



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Archwilio
The Audit Committee**

**Dydd Iau, 9 Hydref 2008
Thursday, 9 October 2008**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included. This is a draft version of the record. The final version will be published within five working days.

Aelodau Cynulliad yn bresennol
Assembly Members in attendance

Mohammad Asghar	Plaid Cymru The Party of Wales
Lorraine Barrett	Llafur Labour
Eleanor Burnham	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Janice Gregory	Llafur Labour
Lesley Griffiths	Llafur Labour
David Melding	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Darren Millar	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Gillian Body	Swyddfa Archwilio Cymru Wales Audit Office
Huw Brodie	Pennaeth Materion Gwledig a Threftadaeth, Llywodraeth Cynulliad Cymru Head of Rural Affairs and Heritage, Welsh Assembly Government
Nick Capaldi	Prif Weithredwr, Cyngor Celfyddydau Cymru Chief Executive, Arts Council of Wales
Jeremy Coleman	Archwilydd Cyffredinol Cymru Auditor General for Wales
Kath Davies	Pennaeth Cyllido'r Celfyddydau, Cyngor Celfyddydau Cymru Head of Arts Funding, Arts Council of Wales
John Howells	Cyfarwyddwr Diwylliant, Llywodraeth Cynulliad Cymru Director of Culture, Welsh Assembly Government

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 1.32 p.m.
The meeting began at 1.32 p.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **David Melding:** Good afternoon, and welcome to this meeting of the Audit Committee. I will start with the usual housekeeping points. These proceedings can be conducted in Welsh and English, and, when Welsh is spoken, a translation is available through the headset on channel 1. Should you be hard of hearing, or wish to amplify our proceedings, please switch the headset to channel 0. Please switch off all electronic

equipment completely. Do not leave it on 'silent' mode, as that will interfere with our recording equipment.

[2] We do not anticipate a fire drill this afternoon, so, if we hear the alarm, please take it seriously and follow the instructions of the ushers.

[3] I have received apologies from Chris Franks, Bethan Jenkins, Huw Lewis, and Irene James. Mohammad Asghar will substitute on behalf of the Plaid group. I welcome Mohammad here this afternoon.

1.33 p.m.

Canolfan Mileniwm Cymru Wales Millennium Centre

[4] **David Melding:** We will now discuss the findings of the auditor general's report, 'Funding for the Wales Millennium Centre'. This is an important report about the funding provided by the Assembly Government and the Arts Council of Wales to our next-door neighbour, the Wales Millennium Centre. As well as being an iconic piece of architecture, the WMC is an important part of the Welsh cultural landscape. More than 1 million people have attended various performances in its theatres and more than 3 million people have visited the other facilities that the WMC offers. However, the WMC was always a risky project with a complex construction phase and an ambitious business plan. Based on the auditor general's report, we will now look at the Welsh public funders and the way in which they managed the risks involved. I should stress that this session will focus on the actions of the funders, principally the Welsh Assembly Government and the Arts Council of Wales. We are not looking at the management of the WMC itself.

[5] I welcome the witnesses. Would you please introduce yourselves for the Record?

[6] **Mr Brodie:** Good afternoon. My name is Huw Brodie, and I am the director of rural affairs and heritage in the Welsh Assembly Government.

[7] **Mr Capaldi:** Good afternoon, I am Nick Capaldi, and I am the chief executive of the Arts Council of Wales.

[8] **Ms Davies:** Prynawn da. My name is Kath Davies, and I am the head of arts funding at the Arts Council of Wales.

[9] **Mr Howells:** Prynawn da. I am John Howells, director of culture at the Welsh Assembly Government.

[10] **David Melding:** I welcome the witnesses. I know that most of you are new to our proceedings and so I should tell you that we have a list of prepared questions that we have agreed to put to you. I will work my way around the Members. You may all want to make a contribution in response to some questions, but others may be specifically focused. I start by asking the witnesses for their initial remarks on the Auditor General for Wales's report. We will then drill down to the various details that we want to establish from the evidence that we require during this afternoon's session. Perhaps you would like to start, Mr Brodie.

[11] **Mr Brodie:** Thank you very much. Although this report highlights some good practice in the construction phase, it also reveals very serious shortcomings in a number of respects. The Assembly Government accepts the key assessments made in the report and is committed to learning the lessons. In preparing for this hearing, John and I spoke to the key

officials who were previously in charge and went through past papers, so we will do our very best to answer your questions.

[12] I will just tell you, very briefly, about some of the things that we have done to put matters on a good footing. In the centre itself, our record-keeping is now fully functional. In line with the revenue funding agreement, the centre's management accounts are examined monthly, and quarterly review meetings are taking place. I recruited, some time ago, a full-time senior-level accountant to be a head of my business unit and he is involved in those meetings. We are also working closely with the Arts Council of Wales to make sure that we have the right teamwork between us. As part of that, we are putting in place an arrangement whereby the arts council can advise us on the value for money and the artistic quality of the delivery that the centre is providing.

[13] It is fair to recognise that there are also some more general lessons to be learned by the Assembly Government as a whole. We will want to look very carefully at your committee report when it comes out, but I highlight that there are two steps that we are taking straight away. The first is that the Permanent Secretary is writing to all heads of departments internally, but also to all public bodies in Wales, to draw their attention to the important recommendations made in the report that have wider relevance to them. That will include emphasis on the points about record keeping and requests made under the Freedom of Information Act 2000. In addition, Value Wales will help the Welsh public sector as a whole to improve its programme and project management in ways that address the lessons learned from the report. As part of that, training will be delivered in December this year to increase the number of trained gateway reviewers across the Welsh public sector, which help in managing construction projects and so on. It is also developing sectoral and regional networks to spread best practice and will be picking up the lessons from the report as it takes its work through more generally.

[14] **David Melding:** Thank you. That is helpful. Mr Capaldi, do you want to make a few brief remarks at this stage?

[15] **Mr Capaldi:** Yes, thank you. I want to begin by welcoming the auditor general's report. Clearly, there are lessons for us to learn from it, and that process has already begun. As the arts council's new incoming chief executive, it has provided me with a really useful opportunity to examine this important aspect of our work. I want to make just two points. The first is that, having looked at the very extensive documentation that we hold relating to the project, the story that is told in the report is one that I recognise; however, I do believe that the arts council has worked diligently and professionally over many years to ensure that the funds invested by the arts council in the project achieved the outcomes that we all wanted to see. My second point is really to echo the Chair's comments about the Wales Millennium Centre. We now have an internationally significant cultural asset, of which Wales can be justly proud. As always in these cases, you look to find areas of improvement, and I will read the committee's report with very close attention, but, in the meantime, I think that the auditor general's report clearly points the way to where we can look for areas of improvement, and I look forward to working with Welsh Assembly Government colleagues to see how we can ensure that we deliver the responsibilities expected of us more effectively.

1.40 p.m.

[16] **David Melding:** Thank you for that. I suspect that the other witnesses will contribute a little later and need not say anything at this stage. So, I call Lesley Griffiths to start the questioning.

[17] **Lesley Griffiths:** There were obviously difficulties in the early stages of this project, and among the main difficulties was that of choosing the most appropriate procurement

method. It appears that the Welsh Assembly Government and the arts council favoured different procurement methods. Would it not have been more constructive and beneficial had you favoured the same method and taken a more joined-up approach?

[18] **Mr Brodie:** We must recognise that, in the early stages, players were coming to this situation from a number of different directions that reflected their particular interests. They were all conscious of the degree of risk that an innovative project of this sort represented, and so they looked at it in the light of how they could protect their particular investments. There was also a sense that, as this was immediately post devolution, the Assembly Government was still working through a new relationship with its Assembly sponsored public bodies, which had not quite settled down. What comes through in the report is that, as the scale of the challenge became clear, the funders came together and reached a common view, which was set out by the Finance Minister in April 2001, on the most appropriate procurement method. It took longer to get there than would have been ideal, but they got there in the end.

[19] **Mr Capaldi:** It is essential that a joined-up approach is taken to these issues, and, in more recent times, we have been keen to put that in place where we have been the lead partner on a project. We have worked carefully as the lead funder to co-ordinate the activities of our other partners on the project. It might also be worthwhile to comment on why there was a difference of view on the most appropriate construction procurement method, because some important issues lie within that.

[20] One benefit of the construction management approach that we generally favour is that it can often offer a shorter procurement process, with all the savings that that entails. Construction management also offers a better defence of the build quality and artistic integrity, and, in our experience, they can both be in jeopardy when a fixed-cost budget is under strain. It is tempting to see some of those issues as incidental or marginal, but we are talking about critical factors, such as the theatre acoustic, the programme of public arts and the distinctive design and involvement of the resident companies. These are not mere incidentals; they are absolutely fundamental to the overall success of the process. So, there was intense discussion and negotiation about the appropriate construction method, and I think that that is right.

[21] We were clear about our concerns, and, as is often the case, as a junior partner, we had to punch our weight to ensure that our concerns came through loud and clear. However, it was a constructive process of dialogue. We do not insist on a single approach. We are prepared to look at what is in the best interest of the client within the resources available. We agreed with our colleagues at the Welsh Assembly Government that a fixed-price approach, under these circumstances, was necessary. We also sought and got assurances on the issues that were of concern to us. So, for us, this was a positive outcome to something that could have been more difficult.

[22] **Lesley Griffiths:** Was one reason you took that easier approach to construction management because you knew that it would be the Welsh Assembly Government that would have to stump up if it ran over cost?

[23] **Mr Capaldi:** No, it is a common approach that we adopt across the board. Our procurement methods were looked at carefully by the Wales Audit Office in a report that was published earlier this year, in January. The critical thing that I want to get across is that we look at the best interests of the client organisation, and try to work with it to secure the right outcome.

[24] **Eleanor Burnham:** Paragraph 1.15 on page 17 refers to April 2001 when the Assembly Government set a test that the project must be a fixed-price contract—which we have already discussed—of a maximum of £92 million. Mr Brodie, the final budget was £104

million. Why do you think the Assembly Government set a £92 million cost ceiling if we were not going to stick to it?

[25] **Mr Brodie:** First of all, it goes back to the issue of the fixed-price contract. By January 2002, the Assembly was being presented, for approval, with a contract that represented mainly fixed price but that, of course, contained certain elements that were not. Part of that reflected a judgment about the balance of advantage to which Nick has just referred, because it would have been, in part, disproportionately expensive for us to have secured it at a fixed price. However, it also reflected the sort of concern about quality issues that I think Nick has highlighted.

[26] In a fast-moving project of this sort, it is not unusual to find that, once you go out to tender, costs come back looking slightly different to the way in which you originally specified. It was particularly important that the then Minister for Culture, Sport and the Welsh Language was very transparent to the Assembly about the basis on which the revised costs looked the way that they did in January 2002.

[27] **Eleanor Burnham:** How could officials advise that the Assembly Government's contribution of £37 million was within the ceiling set by the Finance Minister in April 2001 when, in fact, the price had gone up by £12 million and the Assembly Government's anticipated contribution had increased by £4 million?

[28] **Mr Brodie:** The Welsh Assembly Government's contribution was still within the range that the Finance Minister had specified, which was between £25 million and £37 million. As you said, various other changes had occurred, such as increasing the reliance of the project on private sector fundraising, which was subsequently to prove quite problematic. However, it was still within the total range that the Minister had specified.

[29] **Eleanor Burnham:** The officials' advice to Ministers reported that the total financial risk to the Assembly Government was £14 million, but your records do not show how this figure was calculated.

[30] **Mr Brodie:** The calculation that officials made in December 2001 and January 2002 showed that the total potential cost-overrun risk element that we faced at that stage was around £14 million. However, I should stress the fact that that related purely to the capital element. Officials flagged up separately in January 2002 that, in addition to that, there was a risk that extra revenue funding would be required. That figure was calculated based on a very overall estimate of the total cost of the project, looking at the global sums involved on the capital side of the equation only; it did not include any assumptions about revenue.

[31] **Eleanor Burnham:** Therefore, how did the Assembly Government give the go-ahead on the basis that the Wales Millennium Centre could raise nearly £10 million from the private sector when, only a few months earlier, it thought that the realistic amount was £4 million?

[32] **Mr Brodie:** You are right to say that, in April 2001, the Finance Minister outlined in her statement a private sector fundraising target of £4 million and said that that looked reasonable. Officials did highlight the risks surrounding the increased target for private sector fundraising. One of the factors to which they drew attention is that, in the interim, David Rowe-Beddoe had come in as chair, and some value was attached to the potential contribution that he might be able to make in terms of fundraising.

[33] It is probably best at this point if I quote from the minute that the then Permanent Secretary sent in January 2002 to the Minister for Culture, Sport and the Welsh Language because it summarises the assessment that was made on this point.

1.50 p.m.

[34] He said,

[35] ‘It is difficult with such a project to make a very informed estimate of what may or may not be raised in the end’,

[36] in terms of private sector fundraising. He went on to say that,

[37] ‘the present chairman has a good deal of experience in levering in finance from outside. While we recognise that this is an ambitious target, we do not have grounds for saying that it could not be achieved’.

[38] Part of the difficulty here is that private sector fundraising is quite lumpy. We are all conscious of the scale of donation that Donald Gordon made and is making. If we had had two Donald Gordon donations rather than one, that would have made a big difference. The scale of some of the potential private sector donations is not totally predictable. It is not as though you are collecting relatively small sums from a lot of people; you are collecting big sums from a small and relatively unpredictable number of people. So, there is a real unpredictability and that risk was highlighted. Clearly, it is a risk that was subsequently shown to be a problem for the project.

[39] **Eleanor Burnham:** Mr Capaldi, did the arts council offer any advice on this, given that you surely had plenty of expertise on the levels of funding that can be raised for arts projects from private funding?

[40] **Mr Capaldi:** We indicated, and had consultants’ reports to say, that the fundraising climate was difficult, and that has been our experience on other projects. Particularly when one is looking for the large donations, as Mr Brodie has said correctly, it can take many months of careful pursuit of a single donor who will make a large contribution. Although one can feel optimistic—and we certainly felt optimistic that a project of this quality and significance would, in due course, attract a significant sponsor, as it did with Donald Gordon—predicting that and at what scale is always going to be difficult.

[41] **Janice Gregory:** We all understand how difficult and lumpy it is to lever in money from the private sector, but the auditor general points out in paragraph 1.17 of his report that £4.4 million of the European regional development fund money was awarded to this project. What did the Welsh Assembly Government do to prevent that ERDF money being lost to the project because of the ongoing delays? Was that money ultimately handed back to Europe and therefore lost to Wales?

[42] **Mr Brodie:** Yes, indeed. The key problem was that the expenditure was eligible only until the end of December 2001, and it became clear during the summer of 2001 that no expenditure was going to be incurred in that timescale, in particular because of the need to redesign and to do the preparatory work properly. Officials tried to find a way around the problem with the European Commission, but, in the end, the money had to be surrendered and was deducted from the project budget. At that stage, people could not compromise on trying to do the work properly.

[43] **Janice Gregory:** So, everything that could have been done, was done?

[44] **Mr Brodie:** Yes.

[45] **Darren Millar:** When Eleanor was questioning you earlier about this absolute cost test that the Finance Minister put in place for the project, and from reading the report, it seems

to me that there is a question as to whether that test was met and whether the additional sum that was put into the project was within the parameters of that test. You seem to indicate in your response that it is bordering on the ambiguous as to whether it met the test or not. Did it or did it not meet the Minister's test?

[46] **Mr Brodie:** On the fixed-priced element, it clearly did not fully meet the test because it was not a completely fixed price. There were good reasons for that, which I have explained, and what was important on that front was that the Minister for Culture, Sport and the Welsh Language explained the basis on which the project was going back to the Assembly for approval again in January 2002.

[47] The other point on the cost is that, although it was well above £92 million, there was openness about the figures after the commercial negotiations and the tender process. The Minister for culture was, in effect, announcing a change to the basis on which the Welsh Assembly Government was prepared to offer funding to the project. However, that is not unusual in a complex and fast-moving project of this sort.

[48] **Darren Millar:** It seems to me that the rules were changed in order to allow the additional support to be made available. If you look at the statement from the Finance Minister and compare it to the statement that the Minister for culture made when requesting the additional support from the Assembly—which had to approve it—there were quite different rules, and almost different reasons, put forward as to why the extra £4 million was needed.

[49] **Mr Brodie:** Again, all I can say is that the commercial process had moved forward and the Minister for culture was having to deal with the situation as it then was. The important point is that she was open and transparent with the Assembly about the basis on which the Assembly Government was proposing to support the project. It was not entirely in line with what was said in April 2001, but things had moved on.

[50] **David Melding:** I am not altogether clear, Mr Brodie, about the £14 million that was calculated as the Assembly's risk. The auditor general says that there were no records about how that figure had been calculated, but you seem to indicate that there were.

[51] **Mr Brodie:** It is difficult to go through tables in this format, but I will do my best. We have a calculation, a table, that comes to £14.4 million that is based on the total project price, which is £104.2 million, minus the amount that had been expended to date, which was £14.9 million, as well as taking into account the fixed elements of the contract with Sir Robert McAlpine and the provisional sums in the same contract. So, it was a global calculation, and we can certainly provide you with a copy of this table so that you can see how the calculation was made.

[52] **David Melding:** Jeremy, do you want to say anything on the evidence at this stage?

[53] **Mr Colman:** All I can say is that, when my staff carried out this work, the situation was as described in the report, which has been agreed by the witnesses as factually accurate. If we had seen that calculation, we would have reported it.

[54] **Mr Brodie:** Just to make it clear, there is nothing on the file to show that it was calculated this way. We have struggled ourselves very hard to work out how it was calculated. I hasten to add to Jeremy that we have had to put this together ourselves to make sense of the calculation that officials did at the time.

[55] **David Melding:** That clarifies the situation—thank you. We will move on to question 4.

[56] **Darren Millar:** Turning to the guarantee for the loan that was needed in order to complete the project, it seems strange that the decision was made to go for a commercial loan rather than a loan from the Assembly Government. The latter would presumably have involved lower interest rates, rather than the Assembly Government effectively acting as a guarantor for the loan. Why was that decision taken?

[57] **Mr Brodie:** Back in 2002, finance officials recognised that cash flow difficulties might arise, although at that stage they had not ruled out the Assembly Government itself providing the loan, depending on financial circumstances. However, it was clear that any loan from the Assembly Government would have to come from its own cash reserves. We have looked at the submission that went to the Minister for Culture, Sport and the Welsh Language in May 2003, which was seeking agreement to raise a commercial loan with the Welsh Assembly Government guarantee, as you say. It recorded that officials from the culture and finance departments had met with the centre to discuss the issue, and it stated that the Assembly did not have available the cash reserves to fund the shortfall. It seems to us, from the limited papers available, and from having spoken to people who were around at the time, that that indeed was the decisive factor in their thinking—that the cash reserves were not available to provide the loan.

2.00 p.m.

[58] I would certainly say that, in retrospect, as officials, we should have provided Ministers with a full assessment of the alternative options to a Welsh Assembly Government loan or a guarantee to a commercial loan. Deciding on what option would have been the best would have been a decision for Ministers, because it depends on what the opportunity costs elsewhere would have been of not spending the money that would have gone into the loan. That would have been very much a political judgment.

[59] **Darren Millar:** The Assembly Government recognised that there was a significant risk in the millennium centre's taking on this loan, yet you still intended to act as a guarantor, and, at the end of the construction project, you knew that this loan was still looming, but it was not re-examined at that time to see whether you could assist the Wales Millennium Centre to repay the loan by giving it some support at that point. It was not re-examined later in the day, was it?

[60] **Mr Brodie:** Can I just check precisely which period of the history you are talking about? The loan went on for quite a long time. Are you talking about 2005-06?

[61] **Darren Millar:** I will read the question: when you agreed the loan, you knew that there was a significant chance that the millennium centre was not going to be able to repay it. Why did the Assembly Government not re-examine the options and the impact of the loan, once it became clear that the centre was not necessarily going to be able to repay it, especially once the forecasts were reconsidered and re-projected?

[62] **Mr Brodie:** The key question is: when did it become clear that the centre would not be able to repay the loan? What is clear from having looked through all of this is that, at every stage, right from the start, people were conscious of the risks that I have indicated in terms of the level of private sector funds that would be raised. Nevertheless, the line that the Assembly Government was taking was very much to try to keep up the pressure on the centre to live within the basis of revenue funding that had been outlined by the Finance Minister in April 2001.

[63] **Darren Millar:** But you were expecting it to repay this loan before the construction project was complete, were you not?

[64] **Mr Brodie:** Ah, I thought that you talking about the 2005-06 period.

[65] **Darren Millar:** No. You were expecting it to pay off the loan before the end—

[66] **Mr Brodie:** The basis on which officials and Ministers were operating at that time was one of pinning their hopes on the degree of private sector fundraising coming through to enable the centre to live within the financial package that had been set out. In retrospect, we can all see that that did not prove to be the case. There is an interesting question that we will be discussing around this table about the point at which that became clear. The Donald Gordon donation came in in 2003, I think. So, it would have been quite early to write off the hopes of private sector fundraising delivering at that time, in 2003-04, potentially, depending on what judgment you made of the risks. As I have said, with the benefit of hindsight, officials should have given fuller advice about the pros and cons of different options and of the Welsh Assembly Government's providing the loan and so on.

[67] **Darren Millar:** It effectively left a huge millstone around the centre's neck for when it started to operate.

[68] **Mr Brodie:** It is easy for us now to take that view, with the benefit of hindsight, knowing that the centre has been, as the Chair and Nick have said, a great success in terms of audiences. At that very early stage, there was major uncertainty about that, very understandably and quite rightly. For the Assembly Government to have moved in even prior to the centre's opening to provide yet further financial support—whether capital or revenue—would certainly have been a decision that many people would have been quick to criticise. It was always going to be a very difficult call for the Government as to the point at which it would decide that private sector fundraising would not deliver the goods. In retrospect, it is easy to read the story, but we need to remember that it had to take that decision when no-one could be confident about how successful the centre would be, which makes quite a significant difference. We need to understand the context in which it was struggling with these issues.

[69] **Lorraine Barrett:** I have a question for you both, if you both want to answer. The auditor general says that you were aware of the £5 million cost overruns in the project; did you actively challenge them? Did you think that it was realistic that the Wales Millennium Centre could raise millions on top of its already ambitious targets to pay for the rising costs? I am looking at paragraph 2.7 of the report.

[70] **Mr Brodie:** During the construction phase, Welsh Assembly Government officials were very focused on the risk of cost overruns, and they spent a great deal of time, effort—and money through the use of consultants—to try to mitigate those risks. In fairness, the report says that, generally speaking, the construction phase was run pretty well. The report highlights the way in which Northcroft was appointed as the project monitor. You highlight the £5 million overrun, but as much as possible was done at the time to limit those issues.

[71] **Lorraine Barrett:** Did the arts council have any involvement?

[72] **Mr Capaldi:** All I can add to those comments is that we knew that it was a risk and, as the report makes clear, our consultants had advised that it is difficult to raise funding once a facility such as this has opened. I can assure you that, during 2003 and 2004, there was intensive examination of the business plans with the consultants that we were jointly using to investigate and to raise those concerns.

[73] **Lorraine Barrett:** Mr Capaldi, some of the cost increases related to the WMC's cultural ambition, including the opening gala and the public arts. Was it not realised that the budgets were too small at the beginning, before the project went ahead?

[74] **Mr Capaldi:** Not in respect of the opening events, the gala and the cultural programme, because there was a change within the team. A new chief executive of the Wales Millennium Centre was appointed in 2003, and she was firming up the plans and the proposals for the gala. So, it certainly would not have been possible to have anticipated those costs at the beginning of the project.

[75] **Mohammad Asghar:** My question relates to part 3 of the report—paragraphs 3.4 and 3.7. It is like a mini credit crunch from America. PricewaterhouseCoopers was involved in checking your early forecasts, pre 2000, but it was not involved in the management review of the forecast. That is a big flaw. Any investor who lends money will not invest unless there is the least possible risk involved, and the guidance was coming from a company such as PricewaterhouseCoopers. So, there was a lack of prudence there and a lack of advice. The forecast was flawed, because it was revised.

2.10 p.m.

[76] Who was independently reviewing that forecast on behalf of the public sector and ensuring that it was robust?

[77] **Mr Brodie:** The report brings out clearly the fact that the PricewaterhouseCoopers exercise in early 2001 had a limited remit. Therefore, as you say in your question, it did not provide full assurance on the nature of the business plan at that stage. Having spoken to the officials who were working on it at the time, I will explain what was in their minds: they were extremely conscious of the uncertainties as to whether the centre would succeed in terms of audiences in particular. They were sceptical, at that early stage, about the chances of pinning down those uncertainties, being conscious of the fact that it was not as though they were building a manufacturing plant. The success of the centre as an artistic, cultural venture depends very much on the chemistry and the intangibles in terms of how it captures the imagination. So, they were sceptical at that stage as to whether a more in-depth independent consultancy exercise would have succeeded in pinning down, in any lasting way, the real uncertainties around the business plan.

[78] They also felt that they needed to move to secure the funding from the Millennium Commission and other sources. Having spoken to them, I do not think that they would now say that that was necessarily the right call, but it is helpful to understand what was behind their thinking. However, when the Finance Minister made her statement to the Assembly in April 2001, she was upfront about those uncertainties. She said that the delivery of the plan would be challenging and she asked:

[79] ‘Can the centre sustain over 400,000 theatre attendances a year? Are the occupancy rates of 70 per cent for 300 performances every year achievable? Will a further 350,000 people visit the centre?’

[80] In light of that, she went on to say,

[81] ‘We must also be realistic about the potential call on us for revenue funding over the years ahead. Taking all these issues together, we must be prepared to contemplate a revenue cost of around £3 million to go directly to the Wales Millennium Centre’.

[82] So, in other words, the approach taken at that stage was to recognise that there were major uncertainties, which could materialise into a much higher level of revenue funding. However, I am not disputing that the PricewaterhouseCoopers exercise was limited in scope nor am I saying that the way in which it was done was necessarily the most prudent or best way to proceed with hindsight.

[83] **Mohammad Asghar:** Thank you for that answer, but again looking at part 3 of the report, I will stand with PricewaterhouseCoopers—if it changes its mind now, it is too late. At that particular time of pre-investment, I think that its concern was genuine and we all know that. So, it is the same context: you say that this was a political decision rather than a financial one.

[84] **Mr Brodie:** The PricewaterhouseCoopers report, in particular with its risk and sensitivity analyses, highlighted the fact that the centre might need, in its estimate, potentially £500,000 a year of revenue funding support. However, that was dependent on various assumptions. That was all part of the thinking of the Finance Minister when she announced some degree of revenue support in April 2001, although that was not necessarily providing the £500,000 by any means—and I am not trying to suggest that. However, it was part of the background as to why she flagged up the potential need for more revenue support should various risks become reality.

[85] **Mohammad Asghar:** She probably did not have proper advisers around her anyway. Now, Mr Capaldi, it is over to you.

[86] **Mr Capaldi:** I think that the September 2000 report was a critical point in the process and I think that you are right to draw our attention to that. We were very concerned about the projections that were in there and, in February 2001, we met with the chair and the chief executive of the Wales Millennium Centre and were very clear about what our concerns were. The following month, in March, we wanted to make sure that Assembly Government colleagues were kept abreast of those issues and we wrote to the Assembly Government, repeating our concerns; the auditor general's report—I think that it is in paragraph 3.5—summarises the advice that we gave.

[87] **Mohammad Asghar:** So, you are saying that no notice was taken of your concerns.

[88] **Mr Capaldi:** No. I think that they were, because I am quite sure that the advice that we gave would have been taken into account by the Finance Minister when she was considering her response.

[89] **David Melding:** We can pursue some of these matters further. Mohammad, are you content?

[90] **Mohammad Asghar:** I will come back in later on.

[91] **Janice Gregory:** Staying with part 3 of the report, and specifically concentrating on 3.13, following the Finance Minister's speech, the WMC developed a new plan and, in that, it was looking at changes to its cultural aspirations, bringing in a far more ambitious international programme. The WMC has made it quite plain that that is what it wanted to do and the auditor general's report does say that there is no evidence on record that the funders looked at the impact of that particular part of the business plan, which was quite an expensive change to the centre's plans. I just wonder why there is nothing on record about that, recognising that this was a very large change to the plans. That question is to both of you.

[92] **Mr Capaldi:** You are referring to the May 2001 revised business plan. I think that we stubbed our toes badly on this, in that, on the basis of my examination of our files, I can only conclude that what is said in the report about us not formally assessing it is correct. However, given the thoroughness with and the detail in which we looked at plans immediately before and after that—it was evident that we were concerned—I was puzzled by that. I have tried to find out why that happened, for my own satisfaction. What is clear is that there were very detailed discussions about the contents of the millennium centre's business plan. The plan

immediately prior to the May 2001 plan—I think that this comes to the heart of your question—presented two options: the first was what it called a ‘national programme’ and the second was the ‘world-class international programme’, which would be possible, in the millennium centre’s view, with the £750,000 subsidy. In our advice to the Assembly Government, we were very much advocating option 2 and we identified the need for additional funds to support the activities of the resident companies. Responses to all those featured in the Finance Minister’s response. The WMC settled on option 2 and I think that what happened was that, having achieved our immediate goal and knowing that the Finance Minister had asked the then Culture Committee to look at it, we switched our attention to what was, for us, another key issue at that time, which was the procurement method of construction that we were talking about. That said, I entirely accept the report’s observation that Member scrutiny is no substitute for examination by experts. We should have looked formally at that May 2001 report, and I would have been happier had we formally signed off on it.

2.20 p.m.

[93] **Mr Brodie:** I agree with everything that Nick just said. The Finance Minister’s statement included the revenue support of £750,000 a year, and, as Nick and the report say, that was linked back to the centre’s estimate of the extra costs of the international programme. It is absolutely clear that there was no independent further scrutiny of the assumptions on which those calculations were based in the iteration of the business plan in May. The only thing that I can add to that is to point back to my explanation of a minute ago, with regard to what was in officials’ thinking at that stage about how difficult they thought it would be to pin down some of these business plan uncertainties. I agree with Nick that the project would have had a firmer basis had an independent assessment been done at that point.

[94] **David Melding:** Just to make the evidence clear, Mr Capaldi, helpfully, has said that he believes that that should have been done, as do you, and officials at the time really should have been aware of the risk and have acted to meet it by getting independent verification.

[95] **Mr Brodie:** With the benefit of hindsight, I agree with that, but in defence of the officials at the time—

[96] **David Melding:** You have made that point, and I think that we all realise that everything happens in real time. It is not for us to over egg matters, but, from the evidence, we can see, in retrospect, that a key moment occurred then and there was not the level of verification that really would have helped in the management of the various risks.

[97] **Janice Gregory:** Even to me, someone who is very much a lay person in terms of how much it costs to put these kinds of thing on, £750,000 does not seem a reasonable figure. You have quite clearly admitted that your eye was taken off that particular ball at a crucial time. If anyone should have had a firm idea about what was needed and what advice should have been given, surely it should have been the Arts Council of Wales. It should have advised officials to advise the Minister. Did you do that? Did the arts council pick the telephone and say, ‘Hey, we need to have a serious conversation about this’? Or was it just passed over in the bigger scheme of things? There is no evidence or anything on file to show who did what, is there? I am concerned that we have two major players here, and the one that should perhaps have known did not respond. I know that you said, Nick, that you stubbed your toe, but I think that your eye was taken off the ball completely, or am I incorrect in saying that?

[98] **Mr Capaldi:** I agree with the former assertion, but I cannot agree with the second, in that our omission was around not formally signing off the May 2001 plan. We were entirely clear about the revenue vulnerabilities leading up to that, and I think that we had offered clear and explicit advice that significant subsidy would be required.

[99] **Mr Brodie:** Just to come in on the back of that, I agree with the way in which Nick is putting this. I do not think it fair to say that people took their eyes off the ball. When the Finance Minister, in her statement in April, went so far as to say that we might end up having to pay £3 million a year in revenue funding, that clearly reflects the degree of briefing that she had, somehow or other. Some of it may well have been oral, because we have had the same difficulty as Jeremy in going through all this. She clearly was put in a position where she understood that there were very major risks that could reach fruition.

[100] **David Melding:** Lorraine wants to pursue one of the risks.

[101] **Lorraine Barrett:** I was going to say that it is a small point, but it is a huge point, actually. I remember the contention at the time, which is still running, with regard to dark nights. I know that a lot of work has been done, and the arts council has been involved in trying to get a more favourable situation in relation to the number of dark nights. Looking back, how did the Wales Millennium Centre enter into such an unfavourable arrangement with Welsh National Opera over dark nights? Should the arts council have tried to secure alternative arrangements or come to a better agreement, as one of the funders?

[102] **Mr Capaldi:** There are some interesting and complex issues underlying whether or not it is unfavourable. The dark nights were a concern for us and we discussed the situation, and we have been discussing it ever since. One must remember that one of the primary reasons for creating the Wales Millennium Centre was to provide a fit-for-purpose home for Welsh National Opera, and the practicalities of organising rehearsal get-in and fit-up means that some degree of dark nights is inevitable. If the Wales Millennium Centre was able to use those nights for other activity, it raises questions as to what activities those might be. If other large-scale opera companies were to be brought in, there would clearly be competition issues with Welsh National Opera. Indeed, any significant show coming into the centre would itself require dark nights in order to achieve the set-up and the get-in and get-out times that would be necessary.

[103] On the marginal costs of the dark nights, we are trying to arrive at a clear consensus as to what they are, and we are in discussion at the moment with the Wales Millennium Centre and the Welsh National Opera. However, from our recent estimates, we could be talking about a figure across the year of between £65,000 and £110,000, which is, in a sense, marginal income forgone by Wales Millennium Centre because of dark nights. I believe that Welsh National Opera worked very hard to reduce the number of dark nights, but, having identified the cost, it is by no means clear at this stage how we should address that.

[104] **Darren Millar:** Moving on to the operational phase of the Wales Millennium Centre, or the period immediately prior to it becoming operational, in paragraphs 3.21 to 3.24, the auditor general makes it very clear that despite the fact that you as funders—the Arts Council of Wales and the Welsh Assembly Government—were aware of the significant risks that were posed by the project, there was no monitoring in place, or you did not agree a particularly robust monitoring system to make sure that you were fully aware of how things were progressing, even at those early stages. Why on earth was that the case? It seems incredible.

[105] **Mr Brodie:** We must accept that such a plan was necessary, and, as you said, had it been in place it would have greatly helped the Welsh Assembly Government to identify the emerging issues, and that is one of the very important points that is underlined in the report. All I can say is that our current funding agreement gives us the ability to track things on a very fine basis from month to month. In addition, the governance review which we currently have in process is helping us to look at whether any improvements could be made in the future to the risk management procedures.

[106] On why such a plan was not in place in the past, I find it difficult to give you a satisfactory answer.

[107] **Darren Millar:** Are there any notes on file to explain the rationale behind why plans were not put in place?

[108] **David Melding:** I do not think that there was any decision not to provide monitoring.

[109] **Darren Millar:** There was absolutely nothing at all in place. How about the arts council? Why did the arts council, as funders of the project, not do anything? To be fair, during the capital part of the project, at least there was regular scrutiny. Despite the fact that the costs were growing, there were regular reporting mechanisms back to both bodies as funders. It seems to me that the monitoring was switched off.

2.30 p.m.

[110] **Mr Capaldi:** Are we talking about the period running up to the opening or post the opening?

[111] **Darren Millar:** Running up to the opening.

[112] **Mr Capaldi:** I believe that that monitoring was happening running up to the opening.

[113] **Darren Millar:** No. A business plan was prepared and significant risks were identified, but it is arguable whether the business plan demonstrated the risks to the full extent. It talks about a worst-case scenario of a £2 million loan hanging around the neck of the WMC once it opened, but that was more likely to be the best-case scenario, as the auditor general spells out. So, it was a much bigger loan. The revenue forecasts did not even take into account the need to repay that loan, even though it was much more sizeable than the £2 million originally anticipated as the worst-case scenario, and yet the arts council and the Assembly Government did not require any special monitoring to be put in place to ensure that the WMC could continue to operate in the short to medium term, let alone the long term.

[114] **Mr Capaldi:** I do not think that that is correct. During 2003-04, not only were we looking carefully at business plans, but so was the team of consultants that we had been using to monitor progress on the project. We commissioned them to look at the 2003-04 business plans. We were involved in regular, almost monthly, monitoring meetings. There is a point to be made about how co-ordinated we were at working with our colleagues in the Assembly Government, but I can assure you that we commissioned specific reviews and looked carefully at the 2003-04 plans.

[115] **David Melding:** The point is this. What monitoring occurred once the centre opened, when you could have looked at hard data on sales and so forth? How robust was the monitoring of the business plan at that point, when the centre was in operation?

[116] **Mr Capaldi:** I cannot think how we could have been more robust in the detail of the reports that we commissioned and produced. They identified the issues clearly and we communicated them to the Wales Millennium Centre equally clearly. I am sorry if I am missing the point that you are trying to get to.

[117] **Darren Millar:** What I find remarkable is that the auditor general's report has been agreed by you. However, it states that the funders:

[118] 'did not, for example, request that the WMC update the monthly capital cash flow forecasts it produced for funders to include the operational cash flow. Combined cash flow

forecasts would have demonstrated how and when the loan would be paid off and the impact of the interest payments on the business plan’.

[119] Are you contending that your systems were robust, despite the fact that you were not taking into account the loan that needed to be repaid? It seems remarkable to me that you feel that the appropriate monitoring was in place.

[120] **Mr Capaldi:** Our reports did take into account the fact that—

[121] **Darren Millar:** At a level of £2 million being the worst-case scenario, not £7 million.

[122] **Mr Capaldi:** We looked at the issue of the loan guarantee, and I believe that we drew attention to that.

[123] **Darren Millar:** Given that the risks were quite obvious, at least to the Assembly Government, and that it was clear that there would be some significant deficits, why was a contingency policy not put in place to identify what would be done if significant deficits arose? PricewaterhouseCoopers picked up on that issue when it looked at the cash-flow forecasts and the business plan in 2001 initially and when they were updated a few years later. So, why were no contingency plans put in place to deal with the deficits that could occur, when you knew that the likelihood was that they would occur? Unfortunately, they ended up being much bigger than anyone had anticipated.

[124] **Mr Brodie:** The report paints the picture of what was happening, and paragraph 3.23 outlines how Assembly Government officials were thinking at the time. I do not say that that was adequate, just that the report explains how it was approached. The focus in that very early period, just as the centre was about to go operational and then when it went operational, was on the key uncertainty of how many people would actually turn up and pay to take seats. So, there was very close scrutiny of that aspect. Given the experience of other high-profile cultural projects that had had major problems in that area, I think it was natural, indeed, understandable that the focus should have been on that. That is not to dispute your point that that should have been complemented by a focus on other key variable risk factors, such as cost and some of the operating cost issues, which subsequently proved to be a problem.

[125] Nick is absolutely right; independent scrutiny of the business plans was commissioned by the Arts Council of Wales and shared with the Assembly Government, and we can go back over the strengths and weaknesses of those analyses. However, in my answer to your previous question, I was referring to the key paragraph in the report—paragraph 3.24. That is what I was putting up my hand to agree with: that would have put us in a much stronger position.

[126] **Darren Millar:** The fact remains that the auditor general is absolutely correct in saying that there was no robust monitoring plan that was agreed with you as funders of the Wales Millennium Centre once the centre had become fully operational. Nothing was agreed beforehand. Nothing was robust enough to detect—

[127] **Mr Brodie:** I think that that is what I have already agreed with.

[128] **David Melding:** I think that Mr Brodie gave a very clear answer. I am still struggling to understand the implications of what Mr Capaldi has said. I will let you come back, Darren, but, with your permission, I will just quote from paragraph 3.21.

[129] ‘The consultants advised that, because of the high risk of incurring losses, the WMC should develop clear policies on unanticipated deficits and contingency plans. These

recommendations on contingency plans were not followed up by the Arts Council or the Assembly Government who also saw the report.’

[130] **Mr Capaldi:** that implies that the arts council had the report and had commissioned the consultants, but it did not follow it up. It is quite clear. I think that we need to know whether you are questioning that evidence.

[131] **Mr Capaldi:** No, I am not questioning the evidence at all. It could be that I am talking about a different period. I was talking about September 2003 when the plan from the Wales Millennium Centre was produced, and the scrutiny that our consultants undertook then. I think that, possibly, we are talking about—

[132] **David Melding:** That part of the report that I quoted relates to September 2004. Jeremy will help me if I am hopelessly adrift.

[133] **Mr Colman:** No, you are right.

[134] **Mr Capaldi:** In September 2004, there was an iteration of that plan and we did look at it. However, did we follow them through by putting in place the joint monitoring arrangements that were needed then? I am happy to concede that the auditor general’s assessment is correct, but we did examine those reports very carefully.

[135] **Lorraine Barrett:** Paragraph 4.3 reports that, as the primary funder, the Welsh Assembly Government has responsibility for monitoring the WMC, which is a novel challenge for the Government, as this is the only arts project that it funds directly. My question to both of you is this. Why is the Government the revenue funder of the WMC, and why was the arts council not given the responsibility for funding and monitoring the operational phase? Mr Capaldi, do you think that it is more difficult for you to contribute actively to the monitoring of the WMC because you do not have the leverage of being a revenue funder?

2.40 p.m.

[136] **Mr Capaldi:** Ultimately, the revenue funding of the Wales Millennium Centre must be a matter for the Minister and the Assembly Government. You are right, however. It is a unique arrangement the arts in Wales for the Assembly Government to fund the Wales Millennium Centre directly. My feeling is that, while this might have been a novel challenge for the Assembly Government, it was by no means a novel challenge for us. This is very much our core business, and we have a portfolio of regularly funded organisations that we monitor according to carefully drawn up processes and procedures.

[137] The Wales Millennium Centre is, unquestionably, a large organisation, but, even then, it would not have been our largest grant. So, we have processes in place that are well established and that we believe work. More importantly, there would be real benefit for the arts in Wales to have the millennium centre included as part of that wider cultural family. However, as I said, those are matters for the Minister and the Assembly to discuss. We would be happy to explore those options, but, in the meantime, we are working closely with the Assembly Government to develop and enhance even further our joint management arrangements, so that we can bring our expertise on the arts and cultural matters to bear on this.

[138] **Mr Brodie:** Looking to the past, first of all, it is not unusual for Government to be involved in funding major projects—and the WMC was clearly one of the very biggest. When the construction phase came to an end, it is apparent that people felt that it was appropriate to carry that on—and one may question that, in retrospect. We have been trying to strengthen

our partnership with the arts council to ensure that we are tapping into its specialist expertise, and, as Nick indicated, we are making progress on that.

[139] Looking to the future, there is a question that Ministers will want to reflect on at some point about whether it might be sensible for that revenue funding role to move across. However, that needs to happen at a time when we can be confident that the funding of the centre is on an even keel. However, as Nick says, Ministers will have to consider that.

[140] **Janice Gregory:** The WMC expressed concerns about the commercial confidentiality of providing information. I will quote from paragraph 4.5 of this report:

[141] ‘the WMC said that it did not intend to provide detailed information on ticket sales because of concerns about commercially confidential information being released under the Freedom of Information Act’.

[142] I find that amazing. So, the Assembly Government accepted that, and decided that it would not keep records of the WMC’s performance or of the WMC board’s papers, which is also amazing. Huw, can you tell us how the Assembly Government came to that decision? That information would be vital, so why did the Assembly Government decide not to keep any of it on file?

[143] We all heard and accepted what you said at the start of this meeting about what you are doing now, but I want you to tell us what information you now keep on file to enable you to make judgments relating to the public sector’s financial support for the WMC. I find it amazing that that body could just tell you, ‘We are not giving you that information’.

[144] **Mr Brodie:** We have looked carefully at our files to see what lay behind all of this, and we have not been able to find any statement of policy on the file. It seems to have been a custom and practice but, as the report says, it is clear that there was a misinterpretation of the Freedom of Information Act 2000, and I am grateful that the report recognises that this is something that we have corrected.

[145] In terms of where we are now, I can assure you that we have done everything that we can to ensure that our filing system is working properly in respect of the Wales Millennium Centre. We have underlined to staff their duties on this and we have done a review of our filing system and put in place new systems, so I am confident that we are fully sound on this front at the moment. If you look at the funding agreement that we have in place, it specifies in detail the information that we should get every month, and we go through that very carefully.

[146] **Janice Gregory:** Are you absolutely confident that there are no other areas where information could be lacking? Have you nailed this down?

[147] **Mr Brodie:** In terms of the Wales Millennium Centre, yes.

[148] **Janice Gregory:** My next question is to Nick. You obviously knew about this in the Arts Council for Wales—you knew that there were no detailed records being kept. Did you have concerns about that? Was the arts council worried that proper detailed records were not being kept? Is this something that you would do for any other organisation?

[149] **Mr Capaldi:** We should have made our own assessment of the requirements of the Freedom of Information Act, and that would have told us that the report’s conclusion is correct. Regardless of the fact that we were not a revenue funder, we should have kept records, and we are doing so now.

[150] **David Melding:** We will move on to the next question, which is from Mohammad.

[151] **Mohammad Asghar:** I congratulate Jeremy and his team on producing such a wonderful audit. I really enjoyed it—it has given us some good bullet points. I appreciate your knowledge, and you give very honest opinions on your concerns about the financial and management skills at the WMC. However, I also enjoy ‘dark nights’ at the millennium centre.

[152] My question is to Mr Brodie. Why did the Assembly Government continue to renew the loan guarantee without a robust assessment? That partly covers my colleague Darren’s question. How did the Assembly Government think that the chronically loss-making WMC would be able to pay back the loan?

[153] **Mr Brodie:** Let me start with a few facts. The advice on the renewal of the loan guarantee went to Ministers in May 2005. It did not include details of the repayment schedule. In May 2006, the advice on further renewal of the loan went to Ministers. That flagged up a number of the risks, highlighting the fact that the loan would still stand at £11 million in 2009 and would not be paid in full until 2017, according to the payment schedule that had been agreed with the Wales Millennium Centre. The advice noted that it was a concern that the loan repayment depended upon fundraising, that that increased the risk to the Assembly Government, and that we did not want to provide an indefinite indemnity. The note stated that it was envisaged that the centre would not, even in the medium term, make significant operating surpluses. However, the submission did not provide in-depth analysis of the centre’s financial position.

[154] In trying to understand this, I go back to some of the points that I made earlier. The WMC was just becoming operational in early 2005. No-one could be sure at that stage how successful it would be. It was always going to be a difficult call as to the point at which it should be decided that the chances of further private sector fundraising coming to the rescue had disappeared, meaning that significant extra public expenditure would be required.

2.50 p.m.

[155] We just need to remember that, in May 2005, the centre had been open for barely six months. What I would accept is that, as officials, we should have been providing more formal, in-depth analysis in that period, setting out the risks of different options for how to proceed.

[156] **Mohammad Asghar:** If we turned the clock back and you were given the same sort of project, how many differences would you make in terms of the management, the financial issues and the implementation? That is a question to you both. It is a big investment. We have been a laughing stock in the press—it has been called a white elephant and so on—but it is a very good project. It is part of our national heritage and we are very proud of it, but perhaps it is in the wrong area. However, we definitely need it. I have supported you all along. If we turned the clock back, would you have a different project or the same project but with a different idea?

[157] **David Melding:** You are very brave. I do not want to stop witnesses giving evidence—

[158] **Mr Brodie:** I was wondering how I might answer that question; I am not quite sure that it is—

[159] **Mohammad Asghar:** It is a loss-making project, but we all like it—there is no doubt about that. If it were a private enterprise, it would be bankrupt by now.

[160] **David Melding:** A lot of the arts sector would not operate—

[161] **Mr Brodie:** In April 2001, when she came to the Assembly and set out the issues with regard to this project, the Finance Minister asked the Assembly, ‘Do you want this thing or not?’. She flagged up the fact that, if the Assembly wanted it, there was a risk that we might end up paying £3 million a year. These are purely political matters and choices.

[162] **Mohammad Asghar:** Chair—

[163] **David Melding:** I will let you come back, but we do not want to wander into issues that are political and that do not relate to officials carrying out public policy in an efficient and effective way.

[164] **Mohammad Asghar:** Have lessons been learned?

[165] **Mr Brodie:** As I said at the start, there are lessons in this report and we are doing our very best to ensure that they are learned.

[166] **David Melding:** I commend the witnesses, who have been candid about areas where there were difficulties and about things that we could reasonably have expected to have been done more effectively. I have no problems with the quality of the evidence.

[167] I am keen to draw to a conclusion, but two Members still wish to ask questions.

[168] **Eleanor Burnham:** I have been patient.

[169] **David Melding:** I will come to you after Darren.

[170] **Darren Millar:** The request to renew the guarantee of the loan provided another opportunity, which was not taken by the Assembly Government, to look in some detail at the feasibility of the WMC’s ability to repay the loan. Can you assure us that, when those opportunities arise in future for other projects where there is significant financial risk, those opportunities to go through the information in fine detail, to look at the cash flow forecast, will be taken? There was evidence as to how things were operating. There was evidence of huge deficits as far as the operational income and expenditure were concerned and yet, for some reason, no plan was put in place for this to be repaid. The questions were not properly asked. Can you assure us that things have changed significantly?

[171] **Mr Brodie:** I can assure you that this report is being taken extremely seriously. The finance director and the Permanent Secretary will be working to ensure that the lessons are learned, not just in culture but also across all departments. What we try to do with all audit reports is ensure that we pick up the generic lessons and not just the particular ones.

[172] **Eleanor Burnham:** This is a one-off that will not be repeated. As others have said, the auditor general has made a detailed report that, in many respects, tells a very sorry tale of the robustness of the information available to Ministers. We have been here to take political decisions; we were all here when it happened; and we were all very optimistic and hoped for the best. I would like to ask one question regarding the rigour and robustness of the process. In this day and age, would anything like this be headed by the Permanent Secretary? You are the head of your department, but there has been no evidence that the competence needed within the official regime was in place in the past. However, I presume that something as major as this might be headed by the Permanent Secretary.

[173] **Mr Brodie:** In fairness, I think that that would be pretty difficult. You have to realise the scale and complexity of the operation that the Assembly Government represents.

[174] **Eleanor Burnham:** The Permanent Secretary is the ultimate person—

[175] **Mr Brodie:** She is, but we have moved to a system whereby we also have assistant accounting officers. Previous permanent secretaries, until 2004, were the sole accounting officers. At that point, a change was made to make heads of department additional accounting officers to recognise the scale and complexity and the new political context in which we were working. You are right that the ultimate responsibility is always with the Permanent Secretary, but the system reflects the fact that, these days, we are comparable not to a single Whitehall department, but to a microcosm of the whole of Whitehall. I hesitate to commit the Permanent Secretary's individual time in terms of particular projects.

[176] **Eleanor Burnham:** I was trying to ask whether the previous Permanent Secretary had been the final accounting officer in this regard. I do not think that any of us has been given the reassurance that the competences were there; if they were, these mistakes would not have been made.

[177] **David Melding:** I think that what we have established, Eleanor, is that there was a great deal of good practice, particularly with regard to the construction, but that there were deficiencies, some of which could have been anticipated and better managed. I do not think that we are issuing a casual counsel of perfection. Mr Brodie has indicated that, until 2004, the accountable officer was indeed the Permanent Secretary.

[178] **Eleanor Burnham:** You have tried to tell us that you have improved your monitoring arrangements. What exactly is it now that would not allow any of these mistakes to be made?

[179] **Mr Brodie:** First, we get the monthly financial information, which is scrutinised by the senior accountant that I have in my own department. I am not reliant on anyone in any other department to borrow accountancy time. I have ensured that my department has its own senior level accountancy expertise. We have a quarterly review meeting with the Wales Millennium Centre, and the arts council is going to be included in those meetings. That gives us an opportunity to scrutinise the issues that emerge. If, in any of those meetings, we feel that particular risks are starting to escalate and require further independent scrutiny from consultants, we have the opportunity to commission that. We also have an annual review meeting, as well as twice-yearly meetings at ministerial level. So, I think that we have a good framework in place. You are dead right to say that we must ensure that we operate it effectively.

[180] **Eleanor Burnham:** Are you keeping proper records?

[181] **Mr Brodie:** Yes.

[182] **David Melding:** Thank you very much. That concludes the evidence session this afternoon. I would like to thank the witnesses for their attendance and for dealing with those questions in a direct and candid manner. We will send you a copy of the transcript, so, if there have been errors in transcription, you will have a chance to correct them. Thank you very much.

2.59 p.m.

Cynnig Trefniadol Procedural Motion

[183] **David Melding:** I propose that

the committee resolves to exclude the press and public from the remainder of the meeting in

accordance with Standing Order No. 10.37(vi).

[184] I see that the committee is in agreement.

Derbyniwyd y cynnig.

Motion carried.

Daeth rhan gyhoeddus y cyfarfod i ben am 3 p.m.

The public part of the meeting ended at 3 p.m.