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Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Eich cyf/Your ref  
Ein cyf/Our ref

Angela Burns,  
Chair, Finance Committee,  
National Assembly for Wales,  
Cardiff Bay,  
Cardiff,  
CF99 1NA

Dear Angela,

8/6/20

**Follow up to National Assembly for Wales' Finance Committee Capital Spending Inquiry – Strategic Capital Investment Framework**

Thank you for your letter of 20 May. I agreed to provide you with further information, following my attendance at the 13 May Finance Committee to assist with the Committee's inquiry into capital spending.

I have addressed your questions in the order they appear in your letter as follows:

**Specific Examples of SCIF Projects with "external sourced" funding**

In order to provide you with a comprehensive overview of the funding packages that support SCIF projects I have provided a list of the Tranche 2 projects and their funding packages at Annex 1.

**The full range of sources of funding for capital other than SCIF**

There is a wide range of sources of funding available to support capital activity other than SCIF:

- Departmental capital
- Local authority capital
- European funding
- Welsh Assembly Government grant schemes
- Private sector investment
- Invest to save scheme
- Making the Connections improvement fund
- Targeted Match Fund

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## **How capital schemes are monitored centrally in terms of project spend and progress**

Departments are all subject to standard guidance as set out in Managing Welsh Public Money and the Treasury Green Book. There is commonality in the approach taken by departments to assess the value for money of schemes and SCIF has provided a valuable opportunity to standardise and further align departmental practices with recognised best practice. However, there is no 'one size fits all' approach and it is appropriate that different departments have tailored requirements. Processes applied to capital spend within departments are proportionate, with larger, more complex schemes rightly having more complex approval and monitoring procedures.

It is not appropriate for 'the centre' to monitor the delivery of schemes across Assembly Government departments. Each Assembly Government department has its own Accounting Officer at Director General level, responsible and accountable for securing value for money in that department's spending, supported by qualified accountants across DG Finance teams. Capital investments, once agreed through the SCIF process, or confirmed through departments' annual budget allocation process (with Ministerial approval), are monitored through departments' internal financial management processes.

Departments manage and monitor capital programmes on a day to day basis, with comprehensive monthly reporting at official and Ministerial levels. This aligns with the process of monitoring revenue spend, as many programmes and projects require both capital and revenue spent alongside each other. If under, or over-spends arise in either of these, decisions are taken on how best to re-allocate resources in-year to maximise delivery while remaining within overall capital and revenue budgets. This monitoring considers both spend and progress against plans. Departmental monitoring in this way ensures that both capital and revenue funding are directed at achieving agreed strategic outcomes, and remain within the control and oversight of the DG Accounting Officer.

In terms of this process, departments must update the corporate finance system with their latest annual forecasts of expenditure (both capital and revenue) and the reasons for any variances, risks and opportunities that apply, on a monthly basis. The Accounting Officer is ultimately responsible for ensuring that not only are their capital programmes adequately monitored but that their overall voted Ambit limits and Departmental Expenditure Limit (DEL) allocations are properly monitored and managed.

In terms of central monitoring of departmental expenditure, each department's Head of Finance arranges for formal monthly monitoring reports to be submitted to Central Finance and arranges for the corporate system to be updated with forecast data. This information is monitored by Central Finance to ensure that the Welsh Assembly Government remains within its control totals.

In terms of central monitoring of SCIF, the Minister for Business and Budget reports regularly to Budget and Performance Cabinet Committee on spending from the Strategic Capital Investment Framework and is advised by an Officials Group which monitors SCIF project spend at the individual project level. Officials collate information on SCIF project spend and progress to ensure delivery against milestones, and to consider possible over- and under-spends and ensure that these are managed strategically.

## **The Gateway process (Gate 5 in particular) and how it delivers the Government's wider strategic objectives**

The OGC Gateway review process provides assurance directly to programmes and projects.

The OGC Gateway review process examines programmes and projects at key decision points in their lifecycle. It looks ahead to provide assurance that they can progress successfully to the next stage. The OGC Gateway Process is internationally recognised and is proven to add value to programmes and projects. The process is mandatory for all mission critical and high value programmes and projects throughout the Assembly Government, as well as for projects in the wider public sector receiving direct Assembly Government funding. Therefore, any programmes/projects falling within these two risk categories are expected to go through the Gateway review process at appropriate points in their lifecycle.

Each Gate is an independent, peer review undertaken by experienced practitioners from outside the programme or project, who use their experience and expertise to examine its progress and likelihood of successful delivery. There are 5 Gates which correspond to specific stages of programme and project development, but they can be tailored to consider whether additional or different topics need to be addressed. In particular, the Assembly Government's wider strategic objectives should form part of the programme or project's business case, which will be evaluated by the Gateway Team to ensure the wider, strategic benefits it sets out to address have been taken forward in arriving at the programme or project's preferred option.

Gate 5 (Operations Review and Benefits Realisation) is carried out when a project is completed and moving into operational service. The key purposes of this Gate are to:

- provide assurance that the desired benefits of the project are being achieved, and the business changes are operating smoothly
- assesses whether the Business Case for the project, was realistic and confirm that there is still a business need for the investment
- evaluate whether the benefits are actually being delivered

Further information on the Gateway process is supplied later in this note in response to your specific questions.

### **Findings of the investigation into failure of South East Wales Shared Service Project**

I will provide a note to committee on the findings when the investigation is complete.

### **Responses to the Committee's further questions**

***One of the issues raised by the review was that the evaluation criteria for bids should be agreed beforehand and applied transparently. This implies that the criteria for evaluation were not in place prior to bids being received. Is this correct and, if so, how were applicants supposed to prepare bids if they did not know the evaluation criteria?***

This is not correct. The former Minister for Finance and Public Service Delivery, Andrew Davies AM, wrote to Ministerial colleagues, departments and local authority leaders in June 2009 to invite bids for the Second Tranche of the Strategic Capital Investment Fund. Within this letter the former Minister clearly set out the arrangement and development proposals for

the Second Tranche, including the evaluation criteria for bids. The evaluation of bids was carried out against these criteria.

***Concern was also expressed about lack of detail in the outline proposals and the suggestion that there should be greater emphasis on the Strategic Outline Case. For both tranches funding was stated to be dependent on the use of the Five Case Model. At what point in the process did the business case come into play? Were the decisions of which schemes to fund based on outline proposals only, and if so what information was required to be provided in such proposals?***

The 5 case business model is an inherent part of the SCIF process and all applications for funding must be supported by an appropriate Business Case.

Applications for Tranche 2 were initially invited on a proforma. The proforma provided enough information for projects to be initially assessed against 6 criteria. There were 60 formal submissions to Tranche 2 SCIF on the application proforma.

Projects which were shortlisted for more detailed consideration by the panel were asked to submit documentation to support the application proforma, including Business Cases if available.

The Tranche 2 SCIF process requires Directors General to sign off business cases before a budget transfer is made to individual departmental budgets via the supplementary budget. In doing this, the relevant Director General is confirming that there is a Business Case in place for the project and that the SCIF funding will be spent in 2010/11.

A Business Case review panel has been established consisting of cross departmental representatives from Economic Advice, Value Wales and Finance, to assist departments with the assessment of Business Cases.

***The review recommends that use of the five case model and OGC Gateway Process should be mandatory for SCIF projects. Is it your intention to implement this recommendation?***

Applications to SCIF are encouraged to adopt the 5 Case Model and to undertake relevant Gateway reviews in order to ensure robust projects that meet a critical need, are developed.

We recognise that the Five Case model and OGC Gateway processes are tools that should be applied proportionally, particularly to small, non mission-critical projects. However, all projects are required to demonstrate appropriately robust cost benefit analysis and to be subject to internal project health checks. We will continue to ensure the right model and review processes are applied to SCIF projects.

***The review states that the OGC Gateway Process 'has been recommended for a number of schemes where it is likely to be of significant benefit. However, project teams appear reluctant to undertake these reviews'. Can you explain why this is the case and how it will be addressed?***

There is a perception that Gateway Reviews are a constituent part of the review process and are poor value for money. This is not the case. Gateway reviews have been proven to add value to programmes and projects and should be seen as a 'critical friend' reporting to the project Senior Responsible Officer (SRO) and not the approving authority. The purpose of a Gateway Review is to provide independent, impartial advice to the SRO.



We have established a Gateway Hub in the Assembly Government which will be accredited in the autumn. We are actively training Gateway Reviewers in Wales, which will increase understanding of the process as well as bringing down the cost of performing a Gateway Review (currently around £15-£20k per Gate).

***How widely are the five case model and Gateway Process applied to capital projects and programmes that are not funded via SCIF?***

One of the main benefits of the SCIF process has been the improvement in departmental capital processes, which have included the utilisation of the 5 Case Model and Gateways. Departments are using both of these techniques to ensure the success of large and mission critical projects and programmes. For example, the 21 Century School Programme and the Waste Programme have both been developed using 5 Case Model methodology and all large capital schemes in Health are developed using the 5 Case Model.

There are also several significant projects that have used the Gateway process to their advantage including the Aberystwyth and Llandudno Junction Assembly Government developments.

***The review indicates that value for money outcomes benefit from expert advice but that uptake of such advice in tranche one projects has been varied. Have the projects leads been made fully aware of the support and advice which is available to them?***

Many departments have taken advantage of the Business Case expertise available to them, when developing their schemes, as well as advice from the independent Panel.

Under Tranche 2, departments have been offered assistance in reviewing business cases by the SCIF Team. Many Tranche 2 schemes have taken up this offer and are receiving detailed advice on their Business Cases.

***Why has the uptake been so varied?***

Different departments have different levels of expertise and resources available in developing Business Cases. There is therefore a differing level of uptake of advice across the departments.

***Should the using available support and advice be made a condition of funding?***

The approach proposed in the Review Report to the development of SCIF builds this advice and support into the process.

***The review states that some projects have made use of consultants as a source of advice. Is this because they have been unable to access expert advice within the Welsh Government?***

Expert advice has been made available to all departments, however, as explained above, the degree of expertise within departments, particularly in relation to developing Business Cases in the 5 Case Model format, differs. Some departments have therefore utilised consultancy services to assist in the development of their Business Cases, however, we have been addressing this by making training in the use of the 5 Case Model available to Assembly Government and local authority staff.

***You said at the meeting that there were no further SCIF funds to allocate in 2010-11. However, when Andrew Davies made the statement on allocations to Tranche 2 of the SCIF on 20 Oct 2009 he said: "Allowing for a sensible level of over-programming, a sum of some £10m plus is available to be allocated in a second round which will be considered by the Strategic Capital Investment Cabinet Committee shortly. Projects identified for further consideration include the South East Wales Transport Corridor, Sustainable Travel Centres and the Media Capital project in Roath Basin." Is this £10 m still available and, if so, when do you intend to allocate it? Will any unused SCIF money (e.g. funds arising from the failed SE Wales Collaborative Project) be recycled back into a further SCIF funding round.***

On 7 December 2009 the Budget and Performance Committee agreed to award the Media Capital and Roath Basin Regeneration project £10m, subject to the BBC confirming its commitment to the site. On 15 January 2010 the confirmation was received of the BBC's decision to locate its new drama studios at Roath Basin. Confirmation of SCIF has been provided to the project sponsor.

There will be no more funding rounds for the 2008-11 budgets. Where SCIF money is not spent it will be returned for use as capital reserves.

***In your letter of 8 May you say, at the start of Annex 2, that the HSS capital allocation baseline is £319 million. Could you please clarify what that figure relates to as we have not been able to identify its source in published figures.***

The figure in Annex 2 is a mistake, the correct figures is £297m as set out in Annex 1 to that letter.

Bert Wishe,

Jane

**SCIF Tranche 2 Projects**

	<b>Project Title</b>	<b>Total Project Cost £m</b>	<b>SCIF Award £m</b>	<b>Other Funding £m</b>
1	Ebbw Vale Learning Works	112.m	35	£63m DCELLS £ 5m Blaenau Gwent CBC £ 1m Coleg Gwent £ 8m Convergence Programme (ERDF)
2	Taff Ely Learning Campus	40	12	£ 6m WEFO £15m DCELLS £ 7m Coleg Morgannwg Resources
3	21 <sup>st</sup> Century Schools Building with Gwynedd	8	5.3	£1.3m Gwynedd Council £1.4m Private Sector
4	Prince Charles Hospital Emergency Care Centre	22.4	8.5	£13.9m AWCP
5	Affordable Housing and Housing Support Package	105	20	£64m from RSLs and private industry £21m private investment to be levered in
6	Eco Lighting	1.75m	1	0.75m - CADW
7	Glyn Vivian Art Gallery	6m	3.5	£0.5m City and County of Swansea £2m Arts Council for Wales
8	Strategic Coordination Centre	16.3	16.3	None
9	Children's Hospital for Wales	58.89	8	£50.89m AWCP
10	Da-Vinci Arts and Innovation Centre	36	15	£3.5 -7.5m Arts Council for Wales £8 – 10m Convergence £5.5 - £7.5m Bangor University Private sector funding / sponsorship also being sought
11	Media Capital and Roath Basin Regeneration	350	10	£340 m Aviva Investor