



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Iau, 13 Mai 2010
Thursday, 13 May 2010**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau pwyllgor yn bresennol
Committee members in attendance

Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Andrew Davies	Llafur Labour
Chris Franks	Plaid Cymru The Party of Wales
Brian Gibbons	Llafur Labour
Ann Jones	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Jeff Andrews	Ymgynghorydd Arbenigol Polisi, Cyllid Specialist Policy Adviser, Finance
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog dros Fusnes a'r Gyllideb) Assembly Member, Labour (The Minister for Business and Budget)
Andrew Jeffreys	Pennaeth Cyllideb Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Budgeting, Welsh Assembly Government
Stefan Sanchez	Pennaeth Buddsoddi Cyfalaf Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Capital Investment, Welsh Assembly Government

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

John Grimes	Clerc Clerk
Catherine Hunt	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.30 a.m.
The meeting began at 9.30 a.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **Angela Burns:** Welcome to the Finance Committee on Thursday, 13 May. I will go through some housekeeping issues. I remind you all that you are welcome to speak in Welsh or English; headsets are available for translation. Please switch off all mobile phones, BlackBerrys, iPods and any other gadgets, because they interfere with the acoustics of the room. If the fire alarm sounds, the ushers will tell you what to do and you should follow their instructions.

[2] We have had apologies from Lorraine Barrett, Janet Ryder and Kirsty Williams. We

have an awful lot of questions to get through this morning, so I ask for brief questions and snappy answers.

[3] **Andrew Davies:** Chair, I declare an interest because it was I, when Minister for Finance and Public Service Delivery, who was responsible for establishing the strategic capital investment framework and its operation for the first two tranches.

[4] **Angela Burns:** Thank you.

9.31 a.m.

**Ymchwiliad i Ddyraniad Adnoddau Cyfalaf—Tystiolaeth gan y Gweinidog dros
Fusnes a'r Gyllideb
Inquiry into the Allocation of Capital Resources—Evidence from the Minister
for Business and Budget**

[5] **Angela Burns:** This is the first evidence session in our inquiry into capital funding. It has been launched because of a number of concerns that have been raised. It is also in the interests of getting the right value for the Welsh pound and because the Government has conducted a thorough review of the strategic capital investment fund. I welcome the Minister and her team, and ask the Minister to introduce herself and her team for the record. Also, Minister, if you wish to make a brief opening statement, you are more than welcome to do so.

[6] **The Minister for Business and Budget (Jane Hutt):** I am pleased to be here, and I welcome your inquiry into the allocation of capital funds. It is timely, given our review of SCIF. With me are Andrew Jeffreys, who is in charge of finance and strategic funding, and Stefan Sanchez, who is responsible for SCIF. I am sure that you know my specialist adviser, Jeff Andrews.

[7] Your inquiry is to be welcomed, and it is timely because of the review that we have undertaken of SCIF. Due to the current economic climate, we need to ensure that all our spending decisions achieve optimum value for money. The strategic capital investment framework has provided us with the opportunity to embed best practice and drive up the quality of capital investment across the Assembly Government. We commissioned a review report so that we could learn from tranches 1 and 2. I hope that the report on the review of SCIF accurately reflects the pros and cons of tranches 1 and 2 of the programme and the lessons that can be learnt from them. I have seen it from both sides, as the Minister for Business and Budget, which is my current responsibility, and as a spending Minister, when I was the Minister for Children, Lifelong Learning and Skills. I understand it well from both sides.

[8] We must recognise that, despite the constraints of having to spend the money before the end of the 2011 financial year, we have invested in 19 pan-Wales projects, which will see over £470 million injected into the Welsh economy at a time when the economy needs it most. In fact, it is almost £1 billion from tranche 1 alone, in total with all the other sources. The report details how SCIF can be developed to take maximum advantage of the cross-cutting strategic collaborations between departments and the wider public sector and deliver significant efficiency savings through collaborative procurement. I will ensure that the Assembly Government focuses its efforts on delivering high-quality investment decisions, which are critical in this era of managing with less. SCIF is a valuable tool that we can use to that end and it can act as a catalyst for best practice across the Welsh public sector.

[9] **Angela Burns:** The detailed review of SCIF has been helpful because it has given us a starting point for the inquiry. However, I do want to make it clear for the record that we are

looking at capital deployment in its entirety throughout the Government. I was therefore grateful to receive your letter on behalf of the other Ministers about how they deploy and manage the capital and measure the outcomes of the capital spend within their budgets; it has been most helpful. So, today might be predominantly about SCIF, but we will be moving on to look at how it is targeted throughout the Government. We also want to have regard to how we operate social clauses within capital procurement, how we develop framework agreements, how we use the opportunity to use capital to promote business in Wales, and how we maximise the possible leverage of all our capital programmes So, it will be quite a wide-ranging review.

[10] I want to ask a quick question that I have not found an answer to in the information that we have received to date: is it intended that SCIF will continue beyond 2010-11?

[11] **Jane Hutt:** That depends on the outcome of the comprehensive spending review. We are considering what approaches we want to take in future, but we do not know what level our capital budget will be to take forward, so we cannot say what percentage of it could be brought into SCIF. However, this situation will become clearer as we move into the 2011-12 budget process, and when we hear about the comprehensive spending review baselines.

[12] **Angela Burns:** Is it your intention to accept all the recommendations that have been made in this report?

[13] **Jane Hutt:** As I have said, I commissioned the report and I welcome its recommendations. Many of them are about process and getting that right through best practice in programme and project management. I fully support them all. We also need to look at some of the recommendations on how we can embed the strategic approach in all our capital allocation spends and programmes, which reflects the wider terms of reference that you are taking forward in your review.

[14] **Angela Burns:** I notice that a lot of the recommendations deal with process, lack of information, and communication with stakeholders, and it is good that the review has identified those points, but was any of that been picked up during the current life-cycle of SCIF? If not, why did it take a review to dig out that kind of information?

[15] **Jane Hutt:** We commissioned the review as we moved towards delivering tranche 2 of SCIF. SCIF was, and is, an involving process. We took on board feedback from tranche 1 to inform and develop tranche 2, and recognised the scope for further evaluation and evolution of the system. That is why we commissioned the report at a point when we had already learned some lessons, as Ministers, in overseeing tranche 1 and 2. The former Minister for Finance and Public Service Delivery was actively engaged in ensuring that we learned those lessons.

[16] **Chris Franks:** Good morning, Minister. Tranche 1 schemes amount to a touch under £1 billion, but SCIF funding is £346 million, and I note that another £216 million comes from external sources, which leaves a gap of £428 million. Can you advise the committee of where the capital to fill that gap comes from? I will give you a clue as to the supplementary question that I have in mind. I am aware that, in some instances, applicants have to sell land or assets against their wishes to raise capital; they have to do so to fund the project. What assurances can you give that there is not undue pressure on applicants to sell and realise assets to achieve a successful bid?

[17] **Jane Hutt:** There were two aspects to that question. I want to clarify the point about the sources of funding that made up the total cost of a project of which SCIF is one part. The contribution from SCIF in tranche 1 projects is closer to £349 million, while £216 million is levered in from external sources—for example, from local authorities or the national health

service, depending on who was making the bid—and we also had convergence funding. Being able to lever in European funding was another key point. Balancing all those contributions were the Welsh Assembly Government departmental capital contributions from the existing budgets, so it was a portfolio of contributions.

9.40 a.m.

[18] On your second point, you need to remember that SCIF was about opening up access to capital funds. Our partners, including local authorities, the health service, the National Library of Wales, universities, and so on, have taken advantage of SCIF. It was up to them to ensure that they could secure their contributions to a bid for SCIF. They chose to do so in a way that suited them best. When it comes to their sources of funding, together, we were looking at European funds, their own capital allocations from the Welsh Assembly Government, as well as our own departmental allocations, which would provide much of the contributions for school building projects, for example.

[19] **Chris Franks:** I want to develop that theme slightly. I am looking for a reassurance that we are not telling local authorities that they have to sell off a school playing field, which they may not want to do, for building houses to enable a project to be completed. To be fair, local authorities have a very small capital allocation and land is valuable.

[20] **Jane Hutt:** You need to put that question to local authorities, to ask how they have approached the opportunities that we offer. Not only do we offer SCIF, but we now have the twenty-first century schools capital building programme, which we and local government are putting a great deal of money into. You can ask that question of local authorities, but it is not particularly pertinent to the issue of how we have levered in additional strategic funding through SCIF to enable them to progress their capital plans.

[21] **Mr Jeffreys:** I want to add one point, which is that, apart from SCIF, the Assembly Government provides around £600 million a year in capital funding to local authorities in Wales.

[22] **Brian Gibbons:** On the back of Chris's question, what were the £216 million external sources? Is it European or private sector money? If it was private sector money, the one thing that was not in the review is how due diligence was applied to it. The private sector is not always very good at delivering public sector projects. We certainly know that across the border in England, where it has not been a failure of the private sector, as it is the public sector that is weak. Does this external £216 million include the private sector? How has due diligence been exercised with private sector partners?

[23] **Jane Hutt:** In tranche 1, the £216 million did not include any private sector funding. If it would be helpful for the committee, we could give you a few examples of how the overall cost of a project came together from sources including the SCIF element.

[24] **Brian Gibbons:** When you say external sources for the £216 million, do we know what they are?

[25] **Jane Hutt:** Local authorities—

[26] **Brian Gibbons:** Oh, right. I presumed that the £428 million was local authority money.

[27] **Jane Hutt:** No, you are looking at the outcome—

[28] **Brian Gibbons:** Roughly speaking, there is about £600 million that is not SCIF

money.

[29] **Jane Hutt:** Are we talking about tranche 1? That was nearly £1 billion, and £349 million was coming from SCIF, and then £216 million from external resources. That would be from local authorities, the NHS and European funding. It does not include the private sector in tranche 1. However, if it would be helpful, we could give you examples of the sources of the funds and how it all adds up.

[30] **Brian Gibbons:** I have one further question. There is nothing about engagement with the private sector in this, presumably because the capital budget in the future will be skint, effectively, or at least that is how it seems. We may be looking for opportunities to lever in private sector money. As part of this process review of SCIF and so on, engagement with the private sector is missing. It is missing because, from what you are saying, there was no private sector involvement. However, that might be a new dimension in the future.

[31] **Jane Hutt:** We had the involvement of private sector expertise and advice through the advisory panel. As you continue with your inquiry, you will see that some interesting projects are developing, such as those relating to the waste management strategy and the possibility of a Welsh housing investment trust. Those are areas that you may wish to look into as part of your wider inquiry.

[32] **Mr Jeffreys:** In part, it depends on the nature of the project. Many of the projects in tranche 1 are NHS and schools projects, for which there is arguably less of an imperative for generating private investment. However, there is also a lot of housing development in tranche 1, for which, in that overall chunk of money, there is some private sector funding. However, we would have identified the housing association contribution as non-private sector, while, of course, it levers in debt, as does other private sector sources. It is a complex picture, actually.

[33] **Ann Jones:** Following the appointment of Carwyn Jones as First Minister in December 2009, the Cabinet committee on strategic capital investment was dissolved, and responsibility for SCIF passed to the Cabinet committee on budget and performance. Will you clarify why that change was made, and whether the same terms of reference apply to this new arrangement?

[34] **Jane Hutt:** The review demonstrates clearly that the aim of developing SCIF was to guide the way in which we deliver our capital planning in the Welsh Assembly Government, to ensure that it is an integral part of financial planning, that it does not stand alone and that it is not a departmental responsibility but more of a corporate responsibility. So, SCIF has been about improving business planning across the board.

[35] Having set up the strategic capital investment fund and had a Cabinet committee that had a specific focus on the allocation of those funds—and that money is now spent and we do not have any more to allocate at this stage—the next logical step forward, which the First Minister decided to take, was to embed it in the Cabinet committee on budget and performance, which he chairs. It will have a top-level influence on the way in which we can make the progress that we want to make on capital planning as part of the Government's financial planning arrangements.

[36] **Ann Jones:** In both the previous and present Cabinet committees, Ministers are responsible for making bids for strategic projects to be supported by strategic capital investment funding. As some of these Ministers may have bids from their own portfolio areas, could that not result in a potential conflict of interest, with them fighting for their own portfolio interest rather than the overarching strategic interest?

[37] **Jane Hutt:** That was a challenge, and one that we had to take responsibility for, as

Ministers. The role of the new Cabinet committee on budget and performance is to monitor and deliver SCIF, having received reports on progress and so on. However, in relation to the 'spending Ministers', as we call them sitting on the strategic Cabinet committee, I can assure you that the scrutiny and approval processes were separated so that the appraisal, all the work done to develop the SCIF bid, and the scrutiny of the projects, the advice from the expert panel and recommendations from officials resulted in recommendations to the Ministers in that Cabinet committee, and then tough decisions had to be made.

9.50 a.m.

[38] **Ann Jones:** However, Ministers who are portfolio holders will surely be fighting in that Cabinet committee for the projects in the portfolio for which they are responsible. That is, surely, a flaw in the system.

[39] **Jane Hutt:** As Ministers, we have collective responsibility and we are clearly signed up to a more strategic approach, based on the criteria that we set. Those criteria were very clear in terms of delivering on our 'One Wales' programme of Government. That had to focus minds. Our ministerial responsibility was to ensure that we were delivering collectively through the Cabinet committee opportunity that we had. Ministers were also ensuring that the bids that their department were putting forward, perhaps in partnership with external bodies such as local authorities or the health service, were robust. If they were not, they would not get to the table and would not be afforded priority by the committee.

[40] **Ann Jones:** You and I will have to agree to differ on whether the portfolio holders shout loudest. I will move on to recommendation 1 of the review that you commissioned, which talks about publishing information on the purpose, philosophy and governance of the SCIF on the Assembly Government's website. Is it your intention to accept this recommendation and publish information regarding SCIF on the website? If you are going to accept that recommendation, would you consider taking it a step further and setting up dedicated pages containing all the relevant information, sources of advice and points of contact for stakeholders?

[41] **Jane Hutt:** Yes, certainly. The more transparent that we can make the process, not just in terms of the focus on SCIF, but of our capital allocations and financial planning, the better, and that is what I am asking my department to do. We need to look at that in the context of the answer to the first question of where we are with SCIF at the moment, because we do not have money to allocate. We are now moving into a situation in which the lessons learned from the SCIF process are influencing the rest of our capital planning and allocation, so we will probably have a more strategic approach to what we put on the website about our financial planning and capital allocations.

[42] **Ann Jones:** When do you expect those instructions to be carried out?

[43] **Jane Hutt:** It is important to wait until we know where we are with the CSR and the budget planning process for 2011-12 with regard to capital. It will also be useful to see the outcome of this committee's work. In accepting that recommendation, we need to deliver it in a timely fashion.

[44] **Angela Burns:** Nick has some questions on SCIF processes.

[45] **Nick Ramsay:** The first question that I was going to ask has been covered by Ann, but I will ask a supplementary question on that. You mentioned separation of the approval and the scrutiny. Can you elaborate on that? Looking through the evidence, as Ann pinpointed, it looks as though departments are scrutinising and approving their own proposals for investment. I do not think that that is what happens in Scotland, for example, so do you

think that there could be a different way of approving and scrutinising? I will let you answer that before going on to my second question.

[46] **Jane Hutt:** As I said, the Cabinet committee was set up as the strategic capital investment board to receive recommendations, as a result of a process that is outlined, as you can see, in the review report, which included using the five-case model and the project management process. We also had advice from the expert panel. So, we did not receive half-baked proposals. We had to get fully-prepared proposals following those recommendations. It was for Ministers, rather than doing the operational stuff, to make strategic decisions about the allocation of funds. That goes back to the points and questions that Ann raised. It had to be for us as Ministers, chaired by the Minister for finance, to decide whether to accept the recommendations or to vary them, based on the Government's priorities.

[47] **Nick Ramsay:** The second question that I wanted to ask related to whether you think that in future SCIF should be a rolling programme, and, if so, how do you envisage the structure developing?

[48] **Angela Burns:** Before you answer that question, could you broaden your answer to include all capital expenditure? Do you think that all capital expenditure should be undertaken according to a rolling programme?

[49] **Jane Hutt:** The issue about the rolling programme is a fundamental recommendation in the review—it was recommendation 2. The review clearly lays out what we would mean by a 'rolling programme'. It is clear that we are trying to develop a more collaborative, long-term and cross-cutting approach to capital expenditure, which picks up the point that the Chair made. That means that we would look to having less of a tranche-based arrangement and more of an arrangement involving robust strategic outline cases, from which we would move forward to full business cases, while ensuring that we are engendering economies of scale and that there is much greater transparency and better feedback, building on the five-case methodology and gateway processes. That is what we would seek to do in delivering our capital investment programmes across the board. SCIF has given us the model for doing that.

[50] **Angela Burns:** Andrew, did you have a supplementary question?

[51] **Andrew Davies:** As a point of correction, this review was undertaken and initiated by Dr Christine Daws, the former director general for finance. Although it was published in January, it was commissioned in the middle of last year.

[52] The review states that variation in scrutiny processes between departments fundamentally undermines the primary purpose of SCIF. That certainly accords with my experience in Government. Bearing in mind that, like all official reports, it will have gone through considerable iteration before it was published, and that there will have been considerable editing to ensure that there are no hostages to fortune in the wording, that seems to undermine the corporate strategic approach to capital investment. That would accord with my experiences when I was Minister for finance, namely that there was no corporate strategic approach to capital investment across Government—certainly not at official level. The way in which SCIF works—and this is shown by the review—is that many of the capital allocations, including SCIF and mainstream ones, are delegated to departmental heads and DGs. The previous Labour Government talked about a reduction in capital of 50 per cent over the next five years, and clearly there will be fewer resources. Therefore, how confident are you that the Assembly Government will take on board the lessons of the review, namely that there is a fundamental need for a corporate strategic approach to capital investment? How confident are you that lessons have been learned?

[53] **Jane Hutt:** As I said in my opening remarks, the position that we are in in respect of

the economy and financial projections requires us to look at this and, as far as I am concerned, to adopt any lessons learned from the SCIF framework and process, which you initiated as former Minister for finance. For me, it is imperative that the Government adopts this, and the review describes clearly how we can deliver that. As we await the comprehensive spending review and our budget allocations, and given that there will be very difficult decisions to make with regard to capital, I know that the Cabinet committee on budget and performance is the right committee to take responsibility for driving this forward.

[54] **Andrew Davies:** Do officials get it yet?

10.00 a.m.

[55] **Jane Hutt:** My officials do, but perhaps Andrew will be brave enough to say whether he feels others do.

[56] **Andrew Davies:** The point is that financial planning is a very small unit within Government, and, as the report says, most capital allocations are dealt with by directors general and departmental heads. My experience of Government is that the centre does not have the capacity to force through a corporate, strategic approach.

[57] **Mr Jeffreys:** All that I would like to add is that it is fair to say that this is a journey that has been started, and some progress has been made over the past three or four years through the SCIF approach, but we are not quite there yet in terms of being where we want to be, and being more strategic about capital across the board, and having the right sort of consistency in place. This is not about a blanket, one-size-fits-all approach, because there are variations that would be appropriate—between the way that you appraise and manage transport investment projects and housing projects, for example. There are certain common themes, and we need to ensure that they are reflected across the organisation. We have taken some significant steps forward over the past three years, but we are not quite there yet.

[58] **Angela Burns:** I draw your attention to our report into the inquiry on funding for roads. That very much shows the lack of planning—Ministers are unable to do that because the capital is not secured on a forward projection, so that they only have what they have at that minute. That must make planning exceptionally difficult.

[59] **Mr Jeffreys:** That is a really important point. We are in a position at the moment, 10 months before the start of the 2011-12 financial year, where we have no strong idea of what our budget will be. That is the biggest problem that we face in planning capital strategically—we only ever know our budget at most three years ahead, and often we only know it 10 months ahead. That is not conducive to the long-term planning that you need to be strategic about capital. I am not sure that there is a solution to the problem because there are good reasons why Government cannot set budgets too far ahead, but it does lead to serious difficulty.

[60] **Angela Burns:** Other Governments in other countries manage to do it, and other devolved administrations. Maybe we need to look elsewhere for lessons, and see what we can do to encourage that, because good planning will save money in the long term.

[61] Brian has a supplementary question, and then Nick.

[62] **Brian Gibbons:** I will probably come back to the wider capital review, because it is very much at the heart of this, but my first question is about the future of SCIF. The Minister mentioned that it is not really in our gift. The future of SCIF is tied up with what happens at Westminster, and the size of the capital budget. That begs a question, to follow on from Andrew's point, about the three or four different sources of capital funding. We have the

departmental discretionary money, the money for local government, SCIF, the invest-to-save fund, 'Making the Connections'—there are a number of capital pots out there, and some of them create a strategic sense of direction, but, in the next couple of years, will the capital pot be big enough to justify these individual strands? Andrew's point was that we may have to centralise a lot of these different pots and then have a much stronger sense of corporate direction about how the money is spent. Looking at these capital funding pots, such as 'Making the Connections', SCIF and so on, and following on from that, if the capital budget is to be stripped down big time, how much European money will be able to lever in? I know that 'Making the Connections' managed to lever in some European money, but how much will we be able to lever in to help this sort of work to continue?

[63] **Jane Hutt:** I want to go back to the fact that a great deal of what has come out of this review is guiding us in the way that we are now planning to deal with whatever capital investment pot we have. It is important to look again at the review that we have undertaken, to look at capacity for good project management, for example. We have trained over 400 people in the five-case model, and that funding came centrally from the Welsh Assembly Government. That was not just done internally, through our departments, but also in local authorities. We have trained over 50 people in local authorities, for example.

[64] We have really engaged with the public sector through local authorities, health, and higher and further education across the board to ensure that people know how to do this properly. It goes back to Andrew's point—and I think that Nick mentioned this as well—that the rolling programme requires us to get it right when we plan, develop and deliver capital investment. I think that your point, Brian, is a much wider point about the sources of funding available to us, so that we do not just match fund, but incentivise, which is what the invest-to-save scheme is. We are working, through my efficiency and innovation board, on all of those efficiency issues that we discussed, rather heatedly, yesterday with regard to collaborative procurement and delivery. They are all going to play their part in a very tight financial setting. However, if we were to go into those wider areas of sources of capital, we would have to provide a note to the committee.

[65] **Angela Burns:** That would be useful, thank you.

[66] **Nick Ramsay:** To follow on from the Chair's point about planning ahead, in many ways, I appreciate and respect what you are saying, Minister, about not knowing exactly what your budget is going to be. It must be very difficult trying to juggle different balls, and to do so in the dark to a certain extent. However, going back to the point about what has been done in other devolved administrations, if it is being done in Scotland and Northern Ireland—that is, if there is best practice there when they must be experiencing the same problems—I am curious to know whether you have looked at how they are doing it and whether you think it would be beyond the stretch of the imagination to emulate that best practice in Wales. Perhaps you work in a different way and their approaches would not be feasible, but I am interested to know why we cannot move more quickly towards the ideal situation that you mentioned earlier.

[67] **Jane Hutt:** I think that we are moving towards it, and we are embracing it and embedding it. As far as I understand, in Scotland, they have a capital investment plan, but that is about the sum of the parts and it is not the case that they are demonstrating a different way of doing things, although Andrew might want to correct me on that. Northern Ireland has a quango, basically. It has a board that makes decisions, and I think that that is fairly historical in terms of the political process. The board does not have ministerial engagement in terms of cross-cutting collaboration. However, we certainly look at other administrations, and I know that Andrew discusses this with colleagues in Scotland and Northern Ireland. I do not think that we are that far apart in terms of where we are. Do not forget that the five-case business model came from Wales. You are probably aware that that was then adopted by the Treasury.

You can have all sorts of plans. We have 10-year plans, we have transport plans and we have longer-term plans, but the point is how we are going to actually deliver effective capital investment. The ‘how’ is as important as the ‘what’ as far as this is concerned.

[68] **Chris Franks:** The review suggests an outline process for the strategic capital investment fund, and it looks as though there are about 12 steps between the germ of the idea and the cutting of the ribbon when the building opens. Are these 12 steps adequate, or is this too unwieldy an approach? It seems that there are quite a few steps, and there is a balance to be achieved between ensuring that the Government knows exactly what is happening and going into too much detail. So, I would like your advice on that. Further, how does the advisory panel fit into this process?

[69] **Jane Hutt:** Stefan might want to come in on the feedback on the process. I have mentioned the five-case model more than once, so I will not mention it again. We have trained people to deliver it, to understand the process and to get it right in terms of a good bid, which, of course, strengthens the case when recommendations come forward to Ministers. Stefan, you can respond to that point. With regard to the advisory panel, its members have brought their expertise, and we have set out terms of reference for them, which are laid out in the review document. They have given support and advice to our officials and to other partners. I will go on to how we intend to use the power to provide that kind of advice for all capital investment. Do you want to comment on the process, Stefan?

10.10 a.m.

[70] **Mr Sanchez:** Absolutely. In looking at the diagram in the document, I appreciate that the process looks very complex. There is a balance to be struck between trying to describe something in enough detail and trying to keep it elegant and easy to understand, although I am not sure if that has been achieved. The process would start with the early development of proposals, taking in the view of the officials’ group, input from spatial plan core groups and those sorts of inputs to develop project proposals within departments. The proposal suggests that each department should set up a scrutiny review panel, with a senior civil servant from that department as chair to be appointed by the Minister. The scrutiny review panel should include other members, such as an economist from the economic advice division, Value Wales to advise on the procurement issues, someone from my team to advise on the elements of getting the five-case model business plan right, as well as officials from other spending departments. The proposal is that each department would have one of these scrutiny review panels.

[71] The role of such a panel would be to assist the department in the development of the strategic outline case, which is the first step of the five-case model to produce a proposal that can go forward to the Cabinet committee on budget and performance for discussion and approval. That is the stage at which the cross-cutting collaborative approach gets built in. By having representation from other departments on these review panels and cross-cutting views from economists and Value Wales, you are building in the cross-cutting links and making links with other departments at an early stage of the project development. That is the process as set out in the review. Does that answer your question?

[72] **Chris Franks:** It hopefully does.

[73] **Angela Burns:** Ann, did you have a supplementary question?

[74] **Ann Jones:** I asked about portfolio Ministers being on the Cabinet committee, Minister, and you are saying that officials from other departments are to do the outline to see whether it gets to Cabinet. If you are an official from another department and you know that your Minister is trying to do the same to get funding from the strategic capital investment

fund, would you not scupper the other department's proposals to gain credit with your portfolio holder, Minister?

[75] **Jane Hutt:** That is why you need independent scrutiny advisers. The specialist panel played that role very clearly. There are many safeguards in the system, as Stefan explained, and they are to ensure that, given the complexity and the size of the projects, the right decisions are reached and delivery monitored. We could spend a long time on the detail of the process, but it comes down to the fact that there are safeguards, because you need expertise all along the line to ensure that what reaches Cabinet for evaluation is a decent proposal.

[76] **Ann Jones:** The cynic in me still remains, I am afraid. [*Laughter.*]

[77] **Chris Franks:** You have explained how robust and positive this system will be, but it looks very similar to the system that is used in the NHS to determine major projects. On first sight, at least, this would have been used for the substantial project at Whitchurch Hospital, namely the development costing £50 million to £60 million that took a long time to get to a certain stage. Presumably, most of these steps were used in that case, and it suddenly stopped. So, why should the committee have any confidence that this system would not result in the collapse of another project like that?

[78] **Jane Hutt:** Returning to the issue of having a national plan and seeing what other countries have done, we need to make the point that there are differences in how services will want to develop and the way in which they will be delivered. It is particularly true in relation to the health service, in health and social care, because of the changing arrangements and clinical expectations of delivering healthcare. Therefore, there must be flexibility from an outline business case through to a full business case to allow the question of whether it is still what is needed, whether it is appropriate and whether it fits the demographic and clinical expectations. You would have to ask the Minister for Health and Social Services about particular changes to projects of that kind. However, there must be some flexibility, which is why long-term plans can have their disadvantages, as well as their advantages. There must be flexibility in capital investment, not only because the plug will be pulled on the availability of capital, which will have an impact on outcomes and process alike, but also because service needs will change. They may change less for roads, for example, than they do for health.

[79] **Chris Franks:** Apparently, the current allocation in the budget to cover the administration and operation of SCIF is about £0.5 million a year. If this approach is implemented, how would the new proposals impact on the resources required?

[80] **Jane Hutt:** You will be pleased to hear that we have not spent up to that level. The £0.5 million is a budget, and not what we are spending; it has not all been spent. As for using the process to change the way we deliver capital, we believe that we have the resources to deliver that change.

[81] **Chris Franks:** There are capital investment projects that are not currently covered by this approach. Is consideration being given to including all substantial capital projects in this type of process?

[82] **Jane Hutt:** That goes back to this review's fundamental recommendations that we should learn lessons from the approach to SCIF and apply them across the board to capital planning and investment. We have asked the panel to engage directly with our departments and directors general, to support them and their external partners in using the SCIF process to develop their capital programmes.

[83] **Chris Franks:** I am mindful of the time.

[84] **Angela Burns:** Minister, are you pressed for time, because we are due to finish at 10.30 a.m.? If so, I would like to bring Brian in on stakeholders and Nick on monitoring and evaluation. We have a lot of other questions that I am happy to submit in writing, but those are two key areas, if you are happy to stop, Chris?

[85] **Chris Franks:** Yes, I am.

[86] **Brian Gibbons:** On the point made by Chris, the panel's terms of reference suggest a much more proactive role in advising the strategic development framework through which any bid would be developed. However, having read the review, I get the impression that the panel was very much a reactive evaluation panel rather than a proactive one that would set the overall framework. I do not know whether you would agree that it is an accurate assessment of the way that the panel has worked in practice.

[87] **Jane Hutt:** The important point is that we had a programme of Government to deliver, and it included capital investment as well as revenue spend. We looked to the panel to provide strategic advice. You have seen the terms of reference: investment advice, advice on procurement, market advice and management advice. They were not there to develop the spend priorities; they were there to give us the expertise and advice.

10.20 a.m.

[88] **Brian Gibbons:** Is that the criticism that the review makes? That is the way I read it: precisely because the panel was not taking a more proactive role, that that was a weakness. In other words, they were not looking at the strategic priorities of the Assembly Government, and then saying what should be done, and how it should be done. Instead, they were looking at the priorities of the Assembly Government and then reacting to debates that came in from the various Government departments and so on.

[89] **Jane Hutt:** You have to decide what the role of an expert panel would be. It was clear that this was a ministerially driven Cabinet committee with a programme of Government to deliver and we were looking to SCIF as a way of developing a new strategic approach. Culturally, we were expecting a change not just from our officials, but also, as Andrew has said, from Ministers; we were to be more strategic as well. We were not handing that over to a panel; the panel had to ensure that we had the best advice possible to give us the projects that we could consider and approve.

[90] **Brian Gibbons:** Before asking my next question, I should declare an interest, because I was the Minister for Social Justice and Local Government. The review identifies the need for greater engagement with local government and other outside agencies in the development of the process. I think that Ann Jones's point earlier went to the heart of the matter: if you have a department, spending Ministers and a board evaluating various bids, particularly bids from outside organisations such as local government, which have no representative on the committee that approves the bid, does that not leave those outside agencies at a disadvantage? The final decisions would be taken by people looking to avoid compromising their own programme. Would it be better if some of these outside agencies were involved on the budgetary committee, or whatever, particularly with regard to making a decision on these projects?

[91] **Jane Hutt:** The important thing was that, when tranche 1 was announced in December 2008, the call for bids was extensive and widespread. There were clear criteria addressing the 'One Wales' themes, and those criteria were made available to the whole of the public sector through Ministers and their departments. If you look at tranche 1, there were local authority projects that benefited, including schools projects—I remember projects in Wrexham and Newport benefiting, and other local authorities asked, 'Why not us?' That was

what happened in tranche 1.

[92] In tranche 2, the Minister wrote to all the local authority leaders when bids were opened, at the same time as writing to ministerial colleagues. He was directly ensuring that local authorities could bid appropriately. I mentioned that many local authorities took up training opportunities for the five-case model, but also, under tranche 1, we allocated over £25 million to education projects. We were trying to be cross-cutting and collaborative, so we were looking at projects that went beyond just building a school; in Newport, for example, it included leisure facilities and regeneration, and the same was true in Wrexham. Otherwise, this might have been used as a way of getting funding for a capital programme. There had to be more to it than just building a school. I know, because I was a spending Minister at the time, that that is where the panel was very rigorous in saying, 'That project is just part of the capital programme, and should not be coming here'. We were actively engaged in those discussions and we had that external scrutiny and appraisal. Local authorities have benefited and were engaged, but it had to be on the basis of the criteria that were set out for tranches 1 and 2.

[93] **Angela Burns:** Nick, you have some questions on monitoring and evaluation.

[94] **Nick Ramsay:** Yes, I will be as quick as I can, Chair; I am mindful of the time. I have some questions on the mopping up—the post evaluation. I know that you use what is called a traffic light—red, amber, green—system of reporting, but I was concerned to see that, in reality, post-project evaluations rarely get undertaken, if ever, as planned. Does that mean that they do not go ahead at all, or that they go ahead in a different way? Also, it seems that there are rarely evaluations at programme level. Does it happen more at the strategic overarching level? Would it not be better to have more emphasis on the programme level as well?

[95] **Jane Hutt:** Post-project evaluation is built into the SCIF system, and the monitoring and evaluation of projects is the responsibility of the department that submitted those projects. You will also know that we have a gateway system, which is another opportunity to ensure that evaluation is taking place and that the process that has been outlined has been delivered effectively. We have not fully completed all of the SCIF projects, but the post-project evaluations will be important not just strategically, but for delivery of programmes locally. I am sure that I will be able to share a report with you on that.

[96] **Nick Ramsay:** Will there be a review of each of the tranches at the end of 2010-11?

[97] **Jane Hutt:** Do you mean an overarching review or a review of SCIF projects?

[98] **Nick Ramsay:** A review of SCIF projects.

[99] **Jane Hutt:** That is something that we could look to do.

[100] **Mr Jeffreys:** Stefan may know exactly what the conditions of grant are in this case, but it is part of the process that each project is evaluated at the end. However, we have not finished any of the projects yet.

[101] **Mr Sanchez:** We audit the spend of SCIF projects centrally on an ongoing basis. That is the reference to the red/amber/green system: if a project spend is slipping, it might be given an amber rating, or, if it has not spent anything, it might be given a red rating. I am happy to report that the vast majority of projects are rated green.

[102] **Angela Burns:** Does the same system apply for capital projects that are not within SCIF?

[103] **Mr Sanchez:** As the Minister has explained, it is for departments to manage their own projects. [*Laughter.*]

[104] **Angela Burns:** I am sorry if I find that highly amusing.

[105] **Mr Sanchez:** We do not monitor departmental projects.

[106] **Brian Gibbons:** Does that evaluation only look at project delivery? For example, Jane mentioned a school in Newport; would you just say that the school was built and that everything was done, or would the evaluation include the desired outcomes of the project, such as whether it is a community school with good community engagement? Is it just about bricks and mortar? Does the evaluation focus on the outcome for citizens as opposed to project delivery?

[107] **Jane Hutt:** You must demonstrate that money was spent on what it was intended, and that would include, if it is cross-cutting, not just the school but also the leisure centre and all the community benefits that arise from it. The evaluation is principally a financial evaluation of spend.

[108] **Mr Sanchez:** Yes, that is what we are doing. It is for the project team to evaluate the project and whether it delivered what their objectives were at the start.

10.30 a.m.

[109] **Andrew Davies:** Bearing in mind that SCIF accounted for a relatively small amount of the Assembly Government's annual capital expenditure and what Andrew Jeffreys said about the fact that there has been some progress or that a more strategic approach is being taken, I am rather concerned that Stefan Sanchez said that the mainstream capital expenditure programmes are matters for the departments. There does not seem to be a strategic approach across the whole capital programme. I am concerned that the evaluation of mainstream capital programmes is left to departments. It does not seem to indicate a strategic approach.

[110] **Jane Hutt:** We monitor schemes centrally in terms of project spend and progress. We are talking about the day-to-day monitoring and evaluation rather than the evaluation of outcomes. Again, it goes back to spend. Chair, perhaps I could provide a note on how we monitor schemes centrally.

[111] **Angela Burns:** That would be useful, because I know that there are some overspends at present on some schemes and that there are some underspends. So, it would be helpful to know how those are monitored.

[112] **Andrew Davies:** Chair, this is precisely the point that I made to the Permanent Secretary when she was before the committee a few weeks ago. The civil service monitors financial performance; it does not monitor effectiveness in terms of performance management in a wider sense to see whether expenditure is hitting the Assembly Government's priorities, as opposed to monitoring its financial performance. It would seem that the Minister is indicating that that is still the case.

[113] **Jane Hutt:** I have mentioned the gateway review. Andrew, you will obviously be aware of this. We expect departments to use this. Gate 5 of the gateway review is not just about the spend; it is more about the outcomes in terms of delivery. Is the committee aware of the gateway process?

[114] **Angela Burns:** One of our prepared questions was about that, but we have run out of

time. I was going to write to you about that. I am conscious of the time.

[115] **Jane Hutt:** It would be helpful for us to share with you the ways in which there is central monitoring. In accounting terms, it is vital that the gateway process can deliver the wider objectives and impacts that Andrew Davies is talking about.

[116] **Nick Ramsay:** I have one final quick question on the south-east Wales shared services project. You may not have information on this with you. A recent press article—and press articles are obviously always right—said that that collaboration project between local authorities and services in that area was being shelved. I think that about £10 million had been allocated for that. Is that being shelved and, if so, what happens to that money? Is it reallocated or does it just disappear somewhere?

[117] **Jane Hutt:** First, I would like to say that I have called for a full report from the sponsor local authority on the south-east Wales shared services project. That report is something that I will be happy to share with you, because lessons must be learned from that process. I can assure you that the sum of £10 million will be reallocated as we respond to emerging pressures on the capital programme over the coming year.

[118] **Andrew Davies:** It was not just SCIF money that was allocated. ‘Making the Connections’ funding was given for business case development. What happens to that money? Do the local authorities have to repay that to the Government?

[119] **Jane Hutt:** As you say, the sum of £10 million was the SCIF allocation. I think that this detail will emerge in the report that we have sought on the reasons why this did not progress and on the outcome in funding terms.

[120] **Angela Burns:** Minister, thank you for your time. Unfortunately, there were some areas that we did not have time to explore, mainly to do with the delivery and administration of SCIF itself and the use of expert advice. We also had quite a lot of questions about the gateway process. So, if you are happy to respond in writing, I would like to write to you with those questions. I would be grateful for your reply.

[121] I am grateful for your time today. This is very much the first go at this, because, as you said earlier, it is a very complex subject with lots of tentacles in many different funding pots. We would be grateful if, at some time in the future, we can ask you to come back to consolidate this or to explain the information that we will have gathered.

10.35 a.m.

Cynnig Trefniadol Procedural Motion

[122] **Angela Burns:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

[123] I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.35 a.m.
The public part of the meeting ended at 10.35 a.m.*