



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

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Dear Chair

REGENERATION INVESTMENT FUND FOR WALES

I am writing in response to your letter of 6 November about RIFW. I am replying on behalf of the Welsh Government as requested.

We were grateful for the opportunity to provide further information to support the Committee's enquiry. Before I address your specific questions I would like to emphasise the point I made in my letter of 28 October about our corporate oversight of the project to establish the Fund. My letter acknowledged that there were certain shortcomings in the arrangements we put in place for oversight of the Fund. As Accounting Officer I do of course accept accountability for these matters. I would therefore like to clarify that individuals operating at a more junior level referred to in answers provided were operating within a broader corporate structure. Whilst we are pleased to provide further information regarding the more detailed management arrangements within which they operated those individuals were not accountable for the work of establishing and overseeing the work of the Fund. Neither were they accountable for any failures in establishing corporate assurance arrangements which support proportionate risk taking and sensible judgement being exercised by individuals right across Welsh Government.

James and I will be pleased to answer any queries the Committee may have arising from this further information and of course with regard to the steps we have taken to improve our oversight of major projects and the transfer of such projects between departments as referred to in my earlier letter of 28 October.

Question 1

Lisvane was included in the package of land assets transferred to the Fund because it was potentially valuable and because it increased the possibility of being able to sell those

assets in an uncertain market. Lisvane at that point had been held by Welsh Government over a number of years and still required significant work to promote it to a developable state. Welsh Government did not have the capacity to make the investment necessary to quickly realise the site's full value. This left two alternative approaches available. One was sitting passively on Lisvane until an enhanced value could be realised without significant action and investment to promote it. This was not the preferred option because, at the time, the commitment was to use assets such as Lisvane to stimulate the Welsh economy for very sound policy reasons. This approach reflected the economic conditions at the time and the opportunity posed by ERDF monies

The second approach would have been to promote the site through partnership arrangements with a view to sharing risk and reward with a third party. The advice from King Sturge suggested that this would achieve a disposal on the basis of sale at existing use value with overage being the mechanism to share risk. This was the basic structure of the deal achieved by RIFW.

We do not believe that it was incompatible to have included Lisvane in the transfer given the objections to Cardiff's deposit LDP made by the Welsh Government's Planning Division. As my letter of 28 October indicates the content of that letter was a matter for the Planning Division. But its contents would have been public knowledge – especially in the planning community - and we would therefore have expected the Welsh Government's position would have been widely understood. This did not stop King Sturge concluding in their valuation of October 2009 that there was "no meaningful indication as to whether the site has a prospect of achieving an allocation in the short, medium or long term".

Even if this uncertainty is dismissed and one took the view in early 2010 that Cardiff's LDP was likely to be recalled and the chance of Lisvane being included in a future plan increased, it still does not follow that Lisvane should not have transferred. King Sturge's advice at the time was that *"purchasers are less inclined to pay higher unconditional land values and take all the risk of achieving development in the longer term, on sites where planning policy is emerging. The preference in today's market is to pay existing land value and accept an overage provision to share in any uplift in value in the longer term"*.

In this context the decision to transfer Lisvane gave a good answer to the question of how might its value be secured within a sensible time scale. Indeed, this was an answer with prospects at least equal to those offered by retention of the site. The development of an asset realisation strategy by RIFW provided a clear mechanism to realise the value of the assets, based on professional advice, which was, in turn, incentivised to maximise the return.

We do not therefore believe that it was a mistake to have included Lisvane. But it is a source of considerable frustration and regret that the disposal route selected by the Fund does not allow us to demonstrate that the sale achieved best value.

Question 2

Approval of the asset transfer was sought via a Ministerial submission on 10 February 2010(SF/JAD/0039/10). The submission was drafted by the Head of Property Services and

authorised by the Regional Director South East. I attach a copy. The Deputy Minister for Housing and Regeneration requested and was supplied with a list of the sites in support of this approval. This submission was made after a robust process to identify the assets. As indicated in the letter of the 28th October, this was a project which involved Welsh Government officials, two of whom were chartered surveyors, Navigant Consulting to project manage the process, market and planning advice from Savills and technical advice from Arup. This process was supplemented with a valuation by King Sturge.

The process had sufficient expert input to give confidence that it could develop the best mix of assets in a portfolio which could be marketed to provide RIFW with the resource it required to invest.

Question 3

The two lists do not include the same series of assets. In fact there are only four which are common. This results from the significant work done as part of the project to identify assets designed to be ready to be sold. The valuations of the sites in the transfer list result from the King Sturge valuation (at existing use), whilst the 18 assets in the 'initial long list' are valued based on their book value. In addition the scope of particular sites included in the lists may have changed. For example, the Wrexham Industrial estate site first considered consisted of 144.2 acres, whilst the site transferred was only 16.5 acres.

We have attached a table for each of the asset lists. You will note the number of assets of considerable value which were retained by Welsh Government after consideration by the project team. These decisions were based on the test of their saleability by RIFW and what was regarded as the best mechanism to realise their value.

Question 4

A copy of the Handover Note of August 2011 is attached at annex A. This marked the conclusion of the period when two departments were involved in the oversight of RIFW which had begun in March 2010 as indicated in James' letter of 12 October. I am satisfied that the procedures we now have in place for the identification of corporate risks and their transfer between departments would have resulted in a far more streamlined transfer were it to happen today with much less scope for any ambiguity as to where senior responsibility lay. I drew the Committee's attention to the relevant guidance (PAO 007) in my earlier letter to the Committee.

Question 5

Throughout the development phase of RIFW there was close joint working between the Head of Funding Solutions, Economy and Transport with initially WEFO and subsequently the Deputy Director for Regeneration and also the Property Division of Economy and Transport. James' letter of 12 October described the hand over of responsibilities for the RIFW project which took place from April 2010. Throughout this period a number of individuals had responsibility for oversight of aspects of the project but with no one individual having the lead responsibility. Were this situation to happen today we would appoint a clear SRO and provide clear and unambiguous delegations.

It is important to note that in the context of the time a situation where a project manager would have broad freedoms and responsibilities was not unusual and was a practice that had been inherited from the previous Welsh Development Agency.

The then Head of Funding Solutions has confirmed that during the period when he was an observer on the RIFW board he did not identify concerns which needed to be fed back to the Welsh Government. James has already indicated to the Committee that the Head of Funding Solutions was aware of his duties as a civil servant and that had he had any concerns these would have been raised through appropriate channels.

There are clearly important corporate lessons for us to learn from this experience. However, having reviewed the complex facts of this particular case and the professional advice available at the time I do not believe that the lack of clarity in the oversight arrangements for this project materially affected the outcome.

Question 6.

It was not our intention that James' letter of 22 October should have indicated a gap in the line management arrangements within the Department for Economy and Transport. The three officials mentioned in our letter provided unbroken line management arrangements, with Ed Bampton following immediately after Eleanor Marks starting in June 2010.

Question 7

Whilst the Head of Funding Solutions was not a member of the Senior Civil Service at the time he was still a very senior and experienced official. We expect officials of this level of seniority to manage their own workload applying judgement to what requires approval and to report to line managers on an exceptions and risk basis. As we have indicated we are confident that the Head of Funding Solutions had a clear understanding of the proper autonomy with which he was expected to operate and where he would be expected to raise any concerns.

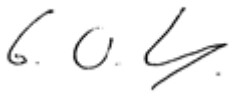
Chris discussed this matter with the Deputy Director of Regeneration who was also the chair of the RIFW board. Having been responsible for developing for establishing RIFW, Chris had the knowledge to oversee the handover to a steady state for the Fund which was fundamental to what the board needed from a Welsh Government observer at the time. There was no other potential candidate for the role with the experience Chris possessed and others would have been well aware that he was assuming the role. In this context, we would regard his own judgement that he should attend as board observer, without recourse to any other manager to have been appropriate.

Question 8

Not all of the meetings listed constitute formal meetings. Where they are, (Audit and Risk Committee meetings and WEFO review meetings) a formal note has been taken and we attach copies of those notes. However, we have no record of a meeting with WEFO on 1 February 2011 and, although a formal minute of the meeting of the 2 July 2012 would normally be taken, we have been unable to trace it. Our records do confirm that this meeting did take place and to assist I enclose a copy of an e-mail received from Giles Frost of Amber confirming the subject matter of that meeting.

The other meetings listed were not formal meetings and it is not normal practise to keep a formal note. Our diary retention facilities also delete records more than 12 months old. As a result we can not confirm that meetings to discuss issues such as State Aid and property title matters took place on the dates quoted. However, we can confirm that a number of discussions on these matters, through e-mail, on the phone and in person, did take place and where we have no records we are happy to accept the information provided by Amber as to the dates of those meetings.

We hope this information is helpful and will support your consideration of these matters at our evidence session in December.

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

Owen Evans
Deputy Permanent Secretary