

Andrew Davies AM/AC

**Y Gweinidog dros Gyllid a Chyflenwi Gwasanaethau
Cyhoeddus
Minister for Finance and Public Service Delivery**



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Eich cyf / Your ref:
Ein cyf / Our ref: AD/05278/09

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

4 November 2009

Dear Angela,

FINANCE COMMITTEE SCRUTINY OF 2010-11 DRAFT BUDGET

Thank you for your letter of 3rd November 2009, which sought further information on Strategic Capital Investment Fund and other issues that were not covered in Committee on 2nd November. I agreed to respond quickly.

Strategic Capital Investment Fund

- 1. The capital reserve shown to be available for the SCIF remains at £49.5m for 2009-10. Does this mean that no resource allocations have been made to departments since the announcement of the first tranche of projects in Dec 2008?***

We made allocations to Departments totalling £49.7 million in the March 2009 Supplementary Budget for 2008-09, and propose to make allocations in 2009-10 at the next Supplementary Budget.

- 2. If the resources have not yet been allocated, has the cash been made available to these projects in order that they can get underway?***

With the advice on an independent Panel of experts, the Strategic Capital Investment Committee commit to fund successful bids. Once the level of resource cover is approved for a specific project, which is subject to the submission, appraisal and approval of a Full Business Case, projects can get underway. Funding is transferred formally from capital reserves through an in-year Supplementary Budget. This has the advantage of enabling the Assembly Government to both scrutinise and reflect the progress of individual projects in formalising the in-year allocations.

3. ***Given the Welsh Government's policy to provide an economic stimulus by bringing forward capital funding from future years will such allocations be made in a later supplementary budget?***

The Strategic Capital Investment Fund is formed from capital reserves and capital End-Year Flexibility. It is not funded by capital brought forward from 2010-11 into earlier financial years. The Fund is providing huge economic benefits in the current economic climate - in addition to safeguarding jobs and providing a much-needed boost to the construction industry and the wider economy, it will also help to build new homes and provide better schools and hospitals.

4. ***Have there been any changes to the allocations announced in the first tranche since December 2008?***

The allocations are broadly consistent.

5. ***In slower time, could you please provide a detailed note setting out the process from beginning to end, i.e. from the point of application to the allocation of funding through the relevant portfolio, and the criteria on which decisions to allocate funding are based?***

Further information is included at Annex A.

6. ***Given the statement that the second tranche provides for a further £125 million in 2010-11, at what point will the allocations for the second tranche of projects be shown in the relevant Departmental MEG, and at what point will the funds be made available?***

The funds will be made available through a Supplementary Budget in 2010-11.

7. ***Can you please provide a breakdown of the amount of funding which will be allocated across each of the three years (2008-09, 2009-10 and 2010-11) from the SCIF capital reserve, and if possible can this be provided by portfolio?***

This information is set out in Annex A (Tables 1 and 2).

Other Capital

8. ***The WLGA suggested looking into other methods of funding capital such as the tax increment model of financing regeneration projects. Have you considered any alternative methods of financing future capital investment?***

The Welsh Assembly Government is committed to exploring innovative ways of financing public service infrastructure in Wales. More broadly, *Partnership Wales* is being established to coordinate activities, draw on best practice and work closely with the Welsh public service to ensure that it becomes 'more intelligent' in negotiations with the private sector and in dealing with large complex projects. There are significant opportunities which we are exploring in the fields of waste management facilities, where we are currently out to tender, as well as schools, transport, economic regeneration and in housing.

9. In their reports on the Draft Budget, other Committees have expressed concern that this bringing forward of capital funding to provide economic stimulus may result in a capital shortfall in 2010-11. Do you consider this concern to be justified and that the bringing forward of capital will result in a shortfall in 2010-11? If so what plans do you to compensate for such a shortfall?

No, the bringing forward of capital funding from 2010-11 into earlier financial years does not in itself result in a shortfall in 2010-11, as it is capital projects planned originally for 2010-11 and their associated budgets that have been brought forward. We have had discussions with the UK Government on the potential for bringing forward capital budgets from 2011-12 into 2010-11 to help provide a continued economic stimulus. However, it is unlikely that a decision will be announced by HM Treasury in advance of publication of the Pre-Budget Report.

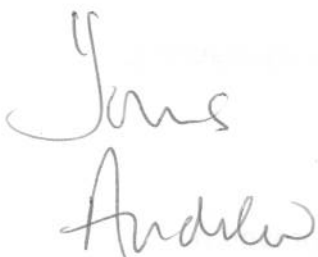
10. Do you have any details on how much economic benefit has been achieved by this re-profiling of capital expenditure into earlier years?

I wrote to you on this on 27th October 2009 following Finance Committee scrutiny of the 2009-10 Supplementary Budget.

11. During their appearance before the Committee, the WLGA suggested that at the Consultative Forum for Finance, the Minister for Finance had suggested that there may be a 50 per cent reduction in the Welsh Government's capital budget over time. Do you know if there is any truth in this suggestion?

No, I have referred publically on a number of occasions to the figures produced in the Chancellor of the Exchequer's April 2009 Economic and Fiscal Strategy Report and Financial Statement and Budget Report which, for example, indicates significant reduction in gross capital investment (or a halving of net investment) between 2009-10 and 2013-14 at the UK level. We expect that further information will be provided in the Pre-Budget Report. We do not yet know what our capital or revenue budgets will be for 2011-12 or future years, although we have consistently indicated that we expect them to be tighter than they are now.

I hope you find this response helpful.

The image shows a handwritten signature in cursive script. The first name is 'James' and the last name is 'Andrew'. The signature is written in dark ink on a white background.

STRATEGIC CAPITAL INVESTMENT FRAMEWORK – BACKGROUND NOTE

1. *One Wales* committed the Assembly Government to establish a 'Strategic Capital Investment Board'. The Cabinet Committee on Strategic Capital Investment satisfies this commitment and presides over the Strategic Capital Investment Framework (SCIF).
2. An independent Panel has been appointed to provide the Cabinet Committee with the benefit of its expertise and commercial experience in developing and delivering large capital projects. Panel member details were announced on 17 September 2008.
3. There have been 2 tranches of the Strategic Capital Investment Framework. Tranche 1 allocations were announced in December 2008 and made available around £350 million to 19 projects over the 3 financial years 2008-09 to 2010-11 (Table 1). Tranche 2 allocations were announced on 21 October 2009 and made available around £120 million to 10 projects for 2010-11 (Table 2).

Tranche 2 process

4. The Minister for Finance and Public Service Delivery wrote to Cabinet colleagues and local authority leaders on 2 June 2009 inviting bids to Tranche 2 and setting out the six key criteria for SCIF:
 - readiness to start including planning consent where appropriate;
 - direct links to *One Wales* agenda;
 - evidence of cross cutting collaboration;
 - strong fit with the Spatial Plan;
 - provides a stimulus to the economy by creating or safeguarding jobs during the construction phase; and
 - an invest to save approach leading to efficiency savings over the whole life of the project.
5. Tranche 2 was heavily over-subscribed, with 60 bids totalling around £470 million received against an available amount of only £125 million.
6. Of the 60 bids, 38 were received from Spatial Plan lead Ministers representing bids from the 6 Spatial Plan areas.
7. 22 bids were received from Assembly Government departments.
8. The process of selecting projects to be allocated funding was approved by the Strategic Capital Investment Cabinet Committee and involved a 2-stage assessment. These stages were not designed to test the validity of individual projects but to assess the project information supplied by sponsors against the six criteria.
9. Stage 1 consisted of a primary assessment of all 60 project bids against the 6 SCIF criteria.

10. Where more detail and clarity of outcome was provided in respect of projects, the quality and likely success of the bid was improved.
11. In stage 2, the independent expert Panel considered a short list of 27 projects and applied four tests:
- is there **confidence that the project is ready to spend**;
 - scoring on '**strategic**', '**exemplar**' or '**model**';
 - scoring on the '**robustness of the project team**'; and
 - scoring on the '**risk**' associated with the project.
12. Whilst the strategic nature of projects was a key priority, in light of the need for Tranche 2 funds to be spent in 2010-11, projects approved for funding needed also to be able to articulate a plan for spending available monies within the constraints.
13. Project sponsors are being encouraged to develop their projects using the 5 Case Model, which is being rolled out across the Assembly Government and the wider public sector and represents best practice in business case development in accordance with the Treasury Green Book.
14. Provision of funding is subject to approval of a Full Business Case for each project.

Funding process

15. Funding available for SCIF monies comprises existing Assembly Government capital reserves topped up End-Year Flexibility.
16. Funding is transferred formally from capital reserves through an in-year Supplementary Budget. This has the advantage of enabling the Assembly Government to both scrutinise and reflect the progress of individual projects in formalising the in-year allocations.

Future SCIF funding

17. No announcements have been made on future tranches of SCIF funding.
18. We will be reviewing the use of SCIF funding allocations and potential future funding on a regular basis and where schemes have scored well that will be taken account of should additional resources be made available.
19. We will shortly launch a *Lessons Learnt* exercise in relation to the bidding process for Tranche 2. This provides the opportunity to improve both the transparency and quality of future bids.

Table 1: SCIF Project allocations Tranche 1

These projects are listed below in departmental order, detailing indicative allocations for each of the three financial years:

Department	Project	2008-09 £m	2009-10 £m	2010-11 £m	Total £m
DCELLS	Construction of Newport Schools & Community Regeneration	8.5	1.5	5.0	15.0
DCELLS	Capital Investment Programme All Wales 21 st C Schools	0.1	2.9	2.0	5.0
DCELLS	Wrexham Secondary Schools	0.25	4.75	0	5.0
DCELLS/DE&T	Construction of Blaenavon Education & Community Campus	0.25	2.75	1.0	4.0
DE&T	Development of dualling A465 between Tredegar and Brynmawr	0.3	4.3	4.6	9.2
DE&T	Enhancements to rail infrastructure Shrewsbury, Wrexham and Chester	0.5	4.5	22.0	27.0
DE&T	Enhancements to rail infrastructure Swansea, Gowerton and Llanelli	0.5	4.5	15.0	20.0
DE&T	Creating a Low Carbon Region in Heads of the Valleys	4.0	4.0	4.0	12.0
DESH	All Wales Low Carbon Building Programme	2.0	9.0	15.0	26.0
DESH	Delivery of Anaerobic Digestion Plants across Wales	0	2.0	2.0	4.0
DESH	Delivery of 400+ Affordable Homes across Wales	15.0	16.0	11.0	42.0
DESH	Acceleration of the Flood & Coastal Defence Programme	0	3.0	5.0	8.0
DHSS	All Wales Pandemic Influenza Preparedness Programme ¹	11.3	40.0	7.7	59.0
DHSS	Health Vision Swansea – Reconfiguration of healthcare services	6.8	0	63.2	70.0
DHSS	Delivering the All Wales Primary Care Programme	0	2.6	13.8	16.4
DHSS	Welsh Ambulance Services Hazard Area Response Teams	0	2.0	1.0	3.0
DHSS	Construction of Merthyr Health & Wellbeing Centre	0	0	8.0	8.0
Heritage	All Wales Cultural Heritage Initiative	0.2	0.5	1.3	2.0
Heritage	National Library of Wales On-line Digitisation Project	0	1.0	1.0	2.0
SJLG	South East Wales Shared Services Centre – HR, Payroll & Training	0	0.9	9.5	10.4
CSA	Corporate Graphical Information Systems	0	0.5	0.5	1.0
	Total	49.7	106.7	192.6	349.0

¹ Due to the nature of this programme the funding profile is subject to on-going review.

Table 2: SCIF Project allocations Tranche 2

Department	Project	2010-11 £m
DCELLS	Ebbw Vale Learning Works	35.0
DCELLS	Taf Ely Learning Campus	12.0
DCELLS	21 Century School buildings for Gwynedd	5.3
DHSS	Prince Charles Emergency Care Centre	8.5
DHSS	Children's Hospital for Wales	8.0
DE&T/Heritage/DCELLS	Da Vinci Arts and Innovation Centre	15.0
DESH	Affordable Housing and Housing Support Package	20.0
Heritage	Eco Lighting	1.0
Heritage	Glyn Vivian Art Gallery	3.5
SJLG	3 Strategic Coordination Centres	10.0
	TOTAL	118.3

