



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

**Y Pwyllgor Cyfrifon Cyhoeddus
The Public Accounts Committee**

**Dydd Mercher, 23 Mawrth 2011
Wednesday, 23 March 2011**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

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.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymreig Welsh Liberal Democrats
Jeff Cuthbert	Llafur Labour
Alun Davies	Llafur Labour
Irene James	Llafur Labour
Bethan Jenkins	Plaid Cymru The Party of Wales
Sandy Mewies	Llafur Labour
Jonathan Morgan	Ceidwadwyr Cymreig Welsh Conservatives
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee)
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Michael Breach	Cynghorydd i Anthony Snow Adviser to Anthony Snow
Jeff Collins	Cyfarwyddwr dros Seilwaith, Llywodraeth Cynulliad Cymru Director for Infrastructure, Welsh Assembly Government
Gareth Morgan	Pennaeth Contractau a Chaffael, Llywodraeth Cynulliad Cymru Head of Contracts and Procurement, Welsh Assembly Government
Matthew Mortlock	Arbenigwr Perfformiad, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
James Price	Cyfarwyddwr Cyffredinol, Economi a Thrafnidiaeth, Llywodraeth Cynulliad Cymru Director General, Economy and Transport, Welsh Assembly Government
Ben Robertson	Arbenigwr Perfformiad, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office
Anthony Snow	Cyn Brif Swyddog Gweithredol, Swyddfa Archwilio Cymru Former Chief Operating Officer, Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Alun Davidson	Clerc Clerk
Cath Hunt	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

*Dechreuodd y cyfarfod am 9.33 a.m.
The meeting began at 9.33 a.m.*

Ymddiheuriadau a Dirprwyon Apologies and Substitutions

[1] **Darren Millar:** Good morning, everyone. Welcome to today's meeting of the Public Accounts Committee. I remind everyone that the National Assembly for Wales is a bilingual institution and Members and witnesses are invited to speak in either Welsh or English, as they choose. Headsets are available for amplification and translation, with channel 0 for amplification and channel 1 for translation. I ask everyone at the table to switch off their mobile phones, BlackBerrys and pagers, as they can interfere with the broadcasting and other equipment. If the fire alarm sounds, the ushers will tell everyone what to do. If everyone follows their instructions, we should be able to exit the building safely.

[2] I have received an apology for absence from Lorraine Barrett. There are no other apologies or substitutions.

9.34 a.m.

Adolygiad o Faterion yn Ymwneud â Chyfrifo, Llywodraethu a Phriodoldeb yn Swyddfa Archwilio Cymru: Tystiolaeth gan Mr Anthony Snow Review of Accounting, Governance and Propriety Issues at the Wales Audit Office: Evidence from Mr Anthony Snow

[3] **Darren Millar:** I welcome Mr Snow to the committee meeting. Mr Snow appears before the Public Accounts Committee today to assist us in our consideration of the accounting, governance and propriety issues at the Wales Audit Office. Members will be aware that Mr Snow was the chief operating officer at the Wales Audit Office from 2005 until September 2009. It was the discovery of the incorrect treatment of his severance package in the Wales Audit Office accounts that brought to light many of the issues that the committee has been looking at recently. It is understood that Mr Snow was legally entitled to the early severance package that he received on leaving the Wales Audit Office; however, questions have been raised about the manner in which the severance package was agreed and its subsequent treatment. It is hoped that Mr Snow will be able to shed some light on those issues today. Mr Snow is accompanied today by Mr Michael Breach, a family member. Welcome to you too, Michael. We have not received a paper from you, Mr Snow, so if it is okay we will go straight into some questions.

[4] **Mr Snow:** Yes, that is fine.

[5] **Darren Millar:** What was your role, as chief operating officer to the Wales Audit Office, in the preparation and review of the annual financial statements?

[6] **Mr Snow:** The head of finance was responsible for putting the financial statements together and for discussing those items with the external auditors. The arrangement that I had in place, because I was the chief operating officer and not just responsible for finance—I had a very broad role—was to have significant matters brought to my attention either by the head of finance or, if there was a disagreement between the head of finance and the external auditors, by the external auditors. If I did not act on those, either of those parties could bring those matters to the attention of internal or external auditors, the Auditor General for Wales, the audit and risk management committee, or indeed to your attention or to your predecessor's attention. Those were the arrangements that I put in place. I saw the draft accounts each year, other than those that related to the year of my own exit. I did not see the full accounts for that

year. However, I saw them in the earlier years at the same time as the auditor general saw them. The head of finance would identify any matters of significance that needed to be brought to my attention or that of the auditor general or the ARMC. I also fully participated in the discussions at the ARMC. I was part of that discussion each year with the external auditors, the head of finance, the auditor general and, obviously, the ARMC members when we went through the accounts.

[7] **Darren Millar:** So, yours was a role of examining any irregularities or major questions rather than the detail of the preparation of the accounts.

[8] **Mr Snow:** Yes, the professional head of finance was responsible for putting the accounts together and for the day-to-day discussions with the external auditors. The delegation arrangement I had in place was for significant matters to be brought to my attention by any of those parties.

[9] **Peter Black:** Did you have a role in determining the accounting treatment applied? More specifically, did you determine the accounting treatment for redundancy settlements?

[10] **Mr Snow:** Not specifically, no.

[11] **Peter Black:** So, did you have a policy overview with regard to these issues?

[12] **Mr Snow:** In relation to the individuals who had left before I arrived, I do not recall having a discussion specifically around those policies. I simply was not aware of the issue that has now arisen.

[13] **Peter Black:** Okay. However, on the wider issue of the accounting treatment that was applied to the accounts, would you have had a policy overview of that issue?

[14] **Mr Snow:** I would be aware of the policies, but I was not aware specifically that there was an issue with the exits of those earlier staff.

[15] **Peter Black:** Had you been aware of that, would you have agreed with the treatments that were applied, which meant that the continuing obligation with regard to the pension scheme was charged to the account when due rather than when the package was agreed?

[16] **Mr Snow:** Sorry; what?

[17] **Peter Black:** If you had been aware of the treatment, would you have agreed with the treatment that was applied to redundancy packages, which was to charge them when the payments were due rather than when the package was agreed?

[18] **Mr Snow:** I would have looked at the relevant regulation and I would probably have spoken to the external auditors to ask them for their view. That is what I would have done had these matters been brought to my attention.

[19] **Peter Black:** Okay. What I am concerned about is that you had line responsibility for the chief accountant—

[20] **Mr Snow:** The head of finance, yes.

[21] **Peter Black:** Yes, and yet these practices that have been identified as irregular were going on under your supervision and you were not aware of them.

[22] **Mr Snow:** I was not aware that there was an issue with them. As I said, the

arrangement I had in place was for the external auditors or the head of finance to bring significant matters to my attention. I think that you have seen from earlier evidence that the external auditors agreed with the head of finance that the accounting treatment was correct, and therefore neither party brought it to my attention, nor, as far as I am aware, to the attention of the auditor general or the audit risk and management committee.

[23] **Peter Black:** So the director of finance, effectively, had a free hand—the level of supervision was minimal, and the only time that you intervened was if they came to you.

[24] **Mr Snow:** I could go to them if I was concerned about something, obviously. It was two-way, but, in this respect, as I can see from transcripts of earlier meetings, the external auditors and the head of finance had discussions about these items and agreed that they were correctly treated.

[25] **Peter Black:** Did you carry out appraisals of these members of staff? Were there times when you discussed wider policy issues or how they should approach these things?

[26] **Mr Snow:** In general terms, we may well have done. I certainly did appraisals of the head of finance, yes.

[27] **Peter Black:** However, these things never came up in those appraisals.

[28] **Mr Snow:** No.

[29] **Darren Millar:** Given your extensive involvement in the preparation of accounts for public bodies, and the fact that you were requiring those public bodies to treat payments of this nature appropriately in their own accounts, it is pretty extraordinary, is it not, that, in the Wales Audit Office's accounts, these things have not been treated properly? Why would that not have been something that you would ask a legitimate question about—particularly in the year of your own departure? You say that you had some discussions about the accounts preparation in that particular year.

[30] **Mr Snow:** I think that we have to differentiate between the year of my own departure and earlier years. As I said, I put an arrangement in place for the earlier years when I was employed there to be advised of anything of significance—not just in relation to early retirement or severance, but anything of significance. I also had other controls in place, as I have just outlined. In relation to my own exit, like everyone on the management committee, I believe, I was entitled to be advised of what was being proposed in relation to my own disclosure. The head of finance advised me of that near the time of producing the accounts, not when I was still there, obviously, so it was nine months later. That quantified the sum, and that there was an ongoing pension liability. It was absolutely a matter for the head of finance, the auditor general and external auditors to agree how my pension liability was disclosed. I had no jurisdiction over them. I had left the previous September, so one has to differentiate between the two periods.

[31] **Sandy Mewies:** I want to look later at the initial decision to terminate the post of chief operating officer, but I will first go back to something that you said earlier. You said that the thrust of your job was to deal with significant matters that were brought to your attention by the head of finance or external audit, and, if you did not act on them, they could be brought to external or internal auditors, to the auditor general, or, indeed, to ourselves, as a committee.

[32] **Mr Snow:** Or to the audit and risk management committee.

[33] **Sandy Mewies:** I am just thinking, Chair, of some evidence that we had previously.

When you left, do you have any idea who took up your responsibilities and whether what you have just said, that phrase, was encapsulated within the legacy responsibilities that went to someone else?

[34] **Mr Snow:** I would not know what was formally transferred to an individual. I know that it was, and I believe that it was documented, but I cannot be sure of that. The arrangement that we had in place was that, if I did not act on things when people would expect me to have done, then they could elevate the matter to the auditor general initially. If he did not act on it, it could then be elevated to the chair of the audit risk and management committee, and, if he did not act on it, it could be elevated to this committee. I would imagine that those arrangements are still in place, but I do not know.

9.45 a.m.

[35] **Sandy Mewies:** Who picked up the baton when you left? Who took over? It may well be that your job was made redundant, but it cannot have been a completely redundant post; something must have been passed on.

[36] **Mr Snow:** Absolutely. I believe from what I have read that there is now a managing partner for resources, as I think it is called, or something like that. That individual, whoever the head of finance now reports to, would have picked this up as part of the new management structure that had three managing partners in it, one of whom was responsible for the change programme and that sort of thing. So, they would have picked up that element of what I was previously responsible for.

[37] **Sandy Mewies:** Thank you for that. We only have one e-mail regarding Mr Colman's thinking on the terms of termination and the post of chief operating officer. Are you able to provide us with your understanding of why it was necessary for that post to be made redundant?

[38] **Mr Snow:** My understanding is that the auditor general made a decision based on the developments at the WAO since its inception—you may recall that the auditor general was sourced from the National Audit Office, whereas I was sourced from the Audit Commission, and the WAO brought the two together. He had no experience of the Audit Commission side of the business. So, the learning that he had acquired over the period, plus the systems and processes and so on that had been put in, was one reason for no longer requiring a COO in the revised structure. Another reason was a straight value for money assessment that taking the COO out of the structure would lead to savings, as has been reported to you previously, of about £1.2 million over the period. That, no doubt, was a significant driver.

[39] The third reason, as far as I can see, is that the peer review, while it had not reported at that time, had, I understand from what I have read, supported the auditor general in his view that he could have clearer lines of responsibility by dividing my role among a number of people. That was my understanding of the rationale for it.

[40] **Jeff Cuthbert:** I want to be clear in my mind about something. With regard to the first explanation that you gave, are you saying that, in effect, the auditor general—that is, Mr Colman—saw your post as some sort of temporary or interim post until he had gathered enough experience to carry out the duties himself?

[41] **Mr Snow:** That was part of the rationale that he gave me. I do not think that it was a temporary post, because it lasted for four and a half years, but he gave that reason as part of the rationale for no longer requiring the post. Whether it was a significant reason or not, I do not know. I imagine that value for money was the major driver.

[42] **Jeff Cuthbert:** I think that that answer is highly pertinent to some of the questions that will come later, so I will leave the matter until then.

[43] **Darren Millar:** Prior to the announcement that your post was to be made redundant, how much discussion was there with you?

[44] **Mr Snow:** Not a great deal. When he first advised me towards the end of March that he was minded to set a new structure and that it might not include a COO post, as was then covered in his e-mail in early April, that came as a great shock to me. I knew that we were restructuring, and that we were undergoing a peer review. That had been going on for some time. I did not know at that point that that was what he was minded to do. Following that discussion and the e-mail, we had another discussion once he had decided that he no longer required the COO post in the new structure, and, by that time, I believe that he had instructed the head of finance to get the cost details of releasing me. From that point on, I realised that I did not have a future role there and asked whether I could engage a lawyer to support my interests, to which request he agreed.

[45] **Darren Millar:** So, as a senior member of staff within the organisation, this came as a surprise and a bit of a shock to you?

[46] **Mr Snow:** The first conversation, obviously.

[47] **Darren Millar:** It does not seem to me that you were involved in the decision to make the post redundant, then.

[48] **Mr Snow:** Absolutely not. This was the auditor general's decision. I do not know who he spoke to before he made that decision, but, when he first mentioned it to me, it came as a complete shock.

[49] **Bethan Jenkins:** I would like some clarification. The e-mail that was sent to you mentions the head of finance audit as a new position that could potentially be created. What discussions did you have with Jeremy Colman post that e-mail to discuss the different options? Also, you will be aware of reports that you would not have received the redundancy payment had the redundancy been the day before your fiftieth birthday. Did you not raise any concerns with regard to the fact that there could have been other options? The redundancy payment is quite significant and you might not have received it had the redundancy come a day before, so is there nothing that would have triggered some sort of discussion, if you were shocked at the fact that you had been given this option of redundancy, whereby you would have said, 'Well, actually I have dealt with other staff members in this capacity, perhaps I should say that this does not look right; this does not wash.'

[50] **Mr Snow:** First of all—I think that legal advice on this has already been presented to you—it is not correct to say that had I accepted this a day before I would not have had that redundancy payment; I think you have had evidence to that effect and the existing auditor general has also commented on it to show that, at the point that that was first raised with me, it was so close to my fiftieth birthday that that would have been open to significant legal challenge and that that was a relevant factor. As regards the head of financial audit post, you have had evidence on that as well from the WAO, I believe, which made it clear that no such post existed. I do not know what was going through Mr Colman's mind at the time. Maybe he was thinking that he could create another post, because, at that point, I do not think that he had decided on the structure, but I do not know; maybe he had decided on the structure that he wanted to implement from the autumn. However, as you can see, no such post exists.

[51] **Bethan Jenkins:** I was just wondering whether you had any discussion about what your future employment could be, as it was quite a detailed e-mail. Did you not have any

discussion at all post the e-mail?

[52] **Mr Snow:** The discussion we had post the e-mail was that he had decided to delete that post, and the option of creating another post was not on the table.

[53] **Alun Davies:** I must say that I find your evidence on this matter somewhat curious. We are given to understand that the post of chief operating officer was established because of the turmoil involved in the organisation being constructed, and that the auditor general saw himself as focusing too much on internal matters and not enough on his objective in doing the job. You took up your post in early 2006. In his letter to us, dated 18 February, the auditor general stated, in relation to his decision to abolish the role of chief operating officer:

[54] ‘During 2008 I realised that the post merger turmoil was continuing far too long’.

[55] That was a two-year period and you were working in a post that should have been dealing with these issues. I would anticipate—it is certainly true of everywhere I have worked in the past—that the chief operating officer would have a very close relationship with the chief executive in most organisations. It seems to me somewhat curious that you were surprised when this matter was raised with you. I would have anticipated, in a normal relationship between two senior officers, that you would have been having these discussions regularly, and that you would have been well informed of Jeremy Colman’s views. I would also have anticipated that, given your experience and knowledge, you would have recognised whether, as Jeremy Colman said, the organisation continued to be in turmoil. Therefore, these things should surely not have been as much of a surprise to you.

[56] **Mr Snow:** I can only repeat what I said—that that came as a bolt out of the blue.

[57] **Alun Davies:** So what was your relationship with Jeremy Colman?

[58] **Mr Snow:** It was a professional relationship. It was not a social relationship.

[59] **Alun Davies:** Tell us more. You must have discussed the matters for which you were accountable with the auditor general, and he must have given you feedback, which must have happened regularly.

[60] **Mr Snow:** We had regular one-to-one meetings. He did not give me any strong indications of issues around turmoil, although, clearly, there were issues there. Resolving those issues was the responsibility of many people—not just me. However, I had an important role in resolving those issues, and we discussed those, as well as many other issues, in those one-to-one meetings.

[61] **Alun Davies:** At no point during these two years did Jeremy Colman give you any indication of the frustrations that he appeared to feel.

[62] **Mr Snow:** In terms of how quickly we could move on, we had discussions about those things. We wanted to move things on—

[63] **Alun Davies:** You are very guarded in your response. The decision to bring in a peer review was surely a reflection of wider concerns in the WAO. You would not have had a peer review if you felt that you did not need one. Did that not raise any questions in your mind?

[64] **Mr Snow:** I fully supported the peer review. I thought that it was an excellent idea, because we wanted to address internal and external issues. The peer review did not just look internally—and you have seen the report—it also looked externally. As the peer review identifies, the organisation had made several positive steps. It had some problems of course,

as most organisations do, but it had made some positive steps. Indeed, one of them, which is highlighted in the peer review, is the shared learning and good practice exchange that I instigated and directed. That was highlighted in the review as one of the major successes of the WAO, as was much of the performance and financial audit work. Therefore, that was my understanding.

[65] **Alun Davies:** I also find it curious that the rationale for creating this role was, in essence, to create the internal systems and structures within the new WAO. That would surely have been completed fairly quickly; if I was looking at creating that post, I would expect it to take perhaps a year or 18 months. Let us face it, the WAO is not ICI, is it—it is not a large organisation. Therefore, in terms of creating structures, and making processes work effectively, there has to be an end point to that. As Mr Colman points out, you were an expensive member of staff. It would have occurred to me, had I been in your position, that this role was not sustainable in the long term, and I am surprised that it did not occur to you.

[66] **Mr Snow:** The role was beyond just the internal focus; I was also the single appointed auditor for a large number of local government sites in Wales. As I say, I instigated and led the good practice exchange, so the pure internal operations were a part of the role, but it was not the only role—the role was broader than that. I believe that one report—I do not recall which one—identified that, when the WAO was established, it inherited a large number of long-standing issues, and that those issues were going to take time to change, and, indeed, they did take time to change.

10.00 a.m.

[67] **Darren Millar:** Jonathan Morgan has the next questions.

[68] **Jonathan Morgan:** Mr Snow, you said that you were shocked. Were you shocked that the former auditor general had not discussed his thinking with you about your role or were you shocked about the fact that he had decided to make your role redundant?

[69] **Mr Snow:** When he first mentioned it, to be fair, he used the word the ‘minded’, which is also the word that he used in his e-mail. So, at that point, as far as I was aware, he had not decided.

[70] **Jonathan Morgan:** You say that he was minded. Did that lead to any sort of discussion before he came to a final conclusion?

[71] **Mr Snow:** Following the e-mail in early April, we had a one-to-one discussion in which he told me that he was no longer minded, and that he had actually decided. So, that was the sequence of events.

[72] **Jonathan Morgan:** You said earlier in answer to Alun Davies’s question that you and Jeremy Colman had a discussion as to how to move things on. Did that discussion take place after he had said to you that he felt minded, or had decided, to make your role as chief operating officer redundant?

[73] **Mr Snow:** I was talking in general terms there. I believe you asked me whether he challenged me on things, or something to that effect. At that point we were discussing how we could move things forward with the organisation, so it was not specifically around that time.

[74] **Jonathan Morgan:** Did you agree with his decision to make your role redundant? Taking the personal side of it out—that is, that your role was disappearing—but wearing your professional hat as someone with a great deal of experience in this field, did you feel that the

organisation needed a chief operating officer?

[75] **Mr Snow:** I felt that it needed one in the earlier years. Following the peer review, I could see the benefit in having a different type of top management structure.

[76] **Jonathan Morgan:** So you supported his view that the role of chief operating officer was therefore redundant?

[77] **Mr Snow:** If it was not involving me personally—if that is what you are asking, because that is important—I could see that the new structure could work. I hoped that it would work, and now it is working effectively.

[78] **Janet Ryder:** I want to clarify a couple of points. Is it the case that the post was never, as you understood it, intended to be temporary? Was it a full-time permanent post when it was created?

[79] **Mr Snow:** Absolutely.

[80] **Janet Ryder:** So, you did not have a specific discussion on how the duties of your post could be taken up in a new structure with Jeremy Colman?

[81] **Mr Snow:** Yes, I did have a discussion about how I would transfer my responsibilities. Indeed, I believe that I sent an e-mail out to a number of staff, and maybe even to all staff, explaining in my notice period how we would effect a handover. For example, we had to identify a new single appointed auditor and interview them, and so on. I was involved in some of that. So, we did have discussions on that.

[82] **Janet Ryder:** Was that was all post Jeremy Colman telling you that the post, in his view, was redundant?

[83] **Mr Snow:** Yes; it was not before that.

[84] **Janet Ryder:** I want to go back to something that Jonathan touched on. Were you surprised that the post was being made redundant and that there was no opportunity for you to be redeployed within the organisation?

[85] **Mr Snow:** The WAO has a number of partners, as I am sure you are aware. All those partners reported to me for operational purposes but were directly accountable to the auditor general. Therefore, it was difficult to see how there would be an equivalent level role. That is one point. Secondly, that proposal was simply not on the table. It was not put to me. What was put to me was that the COO role was being deleted.

[86] **Janet Ryder:** I accept that that is what was put to you. Could I ask for your personal view? If you can take yourself out of that situation, would you have expected that role to have been redeployed rather than being made redundant?

[87] **Mr Snow:** Not necessarily. As I said, I believe that one of the drivers was value for money. Had we left the post and me in the organisation, we would not have achieved those savings. By redistributing the work that I was doing, we achieved the savings.

[88] **Darren Millar:** Sandy, you wanted to come in on this point. I will then move on to Alun's questions.

[89] **Sandy Mewies:** I wonder whether you can clear up a couple of things. When you took on the post of chief operating officer, did you have discussions about a job description or

was one of these given to set out what was expected of you?

[90] **Mr Snow:** I do not believe that I received a formal job description as such; we certainly discussed what was to be delivered and I had annual performance reviews against those objectives.

[91] **Sandy Mewies:** Do you agree or disagree with evidence that we have received from Mr Colman that you would complete the construction of the corporate infrastructure and run it?

[92] **Mr Snow:** I agree, although it would not have been just me doing that.

[93] **Sandy Mewies:** Later on in that evidence, it is said that one of the things that you were to do was to enable partners to deliver their project portfolios and for their performance to be managed within the corporate infrastructure. When talking about the abolition of the post, he suggests that you were being burdened with matters that could and should have been sorted out by individual partners; instead, they were delegating upward to you. You have said that the head of finance should have pushed matters on to you if he or she was not satisfied.

[94] **Mr Snow:** Yes.

[95] **Sandy Mewies:** There seems to be a suggestion that other people were not fulfilling their roles. If that was the case, why was it not tackled? Was an attempt made to tackle it?

[96] **Mr Snow:** There were occasions when individual engagement partners responsible for projects benefitted from additional input from me to do with time limits on projects or resourcing, and so on. In those cases, I had discussions with those partners to try to find a way forward with them. They were directly accountable to the auditor general; they were not accountable to me. We were in a matrix structure, and the projects side of the matrix fed directly through to the auditor general. My role was not to supervise partners or anything of that ilk—that was the auditor general's responsibility, not mine—but I was there as a facilitator.

[97] **Irene James:** Was it your decision to leave the organisation or Mr Colman's?

[98] **Mr Snow:** It was absolutely Mr Colman's decision.

[99] **Jonathan Morgan:** Who in the organisation knew about the value of your severance package at the time that it was agreed?

[100] **Mr Snow:** I have no way of knowing that. I know that Mr Colman and the head of finance knew, but I do not know from whom he was taking advice. I was aware that he was dealing with a firm of lawyers in London, but that is as much as I knew.

[101] **Jonathan Morgan:** You are currently chief operating officer of the Financial Reporting Council. In your organisation, if a senior member of staff were to leave with a severance package—perhaps under similar circumstances—who would you expect to know about that package?

[102] **Mr Snow:** In my response to the invitation to attend this meeting, I said that I was going to talk about the Wales Audit Office and not about my existing employer, so I cannot comment on that.

[103] **Jonathan Morgan:** I am trying to get a feel for how organisations generally work, and whether or not it would have been appropriate in the Wales Audit Office for people other

than those that you have mentioned to have known about the financial package.

[104] **Mr Snow:** That was entirely a matter for Mr Colman.

[105] **Jeff Cuthbert:** Were you aware of the fact that Mr Colman instructed Mr Baker, the head of finance, to withhold details of your settlement from everyone in the human resources team? Why do you think that the human resources team was not to be involved in such a significant staffing decision?

[106] **Mr Snow:** I was aware that HR was not involved in those initial discussions. The head of HR was, obviously, a subordinate of mine, and Mr Colman agreed that it would not be appropriate for her to be involved. Post the agreement, I would have no way of knowing who was informed or not informed. Leading up to the agreement, as far as I was aware, the HR function had not been involved, but again I would not know that for sure.

[107] **Jeff Cuthbert:** Could you clarify that? I think that you just said that Mr Colman agreed that it would not be appropriate for the head of HR to be involved because she was an officer who was junior to you. So, with whom did he agree—was it you? Whose request was it that she not be involved? Was that initiated by you?

[108] **Mr Snow:** We had a discussion and I asked whether that individual could not be involved, yes.

[109] **Jeff Cuthbert:** I find that unusual, because the purpose of human resources is, after all, to guide on matters such as this. In your opinion, putting aside personalities, would you not agree that that is an unusual way of working?

[110] **Mr Snow:** As I knew that the auditor general was going to take advice from a major firm of employment lawyers, it was obviously his decision, not my decision. For all I knew, he could have taken advice, and maybe he did take advice, for all I know, from other HR providers.

[111] **Darren Millar:** I will move on to Peter Black in a moment. I remind Members that an ongoing piece of work is being undertaken by the Wales Audit Office in respect of some of these issues, in particular around a member of staff whom we are discussing at present.

[112] **Peter Black:** You said, Mr Snow, that you agreed with Mr Colman that the head of human resources would not be involved as she was subordinate to you, but the head of finance was also subordinate to you. I do not understand why you felt that one subordinate officer should be aware of the details and another should not.

[113] **Mr Snow:** The head of finance had obviously already been involved in discussions with Mr Colman at the point that he took the decision to say that he did not wish to continue with the COO role. So, he was already involved then.

[114] **Peter Black:** So, it was a fait accompli.

[115] **Mr Snow:** Yes.

[116] **Peter Black:** So, there is not an issue of a professional breakdown between you and the head of human resources with regard to why you would not want them to be involved?

[117] **Mr Snow:** There were challenges with the human resources department. That was not a significant factor; it was a factor. Those challenges did not exist with the finance function.

[118] **Bethan Jenkins:** Were you aware of the fact that Mr Colman took external media advice on handling your departure and that, in discussing your departure with an external media consultant, he is said to have stated that the true value of your severance package would not appear in the accounts? If you were aware of that, did you challenge it?

[119] **Mr Snow:** I was completely unaware of that.

[120] **Bethan Jenkins:** You were completely unaware.

[121] **Mr Snow:** I was completely unaware.

[122] **Darren Millar:** Is there any reason why Mr Colman would have taken media advice on your departure?

[123] **Mr Snow:** I do not know. I was absolutely unaware of that.

[124] **Alun Davies:** Was there any reason why you would not want the details of your departure settlement to be made public at that time?

[125] **Mr Snow:** No. I assumed that it was going to be made public.

[126] **Alun Davies:** The whole issue of your departure, Mr Snow, is curious, and has led to a great deal of speculation as to what happened. I am not entirely sure that you have clarified it this morning, frankly. There is suspicion abroad that your departure was linked in some way to Mr Colman's departure. Did you have any idea at all of any of his criminal activities while you were a member of staff?

[127] **Mr Snow:** Absolutely not; none whatsoever.

[128] **Alun Davies:** You had no inkling at all.

10.15 a.m.

[129] **Mr Snow:** None whatsoever.

[130] **Alun Davies:** There is no relationship between your departure and his departure.

[131] **Mr Snow:** Absolutely none.

[132] **Darren Millar:** Thank you; I think that you have answered that question clearly.

[133] **Sandy Mewies:** We were told that there would be other jobs available—heads of financial audit and performance audit. Is it the case that you decided not to put yourself forward for another role and that you had made the decision that you would prefer to retire, if suitable terms could be agreed?

[134] **Mr Snow:** As I said earlier, those positions were not on the table at the time that Mr Colman made the offer to me.

[135] **Darren Millar:** We are going to move on now to look at travel, subsistence and training costs. We have received some information from the auditor general regarding travel, subsistence and training costs for you and Mr Colman. I have to say that they were pretty eye-watering for members of this committee to read. I will remind Members of the figures: during your four years in office as chief operating officer, almost £40,000 was spent on training—an average of almost £9,000 per year. Of course, Mr Colman incurred similar levels of

expenditure. These were massively different to the training expenditure on other senior members of staff within the organisation and, indeed, other Wales Audit Office staff. So, we have some questions on this.

[136] **Jeff Cuthbert:** As the Chair outlined, we have received information on the issue of training, continuous professional development and the associated travel and subsistence costs. We support entirely the principle of CPD—that is not an issue—but, as the Chair has outlined, we cannot help but note that the average annual spend for you was £8,800. For the other partners, the average was just over £700, and for all other audit office staff, it was just over £800. That is a huge difference. In your response to an earlier supplementary question from me, you said that you think that one of the reasons for the eventual ending of your post was that the then auditor general did not feel, at the beginning, that he had the necessary expertise and knowledge, so you were brought in, but that that changed as time went by. I cannot quite get my head around the need for such extensive spend on CPD. I can perhaps see it from the auditor general's point of view, in that he was acquiring the knowledge that he did not have to take over your post—you may have a view on that. However, I am also concerned, as someone who has worked in staff training and CPD, that it is important that expenditure is justified. That can include evaluations of training undertaken, so that the organisation can see what benefit is being gained, to help it plan. Our understanding is that there is very little paperwork to justify the amount of courses that were approved and on which money was then spent. So, why did so much training and development take place, and what was your role in agreeing what you needed to learn?

[137] **Mr Snow:** Overall, over four and a half years, training costs were about £8,500 a year. However, that included a significant sum for organisational development work in Oxford, which I believe cost about £11,000. That would reduce the annual cost further. In relation to the comparative figure that you gave, staff in the WAO who were fee-earning would generate fees of £500 to £700 a day. We had a training policy in place of 10 days per annum. So, while they may have spent only £400 or £500, on average, on external training providers, there was a much larger cost involved in lost time. That was significant; you cannot charge clients for time if you are on a training course. My role was largely non-chargeable—it was almost completely non-chargeable—so that puts it in context.

[138] **Alun Davies:** That is incredible.

[139] **Jeff Cuthbert:** So, you are saying that the figures that we have are misleading—that they are not accurate, in that sense.

[140] When each item of training was completed, what record was made? What evaluation and follow-up discussion was held about the value of the training?

[141] **Mr Snow:** I can see, from reading the reports, that the auditor general did not always maintain records of those discussions. We did have regular one-to-one discussions. Prior to attendance, we would discuss the attendance—indeed, the auditor general suggested that I attend a number of the training events, and I agreed—and we had discussions afterwards. Therefore, the post-attendance evaluation happened by way of a one-to-one meeting. I acknowledge that I did not complete a form. I do not know whether the auditor general completed a form or not.

[142] **Jeff Cuthbert:** Clearly, he did not do so, according to the information that we have already had.

[143] **Sandy Mewies:** So, you were having chats before and after these training courses, which were very expensive, however you compare them with anything else. Was there ever a time when you followed the normal practice, which would happen in the Wales Audit Office

and in other organisations, of discussing a full training and development plan, not only to benefit you but to improve performance in the organisation? That is what normally happens in these situations, even at the level at which you were working, and even if you had the benefits of one-to-one discussions. Did that not happen at all?

[144] **Mr Snow:** We had a discussion around a partner development programme. One of the other partners was charged with researching that and developing it. It was intended to run across the whole of the senior management group. We certainly had discussions of that ilk. If your question is about my own personal development, the role that I fulfilled required me, for example, to make a large number of presentations—there was an emphasis on continuing to improve those skills—and there was a role involved in organisational development, which is what the NTL course was about. There was also a broader leadership role, which is what the Windsor Leadership Trust course was about. They were specific things that were discussed with Mr Colman at the time. Some of them were discussed a year in advance and some of them were discussed months in advance.

[145] **Sandy Mewies:** Were any notes taken?

[146] **Mr Snow:** I do not know what notes Mr Colman recorded of those items.

[147] **Sandy Mewies:** You did not take any notes. You just kept it in your head and thought—

[148] **Mr Snow:** I may have jotted something down at the time, but I have no notes.

[149] **Sandy Mewies:** There were significant times during which you were away from work in other areas. You stayed at hotels, and so on, did you not, for some of these courses?

[150] **Mr Snow:** Yes; some of them were held in London and Oxford.

[151] **Sandy Mewies:** So, it would have involved some planning for you. You could not just say on Monday, ‘By the way, on Friday I am doing such and such’.

[152] **Mr Snow:** No.

[153] **Sandy Mewies:** It would involve planning, would it not?

[154] **Mr Snow:** Yes. I did not say that, did I?

[155] **Sandy Mewies:** No. It would have involved planning.

[156] **Mr Snow:** Yes.

[157] **Sandy Mewies:** I would have thought that, somewhere, there was some trace—although not by you, perhaps. Did you think that notes were being kept?

[158] **Mr Snow:** I did not know whether Mr Colman was keeping notes or not. My travel arrangements were done through the office, so of course they were done well in advance. The support staff would have booked trains, hotels and so on. They would have also booked the course. I did not personally book these things, that was done by the staff.

[159] **Alun Davies:** The answer to the earlier question was simply not credible. We are talking about hard costs to the taxpayer, not the costs related to the earning of fees or not by staff members, so your answer to that question is simply not credible. It would be useful if you were to try to answer that question again. More importantly, perhaps, in answer to me

earlier, you characterised your relationship with Mr Colman as being very distant. You said that it was ‘professional’, and you gave the impression that there was a distance between you, but when I look at all these matters in the round, that is not the impression that I gain. The impression that I gain is that you had a much closer relationship with Mr Colman. I would not use the term ‘sweetheart’, but you certainly appear to have been treated differently from other members of staff. Your training is a good example of that. There was a substantial differentiation between yourself, Mr Colman, and everyone else in the WAO, and your attempt to answer that question, as I said, is not credible. It appears to me that you had a much closer relationship with Mr Colman and that that was based on private conversations rather than noted meetings. As a consequence, a great deal of taxpayers’ money has been lost, wasted, or is simply unaccounted for, and I find that very difficult to accept.

[160] **Mr Snow:** I can assure you that we had a professional relationship. I would have thought that the fact that he decided to delete my post is some evidence that we did not have that close a relationship.

[161] **Alun Davies:** You were very well compensated by the taxpayer for that.

[162] **Mr Snow:** If you look at the actual settlement, you will see that I had less than half of my income and three months to try to find another job in difficult economic times. I ended up finding another job, but one that means that I have to stay away from home every week of the year. So, I beg to differ. It was a very difficult period for me and it does not suggest a close, warm relationship. We did not have that type of relationship at all.

[163] **Alun Davies:** However, the fact that you had a substantially different working environment, alongside Mr Colman, from all other members of staff at the WAO—

[164] **Mr Snow:** I was the chief operating officer and he was the auditor general. One would expect to have different arrangements in those circumstances.

[165] **Alun Davies:** I find that difficult to accept, if the relationship was as distant as you say.

[166] **Mr Snow:** It is nothing to do with distance or closeness; it is to do with a professional working relationship.

[167] **Darren Millar:** When a member of staff came to you with an identified training need, how did you document that in your office? Many members of staff reported to you. What did you require from them if they were putting themselves forward for a training or development course of some sort?

[168] **Mr Snow:** At a senior level, because the staff I dealt with were the partners primarily, I acknowledge that we did not have a great deal of documentation. I took the view that, at a very senior level, if I was satisfied with their discussion with me, I would leave it to others to progress it.

[169] **Darren Millar:** Is that not extraordinary? The WAO is the watchdog for public bodies across the whole of Wales. You expected those public bodies to be able to provide evidence of value for money to you for every penny and pound that is spent in this country, and yet you did not keep records when members of staff came to you with a training need that they had identified, or make any kind of paper-based request to Mr Colman for, frankly, the extraordinary sums of money spent on your training. Many people would regard it as lavish, Mr Snow.

[170] **Mr Snow:** If I may answer your last question first, as I think that it says in some of

the evidence that you have already had, some of that training was approved in writing by Mr Colman, for example, the Windsor leadership and some of the personal mentoring. So, it was not the case that none of it was.

[171] **Darren Millar:** That is around 25 per cent of the total.

[172] **Mr Snow:** I do not know what the percentage is, but it would be a reasonable percentage. So, that was variable. In relation to the other partners, some of it was no doubt recorded—you are talking about five or six years ago—but maybe not all of it was.

10.30 a.m.

[173] **Darren Millar:** With hindsight, would you like to take this opportunity to apologise for the appalling record-keeping on training and its cost to the Welsh taxpayer, and for the fact that there was no proper recording of either the need for some of this training or the benefits that accrued to the Wales Audit Office as a result of it?

[174] **Mr Snow:** I do not know what the auditor general recorded. I have said that some of the requests that I made were recorded. Some appear not to have been. We are talking about a period starting six years ago; I simply cannot recall each instance. I have the reports that the WAO has done on the training courses that I attended, which I have read, and, in my view, the courses represented value for money.

[175] **Jonathan Morgan:** So, the majority of the training that you undertook during that four and a half years would have been requested by you and approved by him orally.

[176] **Mr Snow:** That is correct—probably the majority.

[177] **Jonathan Morgan:** You have mentioned the expectation that was on partners and the way that you approved or otherwise training requests from them. As the chief operating officer, what was your understanding of the policy that would have applied to other members of staff in the organisation who could have requested to go on a training course? What was your understanding of the process that they had to go through in order to get to the point of making a request for training and getting on to the training course? What did they have to do to get to that position?

[178] **Mr Snow:** My recollection is that would be identified as part of the annual performance review. It would or should be recorded on a personal development plan.

[179] **Jonathan Morgan:** So, there would be a performance management review and a personal development plan. Who would be responsible for what resulted from that? Let us say that I was working at the organisation and I felt that, as a result of that PMR and development plan, I needed training in a particular area. Who would be responsible for identifying a training package to satisfy that requirement? What process would I have gone through from that point to persuade you to spend a couple of thousand pounds, say, to send me on a training course? Would I come to see you or my line manager and say that I wanted it, or would I have to put a case in writing setting out why a training package was my preferred option? Knowing how other organisations work, I am trying to think of the sort of hurdles that people were expected to jump over in order to justify why the training was required, why the cost should be incurred and what was gained as a result. What would you have expected?

[180] **Mr Snow:** Within the matrix, we had roles called home team managers and those people were responsible for the people side, rather the project side of delivery. So, if you were employed in a team in financial or performance audit or the corporate area, you would go to your home team manager, who was the person who would be setting your objectives, doing

your appraisals and so on. If it was instigated by the individual, you would discuss your requirements with that home team manager. I do not recollect exactly where it went from the home team manager, but there would have been some sort of process from there in order to approve the arrangement within the allowance that we gave each member of staff.

[181] **Jonathan Morgan:** Would that process have involved the keeping of paperwork in order to justify why the training and the expenditure were required?

[182] **Mr Snow:** I do not know whether that was maintained, but the training requirement would or should have been recorded. I am not sure whether the post-training evaluation was recorded.

[183] **Jonathan Morgan:** So, there was no way of demonstrating whether the training that was being delivered to individuals working in the Wales Audit Office, including you, the partners, and those further down the chain, benefited the organisation.

[184] **Mr Snow:** I am not saying that. I am saying that I do not know what the rest of the process was. The personal development plan was part of the performance arrangements. As a minimum, personal development needs would be identified annually. From recollection, they should have been recorded on the forms and either pursued or left depending on whether they were agreed or not.

[185] **Jonathan Morgan:** It is one thing to identify a need on a form, whether that is a performance management review or a development plan, and I accept that the process that leads to good professional development often involves that sort of engagement with members of staff. What concerns me, however, is how that was then taken forward. There is a range of training providers in various specialist fields. Who was responsible for identifying the training provider to be used, whether the cost was acceptable, and whether the member of staff should at that point be allowed to access that training? It is about whether that, too, was done verbally, or whether, further down the chain at the Wales Audit Office, it could be demonstrated that those people were filling in forms and submitting the rationale for training and demonstrating with a level of rigour why a particular training package was required.

[186] **Mr Snow:** I would imagine that that was absolutely in place further down the organisation. There may be one-off cases in which somebody needed particular training in a certain area, but much of the training investment at the WAO was for the professional staff. If there was to be a group training event, for example, then we would look at who was the most appropriate provider for that group. If the training was for an individual, we would look at who was the most appropriate individual to provide the training. So, it would vary on a case by case basis. However, the responsibility for identifying and evaluating the training rests with the individual's manager.

[187] **Jonathan Morgan:** To help us to understand the training that you received, could you talk us through what a typical session with Lance Edynbry consisted of and why it had to be held at a private members' club in Whitehall?

[188] **Mr Snow:** I will answer the last question first. The Lance Edynbry Partnership has two bases, one in the north and one in London. The room that he used in Whitehall was hired for him to see all his public and private sector clients. That is why the training was based there. I did not book that room; he was based there.

[189] **Jonathan Morgan:** So, the Farmers Club in London is a well-known centre for professional training, is it?

[190] **Mr Snow:** For that particular partnership, yes.

[191] Sorry, what was your first question?

[192] **Jonathan Morgan:** I asked whether you could help us to understand the nature of the training and outline what a typical session with him was about.

[193] **Mr Snow:** He is a professional mentor; he mentors a number of senior people in audit organisations and in other public bodies. In a COO role, it is essential to have such an individual to bounce ideas off and discuss whatever challenges one is facing at that point in time. That is why I saw him two or three times per annum during that period.

[194] **Darren Millar:** It was actually about once a quarter, at a cost of £1,000 a pop, was it not?

[195] **Mr Snow:** Over the four and a half years, I believe that it came to £11,000, which works out at about £2,500 a year. So that would be about twice a year.

[196] **Darren Millar:** Yes, but at one point you were meeting him once a quarter, at a cost of around £1,000 per coaching session, each of which lasted around two and a half hours, as I understand it.

[197] **Mr Snow:** With all respect, it was not once a quarter every year, was it? It was—

[198] **Darren Millar:** Okay, but at one point during the four years, it was once a quarter.

[199] **Mr Snow:** At one point, I have may have seen him that often, but, in totality, the cost was £11,000 over four and a half years, which works out at around £2,500 a year.

[200] **Darren Millar:** You moved on to have coaching sessions with someone based in Cardiff, at a much lower cost, actually. It seems a much more sensible cost. Those sessions were with Helen Love. They were similar sessions, were they?

[201] **Mr Snow:** No. Those sessions were specifically to do with presentational skills. She is a voice expert.

[202] **Darren Millar:** Okay. Jonathan, do you have any more questions on that? I see that you do not. A few other people want to come in now. Jeff is first, and then Bethan.

[203] **Jeff Cuthbert:** I am trying to get clarity on this matter. In response to a question from Jonathan about the systems that were in place, you said that you imagined that that was the case. You were the chief operating officer, which is a very senior post in the organisation, so I would have thought that you would be absolutely sure of the systems that were in place. You also said that approximately 25 per cent was recorded, therefore 75 per cent was not. The fact that there is a mixture makes me even more concerned than if there was nothing at all or that everything was recorded, because it seems to be a rather chaotic approach to something that is very important. I still cannot get away from my great concern that the cost of training and development for you was 10 times the cost of that for other staff, even taking into account the points that you made about covering the time spent. Let us be generous and say that it was seven times the amount spent on other staff, but it is a considerable amount more. All of that investment was made in you—nearly £40,000-worth of training—but the conclusion was that the post was redundant. There was a similar expenditure on training for you and for the former auditor general and this was way above the average amount spent on other staff. You mentioned training on mentoring and presentational skills, but I cannot see why it was felt so necessary for there to be that level of expenditure on training for you both, which was far more than was spent on anyone else. I have not heard anything like a satisfactory justification

for that.

[204] **Mr Snow:** I have said all that I can say on that. The only other point that I would make is that you linked the training with the auditor general's decision to delete the post. This training was undertaken over four and a half years—it did not happen in isolation.

[205] **Jeff Cuthbert:** It was at a constant level in terms of expenditure.

[206] **Mr Snow:** Yes.

[207] **Darren Millar:** It seems that there was one rule for you and Mr Colman, and another for everyone else, which is pretty extraordinary.

[208] **Bethan Jenkins:** I do not want to labour the point, but some of the training mentioned, such as the training undertaken on 7 May 2009, happened when you had already been told in an e-mail in April of that year that your role would not be continued. Therefore, I find it very difficult to understand how you can define it as value for money when one of the training sessions seems to have been held after you had taken redundancy. All we would like is for you to acknowledge that when you were winding down your position, it was not pertinent to go on training courses, especially executive coaching training courses. That is what the public would seek, namely some sort of acknowledgement that that was not value for money at that stage. It may have been value for money in 2008 because your role still existed, but I find it very difficult to understand how you can define that training in 2009 as providing value for money. I think that it would be respectful to acknowledge that some of the training sessions towards the end—especially in locations so far from Wales—were not really acceptable. Do you not see that?

[209] **Mr Snow:** No, because following the signing of the compromise agreement—and we have written evidence of the request and Mr Colman's agreement—we acknowledged that I was effectively being displaced. I was 50 years of age and I had worked in that sector for a long time. I benefited significantly from that mentoring and coaching in order to help me to move on. As I said, it came as a shock to be advised in late March of what he was minded to do. When he decided to do it, it was a significant issue for me.

[210] **Bethan Jenkins:** This is about value for money for the Wales Audit Office. How can you justify having training for staff that you know will not be there any longer, just because your personal development is important after leaving that organisation? I cannot see how that is justification for spending money on one person, because many other people may or may not be in that position in the future. Do you expect every individual to have training just in case they are made redundant?

10.45 a.m.

[211] **Mr Snow:** I did not say 'in case'; I said that it was after I had signed the agreement. Prior to signing the agreement, as far as I was concerned, everything was continuing as usual. Post signing the agreement, clearly I knew that that was it; I was going to be leaving at the end of September. One of those courses, as you have already heard in evidence, had already been booked months in advance, and I specifically agreed with Mr Colman that I could still attend that one in September. It was two weeks before the end of September, and I also specifically agreed the mentoring with him. Some of those were in writing because I had effectively been displaced. So, it was not just in case I was going to be displaced; it was because I had been displaced. We had signed a legally binding agreement, and at the end of September, I had no job.

[212] **Janet Ryder:** Just to clarify then, they formed part therefore of your redundancy

package.

[213] **Mr Snow:** It was up to Mr Colman how he defined them. They were clearly attended after I had signed the compromise agreement.

[214] **Darren Millar:** Okay, thank you. I have one final question for you. Obviously, we became aware of Mr Colman's arrest over some serious conduct issues. Were you at any time, during your time as chief operating officer at the Wales Audit Office, concerned about Mr Colman's behaviour, particularly in terms of his leadership style, on which we have received lots of evidence; the discharge of his duties and responsibilities as accounting officer for the organisation; or any other matters of personal conduct whatsoever?

[215] **Mr Snow:** On the personal conduct side, absolutely not. I had no inkling whatsoever that he was involved in the things that he has subsequently pleaded guilty to. On one occasion, I took my 12-year-old son to the office and he was sitting reasonably close to him and I do not think that I would have done that if I had known that he was involved in such atrocious activities.

[216] In terms of his professional capacity, as it says in the peer report, he was an articulate and professional individual; he made his mark; he introduced the issues analysis drawing the conclusions scenario very quickly indeed into the WAO. His engagement in the value for money side of things was positive. We did have challenging discussions over internal matters such as the matrix structure, which was an unusual structure for the organisation to understand when it was first introduced and I wanted to be confident that we had put enough preparation in place to make that work effectively. So, we had challenging discussions around that. We also had challenging discussions around doing short-term quick response work, such as the NHS ambulance review, because that meant that we had to take staff away from other projects in order to deliver quickly.

[217] So, we had what I would describe as quite healthy but challenging discussions around who we would use, when we would use them and how we would deal with the knock-on effect on other projects, and that sort of thing. Indeed, with the good practice exchange, while that was and is a huge success, clearly it drew a lot of resources and we had discussions around those sorts of areas that were pretty challenging. So, there were certainly plenty of challenging discussions, but at no time whatsoever did I have any inclination that he was involved in the things that he has pleaded guilty to.

[218] **Darren Millar:** Were you concerned about his leadership style at any point?

[219] **Mr Snow:** I was aware that he had a lot of one-to-one discussions and I discussed this with him because while one-to-one discussions are fine and effective, you need to ensure that if whatever you have discussed impacts on others, it is properly communicated. From reading the reports, clearly while he had a lot of paperwork with him, it appears that some of those things were not being recorded.

[220] **Darren Millar:** However, there was nothing serious enough in your opinion that should have been raised with other people in terms of his leadership style. You had those robust discussions, which go on in all sorts of different organisations, but there was nothing of particular concern that you felt that you needed to raise with anybody else, such as the audit and risk management committee or the Chair of this committee?

[221] **Mr Snow:** No, nothing that we did not discuss at the ARMC.

[222] **Peter Black:** Jeremy Colman had a lot of one-to-ones with members of staff, many of whom, presumably, would have had direct reporting responsibilities to you.

[223] **Mr Snow:** He mainly met the partners. Although they reported to me, or I was effectively their home team manager in the matrix, they were directly accountable to Mr Colman.

[224] **Peter Black:** Did you not feel that you were being cut out by those one-to-ones, or was there any tension between you as a result of those one-to-ones?

[225] **Mr Snow:** No, provided that, if I needed to be, I was made aware of what was being discussed. Obviously, I was not responsible for delivering every project in the WAO. That was the responsibility of the individual partners; that was how we divvied it up. No doubt, the vast majority of those discussions were to do with whatever that individual engagement partner's responsibility was.

[226] **Peter Black:** Are you satisfied that, where you had an involvement, you were fully briefed on the outcome of those discussions?

[227] **Mr Snow:** Well, I would not know if I was not.

[228] **Peter Black:** You do not have any suspicions that you were not briefed?

[229] **Mr Snow:** No, not in relation to the projects.

[230] **Alun Davies:** Mr Snow, we are coming to the end of this session. I think that there is broad agreement that this has been a distasteful and destabilising little episode for the Wales Audit Office, which has caused great public concern throughout Wales. Do you feel any personal responsibility for the part that you have played in this?

[231] **Mr Snow:** I can quote from the peer review that there were a great number of successes that the WAO achieved from the very first day that it opened its doors. There were some challenges as well, which every organisation faces. I think that was highlighted very well in the peer review report. I did the best that I could to improve that situation, as did all the senior management there. That is as much as I can say.

[232] **Darren Millar:** If there are no further questions, that brings us to the end of this item. Thank you, Mr Snow and Mr Breach, for your attendance today. It is much appreciated. We will now take a two-minute break before the next item.

*Gohiriwyd y cyfarfod rhwng 10.52 a.m. a 10.59 a.m.
The meeting adjourned between 10.52 a.m. and 10.59 a.m.*

**Prosiectau Trafnidiaeth Mawr: Tystiolaeth gan Gyfarwyddwr Cyffredinol
Adran yr Economi a Thrafnidiaeth
Major Transport Projects: Evidence from the Director General of the
Department for the Economy and Transport**

[233] **Darren Millar:** Members will recall that a report was published on 27 January this year that highlighted the increasing costs of many recent major transport projects in Wales, largely due to delays in project completion and the knock-on impact on the overall delivery of the Welsh Government's transport programmes and objectives. The report points to some changes and improvements in the way that the Welsh Government manages projects on the trunk road forward work programme and in its oversight of local-authority-managed major projects. However, it seems that the full impact of these changes is yet to be seen. We have received written evidence from the Welsh Government, and we have three witnesses with us

today. I welcome James Price, acting director general of the Department for the Economy and Transport, and Jeff Collins, director of infrastructure, including housing and regeneration, I believe.

[234] **Mr Collins:** I think that that might be a mistake; I hope that it is. [*Laughter.*]

[235] **Darren Millar:** You can tell us more about your role in a few moments. We were notified this morning that an extra witness would be joining us, namely Gareth Morgan, head of contracts and procurement; I hope that we have your correct title, Gareth. As I said, we were not informed of your attendance, but we are delighted that you can join us to help shed some light on some of the issues that we want to discuss. Jeff, will you introduce yourself for the record and tell us what you do?

[236] **Mr Collins:** I am the acting director of the infrastructure group, which encompasses transport, the rolling out of information and communications technology and broadband and property. A previous iteration of the job included housing and regeneration, but that has been sorted since James took up the director general position.

[237] **Darren Millar:** We will move straight to questions. Paragraph 1.8 and figure 4 on page 23 of the auditor general's report—I hope that you have brought copies with you—state that recently completed major transport projects have cost, on average, 61 per cent more than the early estimates of the costs of those projects. The cost of the Porth bypass almost trebled, if I remember correctly. Why are costs increasing at such an alarming rate? What does this mean in terms of the knock-on impact on the rest of the forward work programme for the trunk road network?

[238] **Mr Price:** That is a wide-ranging question and a good one to begin with. There is no simple answer, as it is a complex area, as the report acknowledges. We have looked at projects that have a long lifespan and have compared the costs of projects at their inception—even before we knew what the preferred routes were—with the outturn costs that may well arise 20 years after the original projects were conceived. A number of things will have happened during that time, including changes in design and environmental standards, construction costs and inflation; all of these will have had significant impacts, to various extents, on the cost of the schemes. Over and above that is a more general issue that has had a bigger impact on transport grant projects than on Assembly-Government-run projects directly, namely that, over time, we have become better and more robust at estimating the original cost; I am thinking about the eradication of optimism bias. In essence, there is a series of genuine and good reasons for being where we are, and a series of reasons that are less good that are to do with us needing better systems and management processes; I think that we have achieved those things over time.

[239] **Darren Millar:** When a decision is made to go ahead with a project, it is on the basis of the estimated cost of that project at that time, because there are cost-benefit and value-for-money issues to consider. Given the massive increase in the cost of some of the projects, would it be fair to say that some of them would never have gone ahead had the estimated price been the same as the final price?

[240] **Mr Price:** I do not think that that is fair, no.

[241] **Darren Millar:** So, they would all have gone ahead.

[242] **Mr Price:** Yes.

[243] **Darren Millar:** Including the ones where the cost of the projects trebled.

[244] **Mr Price:** Yes. I will split the schemes into two, if I may, and talk about Assembly Government schemes and transport grant schemes. In relation to Assembly Government schemes for the whole period that we are talking about, at every key stage along the way the most up-to-date estimate is looked at and compared with the benefits that are expected to accrue from the project. The benefits and costs are looked at constantly. So, the check that is given at every point is: are the benefits worth the costs? That is done even when the costs are going up significantly. However, we do not rerun the cost-benefit analysis; all we will do is uplift the benefits in line with inflation. We do not redo the analysis. That test is done at every point in the process, at all key stages.

[245] Turning to transport grant schemes, the same is true, but it is, potentially, true to a lesser extent. There may be fewer gateways, in that, when you come to publish orders and the orders are taken through and the scheme goes to public inquiry, the inspector will test whether the benefits are worth the costs, and that will be looked at. It is true that the rigour that the Assembly Government has applied to its direct schemes all the way through is better than that that has been applied to the transport grant schemes. However, in the past two years, the rigour on transport grant schemes has been improved significantly.

[246] **Darren Millar:** You say 'rigour', but there were still significant overspends in relation to the original cost estimates on pretty much all the projects that were looked at by the auditor general, even on the Assembly-Government-run schemes.

[247] **Mr Price:** Yes.

[248] **Darren Millar:** So, it was not that rigorous, was it?

[249] **Mr Price:** There is always room for improvement, and I would argue strongly that there have been improvements pretty much year in, year out since the Welsh Office, and then the Assembly Government, have been running schemes. We have tried to have a step change in the past two to three years in the way in which we do things, and we are going through a further step change in moving to one infrastructure group that is equally rigorous across all projects, having one set of processes and one team, rather than having different processes for different project streams, which we had before.

[250] **Darren Millar:** We will touch on some of these issues as we go forward. Clearly, some issues are outside your control, such as regulatory specifications for highways, which might be introduced on a UK-wide basis, and for which you have to factor in additional costs. However, there are some things that always tend to crop up and that should be entirely predictable, which perhaps have not been considered enough in the past. I am sure that we will touch on all those, and I will give you an opportunity to respond in a few moments.

[251] **Bethan Jenkins:** Paragraphs 1.1 and 1.10, and figure 4 on page 23, show that the average cost increases have been substantially higher on local-authority-managed projects than on the trunk road projects. Your evidence paper appears to acknowledge deficiencies in the estimation of costs for local-authority-managed projects. Was that simply down to poor practice by local authorities and poor scrutiny by the Welsh Government, or were costs deliberately underestimated on the grounds that, once the programme was in place, any cost increases would fall on the Welsh Government and it was unlikely to be cancelled?

[252] **Mr Price:** Thank you for the question. It is difficult to answer, in the sense that I do not know for a fact which of those issues was the one driving it. However, my suspicion—and this is not just a transport grant issue or a local authority issue; it is a capital projects issue across the public sector—is that you will try to keep prices down to get something into a scheme or a programme, and once it has been given the green light to go ahead, particularly after construction has started, you cannot very well stop, so prices tend to drift up. So, I think

that that was a much bigger element in the local authority transport grant schemes than it ever was for Assembly Government schemes. So, I guess that the answer is ‘yes, I think that that was a factor’. All the other factors that I have talked about will also have come into play.

[253] **Bethan Jenkins:** Following on from that, figure 7 on page 29 shows significant reasons for late completion and/or cost increases on the 10 case study projects. Paragraph 1.7 notes that these issues are similar to those reported previously with projects in England. If these issues were well known, particularly if there was knowledge of what had happened in England, why were sufficient allowances not put in place for them to extend on the estimated costs and so forth?

[254] **Mr Price:** Again, that is a very good question. I think that this is one of the ones on which I need to put my hands up and say that we could have done better. Looking at the later projects that we worked on, such as the M4 widening and the A40, and even the projects that we have got involved in towards the end, such as Church Village bypass and the Porth relief road scheme, where we have said that we will not let the price go beyond a certain figure, we have held it to that figure. You would be quite correct to come back to me to say that the Church Village and Porth schemes ballooned before we came in and said that we would not let it go beyond a certain figure, but, once we said that, and once we were managing those factors much more vigorously, things improved. I think that the guidance is better than it was, as is the way that we estimate inflation and the way that we systematically try to eradicate the optimism bias—not just by applying a standard percentage, but by looking at the different risks and trying to apply it so that we are in a better position. However, we need to be careful to avoid going too far the other way, where we overprice schemes at the beginning and allow contractors to push the price up; that will make us look like we are performing very well as a department, because we will always come in at or under the price, when all we have done is let costs drift up. So, there is a balance to be achieved. We need to continue to get better at estimating costs upfront and then holding people to those costs rather than just letting initial costs drift upwards.

[255] **Bethan Jenkins:** My follow-up question relates to that optimism bias. Can you explain what you mean by eradicating it? What I understood was that you were able to add to the estimated project cost by between 3 and 45 per cent. That is quite a large margin. How are you then seeking to pull the estimate down so that you do not get yourself into those difficult situations ever again?

[256] **Mr Price:** The term ‘optimism bias’ is often misunderstood and it is bandied about in different ways by different people. Some people use it as a defence mechanism; other people use it as an attack on projects. It is meant to recognise the risks that we talked about and the risks set out on page 29. It is meant to encourage project sponsors and owners to vigorously assess the different risks, to put the likelihood scores against those and assess what impact they could have. The attempt is then to eradicate that optimism in the project sponsor’s mind, so that they do not come in 25 per cent below. Instead, they will say that, in fact, because of the topography and the number of statutory undertakings that they are going to have to deal with as part of the project, they believe that the price may go up by 25 per cent and that, therefore, they will put that in upfront. The key thing is not to let the project owner keep that 25 per cent and assume that he is going to spend it. It is an attempt to keep the price down, not to let the price drift up. Perhaps Jeff or Gareth would like to come in at this point.

[257] **Mr Collins:** I would like to make just one point, which is linked to the first two questions about why the costs were so far off the initial estimate. The transport grant programme was put together in 2001-02, optimism bias came in as a Treasury recommendation in about 2003, and it was all about putting the price together.

11.15 a.m.

[258] The table on page 29 is really useful. If you rank order, as I have done, and go backwards, you can see that two appear seven times and you can work backwards to see the most common flaw in estimates. In a way, you would use optimism bias at 45 per cent if you had not detailed all of those elements in your cost. If you had detailed all of those elements in your cost, you could probably take it down to 3 per cent. Therefore, optimism bias is really a mechanism by which you just say, ‘With your initial pricing of the project, are you really confident that you have all of these matters bottomed out? If you have not, put this in’. The Mott MacDonald report that, I think, led to the optimism bias concept issue, suggests that you could be slightly more accurate and go into it in more detail and work it down. It is a recognised thing that many project promoters will be slightly optimistic in timescales and pricing. Sometimes, there is a great deal of sentimental attachment to their own project and they are keen to see it proceed. As James said, just getting it in and getting it started is sometimes the quickest way of getting it to proceed. As for why the pricing was so off the mark, some of them are quite old. Optimism bias is beginning to address that trend. We recognise that trend and we are putting more rigour into ensuring that these matters are identified and addressed, but with the caveat that it would be just as damaging to overprice a project as it enters into the programme because it may lock other stuff out. Is that okay?

[259] **Mr Morgan:** As you have pointed out, at the earliest stage, optimism bias is a much larger figure. If you went to a PFI, which is a very thoroughly investigated contract where everything is virtually defined at the time of signing the contracts, that is where you would use the lowest percentage. The biggest percentage is at an early stage where you make your best estimates of risk, but because such little information is known about the site and the future project, the optimism bias figure is larger. When you know exactly what you want, and you know the constraints, you will have the lowest level of optimism bias. That is the difference between 3 per cent and 45 per cent.

[260] **Darren Millar:** Sandy has a question.

[261] **Sandy Mewies:** It has already been answered.

[262] **Darren Millar:** I therefore call on Jonathan.

[263] **Jonathan Morgan:** Paragraphs 1.24 to 1.27 reflect how cost overruns and time delays on individual projects have put pressure on programme budgets that, in turn, have resulted in other projects being deferred. In essence, you have a double-whammy effect where one set of projects overruns on cost and, as a result, the projects that are deferred presumably end up going up in cost as a result of the deferral. In his evidence on 2 February, the auditor general emphasised the need for the Welsh Assembly Government to be realistic about what could be achieved in the future within your transport budget. Is the Assembly Government now looking to scale back its transport commitments to reflect a more realistic programme of work?

[264] **Mr Price:** I think that, to a significant extent, we have already done that with the 2008 prioritisation of the forward trunk road and rail programmes. When I gave evidence to the Finance Committee on this, we talked about how we had scaled back what had been just a planning tool. At first, the forward trunk road programme and the rail programme basically just said, ‘We are going to get all of these schemes ready to go as and when we have the money, and these are the earliest feasible technical dates—if we have the money—that we could deliver’. We moved them on to be programmes where, on the basis of the best eradication of optimism bias, and the best estimates of prices and future budgets that we could have, we believed that we had schemes that were deliverable within the windows mentioned in the forward trunk road programme and the rail programme. That saw a number of programmes being pushed out into phase 3, which does not have a date on it. So, to a

significant extent, we have already done that. Clearly, there is always room for improvement. I am always pushing the team and myself to try to do that. However, I do not believe that there are any big surprises that are about to get us on that. I think that we have already taken the chunk out of the programme in 2008 as a result of that.

[265] **Jonathan Morgan:** Therefore, are you confident that you can deliver what is in the Wales transport strategy that was announced three years ago, bearing in mind the significant cost pressures and delays that you have seen in more recent years?

[266] **Mr Price:** There are two sides to this. At the time, I was confident with the budget that we were expecting, which was basically our budget uprated in line with inflation. However, we are now in a different arena with regard to public sector budgets and there has been a recent announcement about rescheduling certain projects as a result of the budget cuts. So, with regard to the management of the scheme, I am confident that, given the budget that we thought that we had at the time, the schemes were deliverable, and we went through quite a challenging process to ensure that that was the case.

[267] **Jonathan Morgan:** Looking at what the auditor general wrote in his report, and considering those projects that had been deferred as a result of cost pressures and project overruns elsewhere, can you, first, estimate the overall cost of the deferral of those projects and, secondly, whether or not there are some projects that have been deferred that are now unlikely to be delivered, or are at risk of not being delivered?

[268] **Mr Price:** Off the top of my head, I do not have a figure, but Jeff or Gareth may have. On the second part of your question, on whether we have, in effect, pushed out any schemes so that they cannot be delivered, I think that the answer is 'no'. Having said that, there are probably schemes in the third phase of the trunk road forward programme that would be quite difficult to deliver now, given the budgets. However, they are schemes in relation to which there is no great clamour of people saying that we need to deliver them. I know that this is a scrutiny committee looking at audit and management, but the policy question is: if you are pushing that far out, are they the right schemes anyway? Also, given the length of gestation of a transport project, many of the schemes that we are building now were designed in the 1970s, so, from a policy perspective, is that really the way in which we ought to be delivering things? I appreciate that that is a separate question, but it is the schemes that we might want to build that we do not know about yet that are at risk of not being funded, rather than the other schemes that are in the programme.

[269] **Darren Millar:** Mr Collins, do you want to come in with regard to the potential cost overrun on those schemes in the forward programme?

[270] **Mr Collins:** The cost could be calculated, but I do not have that information to hand. It is quite an interesting topic because if you take something like the Port Talbot distributor road, which will cost around £100 million, and delay it a year, the cost will increase by £5 million. So, there are issues and not only will the costs of the projects increase, but there will also be a delay in accruing the benefits. If you look at the non-monetised benefits, you will see that there are many aspects to it. So, calculating the cost is something that we could do as an exercise to begin to understand it, but I do not have the information to hand; sorry for that, Chair.

[271] **Darren Millar:** With regard to phase 3, is it fair to say that that is a wish list of schemes that are not of high priority for you, but could be politically important? To what extent is there political pressure to announce that a scheme will go ahead for it just to be tossed onto this wish list?

[272] **Mr Price:** There used to be a lot of pressure to do that, but post 2008 that pressure

has gone, largely as a result of debates in the Finance Committee and of people understanding the risks of trying to include stuff that it may not be possible to deliver. So, I do not think that phase 3 is stacked full of political wish lists. What you have is a mixture of old projects that we may have been planning to deliver, but which are no longer fit for purpose—for example, as a result of changes in journey patterns or there being a desire to see more sustainable forms of transport—and perfectly valid schemes that we probably will deliver. There is a third category as well; I cannot remember what it is, but it will come back to me.

[273] **Jeff Cuthbert:** Paragraph 1.25b of the auditor general’s report refers to the costs of the M4 relief road being more than £1 billion and therefore making it unaffordable. I am not disputing that, and this is certainly not an issue of it being on my wish list, but I am concerned that that logic and approach does not apply to the A465, the Heads of the Valleys road, and the sections that still require dualling. I drive along that road regularly and it is one and a half lanes in either direction; it is not a safe road, and it desperately needs to be upgraded. So, do you feel that there is any danger to the project to upgrade the remaining four sections because of available moneys? We are also aware that the sections that have been done so far cost more than was anticipated, so have any lessons been learnt in terms of the sections that have been upgraded for the remainder of the work?

[274] **Mr Price:** I will start to answer that and then bring Jeff in. The simplistic answer to your question on whether there is any risk that the A465 will go the same way as other projects is ‘no’. The answer is ‘no’ for three reasons. The first reason is that there is very heavy political commitment from all sides to deliver it. The second reason is that we have worked very closely with the Welsh European Funding Office and directly with Europe to ensure that we can direct European structural funds to fill in our budgetary potholes. The third reason is that we have been very vigorous in terms of looking at how to keep costs down on that scheme in relation to the A465, and I do not think that we are about to walk into a whole series of issues such as those that have been written about in this report.

[275] **Mr Collins:** Lessons have definitely been learned. Case history 8 talks about the issues in relation to Dŵr Cymru-Welsh Water and how that had a knock-on effect on the A465. The lesson learnt there is that we need to work better with our statutory undertakers. As James said, for our own budgeting purposes, we believe that we have accurate spend figures for these things, and they do appear.

[276] I was project manager of the new M4, and when it was reintroduced in 2004 there was an assumption that it would pay for itself through tolls. The conclusion of all the work that we did, given that there was a spare route that would not be tolled, was that we would probably never levy the money that we needed. That was the evidence that was provided to us: it would not pay for itself. There were also some issues about changes to accounting practices that meant that it landed on the balance sheet of the Welsh Assembly Government. However, it came down to the fact that if you worked up the price of the job—this is particularly relevant to this discussion—the initial estimates moved from £340 million to £473 million. By the time you put VAT and optimism bias on that and projected that forward, for an outturn cost in 2017, you began to work up a price that was in excess of £1 billion. So, it was no longer deliverable against the criteria for which it was reintroduced. It meant zero moneys for us, and you also had this huge outturn cost estimate.

[277] **Sandy Mewies:** Moving on to procurement and contract management, paragraphs 2.9 to 2.16 describe how the Welsh Government’s procurement approach has evolved, moving towards early contractor involvement as the preferred approach for contracts worth over £18 million. What benefits do you think you are seeing from the use of early contractor involvement, and do you have any plans to extend its use to projects worth less than £18 million? You have also highlighted the difference between local-authority-led projects and WAG-led projects. Have the local authorities also used early contractor involvement in the

projects that they manage? If they have not, why is that the case? If they are using that approach, are you ensuring that there is shared learning and a common approach?

11.30 a.m.

[278] **Mr Price:** I will take the questions in the order that you asked them and I will bring in Gareth on some, to provide more detail, because it gets quite technical quite quickly. There are two benefits to early contractor involvement, one of which is sharing risk and trying to reduce the level of risk. The other is incentivisation. The risk is shared between ourselves and the contractor. The reason for that is that the contractor can control big elements of risk, as can we. We therefore both own the risk in order to try to bring it down, which is best practice. In terms of the second benefit, the contractor is incentivised to come in below the cost estimate and is penalised for coming in above it.

[279] The other thing that I would say about ECI contracts relates to the reports that have been done on ECI in England, such as the Nichols report in relation to the Highways Agency. The Highways Agency has always looked only at quality. It has not had a price element in its ECI contracts. We have always had a price element in our ECI contracts, and we are currently actively considering whether we should push the price element up, in some instances, to a greater percentage of the contract. So, a lot of the criticisms that are levelled at ECI at a UK level are not applicable to Wales. Regarding the recommendations that have been made on ECI in England, we are already doing those things. In terms of the detail, I will ask Gareth to come in at this point.

[280] **Mr Morgan:** You made a very interesting point on achieving value for money in ECI contracts. From reading our report, Members will be broadly aware of our key stage process. ECI contractors are brought in at an early stage, when we are still developing the preferred option and coming up with a detailed design of the scheme itself. The traditional approach would be that we would go out to the contractor with a detailed design, which would give the contractor a very limited tendering period in which to understand all of the requirements of the design and to price it in a very competitive environment. That is especially true in today's tough commercial conditions. When contractors submit their price, they often make a commercial decision to submit estimates that are lower than that which they think they can realistically deliver the scheme for, which results in cost overruns at the construction stage. As the WAO report clearly points out, in two thirds of ECI projects the cost increases occurred before the contracts were awarded, and therefore in only a third of cases did the cost increase after the award of contract. That demonstrates the benefits of ECI projects in that contractors bring their knowledge of the buildability of a design to a project. If a design is more buildable, it is cheaper to construct. That early involvement at the design stage ensures that the contractor fully understands what is required when construction starts, which means that construction becomes more efficient.

[281] During the early design stages, a contractor is incentivised to find a reduction in the target cost that he has bid for at the outset. The contractor submits a cost to us at the outset, even though we only have a preliminary idea of what we want to achieve. The contractor is then incentivised to beat that cost during the design phase. The contractor sits with us through the public inquiry and represents the buildability side for us. Then, when we move into the detailed design stage, the contractor is well aware of both the employer's requirements and the statutory requirements of the scheme. So, that process fully informs the contractor, and it informs us, as the client, about the buildability issues, ensuring that we have a buildable scheme, which, again, results in a decrease in cost. As James pointed out, the contractor is incentivised during the construction period to deliver a scheme to the target cost bid for at the very outset. James also pointed out that the Highways Agency was appointing people on a quality-only basis. We have never pursued that approach. We have always had target cost bids at the outset of the scheme design.

[282] We have also incentivised the design fees. Another big issue for the Highways Agency and ourselves was that, when you involve the contractor at an early stage, he will bring a designer on board, who would spend an inordinate amount of money developing a scheme that might not go ahead because of the public inquiry or because it is not seen to be advantageous to the client in terms of cost-benefit analysis. So we incentivise that stage and the construction stage. In terms of the local authority aspects of ECI projects, we share our documents with local authorities. Some of them have fully adopted our schemes; others prefer to use their in-house design teams, because it is an issue for them that they have such teams currently employed. Those authorities prefer to have 'late early' contractor involvement. So they bring the contractor into the design process, but later than we do, which is at the preliminary design stage.

[283] **Irene James:** Looking at paragraphs 2.27 to 2.35, which highlight the relationship with utility companies, which can sometimes be problematic and lead to delays and cost increases, recommendation 5 on page 17 urges the Welsh Government to explore its options to strengthen this relationship and to establish some clearly agreed principles on working with utility companies. Has work begun to explore how the Welsh Government can strengthen the relationship with utility companies?

[284] **Mr Price:** The simple answer is 'yes'. We have been thinking about this for a long time and we take action to try to ensure that we do not run into difficulties with statutory undertakers. Our response to this recommendation—I do not have the exact words in front of me—is that we will seek to take that even further and to get a high-level agreement at a UK level, because the Department for Transport has the same problem, so it is a problem at the UK level. The Governments in Wales, Northern Ireland, Scotland and England probably need to press utilities companies and regulators on this front. However, I would not want to leave people with the impression that this is a ridiculously large issue. It is an issue that we need to deal with, but it is not causing the schemes to overrun by 100 per cent in terms of costs. However, we need to do anything that we can to drive down costs. It affects all sizes of schemes. When I used to be in contracting, a long time ago, working for local authorities, BT alone would affect small schemes significantly in terms of time delays and price increases. So, it affects everyone. The issue for us is that it can affect the timing of schemes and hence cause cost overruns. So, we are looking at it seriously, but I would not want to overplay it.

[285] **Darren Millar:** I call on Sandy.

[286] **Sandy Mewies:** Reverting to my own identity, we will now move on to Welsh Government control over local authority-managed projects. Paragraphs 3.17 to 3.18 show that, in 2008-09, the Welsh Government sought advice to support the case for exercising greater control over the delivery of transport grant projects—you have already talked about this. Why did it take the Welsh Government until 2008-09 to seek clarification on a fundamental issue when the programme of transport grant projects had been in existence from 2001-02? Had these controls been strengthened previously, would we have seen some different results in the final costs of some of the local authority-managed projects featured in the report?

[287] **Mr Price:** That is a really good question, but it is difficult to answer, because it requires me to make assumptions about what would have happened under a different set of circumstances. I can answer you as to why we did not do it until 2008. There was a change of management team in 2008 in transport and with that came a different set of questions. Every management team will have a different way of approaching things. That does not mean that it is better, just different. One of the things that surprised me significantly was the cost overruns on the local government schemes that we were funding. So, we looked into that, as you would.

[288] The management team that was in place previously had a very justifiable reason for approaching things in the way that it did, which was that the transport grant was originally taken out of the unhypothecated block grant to local government, which therefore believed that it was its money as of right or due and that it was not for the Assembly Government to tell it what to do or what not to do with it. So, that was the regime that was in place. The difficulty with that was that, because of the way that the grant scheme was set up, local government was coming back to the Assembly Government and saying, ‘You’ve got to meet all the cost overrun’.

[289] I suspect that that hit me harder than the previous team simply because of the timing of some of the big schemes, such as Porth and Church Village. We decided to take legal advice, and did so very quickly, and it came back saying that we could change the terms and conditions, so we have. If that had been done before, would it have made a difference? I suspect that it would. Would it have meant that you could build the Porth road for £30 million? No, because it was underpriced in the first place. Could it have capped it earlier? Potentially, yes. So, I would need to put my hand up and say that, yes, more could have been done, but there were reasons why it was not. We delivered on the back of it, but, although it would have made a difference, I do not think that it would have made a massive difference.

[290] **Darren Millar:** Paragraph 3.31 states that the Welsh Government provided £22 million for the financial year 2010-11 to support the delivery of the regional transport plans by the regional transport consortia. That does not seem like a great deal of money, particularly when it is split between the regional consortia. We also know that there is additional funding for the legacy transport grant projects from 2001-02, which is not in that figure. Accepting that, how much will be available for the consortia for 2011-12, and what are your projections for future years?

[291] **Mr Price:** I will ask Jeff to come in on the detail of the question. I think that you have already made my point for me, in a way, by saying that some of the bigger schemes are not included in that figure. One particularly big scheme that is not included is the Port Talbot distributor road, at £100 million. That could easily have been included. However, discussions between local government and ourselves concluded that that scheme was better operated outside of this mechanism, for some of the reasons that we discussed earlier, such as controllability and so on. To make a general comment on budgets going forward, they have been massively hit as a result of the capital budget cut, obviously, and that will impact on what is available for local government. As a general policy, we are trying to say to local government, ‘Now is the time to be thinking and planning for the next generation of transport interventions that you require’, and we will be trying to find money to allow them to be delivered as plans come forward. Jeff can pick up the detail.

[292] **Mr Collins:** As James said, it was agreed with the WLGA and the regional transport consortia that we would run out the legacy schemes within the transport grant mechanism, and, in the meantime, we would start up the regional transport plans. When we put the RTPs together, the consortia went away as planning bodies and came back with their aspirations. We approved them, and took an indicative three-year spend profile. I do not have the exact figures, so I apologise—we can get them for you—but I think that it was about £22 million in the first year of operation, and £19.48 million in the second year of operation, which is the next financial year, which starts in a few weeks’ time. Then it was about £6 million or £8 million the following year, so there was a three-year spend profile, subject to annual allocations through the Assembly. So, we have that. As James said, although it seems to be tailing off, we would also be looking to prepare new projects that can start up after that. Also, in terms of the regional transport consortia, we are looking to see whether we can augment the funding with European funding options. That gives you the spend profile that we estimate that we will manage with, and, we hope, in the whole context of this discussion, that it will be

maintained, because that is one element of an overall budget. If that spend goes awry, then it will eat into allocations that we have made for other projects. For example, over the next three years we are looking at rolling down or completing the Neath Port Talbot peripheral distributor road, and I think that we will be completing, as was announced, the Wrexham industrial estate access road, and completing access to a hospital at Ystrad Mynach. Those spend profiles appeared in this. Allied to that is the evolution of the regional transport plans. They all need to deliver within their budget constraints so that they do not affect each other. That is what we are currently looking at. We believe that we have a spend profile for the RTPs, and we believe that it is as they want it.

11.45 a.m.

[293] **Darren Millar:** The regional transport strategies are key to delivering the national transport strategy, are they not? The regional transport strategies must therefore be properly resourced for them to deliver as part of the jigsaw that is the national strategy across Wales. Given the overspends, particularly on the local government transport grant side, and the fact that local government, as we have discussed, can find itself under pressure to underestimate costs when making a bid to secure some commitment to a scheme, what are you going to do to incentivise local government? We have talked about incentives for contractors to deliver to price and on time and so on, but what are you going to do to incentivise local government to give you an accurate picture of future costs? We have learned some very important lessons from the Wales Audit Office report about their being key to cost controls across the board with regard to these capital projects.

[294] **Mr Price:** There are several different aspects to the answer to that question. The first is that we are generally being more rigorous with local government in the guidance that we give, without overstepping the mark to the point where the Assembly Government has to pick up the bill. So, there is a balance that we have to strike. We have to explain the guidance that we expect those in local government to take and the way we expect them to work, pointing out that we will challenge them. We say to them, 'If something goes wrong, it's your fault, not ours'.

[295] The second aspect of that accountability or responsibility issue is that, through using the consortia, we hope that local authorities will police themselves to a certain extent, because it is they who will have to get together to agree which other local authority will have to cut something from its scheme—for example, local authority A will have to cut its scheme to pay for local authority B. That requires a robust management process. It also requires a grown-up approach to management. It was for that reason, really, that we did not throw these big schemes, which are only found in a small number of local authorities, into the pot, because we felt that it would be one step too far. If you throw £100 million into a pot that maybe has £5 million in it and say, 'You have to balance that out yourselves', it could wipe out all the other local authorities' spend for the next 10 years. We thought that, at stage 1, it was taking it too far.

[296] The simple answer is that it is about self-policing and policing by us, but with a clear line of accountability into the local authority, rather than us.

[297] **Darren Millar:** Before I wrap things up, I have one final question, and it is about the regional consortia. The ministerial advisory group on the economy and transport made a recommendation to effectively scrap the regional consortia and have one Wales-wide body, or perhaps two, with one for the north and one for the south, to take on the responsibilities for their strategic transport planning. That recommendation was rejected, as the Minister felt that more localised decision making was best. Was it for political convenience that that recommendation was rejected, or was there more to it than simply local decision-making being best, according to the Minister?

[298] **Mr Price:** As far as I can remember, the ministerial advisory group made recommendations about planning, but it also made recommendations that touched on strategic operations. The group was considering things like the A470 where it enters Cardiff. It is our responsibility up to the Coryton roundabout, at which point it becomes Cardiff Council's responsibility as it goes past the castle and comes through Llandaf, where we pick it up again. The group was saying that, as an end-to-end transport network, from a planning perspective, that does not make sense, and from an operational perspective, it is a bit odd. That is one view.

[299] Another, equally acceptable view is that the people of Cardiff, in this instance, have a right to influence what happens on the roads that run through their city, such as whether we choose to put double yellow lines along their length, or whether we impose local parking restrictions. That is influenced through the local democratic process. It is not a matter of political expediency; it is a matter of there being different views on how to cut something up, and a genuine view that democracy and local issues are better dealt with at that level. If you look at the Record of the Finance Committee, the Deputy First Minister said that getting the regional transport plans to work was not an open-ended model, and that if they did not work at some point in the future, we would re-examine the ministerial advisory group's recommendations on how we can do things differently. He thought that they should be given a chance to function first.

[300] **Darren Millar:** If nobody else wants to come in, I have one final question. It took a long time for this report to be signed off—many months, in fact—and we were a little surprised by that. We wrote to Dame Gillian Morgan about it, as you are probably aware. What lessons have you learnt from the sign-off process, to ensure that it will not take such a long time to agree a report like this in the future?

[301] **Mr Price:** Once again, that is a fair question. I came here prepared to give some opening remarks, some of which were going to address that particular issue. I will close with what I was going to say on coming in. I would like to thank you for having us here. It has been really good, and everyone would agree that getting transport projects right is an important issue. It is more important given the size of the schemes and the risk involved. It is even more important with the budget cuts. For that reason, we all welcomed the Wales Audit Office's report. However, the difficulty that we faced in dealing with the report was trying to get a worthwhile report that we could all buy into and learn lessons from, not just for one year, but for 10 to 15 years into the future, not forgetting that the report looked 10 to 15 years into the past. I am happy to be corrected on this, but I think that we took seven months to sign this off. The guide time was about three months, so we took over double the length of time that we should have taken. I apologise for that.

[302] **Darren Millar:** Like some of your transport projects.

[303] **Mr Price:** Absolutely. There are a few lessons to be learned and we have met to talk about that. The main lesson is that a project manager is needed to manage such a report. However, getting this right meant that it took longer. We got into quite a level of semantic detail, as regards what type of information to use and what decimal point to go to. It takes quite a long time to go back and forward on that level of detail. The positives that we can all take from it are that we have a robust report. I am happy to say that I genuinely accept all of it and genuinely want to work on the back of it. While I apologise for how long it has taken, the good thing is that we have a report from which we can learn lessons in relation to hundreds of millions of pounds' worth of public sector expenditure.

[304] **Darren Millar:** If there are no further questions, we will draw the meeting to a close. Thank you to James Price, Gareth Morgan and Jeff Collins for the evidence that you have

given us today. It will certainly help us to draw some conclusions.

11.54 a.m.

**Canolfannau Technium: y Wybodaeth Ddiweddaraf gan Archwilydd Cyffredinol
Cymru**

Techniums: Update from the Auditor General for Wales

[305] **Darren Millar:** Members will have seen the letter that has been circulated with the papers for the meeting. It is mainly for us to note and close this matter. Did you want to speak for a few moments on that?

[306] **Mr Thomas:** Yes, very briefly. This arose as a result of the Public Accounts Committee's evidence session with Andrew Davies and the question was whether or not I should carry out a value for money study. I was asked to look at the detailed results of various reviews that the Welsh Assembly Government has undertaken on the technium process. I have submitted quite a full briefing paper, which I hope Members find useful. We have concluded that the sum total of this information covers the same ground as we would cover in a value for money exercise. I do not rule out the possibility that we might want, at a future point, to see what happened, but I believe that there is very little to be gained by adding a value for money exercise at this stage.

[307] **Darren Millar:** Thank you for that. It is a detailed response, which brings us up to date on the current situation. On behalf of the committee, I thank the auditor general for that response and note its contents. Thank you very much indeed, Huw.

11.56 a.m.

**Cynnig Trefniadol
Procedural Motion**

[308] **Darren Millar:** I move that

the committee resolves to exclude the public from the remainder of the meeting, in accordance with Standing Order No. 10.37.

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

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.56 a.m.
The public part of the meeting ended at 11.56 a.m.*