach where previously we supported regeneration across the

whole of Wales. The approach to managing our regeneration capital as a strategic resource means that we deliver regeneration in smaller geographical areas but more effectively than thinly spreading resources across a wider area. We work primarily with local authority, private and third sector partners to deliver various projects within a designated area.

Within each designated area capital investments are prioritised against an agreed action plan which requires projects to evidence their contribution to wider regeneration objectives set out in each plan. Officials undertake regular progress and monitoring visits to ensure projects are completed on time and projected outcomes are secured. In addition there are programme boards that oversee progress in individual areas. Attached to each commitment to spend is a funding agreement that sets out the payment schedule. Payments are only made when certain points are reached in delivery.

How are departmental allocations co-ordinated with the Strategic Capital Investment Framework (SCIF)?

Regeneration currently only has a minor amount of SCIF funding where we run a Low Carbon Zone SCIF project in which relevant regeneration areas prioritise budget allocations to support the SCIF funding profile.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

A Strategic Regeneration Management Team receives monthly operational and financial progress updates from each regeneration area with the Director of Strategic Regeneration/Head of Finance and Performance arranging adjustments where appropriate to reflect changes in delivery profiles and political priorities. Decisions on regeneration areas are made at Ministerial level.

RURAL AFFAIRS

The total Rural Affairs capital budget for 2010-11 is £17 million. The major areas of spend are as follows:

Area of spend	£ million
Rural Development Plan	15
Fisheries	2

How is capital managed as a strategic resource?

The vast majority of the capital funding is used for the Rural Development Plan (RDP). It matches the European funding and is committed to fulfil our funding obligations under the RDP.

How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

The RDP sets clear high level objectives and aims. There is a rigorous approval and monitoring process in place for all RDP Schemes in order to ensure that funding is allocated appropriately and that the objectives of the RDP are met. This includes rigorous management checks of all applications and claims and inspections of projects. The results feed into scheme and RDP level monitoring and evaluation.

How are departmental allocations coordinated with the Strategic Capital Investment Framework?

Rural Affairs has not been allocated any specific SCIF funding, but the Department's Wood Energy Business Scheme is embedded in major capital investment projects for the construction of schools/colleges and hospitals where appropriate.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

The majority of the limited capital allocation is committed under the RDP. In addition, small allocations are made for Fisheries and to the Forestry Commission. There is limited room for flexibility, although some flexibility is possible across financial years.

HERITAGE

The total Heritage capital budget for 2010-11 is £15 million. The major areas of spend are shown in the table below:

Area of spend	£ million
Support for the Arts (inc Wales Millennium Centre)	1.5
National Museum of Wales Investment	2
National Library of Wales Investment	1.5
CyMAL Investment (inc Peoples' Collection)	3
Sport & Active Wales Investment	1
CADW Investment	6

How is capital managed as a strategic resource?

The £15m capital allocation in the Heritage MEG currently helps to maintain and develop the significant number of buildings owned by our AGSBs, our national institutions and CADW. The Heritage Department has traditionally sought to balance statutory obligations with opportunities to strengthen and extend activities in this area. An element of this funding is awarded as capital grants to local authorities for libraries and from CADW for historic monuments where there is a high level of oversubscription.

How are projects assessed prior to approval and how is progress monitored to ensure the efficient and effective use of resources?

Capital allocations to AGSBs and the National Institutions are linked to the development of comprehensive asset management plans. For all grant schemes there is rigorous approval process, normally a requirement to provide match funding and a prioritising of applications so as to make the best use of the resources available and also with a view to maximising the ability of the Department's funds to leverage European and other external sources of funding. Allocations are followed up with a monitoring process to ensure that funding is allocated appropriately and that the strategic objectives of the department are met. This includes management checks of applications and claims and inspections of projects. The maintenance of the department's many buildings and national institutions that we either fund or part fund takes up the remainder of the budget.

How are departmental allocations coordinated with the Strategic Capital Investment Framework?

Area of spend	£ million
All Wales Cultural Heritage Initiative	1.3
National Library of Wales On-line Digitisation Project	1
Arts and Science Centre at Bangor University	15
Glyn Vivian Art Gallery, Swansea	3.5
CADW - Eco-lighting at 17 monuments	1

The Heritage Department's main priority under SCIF was the development of an arts and innovation centre in North Wales. This reflected the crucial strategic importance of that project to North Wales as a whole. More generally SCIF has been harnessed to support projects such as the digitisation work at the National Library of Wales and Cadw's eco lighting initiative both of which have enabled the department to expand existing initiatives far beyond that which was available within the Heritage budget.

How is the capital budget within a year managed to ensure flexibility in responding to changing political or other priorities?

The majority of the limited capital allocation is earmarked in advance to meet the capital expenditure requirements of the large number of AGSBs within the Heritage MEG. The oversubscription of the grants scheme is managed by careful vetting of all claims. In recent years the department has sought to generate additional flexibility to deal with pressures arising from Millennium funded projects such as the Wales Millennium Centre and the National Botanical Garden and new statutory duties placed on institutions such as the National Library of Wales.