

National Assembly for Wales
Public Accounts Committee

Capital investment in schools

December 2010



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Public Accounts Committee

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December 2010



Public Accounts Committee

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Committee Membership



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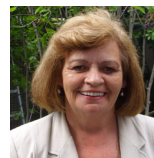
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Contents

The Committee’s Recommendations.....	5
1. Introduction.....	6
2. The Accounting Officer’s Evidence.....	7
Introduction.....	7
Evaluating the impact of major school building projects.....	8
Establishing clear suitability criteria for school buildings.....	10
Identifying the cost of meeting suitability criteria.....	12
Rationalisation of the school estate in the light of actual or potential surplus capacity.....	14
Support for local authorities with limited capacity.....	15
Ensuring new schools are properly maintained.....	16
3. Conclusion.....	18

The Committee's Recommendations

The Committee's recommendations to the Welsh Government are listed below in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

We recommend that the Welsh Government provide assurance that post-occupancy evaluation will relate directly to the objectives set at the initiation of each individual capital investment project. (Page 10)

We recommend that Welsh Government provide us with a date by which the tools, guidance and strategies underpinning the high-level definition of fitness for purpose will be in place. We seek assurance that the Strategic Outline Programmes will be tested against the detailed standards which underpin the Welsh Government's high level definition of fitness for purpose. (Page 12)

We recommend that the Welsh Government establish the cost of bringing schools in each local authority up to the agreed "fit for purpose" standard. (Page 13)

We recommend that the Welsh Government provides indication of:

- the expected timescales for bringing schools in each local authority up to the agreed "fit for purpose standard"; and
- the expected Welsh Government contribution to meeting the costs of achieving this standard. (Page 13)

We recommend that the Welsh Government provide clear policy guidance on the issue of surplus places to ensure that local authorities act coherently across Wales to address the issue. (Page 15)

We recommend that the Welsh Government, in association with the WLGA, encourage collaboration between local authorities to develop their ability to deliver the programme on a long-term basis with a reduced need for central support from the Welsh Government. (Page 16)

We recommend that the Welsh Government makes adequate consideration of whole lifecycle maintenance a precondition of funding so that no application can be approved without it. (Page 17)

1. Introduction.

1. The (then) Auditor General for Wales (the 'Auditor General') laid her report on Capital Investment in Schools before the National Assembly for Wales on 14 July 2010,¹ following fieldwork completed during 2008 and 2009.
2. The Auditor General considered whether the programme of capital investment in schools implemented by the Welsh Government had been managed effectively. She concluded that while recent developments, primarily the 21st Century Schools Programme, have the potential to address past weaknesses in the planning and management of capital investment in schools, the process of making all schools in Wales fit for purpose will be a long one.²
3. The Auditor General briefed us on the findings of the report on 8 July and we agreed to call the Accounting Officer to explain the actions being taken by the Welsh Government to address the issues identified by the Auditor General's report.
4. The Accounting Officer, Dr Emyr Roberts, appeared before us on 21 October along with Simon Brindle, Head of Schools Management and Effectiveness Division, and Melanie Godfrey, Head of Capital Funding Branch. This report is substantially based on the evidence provided at that meeting.
5. While accepting the potential for improvement arising from the new programme, this report identifies a number of areas where we consider further action is needed to improve the delivery of the programme. Consequently, we intend to revisit the subject of capital investment in schools in early 2011.

¹ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010

² Ibid p.7

2. The Accounting Officer's Evidence

Introduction

6. The Welsh Government stated its commitment to address acknowledged shortcomings in the fabric of the school estate in its first strategic plan, *A Better Wales*,³ in 2000. This aim was developed in the September 2003 strategic agenda, *Wales: A Better Country*⁴ which included a commitment that all schools would be fit for purpose by 2010. Yet despite increased annual funding for school buildings, and a commitment to invest a total of £560 million between 2004-05 and 2007-08, the Auditor General found that “there remains a long way to go before all schools in Wales will be fit for purpose”.⁵

7. Steps have been taken by the Welsh Government, in conjunction with the Welsh Local Government Association (WLGA), to address the weaknesses identified by the Auditor General in the arrangements in place before 2009. In particular, the 21st Century Schools Programme is intended to address weaknesses in management of capital expenditure. However, this revised approach is at an early stage. Our intention in publishing this report is to evaluate the evidence provided by the Accounting Officer and consider whether the Welsh Government appears on track to implement the recommendations made by the Auditor General. Thus, the evidence is considered in the context of each of the Auditor General's recommendations.

8. The Auditor General made recommendations to the Welsh Government in six areas⁶ which may be summarised as follows:

- the need to develop a framework for evaluating the impact of major school building projects which should be applied and reported on by local authorities as the basis on which to assess the impact of grant funding;
- the need to establish and review clear suitability criteria for school buildings establishing what is meant by ‘fit for purpose’;
- the need to identify the cost of meeting those suitability criteria in each local authority and to set a clear timescale for delivery of the subsequent capital investment programme;

³ National Assembly for Wales, *A Better Wales*, 2000

⁴ Welsh Government, *Wales: A Better Country*, 2003

⁵ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, pp.6-7

⁶ *Ibid*, pp12-14

- the need to take account of opportunities identified by local authorities to rationalise the school estate in the light of actual or potential surplus capacity;
- the need, in conjunction with the Welsh Local Government Association, to support local authorities which lack the capacity or skills to manage the proposed capital programmes so that they are not disadvantaged on those grounds; and
- the need to ensure that local authorities and schools agree a medium term programme of preventative maintenance for new and substantially refurbished buildings.

Evaluating the impact of major school building projects.

9. The Auditor General identified limited evaluation of the impact of capital investment as a weakness in the Welsh Government's planning of the capital investment programme prior to 2009. While work was undertaken on behalf of the Welsh Government by Estyn,⁷ this was not sufficiently detailed to be the basis for assessing the success of individual capital investment projects or programmes, and there was no systematic evaluation of the impact of capital investment.⁸

10. The Accounting Officer, in his oral evidence on 21 October acknowledged that the absence of a strategic approach had been an issue affecting the arrangements in place prior to 2009. He indicated that the strategic approach adopted by the 21st Century Schools Programme means that implementation of a post-occupancy evaluation framework is a key work stream for the programme.⁹ In written evidence provided the Accounting Officer stated:

“the evaluation framework will be used to inform future capital investment planning. The evaluation framework will incorporate and measure the performance of the building and grounds, and the impact that these have upon functionality, education, learning and social factors.”¹⁰

11. In addition we note two specific commitments given by the Accounting Officer in oral evidence:

⁷ Estyn, *An evaluation of performance of schools before and after moving into new buildings or significantly refurbished premises*, January 2007

⁸ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, pp16-17

⁹ Rop [para 7] 21 October 2010, Public Accounts Committee

¹⁰ Welsh Government, *Capital Investment in Schools – Written Evidence from the Welsh Government*, para 13

- to evaluate based on a quantitative baseline derived from the current position, and qualitatively based on programme outcomes for children;¹¹ and
- that evaluation responses from schools and local authorities, as well as post occupancy evaluations, will be conditions of grant funding, and that funding contracts will include a retention of final payment until “all conditions of grants, including this one, are satisfied”.¹²

12. We also note the comments of the Head of Schools Management and Effectiveness Division, in the light of the Annual Report of the Children’s Commissioner for Wales,¹³ which suggested that there is an “expectation” that adequate toilet facilities are a precondition of new-build and major refurbishment projects, and that there is an intention to work with local authorities to raise standards more widely across the estate.¹⁴

13. The Accounting Officer elaborated on the strategic approach taken by the 21st Century Schools Programme in relation to the mechanism for allocating funding. He acknowledged that “the way in which the previous system operated was too piecemeal, and...we needed a strategic, collaborative arrangement between ourselves as the Assembly Government and local authorities”.¹⁵ He stated that each plan submitted by a local authority must meet five high level criteria designed to implement a strategic approach. The Head of Schools Management and Effectiveness Division provided an example of the application of one of these criteria, integration of public services, by referring to Hendre school in Gwynedd where the local authority plan to integrate health services, police and other community services on a school site. He also indicated that where a particular facility was available locally, such as a well equipped construction wing for teaching building skills, a proposal for a similar facility in local schools in the area would not be funded.¹⁶

14. We welcome the strategic approach to project selection and evaluation outlined by the Welsh Government. Although at an early stage, we consider that such an approach has the potential to provide

¹¹ Rop [para 7] 21 October 2010 , Public Accounts Committee

¹² Ibid para 8

¹³ Children’s Commissioner for Wales, *Annual Report and Accounts 09/10*, p31

¹⁴ Rop [para 11] 21 October 2010, Public Accounts Committee

¹⁵ Ibid para 60

¹⁶ Ibid para 52-55

an effective framework for delivering and measuring value for money which may help address the failures in these areas identified by the Auditor General. We consider that post occupancy evaluation of capital investment projects will be most valuable where it is based on individual project objectives. Consequently, **we recommend that the Welsh Government provide assurance that post-occupancy evaluation will relate directly to the objectives set at the initiation of each individual capital investment project.**

Establishing clear suitability criteria for school buildings

15. The Auditor General reported that there was insufficient clarity about the quality of school buildings to be achieved. She stated that the previous definition "provided too little guidance to help local authorities determine on a consistent basis whether existing school buildings were 'fit for purpose'".¹⁷

16. The Welsh Government acknowledged that prior to the advent of the 21st Century Schools Programme local authorities worked towards a standard of fitness which was unclear so that "it became apparent that authorities' interpretations of the standard were not uniform and this was reflected in the varied ambition of their capital plans".¹⁸ Both in written and oral evidence the Accounting Officer refers to the new high-level definition of fit for purpose¹⁹ which has been developed with the intention that it will be underpinned by tools, guidance and strategies providing clear direction on the standards expected.

17. The Accounting Officer indicated that in applying the definition of "fit for purpose" the Welsh Government intend to include capacity and flexibility to accommodate curricular or other changes which may affect the needs of the school. Local Authorities are currently developing Strategic Outline Programmes for submission in December 2010 in which they will outline their proposed investment over the next 10 years. Both the Accounting Officer and the Head of Schools Management and Effectiveness Division indicated that these will identify how deficiencies in school estate will be addressed.²⁰

¹⁷ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, p20

¹⁸ Welsh Government, *Capital Investment in Schools – Written Evidence from the Welsh Government*, paragraph 14

¹⁹ Ibid, Annex 1

²⁰ RoP [para 21-22] 21 October 2010 Public Accounts Committee

18. While the work identified is welcome, we are concerned that the supporting tools and strategies required for the application of the high-level definition do not appear to be in place. The Accounting Officer acknowledged in oral evidence that “the development of the underpinning standards is on-going”.²¹ Further, the written evidence provided indicates that the tools, guidance and strategies required are currently under development:

“A number of work streams are currently active in the development of the standard in the following areas: space standards, interpretation of statutory requirements, environmental standards, design of low carbon and sustainable schools, learning outside the classroom, ICT, procurement routes, project management, involvement of children and young people in design, other issues which might include catering and eating arrangements, and a standard methodology for predicting whole life costing.”²²

19. When asked how local authorities were able to prepare their Strategic Outline Programmes while the work underpinning the high-level definition had not been completed the Head of Schools Management and Effectiveness Division stated:

“some of the work is iterative; authorities have a common understanding of what they are working towards for their Strategic Outline Programmes, and that work will be further enhanced as the early wave of investments progresses from Strategic Outline Programme to outline business case. These toolkits have been supporting the authorities in developing particular aspects of that. So, part of this is a dialogue and an iterative process, and part of it is having that clarity up front about what they are starting with.”²³

20. We are concerned that local authorities are currently preparing their Strategic Outline Programmes for submission in December 2010 in which they will outline their proposed investment over the next 10 years while elements of the standards underpinning the high level definition of “fitness for purpose” remain to be developed.

²¹ [para 16] 21 October 2010 Public Accounts Committee

²² Welsh Government, *Capital Investment in Schools - written evidence from the Welsh Government* para 17

²³ RoP [para 17], 21 October 2010, Public Accounts Committee

21. We recognise that the task of preparing such detailed guidance is substantial and complex. We also note that the Head of Schools Management and Effectiveness Division has indicated that Welsh Government are closely involved in the process of developing the Strategic Outline Programmes currently in preparation. However, we are concerned that the fact that they are not yet fully developed may have a negative impact on the value of the Strategic Outline Programmes. Although these are high level, if they are to provide the basis for capital investment planning over the next decade, and avoid repeating the difficulties experienced prior to 2009, it is essential that they are reliable. **We recommend that Welsh Government provide us with a date by which the tools, guidance and strategies underpinning the high-level definition of fitness for purpose will be in place. We seek assurance that the Strategic Outline Programmes will be tested against the detailed standards which underpin the Welsh Government's high level definition of fitness for purpose.**

Identifying the cost of meeting suitability criteria

22. The Auditor General concluded that the scale of investment required to bring all schools to the necessary standard, and the timescales involved, are unclear. This is seen to be the consequence of a lack of clarity on the standards to be achieved, combined with uncertainty as to the level of funding available. The Auditor General emphasises that the absence of clarity hinders effective financial planning and risks a loss of focus on the goal of improving school building.²⁴

23. In his oral evidence the Accounting Officer indicated that it will be difficult to indicate how much the programme of investment will cost, and on what time frame it will be delivered:

“This is a long-term programme. Each individual project will be project-managed so we will know exactly how much it will cost, and by when it will be delivered. However, it is difficult to say how much the total programme will cost or by when it will be achieved.”²⁵

²⁴ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, pp22-23

²⁵ RoP [para 40], 21 October 2010, Public Accounts Committee

24. The Accounting Officer pointed to difficulties arising from the different procurement models available to local authorities, and the fact that the balance of funding sources available to the those local authorities will vary.²⁶ He also emphasised issues such as variation in construction costs, efficiency gains resulting from the programme itself, and uncertainty as to the level of funding available as factors tending to make any calculation difficult.²⁷

25. We acknowledge the difficulties in financial management of large capital programmes of this type. However, the Welsh Government now has a “comprehensive and consistent set of asset management data covering condition, suitability and sufficiency”²⁸ of the school estate in each local authority, and is taking steps to develop a more effective definition of “fit for purpose”. It is not clear why the factors identified by the Accounting Officer prevent any reasonable assessment of the cost of the programme, although timescales will depend on the availability of funds.

26. We agree with the Auditor General that these data are essential to underpin the proper management of the capital investment programme. In the absence of this information it is unclear how the transitional programme of investment, constituting up to £434.4 million between 2009-10 and 2016-17, is being prioritised effectively, and on what basis the 21st Century Schools Programme of investment will be agreed.²⁹ We consider that the failure to produce such data poses an increased risk that the investment of these funds will provide poor value for money. **We recommend that the Welsh Government establish the cost of bringing schools in each local authority up to the agreed “fit for purpose” standard.**

27. The Accounting Officer told us that the availability of funding remains to be clarified and that this acts as a barrier to estimating timescales. We have commented above that we believe this uncertainty increases programme risks, and that sufficient information is available for an estimation to be made. To reduce this uncertainty, and consequently the risk, **we recommend that the Welsh Government provides an indication of:**

²⁶ RoP [para 40], 21 October 2010, Public Accounts Committee

²⁷ Ibid, para 32-33

²⁸ Welsh Government, *Capital Investment in Schools, Written Evidence from the Welsh Government*, para 12

²⁹ Ibid, para 19

- the expected timescales for bringing schools in each local authority up to the agreed “fit for purpose standard”; and
- the expected Welsh Government contribution to meeting the costs of achieving this standard.

Rationalisation of the school estate in the light of actual or potential surplus capacity

28. The Auditor General found that the reduction in numbers of places at both primary and secondary school has failed to keep pace with falling pupil numbers. She pointed to the fact that in 2008 more than 15% of primary and secondary school places were empty in 14 local authorities, with the figure being 20% or more in 7 local authorities.³⁰

29. The Accounting Officer acknowledged the extent of the issues surrounding surplus places and informed us that having “schools of the right size in the right places”³¹ was included in the high level definition of fitness for purpose. The Head of Schools Management and Effectiveness Division stated that intensive investment is required to facilitate effective school restructuring. While this was not available in the past, when money was allocated to local authorities in small amounts, the Welsh Government are now working with local authorities to intensify funding giving “those authorities the opportunity to plan according to what they need rather than according to what they can afford”.³²

30. Additionally, the Head of Schools Management and Effectiveness Division indicated that when assessing funding proposals, their impact on surplus places “will probably be the criterion given most importance in assessing the bids that come through”.³³ He pointed to the fact that an operating tolerance of 10% surplus places is included in the guidance for the 21st Century Schools Programme, and that a school with a particular overcapacity problem would be unsustainable with action required to address the issue.³⁴

31. We think it is right to use the funding process to more effectively manage the reorganisation of the school estate to bring surplus

³⁰ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, pp30-31

³¹ Welsh Government, *Capital Investment in Schools – Written Evidence from the Welsh Government*, Annex 1

³² RoP [para 63], 21 October 2010, Public Accounts Committee

³³ Ibid para 65

³⁴ Ibid para 74-76

capacity within manageable tolerances. However, we recognise the difficulties and sensitivities involved in school restructuring programmes, the impact which school closures can have on communities and the difficulties faced by local authorities in managing such a process. We also note the Welsh Government's view that decisions on school estate represent a balance between local and national priorities, and the need for each local authority to have ownership of any proposals so that "it is for it to determine on particular solutions that it wants to pursue".³⁵

32. We acknowledge that an appropriate balance between local and national priorities must be struck. However, given the scale of the problem of surplus capacity, with no local authority in Wales currently operating within the proposed 10% target, we consider that the Welsh Government must act to ensure the commitment included in the high level definition is underpinned by a clear policy framework. **We recommend that the Welsh Government provide clear policy guidance on the issue of surplus places to ensure that local authorities act coherently across Wales to address the issue.**

Support for local authorities with limited capacity.

33. The Auditor General concluded that there is too little capacity and expertise in some local authorities to deliver large scale capital investment programmes. She found that this extends beyond the technical skills required to design and project manage building work, and includes the skills required to manage consultation processes around school reorganisation plans.³⁶

34. The written evidence provided by the Accounting Officer indicates that the 21st Century Schools Programme "will provide appropriate capacity and capability support where needed on a flexible and targeted basis".³⁷ In oral evidence the Accounting Officer indicated that there was a small team assisting local authorities to develop their programmes, and the skills to implement them, which could call upon additional specialists when required.³⁸ The Head of Schools Management and Effectiveness Division explained that the expertise

³⁵ Head of Schools Management and Effectiveness Division, RoP [para 67-69], 21 October 2010, Public Accounts Committee

³⁶ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, pp41-42

³⁷ Welsh Government, *Capital Investment in Schools – Written Evidence from the Welsh Government*, para 11

³⁸ RoP [para 79], 21 October 2010, Public Accounts Committee

required was identified based on dialogue with local authorities with the aim of building capacity within local authorities.³⁹

35. We recognise the difficulties faced by local authorities in terms of capacity to deliver programmes of this nature. This challenge should not be underestimated, particularly in the light of reductions in budgets anticipated in coming years. We welcome the Welsh Government's stated intention of providing support on a flexible and targeted basis, driven by the needs of local authorities identified through communication with those authorities.

36. While we note the references made to capacity building we recognise that it will not be possible to build the necessary capacity in each local authority throughout Wales to deliver all aspects of a long-term capital investment programme on the scale of the 21st Century Schools Programme. **We recommend that the Welsh Government, in association with the WLGA, encourage collaboration between local authorities to develop their ability to deliver the programme on a long-term basis with a reduced need for central support from the Welsh Government.**

Ensuring new schools are properly maintained

37. The Auditor General concluded that inadequate maintenance in the past has contributed to the current need for capital investment in schools. She found that local authorities have not taken sufficient account of the lifecycle costs of new buildings when planning repair and maintenance budgets. Rather than being based on technical assessments, in the past budgets have been based on historical figures adjusted annually for inflation without reference to the condition of the estate.⁴⁰

38. We acknowledge that repair and maintenance of schools is a matter for local authorities, and the Auditor General's sixth recommendation is therefore directed to them. However, clearly such considerations must be taken into account in any programme of capital investment in schools funded by the Welsh Government.

39. The Accounting Officer acknowledged that "maintaining the assets over their lifetime is essential to achieving value for money in the investment supported through the 21st Century Schools

³⁹ RoP [para 82], 21 October 2010, Public Accounts Committee

⁴⁰ Auditor General for Wales, *Capital Investment in Schools*, 14 July 2010, pp38-40

Programme".⁴¹ He emphasised that lifecycle maintenance will form part of the assessment process for funding applications:

“Investment proposals from local authorities will be assessed in terms of the initial investment required and their approach to whole-lifecycle costs....Local authorities will be asked to demonstrate how they plan to budget adequately for the good lifecycle maintenance of the school estate, so we are trying to factor that in from the outset.”⁴²

40. We welcome the commitment to include good lifecycle maintenance as part of the assessment process. In order to remove the risk that poor maintenance may lead to a future deterioration of school estate, leading to a recurrence of the current situation, **we recommend that the Welsh Government makes adequate consideration of whole lifecycle maintenance a precondition of funding so that no application can be approved without it.**

⁴¹ RoP [para 85], 21 October 2010, Public Accounts Committee

⁴² Ibid para 85

3. Conclusion

41. The Auditor General identified significant weaknesses in the arrangements for the provision of capital investment in schools prior to 2009. However, she also recognised that the Welsh Government and the WLGA have taken steps to strengthen the planning and management of the funding process in order to address those weaknesses.

42. The Accounting Officer has sought to assure us that he is acting to address the concerns raised by the Auditor General. He has acknowledged the past difficulties and emphasised the means by which the 21st Century Schools Programme will address many of the recommendations made by the Auditor General.

43. We are encouraged by many of the steps taken. In particular, the Welsh Government has committed to implement a much more strategic approach to project selection and evaluation which, if effective, has the potential to improve effectiveness and value for money.

44. However, the programme is at an early stage and the benefits of many of the steps taken have not yet been demonstrated. In addition, we are concerned that further steps need to be taken in a number of areas, not least as regards the availability of information on the costs and timescales involved in reaching the standards being developed for the quality of school buildings. Consequently, we intend to revisit capital investment in schools in the spring of 2011 following the submission of Strategic Outline Programmes by local authorities in December 2010.

45. In the light of the evidence provided, both by the Auditor General and the Accounting Officer, we have agreed the following recommendations:

We recommend that the Welsh Government provide assurance that post-occupancy evaluation will relate directly to the objectives set at the initiation of each individual capital investment project.

We recommend that Welsh Government provide us with a date by which the tools, guidance and strategies underpinning the high-level definition of fitness for purpose will be in place. We seek

assurance that the Strategic Outline Programmes will be tested against the detailed standards which underpin the Welsh Government's high level definition of fitness for purpose.

We recommend that the Welsh Government establish the cost of bringing schools in each local authority up to the agreed “fit for purpose” standard.

We recommend that the Welsh Government provides an indication of:

- the expected timescales for bringing schools in each local authority up to the agreed “fit for purpose standard”; and**
- the expected Welsh Government contribution to meeting the costs of achieving this standard.**

We recommend that the Welsh Government provide clear policy guidance on the issue of surplus places to ensure that local authorities act coherently across Wales to address the issue.

We recommend that the Welsh Government, in association with the WLGA, encourage collaboration between local authorities to develop their ability to deliver the programme on a long-term basis with a reduced need for central support from the Welsh Government.

We recommend that the Welsh Government makes adequate consideration of whole lifecycle maintenance a precondition of funding so that no application can be approved without it.

Witnesses

The following witnesses provided oral evidence to the Committee on the 21st October. Transcripts of the oral evidence can be viewed in full at [Public Accounts Committee – Meeting Transcripts](#).

21 October 2010

Simon Brindle, Head of Management and Effectiveness Division, Welsh Government

Melanie Godfrey, Head of Capital Funding Branch, Welsh Government

Dr Emyr Roberts, Director General, Department of Children, Education, Lifelong Learning and Skills, Welsh Government

List of Written Evidence

The following written evidence was used by the Committee. This can be viewed in full at [Public Accounts Committee Inquiries](#).

<i>Name / Organisation</i>	<i>Document</i>	<i>Reference</i>
Wales Audit Office	Capital Investment in Schools	PAC(3) CIIS1
Welsh Government	Capital Investment in Schools Written evidence from the Welsh Government	PAC(3) CIIS2