

**Owen Evans**

Dirprwy Ysgrifennydd Parhaol / Deputy Permanent Secretary

Y Grŵp Addysg a Gwasanaethau Cyhoeddus  
Education and Public Services Group



Llywodraeth Cymru  
Welsh Government

Darren Millar AM  
Chair  
Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

28 October 2015

Dear Chair

## **PAC EVIDENCE HEARINGS: REGENERATION INVESTMENT FUND FOR WALES**

I said I would provide the Committee with additional information on matters that arose during the evidence sessions concerning the Regeneration Investment Fund for Wales (RIFW). This letter covers matters arising during my evidence session on 12 October and James Price and Chris Munday's session on 13 October

Responding to each of your points in turn:

- i. **King Sturge Valuation report.** As requested, a copy of the report is attached at Annex A. I would like to clarify any misunderstanding that may have arisen regarding the status of this report in the original evidence hearings. We recognise that elements of the information contained in the King Sturge report do seem to have been known outside government but as far as we are concerned the report was made available only to the organisations who were shortlisted under the tender that was conducted to recruit the RIFW fund and investment managers. I can also clarify that the King Sturge report was not sent to the RIFW board members. However the induction pack that was prepared for board members (see para vii below) did include a schedule of the land assets transferred to the Fund along with their transfer value. The report was also an important element of the source material that the investment managers were able to draw upon in preparing their asset realisation plan which was presented to the RIFW Board on 31 January 2011.
- ii. **Selection of land assets.** A note on the process we followed in selecting the land assets for transfer is at Annex B.

The Committee also asked for details of any previous marketing of the assets especially North Cardiff. The property was not marketed for sale prior to the transfer to RIFW. It had been in public ownership for approximately 25 years having been acquired by the Land Authority as part of its statutory remit to stimulate the supply of Housing Land in Wales. During the period of ownership the public sector had

however been a member of a group of landowners and option holders, known as the North East Cardiff Consortium, which over a number of years had made joint representation to Cardiff City Council to promote a wider site, totalling 568 acres between Pontprennau and Lisvane, for a mixed use development to include 4000 – 5000 homes, employment uses, leisure, retail and community uses. The details of the contacts with the consortium were passed to Amber and LSH, and is referenced in the asset realisation plan.

During your earlier evidence sessions the Committee also expressed an interest in whether we felt on reflection that it had been a mistake to include the Lisvane site amongst the land assets transferred to RIFW. Chris Munday suggested in his evidence that with the benefit of hindsight it may have been. I have discussed this with Chris and he and I are clear that his comments need to be seen in the context of the questions he was asked regarding the uncertainty which at that time surrounded Cardiff's Local Development Plan. Had there been clarity at the time about the final shape of the Cardiff LDP there may have been arguments that Lisvane should have been disposed of in a different way. But of course at the time the land was included in the package to be transferred to RIFW officials were not in a position to predict the outcome of that process. Looking back on those events, my own view continues to be that the Welsh Government acted reasonably in concluding that Lisvane should have been included in the land assets transferred to RIFW in 2010. I also think that the Welsh Government was entitled at that time to have expected that the arrangements which it put in place to realise the value of those assets should have been sufficiently robust to ensure that the sales process was able to achieve value for money and that where appropriate this should have included the use of overage clauses.

- iii. **Commercial transactions with off shore entities.** - The Treaty on the Functioning of the European Union applies to all procurement activity regardless of value, including contracts below the thresholds at which advertising in the Official Journal of the European Union is required and including contracts which are exempt from application of the EU Procurement Directives. One of the fundamental principles flowing from the Treaty is the equal treatment and non-discrimination of potential suppliers. The Welsh Government would therefore be unable to exclude consideration of off-shore entities nor would we be entitled to include any consideration of future tax revenues in determining whether or not to engage in a commercial transaction with a particular organisation.
- iv. **Fire sale references** – You also asked about the policy considerations surrounding James' reference to a potential 'fire sale'. Looking back over his testimony I think James' comments were quite clear in explaining that this was a reference to the wider context within which officials were operating at that time rather than referring to a policy adopted with regard to the Fund. James' comments were I thought a helpful reminder of the broader economic context within which the Welsh Government decided to utilise land assets to take advantage of the Jessica funding model. That wider context served to underline the need for innovation and the need for urgent action.

Since we attended those earlier sessions, I have also had my attention drawn to the initiatives being pursued by the UK Government with regard to the sale of public

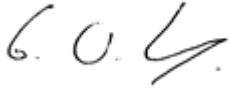
land at around the same time. This interest in realising the value of assets was made explicit during the Chancellor's budget announcement in March 2011. The Committee may also be interested in the additional technical analysis which I have commissioned on the market commentary prepared by Savills which was referred to in the earlier session. This analysis is attached at Annex C.

- v. **Cardiff LDP representations** – We have received a detailed report from our Planning Department on their involvement in the Local Development Plan process in Cardiff. This note is attached at Annex D. Our policy is not to include departments outside the Planning Department in such representations due to the quasi-judicial nature of the process.
- vi. **Induction packs.** Please find enclosed at Annex E a package of the material produced to inform the training we provided to the original Board members. I am also enclosing a copy of our letter of appointment which also helps to describe our expectations regarding the role of Board members.

I would also like to take the opportunity provided by this further communication with the Committee to reiterate some of the points I made in the earlier evidence sessions about shortcomings in our corporate oversight of RIFW during the crucial early stages of the project. One of the most important lessons for the Welsh Government to learn from the RIFW experience is that when major projects transfer from one department to another – as was the case with RIFW – we need robust procedures to be in place to highlight the potential risks surrounding such projects and the risks arising from the process of transfer. This is not a matter of whether or not the Welsh Government observer in this case should have been reporting back matters relating to the conduct of an arms length body. The failure in this case was that we did not have sufficiently strong corporate procedures in place to highlight those sorts of risks. And as I also made clear in my earlier evidence neither did we provide sufficient guidance to the members of staff involved as to how they should deal with those risks.

I mentioned Principal Accounting Officer (PAO) Note 007 in my earlier evidence but we did not have the opportunity to discuss it. I am therefore appending a copy of this note as Annex F to this letter. The note sets out our new procedures for transferring important items of business between departments. Annex F also includes an example of the how this policy was delivered in practice as far as RIFW was concerned following the Cabinet reshuffle announced by the First Minister on 11 September 2014. I believe that it demonstrates a far more active approach to the management of major projects by Welsh Government. It demonstrates that we are now far more sensitive and likely to respond to the issues that can arise when responsibility for such projects moves between departments. And I think it shows clearly that we are committed to the development of corporate systems which do not leave too much to the discretion of individuals whilst also creating an environment where innovation is possible without losing sight of the need to manage associated risks.

I did not get the opportunity to elaborate on these points in the earlier evidence session but the thinking behind PAO 007 does in my view highlight the important change in our approach which I have witnessed since 2011 and which with my senior colleagues I am committed to pursuing still further in the years to come.

A handwritten signature in black ink, appearing to read 'O. Evans', with a stylized flourish at the end.

**Owen Evans**  
**Deputy Permanent Secretary**