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Dear Gareth

FINANCE COMMITTEE INQUIRY ON ASSET MANAGEMENT

I received recently the Finance Committee's consultation letter for its inquiry on asset management. I note that this inquiry follows on from the Committee's commentary on asset management in its July 2012 report on *Borrowing Powers and Innovative Approaches to Capital Funding*. In previous correspondence with the Chair of the Committee, I indicated that the main messages in that report resonated with previous audit work in this area.

Public bodies manage a wide range of different assets including – but not limited to – land, buildings, housing, fleet, plant and equipment, ICT, highways and other critical infrastructure such as power and communication facilities. The issues involved range from matters of strategic capital investment and capital planning through to the day to day management of these assets and the way in which assets are registered and accounted for. The Committee's consultation letter suggests a focus on land and buildings and sets out the Committee's intention to follow up progress in response to recommendations in the Wales Audit Office's June 2010 *Buildings Management National Briefing*. However, I understand that we need not limit our response only to building assets.

As yet, the Wales Audit Office has not sought systematically to follow up the recommendations from the buildings management briefing. However, our on-going programmes of local audit work across the public sector have included some analysis of progress in buildings management and wider asset management. We have maintained contact with the National Assets Working Group that the Welsh Government has established and, since June 2010, there have been various other Wales Audit Office reports that have had a strong asset management locus. In addition, our current value for money examination of the Welsh Government's location strategy is clearly relevant to the Committee's inquiry and its consideration of the management of the Welsh Government's own estate. Finally, the Wales Audit Office has continued to support the sharing of good practice on matters relating to asset management.

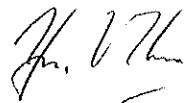
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Overall, our audit work indicates that there have been improvements in asset management across the public sector in recent years, driven in part by the increasing pressure on public finances and the emphasis on efficiency savings and the wider transformation of public services. However, there remain clear variations in the quality of public bodies' asset management arrangements and there is more that needs to be done to: improve the day to day management of assets, including the quality of management and performance information; ensure that investment decisions are aligned with wider strategic and policy objectives; better manage major investments to time and budget; align asset management planning with other planning arrangements (notably workforce planning and medium term financial planning).

At the same time, public sector bodies are facing obvious challenges in terms of: their ability to invest in new assets and the maintenance or improvement of existing assets (presenting the risk that assets eventually deteriorate to the point where capital expenditure on full replacement becomes the only option); generating a good return from the disposal of certain assets; or generally winning public support for changes that may have significant implications for their asset base.

I have appended to this letter a summary of information that the Committee may find useful as it takes forward its inquiry. There is little that I think we can add at this stage beyond audit evidence that is already in the public domain. However, Wales Audit Office staff would be happy to provide further informal advice to support the Committee's inquiry, as was the case recently for the Committee's inquiry on the Welsh Government's Invest to Save fund.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Value for money examination of the Welsh Government's Location Strategy

With this work still underway, I am not yet in a position to share my findings and emerging conclusions. However, in light of the Committee's terms of reference for its inquiry, I thought it would be helpful to provide the Committee with a little more detail about our work.

The Welsh Government published its Location Strategy in 2002, with the aim of decentralising services from Cardiff. Core to the programme for delivering this strategy was the construction of new offices at Merthyr Tydfil, Aberystwyth and Llandudno Junction that opened between 2006 and 2010. The strategy also provided an opportunity to rationalise accommodation assets and associated facilities management contracts. Intended benefits of the programme included redistributing wealth from Cardiff to the Valleys, and to Mid and North Wales; gaining closer engagement with local community needs; providing employment in a modern, sustainable and bilingual working environment; and taking advantage of opportunities to rationalise and make better use the Welsh Government's estate.

Our study explores whether the Location Strategy has delivered its objectives in a way that is sustainable and provides value for money. Our fieldwork has tracked the key business decisions and progress against a timeline since 2002. We have reviewed relevant project documentation as well as speaking to a range of Welsh Government officials. We have also visited some of the Welsh Government's new accommodation. We are currently drawing together the main conclusions from this work in readiness for our final report, which is scheduled for publication in summer 2013.

Relevant findings from local audit work

We have not undertaken a systematic review of asset management across the public sector since the work that underpinned our June 2010 *Buildings Management National Briefing*. However, the regular audit work that underpins some of our recent Improvement Assessment Reports for local government bodies and Annual Audit Reports for NHS bodies has included commentary on asset management related issues.

While the scope of the Committee's inquiry is looking across the public sector, I understand that the Committee's interest in asset management arrangements at a local level is largely in the Welsh Government's leadership role in supporting improvement. For that reason, I have not sought to disaggregate from relevant local audit reports specific findings on asset management. Nevertheless, should the Committee receive evidence from individual public bodies that we audit, it may wish to reflect on any relevant evidence from these reports over recent years. Annual Improvement Reports for local government bodies and Annual Audit Reports for NHS bodies are available on our website¹.

Over the next three months we will be producing new Annual Improvement Reports for local government bodies while our 2012 Annual Audit Reports for NHS bodies are being released to the website on a staggered basis, as and when they have been completed and discussed locally through the organisations' audit committees and boards.

¹ <http://www.wao.gov.uk/reportsandpublications/localreports.asp>

National Assets Working Group

The Welsh Government's response to the Committee's recommendations in its report on *Borrowing Powers* refers to the work of the National Assets Working Group. The National Assets Working Group is one of the sub-groups of the Public Services Leadership Group that the Welsh Government established in July 2011 as a successor to the Efficiency and Innovation Programme. Wales Audit Office staff have maintained close contact with the work of the Public Services Leadership Group and the Efficiency and Innovation Programme before it. The National Assets Working Group has made some good progress to support improved asset management across the public sector. This progress includes promoting take-up of the pre-existing Electronic Property Information Management System as both a local and national property asset database, the sharing of good practice in areas such as energy efficiency and the development of a range of standard documents and approaches. The Working Group has a challenging agenda ahead and the main constraint on progress is arguably the level of available resources to drive forward its work. The Chief Executive of Wrexham County Borough Council has recently taken over the role of Chair of the Group.

There is obvious merit in the Committee seeking further evidence from the Welsh Government, and perhaps also from the new Chair of the Group, about the Group's work, its impact at a local level, the links to the Welsh Government's regional collaboration agenda and future plans. The consultation responses that the Committee receives from other public bodies may also provide an indication of the overall impact of the Group's work.

However, there is also a role here for Local Service Boards in driving forward collaborative asset management arrangements at the local level. The Committee may wish to explore how the work of the National Assets Working Group is joining up with any relevant initiatives being taken forward through the Local Service Boards or through other collaborative arrangements, such as the Consortium of Local Authorities Wales (which supports the professional and technical interests of property management in local government in Wales).

For the NHS, the Committee may also want to consider the role that the NHS Wales Shared Services Partnership - Facilities Services (formerly Welsh Health Estates) plays in providing advice and support on all aspects of healthcare property management. In November 2012, the Shared Services Partnership published the latest 2011-12 report on the condition and performance of the NHS estate in Wales.

Ongoing Good Practice Exchange / shared learning activity

Our June 2010 *Buildings Management National Briefing* was just one of a range of outputs from our audit work examining buildings management arrangements across the public sector. This review also followed on from previous work on fleet management. Other outputs from this work, including good practice case studies, are available on our good practice exchange website².

² <http://www.wao.gov.uk/goodpractice/goodpracticeexchange.asp>

We have continued to support the sharing of good practice in these and other related areas, in part through our engagement with the National Assets Working Group. In January 2013, we are hosting two shared learning seminars on agile working which will include workshops drawing on the experience of:

- Bridgend County Borough Council – which has reviewed and rationalised its property portfolio and realised savings as well as developing improved, adaptable working environments; and
- Monmouthshire County Borough Council – whose use of ICT, has enabled the decentralisation and re-location of its workforce and more responsive service delivery.

Other Wales Audit Office work that may be relevant to the Committee's inquiry

Depending on the direction that its inquiry takes following the initial period of consultation, the Committee may wish to draw on some of the audit findings from other recent Wales Audit Office national reports with a strong asset management locus. The prime examples, all of which are available in date order on our website³, include:

- *Capital Investment in Schools* (July 2010): We found that, although improvements had been made to the schools estate, there remained a long way to go before all schools in Wales would be fit for purpose. We concluded that changes introduced by the Welsh Government, some in partnership with the Welsh Local Government Association, had the potential to remedy many of the weaknesses we found in the planning and management of capital expenditure.
- *Major Transport Projects* (January 2011): Overall, we found that many projects had cost substantially more and taken longer to complete than expected, hampering the delivery of the Assembly Government's wider transport objectives. Exposure to higher than expected construction price inflation, budget constraints and reprogramming decisions had been significant, but not the only, reasons why projects had cost more and taken longer to deliver than expected. We found that the Welsh Government had, over time, strengthened its management of schemes under its direct control and, during the previous two years, had exercised greater control over local authority managed projects that it funded.
- *The Delivery of ICT Services and ICT Projects Under the Merlin Contract* (August 2011): We concluded that the Merlin Contract was delivering core ICT services effectively. However, ICT-enabled business change projects supported by project services delivered under the Contract had been developed and implemented with varying degrees of success, and the Welsh Government had not monitored effectively the costs and value for money of services delivered under the Contract. Our report includes a commentary on the Welsh Government's day to day arrangements for maintaining a reliable register of ICT assets and for asset disposal and/or reuse.

³ <http://www.wao.gov.uk/reportsandpublications/nationalreports.asp>

- *Progress in Delivering the Welsh Housing Quality Standard* (January 2012): We concluded that the Welsh Government had not acted swiftly enough to support and monitor progress and had not put an effective framework in place to demonstrate value for money from the significant investment in work to achieve the Welsh Housing Quality Standard. One of the issues highlighted by the report related to the quality of the stock condition data held by some local authority and housing association landlords. We also found that landlords had adopted different approaches when contracting the work necessary to achieve the WHQS and collaboration to achieve efficiencies and economies of scale has been limited.
- *Local Authority Accounts 2010-11* (February 2012) and *Local Authority Accounts 2011-12* (December 2012): Our report on the 2010-11 accounts found that property, plant and equipment remained areas where a significant number of local government bodies struggled to apply accounting treatment correctly, compounded by the adoption of International Financial Reporting Standards for the first time. Our report on the 2011-12 accounts found that some of the general problems encountered in previous years arose again, including⁴:
 - failure to account for revalued properties correctly or revaluing them using an incorrect basis (often attributed to poor communication between finance and estates departments);
 - asset registers could not be fully reconciled with accounting records, with some common problems (some assets being counted twice and others excluded from the accounts); and
 - general issues around correctly accounting for depreciation, recognising and accounting for impairments, treatment and disclosure of non-enhancing expenditure and the classification of assets.
- *The Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen* (June 2012): The Public Accounts Committee is currently completing its own inquiry on this topic following the publication of our report which found that the Welsh Government's decisions to buy the former River Lodge Hotel for £1.6 million, and subsequently to enter into a lease agreement with an organisation known as Powys Fadog, were flawed and did not represent good value for money.
- *Local Authority Reserves and Unsupported Borrowing* (July 2012): This Welsh Government commissioned research paper – which I brought to the attention of the Chair of the Committee in response to the Committee's own *Borrowing Powers* report – includes some commentary on asset management that may be relevant to the Committee's current inquiry.

⁴ Our audit work on NHS bodies' financial statements, summarised in our Annual Audit Reports for each body, has identified some weaknesses in ensuring that accounting is in accordance with International Financial Reporting Standards. Although the Welsh Government has a consistent and clear all Wales approach to valuations and accounting, there are some areas where local bodies should be considering the implications of the standards more specifically and ensuring they have adequate processes and data required to comply.

- *Health Finances (July 2012) and Health Finances Update (November 2012)*: Our July 2012 showed that NHS bodies reported estates/energy related savings of £4.5 million in 2011-12 against planned savings of £5.9 million. Most of the reported savings were recurrent. NHS bodies savings' plans for 2011-12 include planned savings of £2.6 million on estates/energy. However, our November 2012 update report showed that the forecast year-end position as at the end of September 2012 was that savings of £1.9 million would be delivered (most of these savings again being recurrent. As we stated in our July 2012 report, more radical changes to health services are needed to ensure the NHS in Wales is financially sustainable and these changes will inevitably have implications for the management of the NHS estate and other assets.
- *Use of Technology to Support Improvement and Efficiency in Local Government (December 2012)*: This report concluded that improved strategic planning, stronger leadership and more robust challenge and scrutiny is needed if technology is to support greater business transformation and more efficient delivery of public services.
- *Operations of the Forestry Commission Wales Follow Up Report (January 2013)*: Among the findings of this report, we concluded that the Forestry Commission Wales is in the early stages of planning the future of the forest estate and has developed plans to manage other key assets, but that these plans will need to evolve, as decisions about the future composition of the estate have been put on hold until after April 2013 (when the new Natural Resources Wales body comes into existence).