

RESPONSE TO THE REPORT OF THE NATIONAL ASSEMBLY FOR WALES AUDIT COMMITTEE ON FUNDING FOR THE WALES MILLENNIUM CENTRE: COMMITTEE REPORT AC(3) 13- 08 – DECEMBER 2008

We welcome the findings and offer the following responses to the 4 recommendations in the report.

(i) We endorse the Auditor General's recommendations, and we recommend that the Assembly Government and Arts Council should report how it intends to respond to each of the recommendations in their response to this report.

Responses to recommendations of the Auditor General's report

Recommendation 1

During the early stages of the project, the funders did not have a common view of whether their priority for the construction was time, cost or quality and consequently favoured different procurement methods. Public funders of large construction projects should agree the overall priority for the public sector and the most appropriate procurement method to deliver that priority

Recommendation accepted.

The Welsh Assembly Government has already taken steps to address this recommendation. Value Wales is preparing a draft procurement strategy for construction projects by the end of January 2009. The action plan to implement the strategy will include developing guidance on good procurement practice. This will assist organisations in selecting the most appropriate procurement method to support delivery of project priorities. Value Wales has already produced guidance on the application of the EU Procurement Regulations and in 2008 established a procurement advisory service for the public sector in Wales.

Recommendation 2

Following the Assembly Government's intervention in April 2001, the WMC adopted a fixed-price design and build contract, in line with accepted good practice where ensuring cost certainty and risk transfer are the priority. Funders should require applicants for capital funding for construction projects to demonstrate compliance with good practice, including good practice in construction identified by the Office of Government Commerce (OGC).

Recommendation accepted.

The action plan which will accompany the procurement strategy for construction projects will include the development of common minimum standards for construction procurement, based on the OGC's recommended good practice. Value Wales will promote the good practice across the Welsh

public sector and grant conditions will be reviewed to incorporate conditions to adhere to these standards where the Assembly Government provides the funding. .

Recommendation 3

The use of the joint monitor during the capital phase was good practice, and enabled the funders to take a co-ordinated approach to addressing risks. In future, funders should use joint monitoring for all large capital projects where there are multiple funders.

Recommendation accepted.

The Welsh Assembly Government has adopted the guidance contained in the Treasury's "Green Book – Appraisal and Evaluation in Central Government" (the Green Book). That guidance states that where there are multiple funders appraisals and evaluations should be carried out collaboratively wherever possible and that lead responsibilities need to be well defined. The Auditor General's recommendations in this area have already been drawn to the attention of public authorities in Wales in guidance issued by the Permanent Secretary on 25 November 2008. As far as arts projects are concerned, the Arts Council for Wales already requires the partners in jointly funded arts projects to coordinate their appraisal and monitoring processes.

Recommendation 4

Shortly before the project was finally approved, the WMC fundamentally revised its business ambitions, from being a regional theatre to an international arts venue. Although earlier plans had been subjected to detailed scrutiny, this revised plan was not examined in detail by officials or independent experts. Before agreeing their funding, funders should assess the impact of significant changes to business plans.

Recommendation accepted.

The Welsh Assembly Government's risk management process is designed to identify, assess and control risks that emerge when taking forward the funding of major capital projects and includes the robust challenge of assumptions made in business plans and any subsequent changes. The Welsh Assembly Government intends to review the training it makes available in this area so as to reflect the content of this recommendation by June 2009.

Recommendation 5

The transition from the construction phase to the operational phase is inherently complex and high risk, as it involves a significant shift in focus. When the WMC opened, it had a large bank loan which was guaranteed by the Assembly Government. The Assembly Government did not examine the impact of carrying over the loan on the operational viability of the WMC, nor did it develop a plan for addressing the remaining risks. As large capital projects move from construction to the operational phase, funders should identify:

- Residual risks;

- **How such risks could impact on the operational phase; and**
- **What plans are in place to manage those risks.**

Recommendation accepted.

The Welsh Assembly Government's policy is to follow the guidance contained in the Green Book and the Office of Government Commerce's *Management of Risk*. This guidance recognises that risk management is particularly important where a project moves from a construction phase to an operational phase. The need for risk management to occur throughout a project's life will be emphasised in the revised training on risk management due to be introduced later this year.

Recommendation 6

The Assembly Government did not have a revenue funding agreement with the WMC until almost two years after it opened. This delay meant that there was no binding requirement on the WMC to provide the information that the Assembly Government needed to monitor the key risks. Revenue funders should make provision of suitable information a condition of their funding agreements. The level and frequency of information required should be proportionate to risk, but is likely to include:

- **Monthly management accounts;**
- **Cash flow forecasts; and**
- **Key business performance indicators.**

Recommendation accepted.

The new revenue funding agreement between the Welsh Assembly Government and WMC agreed in July 2008 requires the WMC to provide the Assembly Government with monthly management accounts, information on key performance indicators, and cash flow forecasts. This information is being monitored on a regular basis..

The need to track both financial and performance information will be emphasised in the revised guidance and training on grant management for all WAG staff due to be introduced later this year.

Recommendation 7

Because of concerns about commercially sensitive information being released under the Freedom of Information Act (FOIA), the funders decided not to keep detailed information about the WMC's financial and business performance. This is a fundamental misinterpretation of how the FOIA should be applied and the funders have now reversed this decision. The Assembly Government should issue guidance to all public bodies in Wales, setting out:

- **their responsibility to keep proper records; and**
- **that the FOIA should not be interpreted as a justification for not keeping important information and records**

Recommendation accepted.

The Permanent Secretary wrote to all Heads of Department in the Welsh Assembly Government and to all public bodies in Wales on 25 November 2008 drawing their attention to the Auditor General's recommendations on records management. The comprehensive guidance on records management issues on the Assembly Government's intranet site is being drawn to the attention of all staff.

Recommendation 8

When the Assembly Government agreed to extend its loan guarantee in 2005 and 2006, it did not have a sufficiently detailed understanding of the WMC's business. Detailed analysis would have shown that there was little prospect for it to pay off the loan, and that the ongoing interest charges further undermined the WMC's financial viability. Also, when the Assembly Government agreed to pay off the loan and increase the WMC's revenue funding, it did so after a detailed analysis of WMC business plans and forecasts but officials did not examine the audited accounts for 2006, which would have provided firmer, externally verified evidence on recent financial performance. Public revenue funders should ensure that their financial decision making is based on comprehensive information that is as robust and up to date as practically possible. The level of detail in the information should be proportionate, but is likely to include a combination of:

- **audited accounts;**
- **cash flow forecasts;**
- **management accounts; and**
- **business plan forecasts.**

Recommendation accepted.

The Welsh Assembly Government is committed to undertaking comprehensive financial appraisal of the organisations submitting requests for funding. The extent of any appraisal will depend upon the level of risk associated with the amount of funding and the size and type of organisation involved. Revised guidance on these matters is being prepared for dissemination to all WAG staff by June 2009. ACW has recently reviewed its monitoring arrangements for revenue projects and in the light of the Auditor General's recommendations new enhanced arrangements have been introduced from January 2009.

Provision of full information to Assembly Members

(ii) In future, when Assembly Members are being asked to vote on funding for major projects, Members should be provided with a complete assessment of the funding and financial risks.

Recommendation accepted.

The Assembly Government aims to provide background information on major investment projects which is as comprehensive as possible. Ministers will continue to decide the particular information that should be made available depending on the circumstances of the particular case. Whenever Assembly Members are asked to vote on the funding of projects, they will be provided with robust assessments of the funding and financial risks sufficient to enable them to make informed decisions.

The Role of the ACW in relation to the WMC

(iii) The Assembly Government should reconsider whether the Arts Council should take over responsibility for funding, and hence monitoring, the WMC.

Recommendation accepted.

Ministers will consider whether the Arts Council for Wales (ACW) should take over responsibility for funding and monitoring the WMC and, if so, when it would be appropriate for any transfer of responsibilities to take place. Ministers have already agreed that ACW should be fully involved in monitoring the cultural impact of WMC as part of the revised funding arrangements.

The Role of the Welsh Assembly Government's Internal Audit Service

(iv) The Assembly Government should commission its Internal Audit Service to report on the quality of those monitoring arrangements in place and whether they are operating as intended.

Recommendation accepted.

The Welsh Assembly Government's Internal Audit Service contributed to the initial work of developing a monitoring framework for WMC for inclusion in the revised funding agreement introduced in July 2008. The Internal Audit Service will conduct a review of the new monitoring arrangements during the 2009-10 financial year.