

## **Response to the Report of the National Assembly for Wales Public Accounts Committee Report on Regeneration Investment Fund for Wales**

We welcome the findings of the report and offer the following response to the recommendations contained within it.

### **Recommendation 1**

**The Committee recommends that the Welsh Government must demonstrate that it has made appropriate changes so that governance arrangements, oversight and accountability are robust, clearly defined and understood by all parties involved, not only in relation to RIFW, but to all other activities the Welsh Government is undertaking.**

**Response: Accepted.** The Welsh Government strengthened its governance and accountability arrangements following its internal reorganisation in July 2015 by:

- Appointing a set of new “Additional Accounting Officers” at director level who have taken on personal responsibility and accountability for key areas of Welsh Government business.
- Issuing an update of “Managing Welsh Public Money”.
- Issuing a series of Principal Accounting Officer (PAO) Notices to strengthen arrangements, covering matters such as handover of responsibilities following machinery of Government changes.

The Welsh Government is strengthening its oversight arrangements by:

- Reorganising its “Corporate Governance Committees” into “Audit & Risk Assurance Committees” (ARCs) aligned to the new internal organisation into Groups (since July 2015) and strengthening the interaction between these Group ARCs and the main Welsh Government ARC through overlapping non-executive membership of the ARCs.
- Implementing a new common approach to business planning which reinforces the “line of sight” from the Programme for Government to the actions of the Welsh Government and which contains, as standard components, milestones and performance measures against business objectives.

### **Recommendation 2**

**The Committee recommends that should the Welsh Government establish future arms-length bodies, these bodies’ functions and roles of Board Members must be clearly defined and understood by all concerned from the outset.**

**Response: Accepted.** “Managing Welsh Government Money” has been reissued following a major update and is now more readable and accessible. We have also formalised the “classification” of our different arms length bodies. Guidance and templates for key documents have already been developed for common types of body. However, further work will be undertaken to consider whether more detailed guidance is required in the case of arms length subsidiaries where the governance challenge in respect of commercial undertakings requires finer detail. Welsh Government officials are currently working with Academi Wales to develop induction materials for new Board Members.

### **Recommendation 3**

**The Committee recommends that measures are put in place to ensure that Board Members have the appropriate expertise and capacity to fulfil their duties and receive adequate and appropriate induction training.**

**Response: Accepted.** Robust procedures for public appointments are maintained by the Public Appointments Unit. Welsh Government officials are currently developing induction materials for new Board Members, Academi Wales has recently developed an induction programme for NHS board members and this is being reviewed and adapted so it is suitable for all new public appointees. The intention is the induction course will be made up of a series of modules run on a rolling bi-annual basis.

### **Recommendation 4**

**The Committee recommends that the Welsh Government should ensure that the capacity and capability of Boards is carefully addressed whenever members are absent or are unable to participate due to conflicts of interest.**

**Response: Accepted.** The Welsh Government Corporate Governance Unit will work with the Heads of Operations across the Welsh Government to review guidance on the appointment of Boards and the management of conflicts of interest, particularly subsidiary entity arms length bodies in particular. Consideration will be given to the appropriate means to address this with Boards, for example, this could form part of the package of training delivered via Academi Wales to board members.

### **Recommendation 5**

**The committee recommends that the Welsh Government's internal accounting officer with responsibility for arms-length bodies is explicit, especially where officials are operating outside their usual line management arrangements.**

**Response: Accepted.** The Assembly elections in May 2016 are likely to provide the next practical test of the better procedures already in place to manage accounting officer responsibilities. Ahead of the elections, the Welsh Government Corporate Governance Unit will work with the Heads of Operations across the Welsh Government to review and refine arrangements to ensure they remain clear and after any changes are made, ensure the "line of sight" from sponsorship teams to the appropriate internal accounting officer is clear and stated explicitly.

### **Recommendation 6**

**The Committee recommends that the Welsh Government's extant guidance to its officials on attendance at external board meetings should be enhanced to include an explicit requirement for observers to provide a written report to their line managers on their activities and key decisions made.**

**Response: Accepted.** The Welsh Government Corporate Governance Unit has already worked with sponsor teams to develop more robust terms of reference to guide new Welsh Government observers for Qualifications Wales and Hybu Cig Cymru. The Corporate Governance Unit now intends to develop template terms of reference and associated best practice guidance for officials attending external board meetings. The requirement for written reports will be considered as part of this enhancement and the use of a "log-book" approach for recording observations will be explored.

### **Recommendation 7**

**The Committee acknowledges that clearer procedures have recently been put in place for transfer of portfolios between Welsh Government Departments and recommends that these procedures are reviewed in the light of our inquiry and strengthened accordingly.**

**Response: Accepted.** The Assembly elections in May 2016 are likely to provide the next practical test of the better procedures that have been put in place to deal with the transfer of portfolios between the new Welsh Government Groups in the event of Ministerial portfolio changes. Ahead of the elections, the Welsh Government Corporate Governance Unit will work with the Heads of Operations across the Welsh Government to review and refine the procedures to ensure they remain robust.

### **Recommendation 8**

**The Committee recommends that the transfer of business at both Ministerial and official level within the Welsh Government and between its Departments should be monitored by our successor Committee in the Fifth Assembly to look carefully for evidence that these changes have taken effect.**

**Response:** This recommendation is a matter for the National Assembly.

### **Recommendation 9**

**The Committee recommends that the Welsh Government's procurement processes are reviewed to prevent the unnecessary disclosure of commercially sensitive information to the marketplace**

**Response: Accepted.** A Commercial Governance Workstream has been set up to review all Welsh Government procurement practices and policies. This will result in greater control and support for all procurement activity within Welsh Government. Under this Workstream, training and additional guidance is also being developed for staff involved in commercial activity on behalf of the Welsh Government.

### **Recommendation 10**

**The Committee recommends that the Welsh Government take action in relation to its remaining asset portfolio in order to ensure that it actually possesses clear legal ownership of each asset, has up to date valuations and a full understanding of how their potential for development can be best aligned with wider policy objectives.**

**Response: Accepted.** In order to ensure legal ownership, the Welsh Government will take all steps to verify the title as appropriate prior to disposal. The Welsh Government is currently completing a corporate asset management strategy which looks to strengthen the link between an asset and Ministerial policy. In addition, it will introduce a process of regular asset review. This strategy is due for publication in spring 2016.

In respect of the Welsh Government's asset holdings:

- We engaged with the Land Registry to ensure land and property assets in the name of Welsh Ministers within a number of portfolio areas were formally registered. The exercise was completed in 2011.

- In accordance with International Financial Reporting Standards all Welsh Government property Assets (in excess of £5,000) are valued in accordance with their classification and use.
- When an asset is declared surplus and made ready for disposal a specific market valuation is prepared independently and the title that the Welsh Ministers' hold is established as appropriate.
- The National Asset Working Group has published a guide on land transfer which includes requirements for an independent valuation.
- Each property holding department has a current asset management plan which includes how assets support business need and what governance provisions are in place for control of those assets.

### **Recommendation 11**

**We recommend that the Welsh Government must, as a matter of urgency, address the weaknesses in its organisation culture that have given rise to deficiencies in the robustness of its record keeping.**

**Response: Accepted.** The Welsh Government completed two records management projects during 2014/15 and 2015/16, one looking at email and record management and one exploring improvements to our electronic records system. An information management assessment was carried out by The National Archives during March 2015 and its report was published in December 2015. The Welsh Government has developed an Action Plan to address the recommendations made by The National Archives and at its suggestion, have incorporated recommendations of the Sir Alex Allan Review in this plan. We are taking a fundamental approach, focussed on managing information at the business unit level, rather than through a central register of information assets. This is proving a more effective approach in promoting a proper understanding of our information assets and the information management issues that relate to them.

### **Recommendation 12**

**We recommend that any material departure from a previously agreed plan by anyone acting on behalf of Welsh Ministers which has the potential to adversely impact on value for money must be reported to Welsh Ministers for their consideration.**

**Response: Accepted.** To deliver this action, it will be necessary to develop clear and consistent guidance on what constitutes a "material departure" and also on how "value for money" is defined and assessed. It will also be necessary to confirm all parties acting on behalf of Welsh Ministers, have a clearly understood remit which sets out the expectations of Welsh Ministers. In the case of Welsh Government Sponsored Bodies, there are already well established governance arrangements which provide this certainty.

However, for commercial subsidiary entity arms length bodies, there may be a less well-defined purpose or less clarity about Ministers' specific wishes. Departures are likely to have more significant consequences in these cases. For this reason, the Welsh Government Corporate Governance Unit will focus its efforts on subsidiary entity arms length bodies in the first instance.

The Unit will work with the Heads of Operations across the Welsh Government to agree the meaning of the terms that will be used and also to review governance arrangements in place between subsidiary bodies and sponsor teams. Particular emphasis will be given to guidance on reporting requirements.

Looking forwards, the roll-out of a new common business planning approach across the Welsh Government will provide a more robust approach to ensure Ministers' priorities are translated into programmes of work and planned actions and activities. The setting of milestones and measures for these actions and activities will assist officials to identify material departures from previously agreed plans.

### **Recommendation 13**

**We recommend that the Welsh Government and RIFW should carefully consider whether any potential cause of action against Lambert Smith Hampton (and against Amber in respect of its oversight of Lambert Smith Hampton) regarding: the advice provided to the RIFW Board on the sale; and the contractual terms of appointment when acting for both SWLD and RIFW.**

**Response: Accepted.** A legal process has been initiated against the Fund's Investment Managers, Lambert Smith Hampton. We are keeping under review whether further legal steps may be necessary.

### **Recommendation 14**

**The Committee recommends that the Welsh Government should consider referring Lambert Smith Hampton to their professional body**

**Response: Accepted.** We have written to the Royal Institution of Chartered Surveyors providing evidence within our possession regarding the conduct of Lambert Smith Hampton in this case.

### **Recommendation 15**

**The Committee recommends that the Welsh Government should alert the UK Government to our view that the sale transaction should be referred to the EU for State Aid considerations. We note that it would be for the UK Government to decide whether to refer this or not, as neither we nor the Welsh Government are able to do so directly.**

**Response: Accepted.** We have written to the Department for Business Innovation and Skills accordingly

### **Recommendation 16**

**The Committee recommends that the Welsh Government should ensure that robust overage arrangements are considered whenever it disposes of public assets that possess future development potential.**

**Response: Accepted.** Assets identified for disposal by Welsh Government will continue to be subject to externally provided marketing advice. "Clawback" or "overage" provisions are included, where appropriate. Circumstances where overage should be considered on disposal are made explicit within Managing Welsh Public Money (A4.14.12).

The Welsh Government will take steps to recommend that arms length bodies follow a similar policy. Disposal good practice is also set out clearly in the “Estates Co-ordination & Land Transfer Protocol” published by the National Assets Working Group in June 2014 and which can be viewed on AssetsCymru.

#### **Recommendation 17**

**The Committee recommends that the Welsh Government must strengthen monitoring and oversight arrangements of its arms length bodies and in particular ensure that any concerns are swiftly identified and escalated internally.**

**Response: Accepted.** The Corporate Governance Unit within the Welsh Government will facilitate workshops for the sponsor teams overseeing its commercial, subsidiary entity arms length bodies with a view to evaluating any differences in practice, identifying best practice and then working with sponsor teams to develop common guidance and minimum standards of practice. All aspects of sponsorship will be explored, including the escalation of concerns. In this way, a community of practitioners will be developed within the Welsh Government. Action in respect of potential practice standards for wider sponsorship activities within the Welsh Government will be considered in the light of lessons learned from this exercise.

#### **Recommendation 18**

**To ensure clear and robust lines of accountability and management in the future, the Committee recommends that the Welsh Government should designate a Senior Responsible Officer for each major programme or project that it undertakes with clear reporting lines to Welsh Ministers.**

**Response: Accepted.** The Welsh Government recognises the importance of appropriate project and programme management. In response to the concerns raised by the RIFW experience, a process of review of the governance arrangements began through Group Operations Teams. We will now repeat this process across the whole of Welsh Government as part of our preparations for the next Government.