

Agenda – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 22 January 2018

Meeting time: 14.45

For further information contact:

Fay Bowen

Committee Clerk

0300 200 6565

SeneddPAC@assembly.wales

(Private Pre-Meeting)

(14.45 – 15.00)

1 Introductions, apologies, substitutions and declarations of interest

(15.00)

2 Paper(s) to note

(15.00 – 15.05)

(Pages 1 – 4)

3 The Welsh Government's Supporting People Programme: Evidence Session 5

(15.05 – 16.15)

(Pages 5 – 42)

Research briefing

PAC(5)-02-18 Paper 1 – Paper from the Welsh Government

Tracey Burke – Director General for Education and Public Services

John Howells – Director, Housing and Regeneration

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

(16.15)

Items 5 & 6



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

**5 The Welsh Government's Supporting People Programme:
Consideration of evidence received**

(16.15 – 16.30)

**6 The Welsh Government's initial funding of the Circuit of Wales
Project: Consideration of Welsh Government Response**

(16.30 – 17.00)

(Pages 43 – 52)

PAC(5)–02–18 Paper 2 – Letter from the Chair to the Permanent Secretary (14 December 2017)

PAC(5)–02–18 Paper 3 – Letter from the Permanent Secretary to the Chair (16 January 2018)

Concise Minutes – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Monday, 15 January 2018

Meeting time: 14.00 – 16.40

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/4503>

Attendance

Category	Names
Assembly Members:	Nick Ramsay AM (Chair) Mohammad Asghar (Oscar) AM Neil Hamilton AM Rhianon Passmore AM Adam Price AM Lee Waters AM
Witnesses:	Tracey Burke, Welsh Government Andrew Slade, Welsh Government
Wales Audit Office:	Anthony Barrett – Assistant Auditor General for Wales Mike Usher Matthew Mortlock
Committee Staff:	Fay Bowen (Clerk) Claire Griffiths (Deputy Clerk) Owen Holzinger (Researcher) Katie Wyatt (Legal Adviser)



1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed the Members to the meeting.

1.2 Apologies were received from Vikki Howells AM who was attending a Supporting People National Advisory Board regional service user event.

2 Paper(s) to note

2.1 The papers were noted. Specifically, the Committee agreed:

- Auditor General Report on Homelessness: The Chair will send a copy of the Report to John Griffiths AM, Chair of the Equality, Local Government and Communities Committee and ask for an undertaking as to whether the Committee has the capacity to undertake an inquiry into this issue and if so provide a timeline.
- NHS Finance (Wales) Act 2014: The Chair to write to the Welsh Government seeking clarification on why the zero based review was only undertaken in the Hywel Dda University Health Board and if an overview within the Welsh NHS has been undertaken/is planned on its efficiency.
- Hospital Catering and Patient Nutrition: The Chair to write to the Welsh Government requesting an explanation as to why the All Wales catering system has still not been delivered and is not expected to be available as a 'call-off' until 2019 and also request a timeline for the Gateway Review of the Wales Community Care Information System.

2.1 Auditor General for Wales Report: Central Government Accounts 2016 –17

2.2 Auditor General for Wales Report: Local Government Homelessness 2017

2.3 Public Procurement: Welsh Government response to the Auditor General's Report

2.4 Implementation of the NHS Finance (Wales) Act 2014: Additional information from the Welsh Government (22 December 2017)

2.5 Hospital Catering and Patient Nutrition: Additional information from the Welsh Government (3 January 2018)

3 Community Safety in Wales

3.1 Members considered the Welsh Government's review – Working Together for Safer
Pack Page 2

Communities – and agreed that the Chair should write to the Welsh Government seeking clarity of the timescale for the implementation of the recommendations relating to the community safety strategy.

4 Introductory Session with new Director Generals, Welsh Government

4.1 Members held an introductory session with Tracey Burke, Director General, Education and Public Services and Andrew Slade, Director General, Economy, Skills and Natural Resources following their recent appointment.

4.2 Tracey Burke agreed to send further information on:

- An update on the coding elements of the Hwb programme (website and collection of online tools provided to all schools in Wales by the Welsh Government).

4.3 Andrew Slade agreed to:

- Provide a note on the relationship the Welsh Government has with the UK Government Digital Service;
- Provide a follow-up note on the tables in the context of modelling the economy as part of the Economic Action Plan ;
- Send a note to update how the proposed powers to give greater autonomy to Transport for Wales are progressing; and
- Exposure for Wales as a result of today's announcement of Carillion's liquidation.

5 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

5.1 The motion was agreed.

6 Scrutiny of Accounts 2016–17: Consideration of the draft report

6.1 The Members considered the draft Report and suggested a number of additional recommendations.

6.2 The Clerks will amend the draft report and circulate to Members, for agreement, by email.

7 Current Work Programme

7.1 Members noted the publication, on 11 January, of the Auditor General for Wales' Pack Page 3

Report on the Informatics Systems in NHS Wales Report. The Welsh Government response is only expected to be received later in the term and as they had already agreed to undertake an inquiry into the issues, the Clerks will arrange for witnesses to attend Committee in the summer term.

7.2 Members discussed the funding issues around the film and media industries that have recently come into the public domain. It was agreed that policy issues should be considered by the Culture, Welsh Language and Communications Committee and any financial management issues should be referred to this Committee. It was noted that the Auditor General's response to concerns raised in correspondence is expected to be received during the week of 22 January. Upon receipt, Committee will return to the issue.

8 The Welsh Government's Supporting People Programme: Consultation Responses

8.1 The consultation responses were noted.

Document is Restricted

Tracey Burke

Cyfarwyddwr Cyffredinol / Director General

Y Grŵp Addysg a Gwasanaethau Cyhoeddus
Education and Public Services Group



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair – Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

8 January 2018

Dear Mr Ramsay,

**THE WELSH GOVERNMENT'S SUPPORTING PEOPLE PROGRAMME PUBLIC
ACCOUNT COMMITTEE INQUIRY 22 JANUARY 2018**

Ahead of the meeting of the Public Accounts Committee scheduled for 22 January, I am pleased to enclose a paper as requested covering the areas of specific interest as outlined by the committee.

Yours sincerely

Tracey Burke



**BUDDSODDWYR | INVESTORS
MEWN POBL | IN PEOPLE**

Parc Cathays • Cathays Park
Caerdydd • Cardiff
CF10 3NQ

Ffôn • Tel 0300 0258047
tracey.burke@gov.wales
Gwefan • website: www.wales.gov.uk

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Supporting People Programme Evidence Paper for the Public Accounts Committee on 22 January 2018

This paper seeks to provide background and relevant evidence in relation to the Welsh Government's views on the findings of the Auditor General's Report into Supporting People and the specific areas of interest highlighted by the committee:

- The impact of wider policy development
- Funding distribution and financial planning
- Monitoring and evaluation.

1. The Impact of Wider Policy Development

Supporting People Programme

1.1 Supporting People provides housing-related support to a wide range of individuals including those fleeing domestic abuse, people who are homeless, care leavers and older people. It helps people find and keep a home and live independently. The programme provides housing related support at points of crisis or because of ongoing vulnerabilities. This reduces demand on other services such as Health and Social Care. The importance of the Supporting People (SP) Programme in reducing homelessness was recognised by both CHC and Cymorth in their evidence papers to the Committee.

1.2 Given the broad range of service users and complexity of the challenges they face SP is affected by policy in many other areas of Government, both devolved and non-devolved.

1.3 Non-devolved policy currently of particular interest to SP includes the UK Government's Welfare Reform programme and Supported Accommodation Review. Whilst wider welfare reform has no direct impact on supported housing, it does affect the circumstances in which support is provided. We have already seen significant increases in demand for support as the pressures created by the roll out of Universal Credit translate to financial pressures which affect the ability of individuals to manage the challenges they face.

1.4 There are specific issues associated with the Supported Accommodation Review. Recent announcements from the UK Government to limit the review to short term accommodation reduce some of the concern about sustainability of fixed supported accommodation provision. There remains a significant amount of policy development work to do to establish a funding framework for the costs of short-term, supported accommodation previously met largely through the Housing Benefit system. Key concerns relate to the need to provide assurance to providers and commissioners that provision, which often has long term borrowing associated with it, can be sustained and new provision developed. At the same time there are opportunities to develop better oversight of value for money within provision and stakeholders have identified a potential opportunity to reduce means testing within the system to the benefit of users.

1.5 Funding for Supported Accommodation will transfer to Wales from April 2020. The Welsh Government is engaged in an extensive programme of stakeholder

engagement to inform policy development. This has been welcomed by stakeholders. Given the interdependence of funding for bricks and mortar and support, we recognise the importance of providing a coherent mechanism for this new funding alongside the existing Supporting People Programme.

Funding Flexibilities / development of combined grant

1.6 Responding to continued budget pressure, has required the Welsh Government to explore ways in which front-line services can be protected whilst efficiency savings are made.

1.7 Local Government has made a strong case that the number and complexity of specific grant mechanisms can lead to bureaucratic burdens and hinder innovation which could deliver more cost effective ways of achieving greater impact for spend. Various programmes aimed at supporting vulnerable people or communities are in place, each underpinned by specific grants with their own requirements, restrictions, associated costs and bureaucracy. Local Government has challenged the Welsh Government to move to far greater de-hypothecation.

1.8 Consideration is being given to creating a new single 'Early Intervention, Prevention and Support Grant' in 2019-20. It is recognised that a wider grant mechanism might support more strategic programme alignment which is better able to meet local needs and increased cost effectiveness, but this needs to be balanced alongside a wish to retain a level of ring-fence protection between these and statutory services.

1.9 To support this work we are working with seven 'pathfinder authorities' in 2018-19; pathfinders will have full flexibility across 10 grants. This greater financial freedom and flexibility is expected to enable the pathfinders to work differently and to give them more scope to design services to support the Welsh Government's drive for more preventative, long term approaches. The remaining 15 Local Authorities (LAs) will have enhanced flexibility to vire up to 15% of funding across five grants. This is intended to support the move towards greater innovation in service delivery. If initiated, a combined grant would be a ring-fenced grant outside the Revenue Settlement that would cover the range of grants identified above focussed on early intervention, prevention and support.

1.10 No final decision has yet been made on whether to move beyond the flexible arrangements to bring together separate specific grants into a single combined grant for 2019-20. Ministers have indicated that they are minded to introduce such a grant, but a final decision on whether or not to do so will be based on feedback from the pathfinders and other work engaging with stakeholders. Interim arrangements for the pathfinders will allow for comparable monitoring of outcomes for different client groups and an external evaluation of the process is being commissioned.

1.11 We are aware of stakeholder concerns regarding the proposed combined grant and in particular the representations made to the committee by Cymorth and Community Housing Cymru. It is important to understand that this issue is being examined to provide greater flexibility and responsiveness to meet local needs. The extent of any efficiency savings that may result from a combined grant is difficult to

assess as grants have varying terms and conditions. Different grants take different approaches to administration costs, which add to the complexity for Local Authorities administering grants, as well as making it difficult to estimate total administration cost savings across a range of grants.

1.12 The WAO report on Grants Management in Wales published on 29 November 2011 states “Administration and management costs are shared between funders and recipients and typically amount to at least 10 per cent of funding”. We are also aware that the Public Accounts Committee report from June 2013 considered “value in the Welsh Government adopting an initial target of no more than 5% of total grant funding going towards administration” with an ambition to reduce this further.

The Supporting People Budget

1.13 There are no cuts to the total allocation for the Supporting People Programme in 2018-19 and 2019-20. The Supporting People Programme has its own budget line in 2018-19. In 2019-20 it will be included in a different budget line, which would allow for the creation of a new wider grant, but the level of Welsh Government funding for Supporting People will be the same as 2017-18 levels.

1.14 The draft budget showed a total combined budget for ‘early intervention prevention and support grant’ in 2019-20 some £13million less than the total of individual grants in 2018-19. This reflected the need to realise savings across the range of Welsh Government activities. As part of the ongoing budget process, we will continue to review the amount needed to deliver the required outcomes during the planning for the 2019-20 budget. Ministers have been clear that whilst there is an overall saving to be made there is no specific cut to SP. Ministers are also anxious that grant terms and conditions should remain sufficiently tight to ensure there is clarity over expectations on local authorities, supported with sufficiently robust accountability and monitoring.

1.15 We are working with pathfinders and other stakeholders to progress this work. During the remainder of 2017-18, we will be developing an initial outcomes framework designed to operate alongside any combined grant arrangements.

1.16 We will receive delivery plans from pathfinders and these will be subject to a robust assessment process within the Welsh Government to ensure they meet requirements. This will be followed with a final offer of funding in advance of 2018-19.

1.17 We will be procuring an external evaluation of the process to understand and test the barriers and learn best practice.

2. Funding Distribution and Financial Planning

Distribution

2.1 The Aylward Review of 2010 proposed redistribution of Supporting People funding using a formula more closely aligned to need.

2.2 Redistribution would have seen winners and losers and it was identified as desirable to manage the transition to a new distribution by mitigating the impact on those whose allocations would reduce under new arrangements. However, in 2013 it became apparent that in the context of significant overall pressure on budgets that additional funding to support transitional arrangements would not be available. The Supporting People National Advisory Board recommended to Ministers that a change in formula distribution be paused. Welsh Ministers accepted the recommendation. The Supporting People budget has been flat-line since 2015-16 and as a result work on redistribution has not been pursued.

Financial Planning

2.3 Stakeholders have raised concern over flat-line budgets at a time of rising costs. The Supporting People Programme has been protected in recent years with a further two year protection announced as part of the draft budget agreement in October 2017 - in sharp contrast to other Welsh Government funded projects. They are also concerned about procurement, Local Authorities prioritising cost over quality and the loss of providers. These concerns will be addressed in the new guidance document when it is published in spring 2018.

2.4 We appreciate that longer-term budgets would help organisations in planning but we are aware that a number of authorities use the flexibility which is inherent in the programme to stagger the start dates for commissioning contracts in the Programme.

3. Monitoring and Evaluation

3.1 We aim to ensure the programme collects data on outcomes for individuals and is able to show the impact of the funding in improving people's quality of life. The last data set collected and analysed shows 53,208 tangible outcomes for period 2 (six months) of 2016. Striking the right balance between reducing burdens of data collection and the need to be able to demonstrate impact and monitor performance is a challenge. Stakeholders have raised concerns on the amount of monitoring of providers. We have worked with them on refinements to the current monitoring requirements. A consultation exercise closed on 4 August 2017, the findings from which will be published in early 2018. Ongoing work on the Flexible Funding Programme provides us with an opportunity to build on this work in partnership with stakeholders to develop an outcomes framework in the context of broader grant purposes.

3.2 The evidence provided to date has allowed the Welsh Government to pursue a number of research avenues, including data linking SP data into the Secure Anonymised Information Linking (SAIL) Databank and the Administrative Data Research Centre for Wales.

3.3 The SAIL research has shown evidence of the impact of Supporting People services on health and more appropriate use of services. The Welsh Government has committed to additional work to collect and match data from all local authorities in Wales.

3.4 Further info on the findings from matching SP data into the SAIL database can be found here;<http://gov.wales/statistics-and-research/supporting-people-data-linking-feasibility-study/?lang=en>

3.5 Stakeholders have raised concerns on evidencing the impact of Supporting People on homelessness. Homelessness data captures interventions which happen within statutory duty of 56 days of someone becoming homeless. However many SP interventions happen in advance of the 56 day statutory duty. Under changes to outcome recording local authorities now capture the housing status at the start and end of support.

3.6 In addition to monitoring spend plans and outcomes, we have undertaken reviews of all local authorities to monitor how effectively they are using the grant. This has led to change within a number of local authorities and has flagged up good practice which has been shared as part of the reviews and in the Supporting People Network, for example Denbighshire's review of learning disabilities services, floating support services becoming tenure neutral.

Shan Morgan
Permanent Secretary
Welsh Government
Cathays Park
Cardiff CF10 2NQ

14 December 2017

The Initial Funding for the Circuit of Wales

Dear Permanent Secretary,

You will be aware that over the last few months the Public Accounts Committee has been taking oral and written evidence from the Welsh Government to assist its inquiry into the initial funding provided to the Circuit of Wales project. I wrote to James Price on 20 October 2017 about the Welsh Government's communications with the Heads of the Valleys Development Company (HoVDC) regarding the balance of project risk, and also about the balance sheet treatment of project costs in the event that the Cabinet had decided to provide the financial guarantees to the project that HoVDC had requested.

The Committee considered James Price's reply of 17 November at its meeting on 4 December and found some of the responses rather opaque. Given that similar project risk and accounting considerations may arise again in relation to future large capital projects involving public and private funding decisions, the Committee resolved that I should write to you as the Principal Accounting Officer.

We have specific concerns around aspects of Welsh Government decision making relating to the balance sheet classification issue. This issue appeared to emerge at a very late stage in the process and has been cited as the principal reason for declining the funding of the project. As a Committee, we are trying to establish a timeline for this information, and ascertain the flow of information between relevant officials across government. To do this, we would welcome your responses to the following questions:



1. The Statistical Classifications Forum minutes from the 12 June 2017 (attached) state:

'Wales: Circuit of Wales, currently under due diligence. If classification related issues arise then will inform ONS.'

The Committee would therefore welcome clarification on whether the official present at this meeting was either not aware of any balance sheet classification issues raised by the due diligence reports by 12 June reflecting a cross-departmental view at that point in time; or simply not aware of classification issues that were being discussed by Welsh Treasury or other Departmental officials?

2. There was reference in the Assembly's Plenary debate (27 June 2017) on the Circuit of Wales decision and in the media to an e-mail sent by a Senior Official to Aviva Investors on 14 June 2017 outlining that they had spoken to lawyers about complying with EU state aid rules. It goes on to state that there were 'no showstoppers' with regard to project. Was the Senior Official also not aware, at that point, of the new advice on balance sheet classification that was to be a significant in the Cabinet's decision to decline funding on 27 June (13 days later)? And if they were not aware on 14 June 2017, at what point did they become aware of this advice?
3. Were the two officials that were unable to attend Public Accounts Committee on the 26 June, due to 'ensuring the completion of the rigorous due diligence process and associated work' ensuring that 'the Cabinet has the right information to consider the project comprehensively' and 'takes its decision in a thoroughly informed way', aware of the advice from Welsh Treasury officials that was due to be tabled before the 27 June and if so when?
4. Was the then Deputy Permanent Secretary aware of the balance sheet classification advice that was to be presented to Cabinet before he appeared at the Public Accounts Committee meeting on the 26 June?



In addition to these detailed questions, I would be grateful if you could please explain clearly in writing to the Committee:

5. (a) What specific ‘rules’ (eg accounting standards, requirements of the FReM, Treasury guidance, Office of National Statistics rules, ‘Managing Welsh Public Money’ or other guidance) are the Welsh Government required to apply to the inclusion / exclusion within its annual financial statements (whether on the face of the balance sheet or in a note to the accounts) of the public finance support that it makes available to large capital projects such as the Circuit of Wales?
 - (b) The process used by the Welsh Government when identifying and applying such rules to its funding decisions.
 - (c) Descriptions of the roles of the various Welsh Government officials / departments who are involved in such processes, and how / when they interact with other relevant non-Welsh Government bodies such as HM Treasury and the Office of National Statistics.
6. The role and use of ‘Internal Assurance Groups’ (as referenced at Q24 in James Price’s letter of 11 September 2017 to the Committee).
 7. Your own expectations of how these arrangements should operate in practice, and your assessment of the extent to which you and your officials consider that they operated effectively in the specific case of the Cabinet’s 27 June decision to decline to provide the requested underwriting support for the Circuit of Wales project.

I am sure you will agree that given the amount of time, deliberation and co-investment between the Welsh Government and private sector partners that has been spent on this project it is crucial that we examine these processes, and as such I look forward to receiving your response.



I would be grateful to receive your reply by 16 January 2018, to enable the Committee to consider this response at our meeting on 22 January 2018. Depending on the response we may then also request you to attend the Committee in person on 6 February 2018 to provide oral evidence.

Yours sincerely,

A handwritten signature in black ink, reading "Nick Ramsay". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Nick Ramsay AM
Chair



Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Mr Nick Ramsay AM
Public Accounts Committee Chair
National Assembly for Wales
Cardiff Bay
CF99 1NA

16 January 2018

Dear Mr Ramsay,

The Initial Funding for the Circuit of Wales

You wrote to me on 14 December seeking further clarification in respect of seven issues which have arisen out of the Committee's hearings on the Circuit of Wales and the subsequent correspondence between the Committee and officials, principally Mr James Price, over the past few months.

Please find overleaf an annex prepared by colleagues from the relevant Economy, Skills and Natural Resources teams and Central Finance teams of the Welsh Government setting out a response to questions 1 to 6 in your letter.

In question seven, you have asked for my own expectations of the operation of the Assurance Group and my assessment of the extent to which they operated effectively in relation to the Cabinet's decision on the Circuit of Wales project. Given the complexity and profile of this project, I welcome the fact that James Price as Additional Accounting Officer brought together a group of senior colleagues who spanned Welsh Government departments to provide challenge and scrutiny of this work. I was briefed on the work of the Assurance Group and I understand that colleagues involved found it to be a valuable approach, bringing together a range of expertise to ensure rigorous scrutiny of the project proposals. I am satisfied that the Assurance Group provided a level of challenge and assurance appropriate to this project, and will draw on the good practice lessons for the future.



BUDDSODDWYR | **INVESTORS**
MEWN POBL | **IN PEOPLE**

Parc Cathays • Cathays Park
Caerdydd • Cardiff
CF10 3NQ


Ffôn • Tel 0300 025 3289
PS.PermanentSecretary@gov.wales
Gwefan • Website: www.gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

As Principal Accounting Officer, I am satisfied that the due diligence work conducted in relation to the Circuit of Wales was taken very seriously and provided the Cabinet with robust advice on which to draw in making their decision.

I hope that the additional details contained in this letter will provide the clarification the Committee is seeking.

Yours,


Shan Morgan
Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government



Annex: Responses, Questions 1-6

1. The Statistical Classifications Forum minutes from the 12 June 2017 state:

“Wales: Circuit of Wales, currently under due diligence. If classification related issues arise then will inform ONS.”

The Committee would therefore welcome clarification on whether the official present at this meeting was either not aware of any balance sheet classification issues raised by the due diligence reports by 12 June reflecting a cross-departmental view at that point in time; or simply not aware of classification issues that were being discussed by Welsh Treasury or other Departmental officials?

The official present at the meeting was aware of potential classification issues arising from consideration of the Circuit of Wales proposition. On 12 June 2017, at the time of the meeting of the Statistical Classification Forum, that consideration was ongoing.

The Minutes allude to the fact that the ONS would only have been informed following a decision in principle to offer Welsh Government support and when contractual documentation was in near-final or final form. These conditions were not present at that time.

2. There was reference in the Assembly's Plenary debate (27 June 2017) on the Circuit of Wales decision and in the media to an e-mail sent by a Senior Official to Aviva Investors on 14 June 2017 outlining that they had spoken to lawyers about complying with EU state aid rules. It goes on to state that there were 'no showstoppers' with regard to project. Was the Senior Official also not aware, at that point, of the new advice on balance sheet classification that was to be a significant in the Cabinet's decision to decline funding on 27 June (13 days later)? And if they were not aware on 14 June 2017, at what point did they become aware of this advice?

The senior official was aware of potential classification issues arising from consideration of the Circuit of Wales proposition. However, the discussions on 13 June and subsequent email related solely to compliance with EU state aid rules. The full text of the email, dated 14 June 2017, which was sent to Aviva Investors states:

“As we are drawing towards the close of our project appraisal process we had a conference with Counsel yesterday on state aid. The good news is that at the moment there does not appear to be any showstoppers but there is one point that I would like to discuss with you in relation to deal structure.”



**BUDDSODDWYR | INVESTORS
MEWN POBL | IN PEOPLE**

Parc Cathays • Cathays Park
Caerdydd • Cardiff
CF10 3NQ

Ffôn • Tel 0300 025 3289
PS.PermanentSecretary@gov.wales
Gwefan • Website: www.gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

Subsequently there was a telephone call between officials and Aviva to discuss the issue in relation to deal structure that was referred to in the email. As a direct consequence of that telephone call there was a change to the proposed Aviva funding structure to make the proposal compliant with State Aid. This revised structure was issued to Welsh Government on 16 June and this new structure was subsequently fed into the Balance Sheet analysis.

The advice provided by Welsh Treasury on balance sheet classification was issued on 20 June 2017 to the Officials preparing the Cabinet Paper. This advice took into account the updated financial structure provided on the 16 June 2017.

- 3. Were the two officials that were unable to attend Public Accounts Committee on the 26 June, due to 'ensuring the completion of the rigorous due diligence process and associated work' ensuring that 'the Cabinet has the right information to consider the project comprehensively' and 'takes its decision in a thoroughly informed way', aware of the advice from Welsh Treasury officials that was due to tabled before the 27 June and if so when?**

The two officials unable to attend the Public Accounts Committee on 26 June 2017 were provided with the advice from the Welsh Treasury team on 20 June 2017 following discussion between departments.

- 4. Was the then Deputy Permanent Secretary aware of the balance sheet classification advice that was to be presented to Cabinet before he appeared at the Public Accounts Committee meeting on the 26 June?**

Yes, the then Deputy Permanent Secretary was aware of the balance sheet classification advice provided by Welsh Treasury on 20 June 2017. However, as Mr Price stated at the Public Accounts Committee meeting on 26 June, as Cabinet had yet to make a decision on the provision of the guarantee for £220m, it was inappropriate to provide any details on the live project at that time.

- 5. (a) What specific 'rules' (eg accounting standards, requirements of the FReM, Treasury guidance, Office of National Statistics rules, 'Managing Welsh Public Money' or other guidance) are the Welsh Government required to apply to the inclusion / exclusion within its annual financial statements (whether on the face of the balance sheet or in a note to the accounts) of the public finance support that it makes available to large capital projects such as the Circuit of Wales?**

There are a number of "rules" and guidance documents relating to the potential accounting and budgetary impacts of schemes such as the Circuit of Wales.

The Welsh Government Accounts are prepared in accordance with the *Government Financial Reporting Manual (FReM)*. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The FReM is maintained by HM Treasury and is amended following consultation and agreement from the Financial Reporting Advisory Board (FRAB). The FRAB members consider the



Public Sector context to determine if the IFRS standards should be directly applied or require interpretation.

Link to Government Financial Reporting Manual (FReM):

<https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018>

In addition to any disclosures in the accounts of the Welsh Government, it is important to consider whether there are any additional budgetary impacts. The Welsh budget is part of the UK public expenditure framework and, therefore, the Welsh Government is required to comply with the Consolidated Budgeting Guidance published by HM Treasury. Much of this guidance is derived from principles applied by the Office for National Statistics in preparation of the National Accounts – a key element being the classification of entities to the public (Central Government) or private sector and whether they are considered to be market or non-market bodies. Entities determined to be within the Central Government sector, i.e. controlled by central government and not operating within the market, will be charged against the Welsh Government's budget as if it were part of the Welsh Government. Entities controlled by central government but operating as a market body are classified as public corporations.

There are a small number of public corporations in Wales. Public corporations are charged against the Welsh Government's budget on an 'external financing' basis. In both cases, any loans entered into by the entity will score against the Welsh Government's capital budget.

The classification of institutional units and their assets to the public or private sectors by the Office for National Statistics is the key determinant as to the accounting and budgeting treatment applied. In determining classification decisions, the ONS will apply the prevailing European legislation: the European System of Accounts (ESA) 2010 and its interpretative guidelines, the Manual on Government Deficit and Debt (MGDD) 2016. The 2016 update of MGDD includes revised sections on *inter alia* the delimitation of the general government sector, including the concept of government control; Public Private Partnerships; and debt related transactions and guarantees.

(b) The process used by the Welsh Government when identifying and applying such rules to its funding decisions, and:

(c) Descriptions of the roles of the various Welsh Government officials / departments who are involved in such processes, and how / when they interact with other relevant non-Welsh Government bodies such as HM Treasury and the Office of National Statistics.

In the Welsh Government, responsibility is delegated from the Permanent Secretary as Principle Accounting Officer to a number of Additional Accounting Officers (AAOs). In each Group, the AAO is supported by an operations team headed by a Director who is a qualified accountant. It is for the finance teams in each Group to support the process around all funding decisions. Where funding decisions involve risks and / or costs which cannot be accommodated within a Ministerial portfolio, or there are particularly complex financial issues, the Group



finance team is able to call upon the expertise in Welsh Treasury and the Welsh Government Finance Department on the application of accounting, budgeting and classification rules.

These central teams regularly interact with bodies such as HM Treasury and the ONS, both informally and through formal structures. Officials from these departments are represented on such boards and fora as the Financial Reporting Advisory Board and the Statistical Classification Forum. In addition, specific guidance is published by the ONS on the roles of participants in the classification process, and on how the process is applied. (See link below).

www.ons.gov.uk/methodology/classificationsandstandards/economicstatisticsclassifications/ukeconomicstatisticssectorandtransactionclassificationtheclassificationprocess#key-roles-in-the-classification-process

6. The role and use of 'Internal Assurance Groups' (as referenced at Q24 in James Price's letter of 11 September 2017 to the Committee).

The Deputy Permanent Secretary, James Price, initiated the Internal Assurance Group as a "one off" measure for the Circuit of Wales. The use of such a group does not form part of the normal Project Governance or Approval Process. Given the scale and broad reach of the project, Mr Price concluded that the draft advice to Ministers prepared by the lead officials should be scrutinised and challenged as comprehensively as possible to ensure the advice given to Ministers fully addressed all key issues, including benefits and risk as well as policy alignment.

The Assurance Group did not form part of the formal approval process but provided assurance to senior officials that the project appraisal and due diligence covered all aspects of the proposal and, as a consequence, that the advice to Ministers would be complete.

Membership of the group was drawn from senior officials across Welsh Government who had particular areas of expertise or were potential stakeholders. This included Directors from the ESNR Corporate Leadership Team together with the Welsh Government Finance Director, Director Legal Services, Chief Economist and Director -Communities & Tackling Poverty.

This Assurance Group met on five occasions between February and June 2017, including one meeting with the Circuit of Wales management. The outcome of each meeting was communicated to the officials managing the due diligence process and preparing the advice for Ministers and Cabinet.

End

