

National Assembly for Wales
Public Accounts Committee

**The Welsh Government's acquisition
and action to dispose of the former
River Lodge Hotel, Llangollen**

June 2013



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

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The Public Accounts Committee was established on 22 June 2011.

Powers

The Committee's powers are set out in the National Assembly for Wales' Standing Orders, with its specific functions of the Committee are set out in Standing Order 18 (available at www.assemblywales.org). In particular, the Committee may consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

The Committee also has specific statutory powers under the Government of Wales Act 2006 relating to the appointment of the Auditor General, his or her budget and the auditors of that office.

Current Committee membership



Darren Millar (Chair)
Welsh Conservatives
Clwyd West



Mohammad Asghar (Oscar)
Welsh Conservatives
South Wales East



Jocelyn Davies
Plaid Cymru
South Wales East



Mike Hedges
Welsh Labour
Swansea East



Sandy Mewies
Welsh Labour
Delyn



Julie Morgan**
Welsh Labour
Cardiff North



Jenny Rathbone
Welsh Labour
Cardiff Central



Aled Roberts
Welsh Liberal Democrats
North Wales

* Sandy Mewies AM joined the Public Accounts Committee after this report was agreed.

** Julie Morgan AM is a member of the Public Accounts Committee, but did not take part in determining this report. Her husband was First Minister at the time of the River Lodge Hotel's purchase. As such, she considered there could potentially be a conflict of interest for her in conducting this inquiry.

The following Members was also a member of the Committee during this inquiry:



Gwyn R Price
Welsh Labour
Islwyn



Lindsay Whittle
Plaid Cymru
South Wales East

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Foreword

Our inquiry into the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel has been at the same time one of the most illuminating and troubling ever undertaken by the Public Accounts Committee.

The fact that over a million pounds of public money has been wasted as a result of the various decisions taken in the course of the River Lodge Hotel project is concerning enough in itself. This might sound small in the context of the Welsh Government's multi-billion pound annual budget. However, in the wider financial climate it is essential that public sector organisations extract maximum value for money from every penny of public funding. Moreover, it is the wider flaws in the Welsh Government's systems and processes which this inquiry has exposed which have left us deeply uneasy.

When people think about 'the Welsh Government,' they often think about Ministers and Politicians. But the flaws we are concerned about in this inquiry lie in the 'civil service machine' which is intended to support such figures. The issues associated with the River Lodge Hotel project cross-over between different Welsh Governments, and the various Ministers associated with the project were rarely even fully aware of the decisions being taken on their behalf.

In this inquiry we have frequently received unclear evidence and mixed views. But one clear consensus has been that to suggest responsibility for the mess surrounding the River Lodge Hotel project lies in the hands of one or two individual civil servants is a rank denial of deeper fault lines. As the then Permanent Secretary advised us:

"This is a failure of civil servants and we should have expected better of our systems and processes. It is not one civil servant, but the processes that we had."¹

In our inquiry, we have focussed our attention on the lessons that the Welsh Government can learn from the River Lodge Hotel project going forward. As such, we have not sought to investigate the disciplinary processes undertaken in relation to individual members of staff resulting from their involvement in the River Lodge Hotel project, or

¹ Dame Gillian Morgan, Permanent Secretary of the Welsh Government, Record of Proceedings (RoP), Public Accounts Committee, 10 July 2012, Paragraph (Para) 164

the disciplinary consequences arising from such. Any challenge of such disciplinary processes are more appropriate for an employment tribunal than the Public Accounts Committee.

We recognise that the Welsh Government has sought to overhaul many of its governance arrangements and management processes since the various decisions relating to the River Lodge Hotel project were originally made. We welcome such action.

However, we are still not convinced that the Welsh Government's revised processes would necessarily produce different results if similar issues to those associated with the River Lodge Hotel project arose again. Indeed, in combination with the evidence we have gathered in our parallel inquiry into Grants Management, we have heard that:

- there remains a high staff turnover within the Welsh Government's civil service;
- Ministers potentially have no access to their predecessors' papers; and
- there are apparently limited handover arrangements between Ministers.

We are deeply concerned that the collective impact of these issues leaves the Welsh Government with the corporate memory of a goldfish.

We look forward to the Welsh Government's response to this report and to the various recommendations we have made. We also welcome the openness with which officials have provided evidence on multiple occasions to our committee.

Given the volume of evidence presented to us, we took the unusual step of setting a deadline for submissions from witnesses. This report is therefore based on our consideration of all the evidence presented to us prior to our deadline of 8 February 2013. We are grateful to all the witnesses who gave evidence to us, without whom we could not have completed our investigation.

The Committee's Recommendations

The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

Recommendation 1. We recommend that the Welsh Government reviews its processes to minimise a risk that a rush to spend money before the end of a financial year will impede efforts to ensure value for money. The rationale for all financial expenditure, including that at the end of a financial year, must be robust in achieving value for money. (Page 15)

Recommendation 2. We recommend that the Welsh Government publishes a list of each Minister's agreed financial delegations, in the interests of transparency (Page 23)

Recommendation 3. We recommend that the Welsh Government ensures that any new Minister is clearly briefed on the schemes of delegations that have previously been established within their department.²³

Recommendation 4. We recommend that the Welsh Government applies a consistent policy when acquiring any land or property on vacant possession. Terms of occupation must be determined prior to the purchase of a property. (Page 28)

Recommendation 5. We recommend that the Welsh Government ensures that in circumstances where legal and policy officials are in disagreement over a decision (including decisions that have been delegated to officials by a Minister) the Minister should be made aware of such disagreement before any final decision is taken. (Page 32)

Recommendation 6. We recommend that the Welsh Government reviews its HR policies on the use of e-mail accounts to ensure that there is always the maximum possible clarity on which organisation an official is representing. (Page 43)

Recommendation 7. We recommend that the Welsh Government reviews its internal processes, so that if concerns are expressed about a potential conflict of interest for a member of staff, senior managers seek an explicit rationale as to why it is thought that the potential

conflict of interest is being effectively managed. We consider that that the adequacy of that rationale should then be independently tested, outside the member of staff's line-management chain. (Page 46)

Recommendation 8. We recommend that the Welsh Government reviews its HR policies to ensure officials are discouraged from sitting on external boards, unless they have written permission from their Director that it is explicitly considered to be in the best interests of the Welsh Government for them to do so. We anticipate that there may be exemptions to such a policy (to enable- for example- sitting on a school governing body). (Page 49)

Recommendation 9. We recommend that the Welsh Government reviews, on an annual basis, whether it remains in the Welsh Government's best interests for individual members of staff to remain on external companies' boards. (Page 49)

Recommendation 10. We recommend that Welsh Government develops a central database for storing the information of all officials' registered interests, and the actions taken to mitigate against the potential for conflicts of interests. Such a database should be publicly available. (Page 50)

Recommendation 11. We recommend that the Welsh Government reviews its processes to ensure that the production of an internal report is every bit as robust as those associated with the production of an external report. (Page 56)

Recommendation 12. We recommend that the Welsh Government review its systems for handling Ministerial correspondence, so that concerns about a conflict of interest (or the conduct of an official) are not responded to by the person who is being complained about or their line manager. (Page 64)

Recommendation 13. We recommend that the Welsh Government publicly clarifies how Assembly Members' correspondence is handled, particularly if an Assembly Member has written correspondence repeatedly on a particular issue. (Page 64)

Recommendation 14. We recommend that the Welsh Government reviews its convention, to enable Ministers to have access to papers considered by their predecessors. (Page 65)

Recommendation 15. We recommend that Welsh Government civil servants ensure that incoming Ministers are fully briefed on all aspects of their new portfolios, including on-going and outstanding correspondence. We consider that this should include seeking feedback from Ministers on the effectiveness of such briefing.

(Page 65)

Recommendation 16. We recommend that the Welsh Government publicly clarifies the process by which an asset is declared surplus.

(Page 69)

Recommendation 17. We recommend that the Welsh Government reviews its systems to enable any long term project or policy development to have in-built opportunities for options appraisals (considering value for money), peer review and reassessment.

(Page 70)

Recommendation 18. We recommend that Welsh Government departments review their systems to enable effective peer reviews to take place on all material purchasing arrangements, giving consideration to the system in the department for Business Enterprise Transport and Science.

(Page 74)

Recommendation 19. We recommend that if the Welsh Government merges with another body in the future, it sets out a clear, well-evidenced purpose for the merger, accompanied by consistent communication and direction to staff during the period of change, which is consistent with Ministers' public announcements. (Page 77)

Recommendation 20. We recommend that the Welsh Government publicly sets out its overarching rationale for determining whether briefings are Ministerial Briefings (MB) or Submission Folders (SF).

(Page 79)

Recommendation 21. We recommend that the Welsh Government reviews the effectiveness of the Government Business Unit in improving the quality and accuracy of briefings by surveying Ministers' opinions and introducing inter-departmental peer reviews. (Page 81)

Background

Who are we?

1. The Public Accounts Committee is a cross party committee of the National Assembly for Wales, made up of 8 Members from all 4 political parties represented at the Assembly.
2. The Public Accounts Committee is not part of the Welsh Government. Rather, the role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to the Welsh Government's expenditure.
3. In particular, we can consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.
4. We are advised by, and receive briefings from, the Auditor General and the Wales Audit Office. However, we are also independent from that office, and have our own team of officials.

What is the River Lodge Hotel, Llangollen?

5. The Wales Audit Office report details that:

“The River Lodge Hotel (the River Lodge) was established some 30 years ago on a site of approximately two acres fronting Mill Street, Llangollen. The property comprises a lodge-style building with some 18 letting bedrooms, two reception areas, a restaurant, a function room, a three-bedroom self-contained house and a four-bedroom self-contained flat. The buildings and grounds occupy a prominent position on the Eastern approach to the town. Since the River Lodge ceased trading around 10 years ago the buildings have progressively fallen into disrepair.”²

Why did we conduct this inquiry?

6. The Wales Audit Office report on *‘The Welsh Government’s acquisition and action to dispose of the former River Lodge Hotel,*

² Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the former River Lodge Hotel, Llangollen, Summary, Para 1

Llangollen' was published on 14 June 2012. The report concluded that the Welsh Government's decisions- in 2007 to buy the former River Lodge Hotel for £1.6 million and in 2009 to enter into a lease agreement with an organisation known as Powys Fadog- were flawed and did not represent good value for money. In light of this, and the increasing likelihood that Powys Fadog would be unable to fulfil the conditions of the lease agreement, the report considered that the Welsh Government's decision in 2010 to carry out an appraisal of options for the disposal of the property was both prudent and necessary.

7. However, the report also found that the Welsh Government had been slow to react to external and internal concerns about the probity and value for money of its earlier decisions. By the time that action was eventually taken, substantial sums of public money had been spent, and much of it wasted. The report highlighted that five years on from the Welsh Government's acquisition of the River Lodge Hotel for £1.6 million of public money, the property remains vacant and has become derelict. The Welsh Government continues to incur the costs associated with ownership, and has gained nothing in return for its substantial investment in the property.

8. Although the Wales Audit Office report did not include any specific recommendations to the Welsh Government, we were very concerned by its findings.

9. Consequently we decided to conduct an inquiry into the issues raised by the report, with particular regard to determining what lessons the Welsh Government could learn from the episode.

How did we conduct our inquiry?

10. In the course of this inquiry, we spoke with a range of people who had been involved in the River Lodge Hotel Project; including people who had had a vested or personal interest in the Project; or who are now responsible for the Welsh Government's processes and systems. In addition to taking a private briefing from the Wales Audit Office, we spoke with:

- Amanda Brewer, a former Welsh Government official and also a Director of Powys Fadog;³
- Andrew Davies, former Minister for Enterprise, Innovation and Networks;
- Gareth Hall; former Welsh Government Director General of Economy and Transport;
- Dame Gillian Morgan, Welsh Government Permanent Secretary May 2008 - August 2012;
- Ieuan Wyn Jones AM, Former Deputy First Minister and Minister for the Economy and Transport
- James Price, current Welsh Government Director General of Business, Enterprise, Technology and Science;
- David Richards, current Welsh Government Director of Governance;
- Karen Sinclair, former Assembly Member for Clwyd South;
- Pol Wong, Chief Executive of Powys Fadog;

11. We also received a large volume of written evidence from various witnesses, and requested a range of written information from the Welsh Government.

12. One issue that this report looks at is the Welsh Government's management of a conflict of interest, so it is important that we are transparent about our own interests, and how we have sought to manage them in this inquiry. The Standing Orders of the National Assembly for Wales formally set out that we must individually make a declaration if a Member, their partner or any dependent children may both gain a direct financial benefit through a particular decision on the matter under discussion; and if the benefit is greater than the benefit which others affected by the decision generally might gain.⁴ No declarations of this nature were required.

13. Beyond this formal requirement, and bearing in mind that Wales is a relatively small place, we individually knew a number of the witnesses in our inquiry (most obviously Ieuan Wyn Jones AM, who is a

³ Powys Fadog is an organisation which developed a business plan for use of the River Lodge Hotel, and signed an agreement for lease of the property with the Welsh Government in June 2009.

⁴ National Assembly for Wales, Standing Orders of the National Assembly for Wales, Standing Orders 2.6 and 2.7

current Member at the National Assembly for Wales). In most cases, we considered it appropriate to simply acknowledge such foreknowledge, as we did not believe this alone would influence our objectivity. For example, Mike Hedges AM declared that he had known Gareth Hall, the former Welsh Government Director General of Economy and Transport in a previous capacity. Mike Hedges AM explained that he:

“did not know Gareth Hall well. We served on Swansea College Board together with 18 other people for a short time. He was the regional director of the WDA when I was leader of Swansea Council.”⁵

14. However, for clarity, Mike Hedges AM commented that “if we had either worked together or been friends I would have left the meeting.”⁶

15. On a similar principle, one of our Members, Julie Morgan AM, did not make any decisions on the content of this report. This is because her husband (Rhodri Morgan) had been First Minister at the time of the River Lodge Hotel’s purchase. As such, Julie Morgan AM considered that there could be the potential for a conflict of interest between her relationship with her husband and her objectivity in considering evidence, and took no part in the inquiry.

16. Likewise, the Auditor General for Wales had previously, and properly, declared an interest in the context of the Wales Audit Office’s investigation and, as a consequence, withdrew from all related Wales Audit Office proceedings.

⁵ Declaration of Interest, Mike Hedges AM

⁶ Declaration of Interest, Mike Hedges AM

1. The Welsh Government's decision to purchase the former River Lodge Hotel in 2007

The initial decision to purchase the property

17. The Wales Audit Office's report states that the Welsh Government bought the former River Lodge Hotel, Llangollen, in March 2007 for £1.6 million, for the sole purpose of facilitating the Powys Fadog community development initiative. We understand that this initiative was intended to create a local centre for health, healing and learning, and a focal point for different groups from within the community.

Issues influencing the decision to purchase the property

18. Evidence in both the Wales Audit Office report and from Amanda Brewer set out that a number of factors drove the original decision to purchase the hotel:

- a perceived need to spend money before the end of the financial year;⁷
- a desire to 'tidy up' a property on one of the main roads into Llangollen; and
- the perceived benefits of the Powys Fadog community development initiative;⁸

19. Amanda Brewer told us that there was:

"the requirement to spend budget in that financial year. Another reason was that the local authority had, for many years, drawn the WDA's attention to the fact that the property was an eyesore. It was one of those properties that was stuck, as the owner did not seem to be selling it. It was a typical land division acquisition. That is what land division did: took properties that were not moving, brought them forward into the system and sold them on. It was an eyesore and needed regeneration, so there was the regeneration requirement, as

⁷ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.12

⁸ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.19

well. It was situated in the gateway to Llangollen. Obviously, there was also the community objective of Powys Fadog.”⁹

20. We note that this pressure to spend money appears to have originated from senior managers within the Welsh Government, with Amanda Brewer advising us that:

“I was asked to look for potential projects because there was a lot of slippage in other parts of the former WDA. We were all asked to look for sites that might be suitable to come forward in that financial year on which we could spend our budget... You always try to spend your budget on what is actually in the business plan.”¹⁰

21. This is not the first time that we have heard that decisions were spurred on within a public sector organisation by a perceived need to spend money before the end of a financial year. We have heard that officials are sometimes concerned that if they do not spend their allocated funding, their budget may be cut in the future.

22. We consider that this rush to spend money before the end of a financial year may have impeded efforts to ensure value for money in this case. Notably, the risk assessment and formal decision to purchase the hotel appears to have taken place largely in a three-day period.

We recommend that the Welsh Government reviews its processes to minimise a risk that a rush to spend money before the end of a financial year will impede efforts to ensure value for money. The rationale for all financial expenditure, including that at the end of a financial year, must be robust in achieving value for money.

23. Prior to purchasing the hotel, the Welsh Government did not have any formal responsibility for its condition. However, a number of our witnesses commented that the River Lodge Hotel was in need of ‘tidying up,’ in order to improve the visual enhancement of the approach to Llangollen. Indeed, Karen Sinclair, former Assembly Member for Llangollen commented that:

“initially, I was pleased that WAG [the Welsh Government] had purchased the building, because the site was a real eyesore on

⁹ RoP, Public Accounts Committee, 8 October 2012, Para 307

¹⁰ RoP, Public Accounts Committee, 8 October 2012, Para 243

one of the main roads into Llangollen. So, anything that was going to tidy it up, I was more than happy with.”¹¹

24. While we recognise that environmental concerns are important, we believe they should not have been a primary driver for the Welsh Government to purchase the property. We consider that there are a range of other mechanisms by which a property in disrepair can have its image improved, without a public body needing to buy it outright. These other mechanisms could have represented better value for money.

The purchase of the hotel

25. The Wales Audit Office states that there was only one vision for addressing these different issues: to buy the site and transfer it to Powys Fadog. The only alternative use identified for the site was a fallback position of residential development.¹²

26. Karen Sinclair also understood that no other alternative uses for the site were considered:

“I know that we buy places—or the WDA certainly used to buy places—in order to try to push them for work and so on, but it just seemed very odd to me that it was being purchased with a particular person in mind. There had been no review of what the building could be used for.”¹³

27. We concur with the Wales Audit Office’s findings that there does not appear to have been consideration of a range of options for using the site by the Welsh Government, in order to achieve best value for public money. We are extremely disappointed that this was the case, and consider it to have been a fundamental failing of the project.

28. We received a range of evidence questioning whether purchasing the hotel to support the Powys Fadog community development initiative could have represented value for public money.

29. Powys Fadog considered that it did represent value for money, and Pol Wong said that it had provided the Welsh Government with a costed business plan that covered its intended use of the property. Pol

¹¹ RoP, Public Accounts Committee, 19 November 2012, Para 93

¹² Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.6

¹³ RoP, Public Accounts Committee, 19 November 2012, Para 157

Wong also noted that Powys Fadog was originally looking to finance the project through loans. He said that its business plan had been sufficiently robust for Finance Wales to approve (in principle) a number of loans, until the total loan required exceeded £500, 000.¹⁴ In oral evidence, Pol Wong also stated to us that between 2007 and 2008, he had been:

“offered a loan in principle from Finance Wales and, of course, it did due diligence on us at the time. The idea was that we aimed to pay back that loan from our business enterprises... we were originally asking for a £150,000 loan.”¹⁵

30. Amanda Brewer similarly stated that the Powys Fadog business plan had passed Welsh Government due diligence on a number of occasions. She also stated that the Powys Fadog business plan was sufficiently credible to satisfy the Clwyd Alyn Housing Board: “following intense scrutiny.”¹⁶

31. Amanda Brewer also said that leasing the property to Powys Fadog was also a way of defraying the commercial risk attaching to realising possible redevelopment potential on other parts of the property. She also commented that Powys Fadog was hardly unusual amongst social enterprises in being in a relatively weak financial position when the property was first purchased.¹⁷

32. However, other witnesses did not consider that supporting the Powys Fadog community development initiative represented value for money. Karen Sinclair noted that concerns were expressed to her that aspects of the initiative would have replicated services provided by businesses already in the local area. She explained that:

“the chair of the chamber of trade raised worries with me about the cafe and so on. The chamber of trade had been worried about direct competition with existing traders.”¹⁸

¹⁴ RoP, Public Accounts Committee, 8 October 2012, Para 26 and 39

¹⁵ RoP, Public Accounts Committee, 8 November 2012, Paras 18 and 21

¹⁶ Amanda Brewer, Comments on PAC meeting of 23 October 2012, Para 196. However, we also note that the level of risk involved for Clwyd Alun Housing Association was significantly different to that posed to the Welsh Government. The Wales Audit Office’s report acknowledges that the proposal did not represent a significant risk to the association. (Para 3.14)

¹⁷ Amanda Brewer, Comments on PAC meeting of 8 October 2012, Para 71

¹⁸ RoP, Public Accounts Committee, 19 November 2012, Para 95

33. In oral evidence, the then Permanent Secretary of the Welsh Government was also critical of the decision to support the initiative. She commented that:

“this organisation did not have a track record, it did not have the management, which it recognised itself, nor did it have the ability to generate money.”¹⁹

34. Similarly, the Welsh Government’s Head of Governance commented that:

“we were dealing with a new company that had no track record, there was no capital, insufficient revenue and the scheme itself was untested. So, there was a whole package of question marks around the original scheme in terms of the acquisition and then the disposal of the property.”²⁰

35. The Wales Audit Office report likewise noted that Powys Fadog had not “traded as a going concern, it had no capital,”²¹ and that the community development initiative was highly dependent on one individual.

36. We concur with the Wales Audit Office conclusion that supporting the community development initiative involved a significant number of risks. For example, in the event that Mr Pol Wong had been taken seriously ill, the initiative’s plan could have been compromised, as it relied on his expertise. Any project that is heavily dependent on one individual has to be considered risky. Similarly, one of our Members noted that there was little concrete evidence to back up the proposals in Powys Fadog’s business plan, commenting that:

“It could not make any money when it was being run as a hotel and a place where martial arts schemes were being run. How could anyone have ever thought that you could make money by just running martial arts schemes when the property was not making money before, which is why it was made available?”²²

37. We believe that there was a significant risk that supporting in the Powys Fadog community development initiative- via the property being

¹⁹ RoP, Public Accounts Committee, 10 July 2012, Para 150

²⁰ RoP, Public Accounts Committee, 19 November 2012, Para 18

²¹ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.9

²² RoP, Public Accounts Committee, 23 October 2012, Para 196

transferred to Powys Fadog and the organisation being supported with public sector grants- would not have represented value for money.

38. But we also recognise that good governments and organisations do take risks. We also note that originally there was potential for the Welsh Government to develop a portion of the purchased land for residential purposes and sell it at a profit, which could have reduced the level of risk involved.

39. We also concur with Amanda Brewer's observation that many social enterprises are in a relatively weak financial position. We would not wish to discourage the Welsh Government from investing in social enterprises with robust business plans.

40. However, the level of risk involved has an impact on the scale of support that can be justifiably offered. We anticipate that this may have been the logic which led Finance Wales to accept in principle smaller loan applications from Powys Fadog, but to consider a loan of £500 000 as too risky.

41. The scale of the Welsh Government's support in this case, combined with the level of risks involved, does not appear justifiable to us.

42. We consider that effective financial management does not mean being risk averse, but does mean making decisions with a clear understanding of the potential risks involved. Good governance provides structures for making such decisions, for ensuring risks are appropriately calculated. Some of these risks will inevitably not work out, but if they have been subject to appropriate governance arrangements, the decisions which led to risks being taken can still be robustly justified.

43. In this instance, there appears to us to have been too limited an assessment of risk. The Wales Audit Office report states that at the time of purchase the Welsh Government had no agreement with Powys Fadog in place, and had decided to defer any due diligence checks of Powys Fadog's viability until it was in a position to agree a lease with the company. The report highlights that Powys Fadog had no financial capital of its own to fund essential renovations, yet the Welsh Government took a decision to purchase with this understanding, and

without the benefit of rigorous due diligence checks or a full and independent risk assessment of the project.²³

44. The report states that the only risk assessment undertaken prior to purchasing the hotel was completed by Amanda Brewer, who had already advised her managers and the Welsh Government's HR department of her own interest in Powys Fadog. In our opinion, Amanda Brewer's involvement in Powys Fadog created a conflict of interest when she conducted a risk assessment. We believe the risk assessment should have included considering the viability of the Powys Fadog proposal.

45. The Wales Audit Office report describes the risk assessment as a partial one, as it did not reflect significant factors, such as uncertainty over funding, dependence on one individual, and the company's lack of a trading record.²⁴ We concur with this analysis.

46. Moreover, we consider that in delegating the completion of a risk assessment to an official with a known interest and involvement in the organisation she was assessing, the Welsh Government did not put itself in a position to appropriately assess the potential risks involved in purchasing the property.

47. It is this lack of robust risk assessment which we are particularly concerned about. It is imperative, going forward, that the Welsh Government puts itself in a position to accurately assess the risks involved in its decision making. The alternative is that it will operate in the dark, with the success of its decision depending more on luck than judgement.

The delegated responsibility for purchasing the hotel

48. Ministers do not make every decision taken by the Welsh Government. Instead, officials are sometimes delegated responsibility for making particular types of decisions. Welsh Government officials told us that:

²³ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.8

²⁴ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 1.6 to 1.8

“Delegations are formal pieces of permission that are delegated from Welsh Ministers to officials.”²⁵

49. The Wales Audit Office report sets out that at the time of the River Lodge Hotel’s purchase, the Regional Director of North Wales had the delegated authority to approve capital projects up to £4 million.²⁶ The Regional Director approved the use of funds to purchase the hotel three days after Amanda Brewer had submitted the proposed purchase of the River Lodge Hotel for review and approval.²⁷

50. Former Welsh Government Ministers (Andrew Davies and Ieuan Wyn Jones AM) were supportive of the principle of delegating responsibilities to government officials. Ieuan Wyn Jones AM commented that:

“in any Government department, the reality is that very many decisions are delegated to officials... Only relatively major decisions would go to Ministers. Unless you were to agree on some sort of system for delegation, the whole workings of Government would grind to a halt.”²⁸

51. Similarly, Andrew Davies- speaking as the former Minister for Enterprise, Innovation and Networks- said that he:

“certainly, was not of the view that I wanted to be making all decisions as a Minister, either financial or in other ways, because I do not think that that is the best way for organisations to work, either in the public or the private sector... certainly that was my clear intention as a Minister—I wanted my department and the Government to be lean and to be able to be responsive to the needs of companies, because we were working in a very competitive, global market. If Wales is seen as somehow rigid, unresponsive and not open for business, then that will not do Wales any good. However, as ever, it is about trying to get the balance right.”²⁹

²⁵ RoP, Public Accounts Committee, 23 October 2012, Para 130

²⁶ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.20

²⁷ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.21

²⁸ RoP, Public Accounts Committee, 19 November 2012, Para 179

²⁹ RoP, Public Accounts Committee, 19 November 2012, Para 266

52. When asked how Ministerial delegations were determined, the Welsh Government's Head of Governance advised us that:

"at the beginning of the year, the Permanent Secretary writes formally to each of the accounting officers setting out their budgets, their framework of delegation and the standards, with reference to the guidance that we expect our accounting officers to apply to this, and telling them that the first thing they will want to do is agree with Ministers what Ministers will want to decide for themselves and what they are prepared for officials to decide."³⁰

53. However, both the former Ministers we spoke to indicated that they were not aware of all the delegations that had been set up before their time in office. Instead, Andrew Davies told us that:

"a large degree of the processes had been inherited from the then WDA, and the evidence was that there had not been any significant changes."³¹

54. Similarly Ieuan Wyn Jones AM told us that:

"the decision as to what should be delegated had been taken before I became a Minister, and officials were following on from what happened under my predecessor Minister."³²

55. We support the principle of appropriate delegations, and concur with the former Ministers' comments that they are a valuable tool in enabling effective Governments to operate.

56. However, we were surprised and concerned that both the former Ministers appeared to indicate that they were unaware of delegations established prior to their time in office. We were concerned by this apparent lack of transparency on what officials had previously been authorised to do. If Ministers are not aware of previously determined delegations, they will lack the knowledge to review and revise the delegations they have inherited. A lack of knowledge of previously determined delegations puts them effectively outside an incoming Minister's control.

³⁰ RoP, Public Accounts Committee, 19 November 2012, Para 78

³¹ RoP, Public Accounts Committee, 19 November 2012, Para 275

³² RoP, Public Accounts Committee, 19 November 2012, Para 177

We recommend that the Welsh Government publishes a list of each Minister's agreed financial delegations, in the interests of transparency

We recommend that the Welsh Government ensures that any new Minister is clearly briefed on the schemes of delegations that have previously been established within their department.

The cost of purchasing the River Lodge Hotel

57. The Wales Audit Office report states that the Welsh Government agreed a purchase price of £1.6 million prior to a valuation of the property being established independently by the District Valuer. The District Valuer did subsequently confirm that the purchase price was a fair reflection of the market value of the site, although some £1 million of the valuation arose from the potential for future residential development.³³ The Wales Audit Office report also noted that the vendor of the River Lodge Hotel had not previously "succeeded in selling the property on the open market."³⁴ The report detailed that the £1.6 million paid by the Welsh Government to the vendor was "substantially higher than the £120,000 the vendor paid to buy the property in 2000."³⁵

58. We were astonished by the scale of the increase in the property's price from £120, 000 to £1.6 million between 2000 and 2007. We recognised that valuations would have increased in this period, but were surprised that they had increased to this extent, particularly as the vendor could not sell this property on the open market. We note that the Wales Audit Office report sets out that the District Valuer stated that £1.6 million was a fair reflection of the market value of the River Lodge, taking into account the residential development potential of the land.³⁶ However, we note that the valuation was made after a price had been agreed with the vendor. We also note that the valuation

³³ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 1.3 and 1.4

³⁴ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.2

³⁵ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.2

³⁶ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.5. It may be noted that the residential development, although part of the valuation, was not progressed (WAO report Para 2.2)

was based on there being the potential for residential development of the property, despite:

- this not being referenced in Powys Fadog's proposed use of the property;
- there apparently not being planning permissions in place for residential development of the property; and
- there not being subsequent exploration of whether residential development planning would be feasible.

59. Notably, the Wales Audit Office report states that the District Valuer's valuation did not represent a formal valuation in accordance with Red Book requirements.³⁷ We were provided with contrasting evidence on whether a formal valuation (in accordance with Red Book requirements) was stipulated as necessary in the Welsh Government's procedures at the time. For example, the former Welsh Government Director General of Economy and Transport advised us that:

"I was concerned on a number of fronts about the professionalism of that valuation. It was not a valuation. The District Valuer said that he would send them a red-book valuation. Our rules said that you needed a formal red-book valuation."³⁸

60. We asked Amanda Brewer whether there had been a red-book valuation of the property, and whether the valuation had been in accordance with the Welsh Government's rules at the time. In response, she stated that at the time of the property's purchase:

"it was a requirement to get a written valuation. It was not a requirement to get a formal, red-book valuation. What would normally happen in those circumstances is that you would discuss it with the valuer beforehand; before you actually went out and met a potential vendor, you would speak to the district valuer and give him all the information, and he would tell you what sort of value the property had, and then confirm that in writing as and when it was required. In this case, yes, the piece of paper should have been there before the formal approval went in. It was not, but three people approved that transaction.

³⁷ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.4

³⁸ RoP, Public Accounts Committee, 8 October 2012, Para 399

It was not me who made any decisions, and I want to reiterate that.”³⁹

61. We note that the Welsh Government’s compliance review found “no evidence of actual impropriety,”⁴⁰ by Amanda Brewer in the purchase of the property. On this issue, the Welsh Government’s Internal Compliance Review commented that:

“In accordance with DE&T Guidelines on the acquisition and disposal of the property, as they relate to transactions by private treaty, the property values at each stage have been verified by independent valuations which were provided by the District Valuer. The valuation for the acquisition was not obtained prior to the formal approval of the acquisition but it was provided prior to legal completion of the purchase. In my view this is a minor breach which does not undermine the valuation as evidence of market value.”⁴¹

62. However, we were concerned and surprised that a written independent evaluation of the property was not established prior to agreeing a price with the vendor. From our perspective, if you are going to independently value a property’s price, it seems illogical to do this after- rather than before- agreeing a price.

63. While we recognise that the price of £1.6 million was independently valued, we do not believe that purchasing the hotel, for the Welsh Government’s intended purpose, represented value for money.⁴² We believe an accurate valuation of land’s value does not automatically entail value for money. To use an extreme analogy, if a government purchased the Eiffel Tower, it might do so at a price that accurately reflected its value. However if it intended to use that property for a land fill site, the purchase of that site would represent extraordinarily poor value for money.

³⁹ RoP, Public Accounts Committee, 8 October 2012, Paras 191 and 192

⁴⁰ Welsh Government, Compliance Review, Summary Findings Pg 2. Submitted as written evidence by Amanda Brewer. This point is also made in Para 1.16 of the Wales Audit Office report

⁴¹ Welsh Government, Compliance Review, Summary Findings Pg 2. Submitted as written evidence by Amanda Brewer.

⁴² The Wales Audit Office’s report similarly states that the Welsh Government paid more for the property than its intended use for the property made it worth. Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 1.1-1.5

64. The Director of Business, Enterprise, Technology and Science noted that Governments did indeed sometimes spend more on properties than they would be worth (bearing in mind the purpose intended to put them to). He commented that:

"if a piece of land has a certain value for residential or maybe retail use and you want to buy it, you have to pay the cost for whichever possible use has the highest value, even if you decide to use it for something else."⁴³

65. In this instance, we consider that the Welsh Government paid significantly more for the property than its intended use of it would make it worth. As such, we believe that the purchase represented poor value for money. For example, if the Welsh Government had collectively considered that supporting the Powys Fadog Initiative was valuable in achieving its policy objectives, it could have explored other options for supporting the project (for example, suggesting it be based elsewhere). We welcome the fact that the Welsh Government's Compliance review appeared to reach a similar conclusion on this issue, commenting that:

"The net cost of the project relative to the outcomes and benefits outlined in the project appraisal appears to be exceptionally high."⁴⁴

Taking possession of the River Lodge Hotel

66. Although the River Lodge Hotel was acquired by the Welsh Government with vacant possession, Mr Pol Wong and another person were allowed to continue to stay in it. We received mixed evidence as to whether this was an effective decision.

67. Amanda Brewer commented although she was not involved in management issues associated with the hotel, she understood that the rationale to allowing two tenants to occupy residential accommodation was that break-ins and vandalism would be deterred. She stated that:

"one residence was occupied on an Assured Shorthold Tenancy and the other, occupied by Pol Wong, on a tenancy at will. The lawyer's advice was to issue Mr Wong with a simple licence to occupy in the form of a letter on completion to avoid any

⁴³ RoP, Public Accounts Committee, 10 July 2012, Para 49

⁴⁴ Amanda Brewer written evidence, page 30.

problems with his occupation in the future. Neither tenant had security of tenure and the lawyer was satisfied that vacant possession could be obtained within the development timeframe, therefore the fact that there were tenants in the building did not affect market value.”⁴⁵

68. By contrast, the former Welsh Government Director General of Economy and Transport commented that:

“I have been involved with hundreds of property transactions during my career, and that is the first question that is asked. If you are going to buy the property with vacant possession, you make sure that there is no-one on the property—that can give you all the implications of people being there. If there are people there, and you accept it, you regularise those at the time of the transaction; you do not go ahead with the transaction and then sort it out later.”⁴⁶

69. Similarly, the Welsh Government’s current Director of Business, Enterprise, Technology and Science considered that:

“We should certainly not have purchased a property with vacant possession and then left people in it, which affects its value. You can buy a property with someone in it, but that would have to be taken into account in the valuation.”⁴⁷

70. However, the Welsh Government’s current Director of Business, Enterprise, Technology and Science did not entirely dismiss the rationale behind allowing people to stay in the hotel, commenting that:

“certainly in terms of residential stuff and transport, we try to let it because when there is someone in there it does not get broken into.”⁴⁸

71. Karen Sinclair stated that allowing Mr Wong to stay in the hotel had not been effective in deterring break-ins. She commented that:

“people have been saying that it became derelict once Mr Wong went away, but it has been derelict, or a mess, for an awfully

⁴⁵ Amanda Brewer, comments on Public Accounts Committee meeting of 8 October 2012, Para 68

⁴⁶ RoP, Public Accounts Committee, 8 October 2012, Para 385

⁴⁷ RoP, Public Accounts Committee, 23 October 2012, Para 179

⁴⁸ RoP, Public Accounts Committee, 23 October 2012, Para 240

long time. Perhaps a few more windows were broken, but it was certainly derelict for a long time before.”⁴⁹

72. We consider that there is some rationale in allowing people to remain on a purchased property, in order to deter vandalism and minimise risks of pipes bursting, etc. However, it is imperative in such circumstances that there is a legally binding agreement regarding people’s right to be in a property. We asked the Welsh Government whether it had any evidence that there was a formally binding legal framework for Mr Wong to live in the hotel. In response it stated that:

“The property was acquired subject to a tenancy at will in favour of Pol Wong relating to Flat 21 and an assured shorthold tenancy agreement in ... relation to [the occupant of] the Gatehouse. The assured shorthold tenancy to [the occupant of the gatehouse]... was terminated by Welsh Government in April 2007 with... [the occupant’s] agreement.

“As there was no written tenancy agreement in respect of Pol Wong’s occupation it was proposed to document the tenancy formally and a draft tenancy at will was prepared in March 2007. The rental figure was left blank in the draft with the intention that it was completed once the rental was agreed with Mr Wong.

“Subsequently instructions were given to issue a tenancy agreement in respect of the Gateway Flat rather than a tenancy at will and this was issued to Mr Wong for signature in 2009.

“The tenancy agreement was returned by Pol Wong but it was never executed by Welsh Government.”⁵⁰

73. We are disappointed that neither the tenancy at will nor the tenancy agreement was actually executed by the Welsh Government. We consider that any terms of occupation should be determined prior to the purchase of a property, because this could affect the value of a property.

We recommend that the Welsh Government applies a consistent policy when acquiring any land or property on vacant possession.

⁴⁹ RoP, Public Accounts Committee, 19 November 2012, Para 150

⁵⁰ Welsh Government, River Lodge- Public Accounts Committee Action Points

Terms of occupation must be determined prior to the purchase of a property.

2. The decision to enter into a lease with Powys Fadog

74. The Welsh Government entered into a legally binding Agreement for Lease with Powys Fadog on 17 June 2009, two years after the original purchase of the River Lodge Hotel. This agreement provided that Welsh Ministers would grant a lease of the hotel to Powys Fadog if it could satisfy financial preconditions by no later than 17 June 2011, and complete the refurbishment work within a further two years. Providing all conditions were satisfied, the Agreement required the Welsh Government to grant Powys Fadog a 25-year full repairing and insuring lease.⁵¹ Pol Wong explained to us that negotiations over the agreement of lease were done with:

“the head of infrastructure. We had been dealing with ... [him]... for a number of years. He felt that the Welsh Government had let us down quite a bit, and so did ... the regional director.”⁵²

Concerns from the Welsh Government’s legal department

75. The Wales Audit Office report notes that senior Welsh Government officials entered into this lease despite repeated concerns from its own Legal Department about the legality of the lease proposals and whether they represented good value for money.⁵³

76. The Wales Audit Office report also says that:

“The original proposal at the time the Welsh Government bought the property in March 2007 was for some of the land to be retained by the Welsh Government for residential development. However, the Agreement for Lease included all of the land for use by Powys Fadog.”⁵⁴

77. Welsh Government officials told us that it is appropriate that legal advice is sometimes challenged, or an organisation would become too risk averse. However, they considered that in this specific instance the

⁵¹ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 2.3 and 2.4

⁵² RoP, Public Accounts Committee, 8 October 2012, Para 159

⁵³ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 2.10 to 2.16

⁵⁴ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 2.2

decision not to follow legal advice was indefensible. For example, the then Permanent Secretary commented that:

“if you only ever followed legal advice, you would be so risk-averse that you missed out on opportunity. On the other hand, if you always rejected legal advice, you would be too gung-ho and entrepreneurial... in this case, the legal advice should have been followed and as soon as I looked at it I could see that. The legal advice was categorical: this was an unsafe set of decisions and I will not defend something that was unsafe all of the way through from the beginning to the end... I think and hope that, given what we have put in place since then, if exactly that were to happen again, there are more systems and processes in place to ensure that anything about which there is a disagreement, is escalated.”⁵⁵

78. The Director General for Business Enterprise Technology and Science similarly commented that processes had changed since the time of the leasing negotiations. He stated that today, in a conflict between legal and policy officers in his department, they would not put something through if legal services said: “under no circumstances should you do that.”⁵⁶

79. Notably, Ieuan Wyn Jones AM, who at the time of the decision to enter into a lease was Minister responsible for the Economy and Transport, stated to us that he was only made aware of the decision to enter into the lease, and as Minister did not actively play a role in making or approving the decision.⁵⁷

80. We welcome the Welsh Government’s acceptance that its original decision to proceed with a leasing arrangement, against legal advice was flawed.

81. However, we consider that the Welsh Government needs to provide concrete assurances that its processes and cultures have been sufficiently changed to avoid such situations occurring again. We address this comment not just to the Department for Business, Enterprise, Technology and Science, but to the whole of the Welsh Government. It is imperative that the lessons of the River Lodge Hotel

⁵⁵ RoP, Public Accounts Committee, 10 July 2012, Para 84

⁵⁶ RoP, Public Accounts Committee, 10 July 2012, Para 113

⁵⁷ RoP, Public Accounts Committee, 19 November 2012, Para 187

project are not confined to one department, but are imbibed across the whole of the Welsh Government. In addition we consider that in circumstances where legal and policy officials are in disagreement, Ministers should be made aware of such disagreements before any final decisions are taken.

We recommend that the Welsh Government ensures that in circumstances where legal and policy officials are in disagreement over a decision (including decisions that have been delegated to officials by a Minister) the Minister should be made aware of such disagreement before any final decision is taken.

Communication between different Welsh Government departments

82. The Wales Audit Office report sets out that at the time of the decision to enter into a lease with Powys Fadog it was anticipated by Welsh Government officials that the Welsh European Funding Office (WEFO) would refuse an application for grant funding of £326,000, and that the application for a £565,000 loan from Finance Wales would also be turned down. A decision on an application for a grant of £608,000 submitted in April 2009 under the Communities Facilities and Activities Programme was awaited. Powys Fadog did have an in principle offer of support in respect of an Environmental Improvement Grant application for £255,000.⁵⁸

83. Karen Sinclair and the then Permanent Secretary of the Welsh Government noted that despite other Welsh Government departments picking up concerns around providing funding to Powys Fadog, this was not adequately communicated within the Welsh Government. For example, Karen Sinclair commented that:

“there did not at the time seem to be any central control or compilation, if you like, of the applications for grants. There were many streams of grant that you could apply for, but it seemed that people were able to apply for all sorts, but none of the people administering those grants talked to one another and said, ‘Oh yes, I’ve had a grant application as well’. I found it odd that there did not seem to be any joined-up thinking, and I was quite disappointed about that.”⁵⁹

⁵⁸ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 2.17

⁵⁹ RoP, Public Accounts Committee, 19 November 2012, Para 157

84. Correspondence between WEFO officials, which Karen Sinclair had received following a Freedom of Information request, illustrated this lack of central co-ordination in the Welsh Government's relationships with Powys Fadog, with one official commenting that: "WAG is not currently as one on this."⁶⁰

85. This is not the first time that an Assembly Committee has heard, or been critical, of a lack of communication and co-ordination between Welsh Government officials. We are pleased however, that in responding to our recent interim report on Grants Management, the Welsh Government stated that:

"a central grant management IT system is planned as part of the GMP [Grants Management Programme]. The implementation of this Customer Relationship Management (CRM) system will provide the Welsh Government with... necessary management information."⁶¹

86. We welcome the forthcoming development of a Customer Relationship Management system within the Welsh Government. It is imperative that this system is not merely 'an IT system' but also involves a change in culture within the Welsh Government to actively encourage a co-ordinated approach across its varied departments and officials. We believe that the Welsh Government needs to be collectively aware of the different grants that an individual organisation is applying for from it. This will enable it to make more strategic assessments of the risks and benefits involved in providing multiple grants to one organisation. We have considered this issue further in our report on Grants Management in Wales.

⁶⁰ Correspondence provided by Karen Sinclair AM

⁶¹ Welsh Government, Response to Public Accounts Committee 'Grants Management-Interim Report.'

3. The Welsh Government's consideration of alternative proposals put forward by Powys Fadog

87. The Wales Audit Office report states that when it became apparent that Powys Fadog would not be able to raise the finance to enable it to satisfy the terms of the Agreement for Lease, the company put forward alternative proposals to safeguard its planned use of the River Lodge site. These were:

- for Clwyd Alyn Housing Association to lease the River Lodge from the Welsh Government and, in turn, sublet the property to Powys Fadog. This proposal, whilst beneficial to Powys Fadog and the Housing Association, would have meant the Welsh Government paying an additional £0.5 million for the project to go ahead, as well as foregoing rental income for 60 years - worth a further £1.6 million, based on the rental terms set out in the Agreement for Lease with Powys Fadog;⁶²
- an extension to the Agreement for Lease deadline of June 2011, so Powys Fadog could continue trying to raise external funding;⁶³ or
- for the Welsh Government to make a substantial further investment by paying for the essential repairs and refurbishment, estimated at around £800,000.⁶⁴

88. In oral evidence, Pol Wong described that he:

“had heard that housing associations were keen on supporting community projects, so eventually what we did was approach Clwyd Alyn Housing Association. We had discussions with it, and it really loved the idea of everything behind the project and was happy to support it. So, Clwyd Alyn spoke with the officers within the Welsh Assembly Government and they agreed between them a proposal that would provide the money for the refurbishment of the building. As I said, we had already had

⁶² Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 3.9 to 3.18

⁶³ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.19

⁶⁴ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.19

approval for an environmental improvement grant. Clwyd Alyn was happy to put in £300,000, which was approximately a third of the cost, and the environmental improvement grant was also about a third of the cost, and a property grant was agreed by the Department for the Economy and Transport. So, in actual fact, we had raised the money.”⁶⁵

89. We noted that the Clwyd Alyn Housing Association proposal was therefore dependent on a further £0.5 million of grant funding being provided by the Welsh Government. Pol Wong concurred with this analysis, commenting that:

“£249,000 of that had already been approved for us, which was the environmental improvement grant. Then the property grant that I just spoke about, from the Department for the Economy and Transport, was the rest of that.”⁶⁶

90. The Wales Audit Office report details that Welsh Government officials in North Wales were supportive of the Clwyd Alyn proposal and prepared a briefing for the Minister dated 15 January 2010 noting their intention to accept the proposal. However, this briefing was withdrawn because it had not been cleared by Legal Services, and a subsequent submission was also withheld pending the completion of the Welsh Government’s compliance review which had been underway since July 2009.⁶⁷ Because the briefings were withdrawn, this meant that they were not seen by the Minister (or indeed, by other Ministers or Special Advisers that might have been copied into the briefings).

91. All of the alternative proposals put forward by Powys Fadog were ultimately turned down by the Welsh Government. The Wales Audit Office report details that:

“In July 2011, after the Agreement for Lease had expired, the Welsh Government wrote to Clwyd Alyn Housing Association to formally notify the Association that its proposal had not been

⁶⁵ RoP, Public Accounts Committee, 8 November 2012, Para 10

⁶⁶ RoP, Public Accounts Committee, 8 November 2012, Para 14

⁶⁷ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.16

accepted, based on a lack of congruence with prevailing Government policies and value for money considerations.”⁶⁸

92. With the Welsh Government having already spent significant public funding on the River Lodge Hotel in the first place, we consider that it would have been appropriate for it to have enabled independent assessment of the various proposals put forward by Powys Fadog. We note that an options appraisal was carried out by a Regional Director from within the Welsh Government’s Department of Economy and Transport, which:

“did not support the options relating to Powys Fadog, because of their lack of congruence with the new economic policy priorities. The submission made by Powys Fadog had been assessed as not meeting the new policy requirements.”⁶⁹

93. We note that this options appraisal stated that it “did not include an assessment of the costs and benefits of alternative options.”⁷⁰ We recognise the logic of determining whether Powys Fadog’s proposals were in line with the new policy priorities established in July 2010 by the Welsh Government under its *Economic Renewal: A New Direction policy*.⁷¹ However, we consider that it would have been appropriate for the options appraisal to have also given consideration to whether the various options put forward by Powys Fadog represented value for money. We have considered this issue further in Chapter 5 of this report.

94. On the issue of the value for money presented by the Clwyd Alyn Housing Association proposal, we note that the Wales Audit Office report comments that:

“In our view, the proposal put forward by Clwyd Alyn Housing Association represented significantly poorer value for money for the taxpayer than the terms of the Agreement for Lease the Welsh Government had already agreed with Powys Fadog. The proposal would have involved substantial further investment of

⁶⁸ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.17

⁶⁹ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.12

⁷⁰ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.12

⁷¹ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.19

public funds to deliver the Powys Fadog community development initiative. In addition to the £1.6 million the Welsh Government had already paid to buy the property, it would be required to provide additional financial assistance of nearly £500,000. The Welsh Government would also have had to forgo any rental income for 60 years, worth a further £1.6 million based on the rental terms set out in the Agreement for Lease with Powys Fadog.⁷²

⁷² Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.18

4. The Welsh Government's management of a conflict of interest

"In my opinion, there was a clear conflict of interest and I really could not understand how anybody could think there was not."⁷³

– Karen Sinclair, former Assembly Member for Clwyd South

The conflict of interest

95. The Wales Audit Office report confirms that Amanda Brewer lead on the purchase of the River Lodge Hotel, while also being a Director and Company Secretary for Powys Fadog.⁷⁴ We note that Amanda Brewer did not make the actual purchase of the property, but rather submitted the proposal for the purchase to the Regional Director of North Wales, who had the delegated authority to approve capital projects up to £4 million

96. The Wales Audit Office report acknowledges that Amanda Brewer declared an interest in Powys Fadog in December 2006 by means of an internal memorandum.⁷⁵ The Wales Audit Office report notes that the Welsh Government's Compliance Review found that Amanda Brewer did not seek formal approval from either her Human Resources Department or her line manager prior to accepting the appointment as a Director of Powys Fadog as required in the code of conduct.⁷⁶ On this point, Amanda Brewer advised us that:

"It is not recorded, but I had a discussion with the WDA human resources department and my line manager before I took the directorship, and I was told that the policy and procedure in relation to directorships did not seem to relate to voluntary directorships; it just seemed to relate to something for which, perhaps, you were getting a pecuniary advantage, or you were doing for yourself rather than as a volunteer. The WDA and the Assembly Government very strongly encouraged its officials to

⁷³ RoP, Public Accounts Committee, 19 November 2012, Para 137

⁷⁴ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.14-1.15

⁷⁵ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.14

⁷⁶ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.16

use their skills and expertise to help community organisations.”⁷⁷

97. Despite being fully aware of her interest in Powys Fadog, Amanda Brewer’s line manager asked her:

“to negotiate terms with the vendor on behalf of the Welsh Government, on the grounds that she was the most senior remaining member of the former WDA staff in North Wales who had knowledge of the project.”⁷⁸

98. We are firmly of the opinion that it is not enough to simply register an interest. Consideration must then be given to whether there is the potential for a conflict of interest, and how the potential for a conflict of interest can be managed. In some circumstances, it may then be considered that action (beyond declaring an interest) is not necessary. But in other circumstances, it may be inappropriate for a person with a particular interest to be involved in a particular activity at all.

99. Earlier in this report, we said that Amanda Brewer’s involvement in Powys Fadog created- in our opinion- a high risk for a conflict of interest with her role in the purchase of the River Lodge Hotel property. The Wales Audit Office report notes that the Welsh Government’s Internal Audit Review considered that there was a direct link between the official’s conflict of interest and the lack of a thorough appraisal of the options, before and after the acquisition of the property, to secure best value for money from the asset.⁷⁹

100. We welcome the fact that the Welsh Government has ultimately acknowledged fault in an official with a registered interest being asked to undertake these responsibilities. We consider that it was wholly inappropriate for the Welsh Government to ask the official with a registered interest to acquire a property with the intention of it being used by the organisation which the interest related to. The Wales Audit Office similarly concluded that the Welsh Government did not

⁷⁷ RoP, Public Accounts Committee, 8 October 2012, Para 251

⁷⁸ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.15

⁷⁹ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.17

effectively manage the risks associated with this potential conflict of interest.⁸⁰

101. Amanda Brewer stated to us that she did not act on the Welsh Government's behalf in relation to matters associated with the River Lodge Hotel or Powys Fadog after the hotel was purchased in 2007. She explained that her manager:

"…was the case officer for River Lodge from the date the decision was made to purchase. I was not at any time involved in drafting any of the Ministerial Briefings or responding to letters or FOI requests relating to the project and I did not act for or represent Welsh Government in relation to River Lodge in any way post purchase."⁸¹

102. We have seen no evidence to prove that Amanda Brewer was involved in the project on the Welsh Government's behalf after the purchase of the hotel.⁸² Instead, the evidence we have received indicates that Amanda Brewer worked solely on Powys Fadog's behalf during the period leading up to the signing of the Agreement for Lease, and beyond. Indeed, Pol Wong told us that Amanda Brewer's "sole role was concerning the project management of the refurbishment."⁸³

103. However, with Amanda Brewer's line manager leading the project from the Welsh Government's behalf, and Amanda Brewer having originally led on the purchase of the property, we consider that this arrangement still had a high potential for confusion as to who was representing who.

104. Ironically, this confusion appears to have been illustrated at points in our inquiry. For example, the former Permanent Secretary stated to us that a Ministerial briefing (which was written after the purchase of the River Lodge Hotel) was "written by the individual who project-managed the purchase."⁸⁴ The evidence of our inquiry suggests this statement was inaccurate. The Wales Audit Office report notes that

⁸⁰ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.24, 2nd bullet

⁸¹ Amanda Brewer, Comments on PAC Committee meeting of 23 October 2012, Para 197

⁸² This is also set out in the Wales Audit Office's report, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 2.22

⁸³ Pol Wong, Personal Statement from Pol Wong, Pg 12

⁸⁴ RoP, Public Accounts Committee, 10 July 2012, Para 22

this briefing was drafted by Amanda Brewer's line managers, rather than Amanda Brewer herself, because she was no longer representing the Welsh Government in relation to the project.⁸⁵

105. The Wales Audit Office report suggests that these confusing different roles would also have been known to the various parties involved in the River Lodge Hotel project. For example, the report states that the Clwyd Alyn Association:

"told us that it was first approached by the conflicted Welsh Government official, who made it clear that she was acting on Powys Fadog' behalf. The Association was aware that the official was employed by the Welsh Government at that time."⁸⁶

106. Adding to this confusion, the report points out that Amanda Brewer used her Welsh Government e-mail address while working on Powys Fadog's behalf.⁸⁷ Her actions took place with the knowledge of her line management.

107. The former Welsh Government Director General of Economy and Transport and Amanda Brewer provided us with contrasting evidence on Amanda Brewer's use of her e-mail account. The former Welsh Government Director General of Economy and Transport described Amanda Brewer as "pestering"⁸⁸ her colleagues on behalf of Powys Fadog. By contrast, Amanda Brewer described herself as responding to her colleagues' questions and queries on behalf of Powys Fadog.⁸⁹ She commented that she:

"was frequently asked by colleagues dealing with the Powys Fadog project for information during working times. That was another reason for using e-mails, because I was asked and would have to store information relating to Powys Fadog on the Welsh Assembly Government drive to be able to provide that information. I was frequently asked for plans and that sort of thing, and they used the Assembly Government e-mail address to e-mail me to ask for information about Powys Fadog that I

⁸⁵ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 1.24

⁸⁶ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.11

⁸⁷ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 2.22

⁸⁸ RoP, Public Accounts Committee, 8 October 2012, Para 525

⁸⁹ RoP, Public Accounts Committee, 8 October 2012, Para 287

was providing to them as a volunteer, rather than as anything else.”⁹⁰

108. Amanda Brewer considered that the Welsh Government’s written policies on the use of e-mail did not prohibit her actions. She commented that:

“the rules did not say anything; all they said is that you should not use your Government e-mail address for personal use. We did not consider volunteering to be personal; it was separate from that... My line manager, John Adshead, and Ian Williams were aware that this is what I was doing. In actual fact, I think that Karen Sinclair brought it to the Minister’s attention in July 2009 that I had used an e-mail address for grant applications, and I would have thought that, bearing in mind that that letter was also subject to a ministerial briefing that went to the Permanent Secretary and everyone below her, if they had thought that there was a problem, they would have told me to stop immediately, because that was when the majority of grant applications were going in. I made sure, before I sent any grant application out to an internal organisation, or even an external organisation, that they were fully aware that I was doing it in a voluntary capacity and not on behalf of the Welsh Assembly Government. I always put a disclaimer that said that on the bottom of the e-mail. Internally, in other departments, people were well aware that I was acting as a volunteer, and not for the Assembly Government.”⁹¹

109. We note that Amanda Brewer discussed her use of a Welsh Government e-mail accounts with her managers in North Wales, and that other officials could have identified a problem with her use of e-mail at an early stage. We also note that she used a disclaimer on her e-mails.

110. However, we consider that use of a Welsh Government e-mail account on another organisation’s behalf had significant potential to create confusion as to who Amanda Brewer was representing in relation to the River Lodge hotel. From our perspective, an official using an e-mail account on behalf of an external organisation is actually one of the more inappropriate ways in which it can be used.

⁹⁰ RoP, Public Accounts Committee, 8 October 2012, Para 287

⁹¹ RoP, Public Accounts Committee, 8 October 2012, Para 276 and 278

This is because doing so has the potential to create confusion as to who an official is representing. By comparison, more ‘personal’ uses of an e-mail account (such as a person telling their partner that they might be home late from work) appear relatively trivial.

111. We were extremely concerned both by the fact that the e-mail account was used in this way, and by the fact that senior managers did not identify that this might be a problem. We do, however, welcome the Welsh Government’s ultimate acknowledgement of fault in allowing use of a Welsh Government e-mail address on an outside party’s behalf. We also concur with the finding of the Welsh Government’s Internal Audit that the overall handling of the conflict of interest was ‘wholly inadequate.’⁹²

We recommend that the Welsh Government reviews its HR policies on the use of e-mail accounts to ensure that there is always the maximum possible clarity on which organisation an official is representing.

The role of senior officials in managing a conflict of interest

112. Throughout our inquiry, we consistently heard that senior managers in North Wales were fully aware of Amanda Brewer’s role in Powys Fadog. Notably, one of our Members commented to the former Welsh Government Director General of Economy and Transport that:

“It concerns me that there were so many managers above Amanda Brewer who obviously knew what was going on... I believe that there were senior officers above Amanda Brewer who should have told her to get out of the scene and to walk away because, at the end of the day, there was a conflict of interest in their opinion.”⁹³

113. As noted above, we consider that senior managers in the Welsh Government’s North Wales office should have addressed the potential for a conflict of interest much more effectively. In particular, we believe it was:

- inappropriate for Amanda Brewer to be asked to lead on the original purchase of the property;

⁹² Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 2.22 to 2.25

⁹³ RoP, Public Accounts Committee, 8 October 2012, Para 504

- inappropriate to allow her to represent an external organisation in relation to a project in which her own line manager was representing the Welsh Government;
- and inappropriate to not identify that her using a Welsh Government e-mail account on another organisation's behalf had the potential to be confusing as to who she was representing.

114. However, our criticism is not limited to senior managers in the North Wales office.

115. Despite senior managers being aware of Amanda Brewer's role in Powys Fadog, the former Welsh Government Director General of Economy and Transport advised us that:

"I was given a categorical assurance by the regional director—I can send you the e-mail—that there was no conflict of interest as regards Amanda Brewer. When a senior manager told me that in such categorical terms, I accepted it."⁹⁴

116. We asked the former Welsh Government Director General of Economy and Transport to provide us with a copy of the e-mail, which detailed that:

"Have now had a chance to investigate this with the team and just wanted to reassure you that there is no need to worry about this one – everything has been done in absolutely the appropriate way, the right processes and protocols have been followed and no conflict of interest – [Amanda Brewer's line manager] is currently emailing you a response which he will follow up tomorrow with a full briefing."⁹⁵

117. We were astonished that a very senior manager did not take further action to establish either that there was no conflict of interest, or that the potential for one was being managed.

118. We consider that any manager- regardless of their seniority- could have difficulty in objectively assessing how well they were themselves performing their role in managing another member of staff's potential conflict of interest. Setting out an explanation of how a potential conflict was being avoided would be an important first step in

⁹⁴ RoP, Public Accounts Committee, 8 October 2012, Para 477

⁹⁵ Welsh Government, River Lodge- Public Accounts Committee Action Points, Pg 6.

determining whether the management of a potential conflict was adequate.

119. We are left with the uncomfortable sense that there did not seem to be any control exerted by the ‘centre’ of the Welsh Government on events in North Wales. We are critical that very senior managers in the Welsh Government (typically characterised in our inquiry as being based in Cardiff) did not appear to have sought greater assurance that a potential conflict of interest was being managed, and showing apparently too limited central control. In oral evidence, the former Welsh Government Director General of Economy and Transport appeared to acknowledge that there was limited central control. He detailed that:

“I was responsible for transport, road construction, buses and trains, as well as international matters and tourism—you had to rely, as a manager, on your chain of command. You can see how many links there were in the chain. There was Amanda Brewer, who was a chartered surveyor with 30 years’ experience—a senior grade 7 civil servant—who reported to John Adshead, a grade 6 civil servant, who was also a very experienced chap, and then to a grade 5 senior civil servant, Vanessa Griffiths in the first instance, and then Ian Williams, who then reported to someone below me, namely the director of operations, Sharon Linnard. You can see where I was in the chain of command. I had to rely on the empowerment and professionalism of the staff, working within the rules and their delegations.”⁹⁶

120. Notably, Andrew Davies, speaking as the former Minister for Enterprise, Innovation and Networks, commented to us that in the absence of all-Wales co-ordination or control, in his experience some regional directors behaved “almost like medieval barons.”⁹⁷ He also commented that:

“I was talking to senior officials recently and there are still some elements of that culture in existence in the current department.”⁹⁸

⁹⁶ RoP, Public Accounts Committee, 8 October 2012, Para 401

⁹⁷ RoP, Public Accounts Committee, 19 November 2012, Para 246

⁹⁸ RoP, Public Accounts Committee, 19 November 2012, Para 246

121. We found these comments particularly concerning. We believe they illustrate the need for the Welsh Government as a whole to rapidly learn the lessons from the River Lodge Hotel project, rather than to assume it was down to any unique set of circumstances. It is entirely appropriate that senior managers empower staff, and to delegate responsibilities to them, but this does not justify an apparent absence of overarching co-ordination.

122. We asked the current Welsh Government Director General of Business, Enterprise, Technology and Science whether he read every briefing he was copied into. In doing so, we wanted to understand whether the identification of issues was a matter of chance, of whether senior officials happened to notice an issue in a brief. The current Welsh Government Director General of Business, Enterprise, Technology and Science responded:

"Do I? No. I get copied into everything, but do I read them all? Honestly, no. Could I read them all? Probably, if I did nothing else. However, what I would see is anything that anyone had a problem with. Sorry, Jeff [Collins, Director of Delivery for Business, Enterprise, Technology and Science] would first see it if anyone had a problem with something in his area, and he would have the opportunity—or the desire—to sort it out and work with the finance team, if it had raised the concern, to sort it out. If that could not be done, it would be raised with me, and I would then bring everyone together to try to sort it out."⁹⁹

123. We welcomed these comments. We believe it is important that the Welsh Government has robust systems to enable its senior managers to identify issues of concern.

We recommend that the Welsh Government reviews its internal processes, so that if concerns are expressed about a potential conflict of interest for a member of staff, senior managers seek an explicit rationale as to why it is thought that the potential conflict of interest is being effectively managed. We consider that that the adequacy of that rationale should then be independently tested, outside the member of staff's line-management chain.

⁹⁹ RoP, Public Accounts Committee, 23 October 2012, Para 150

124. In our inquiry, we also heard about a number of potentially mixed messages given out by senior managers in the Welsh Government. For example, the former Welsh Government Director General of Economy and Transport us that in 2007 there were written policies and procedures in place on attendance of meetings in a voluntary capacity. He explained that these stated that sometimes Welsh Government officials:

“should step out of a room, when they should step back in, and the items that they could and could not discuss.”¹⁰⁰

125. He also said that, in addition to these written policies:

“regular briefings were given to people in the organisation about governance, both in the WDA and the Welsh Government.”¹⁰¹

126. However, we also heard that in 2007, Welsh Government officials were being actively encouraged to take part in volunteering activities. Amanda Brewer said that:

“with volunteering, I seem to remember the Permanent Secretary being on the internet all the time encouraging people to volunteer and to use their services. There were very much mixed messages. I certainly felt that I was doing what the Assembly Government was encouraging me to do, in helping my community.”¹⁰²

127. The former Welsh Government Director General of Economy and Transport did not dispute that staff were encouraged to take part in volunteering activities. Indeed, he said that:

“I was a volunteer member of the board of governors of Swansea College, and I was actively encouraged in the WDA to do that; it was the policy... You were encouraged to use your professional skills and expertise in a voluntary capacity—umpteen people are school governors, others help with the Scouts and with rugby clubs, among other things. However, the big difference was that if anything came across your desk in doing that voluntary work that impinged in any way on your

¹⁰⁰ RoP, Public Accounts Committee, 8 October 2012, Para 467

¹⁰¹ RoP, Public Accounts Committee, 8 October 2012, Para 473

¹⁰² RoP, Public Accounts Committee, 8 October 2012, Para 289

professional work, you excused yourself and you had absolutely no more to do with it.”¹⁰³

128. Rather than place an onus on individuals to determine whether they should ‘step out of a room’ for specific issues, we consider that it would be more appropriate to discourage people from sitting on external companies unless it is explicitly in the Welsh Government’s interests.

129. We therefore welcome the fact that the evidence in our inquiry suggests that since the time of the River Lodge Hotel’s purchase, the Welsh Government more explicitly discourages people from sitting on boards. Like the former Welsh Government Director General of Economy and Transport, the current head of governance considered that there were circumstances where officials should ‘step out of a room,’ but went further, detailing that:

“sometimes you need to stay out of that particular discussion... sometimes you need to just not go to a meeting at all, and sometimes you need to step away from that role entirely.”¹⁰⁴

130. We also welcome the current head of governance’s comments that:

“We are going to put out another note between now and Christmas that will go into more detail about conflicts of interest to help people identify one that arises, and which will include what I propose to be a kind of sliding scale of the action that needs to be taken in respect of that, because we do have a responsibility to clarify in a bit more detail what a conflict of interest is and what you do when you get it.”¹⁰⁵

131. Moreover, the current Welsh Government Director General of Business, Enterprise, Technology and Science (BETS) stated that:

“The expectation now is that, ordinarily, people will not sit on boards of companies. There are some exceptions to that, so a wholly owned subsidiary of ours, Finance Wales, regularly puts

¹⁰³ RoP, Public Accounts Committee, 8 October 2012, Para 454

¹⁰⁴ RoP, Public Accounts Committee, 19 November 2012, Para 37. This point is also stressed in the Wales Audit Office report (Para 1.24, final bullet)

¹⁰⁵ RoP, Public Accounts Committee, 19 November 2012, Para 34

people on the board of companies that it invests in. As a department, we do not.”¹⁰⁶

132. We welcome the expectation in BETS that Welsh Government officials will not normally sit on companies’ boards unless it is specifically in the Welsh Government’s interests. However, we consider that this needs to be a clear expectation across the Welsh Government as a whole, rather than limited to any one department. We also consider that there should be some form of regular review as to whether it remains in the Welsh Government’s interests for an official to be on an external company’s board.

We recommend that the Welsh Government reviews its HR policies to ensure officials are discouraged from sitting on external boards, unless they have written permission from their Director that it is explicitly considered to be in the best interests of the Welsh Government for them to do so. We anticipate that there may be exemptions to such a policy (to enable- for example- sitting on a school governing body).

We recommend that the Welsh Government reviews, on an annual basis, whether it remains in the Welsh Government’s best interests for individual members of staff to remain on external companies’ boards.

133. Evidence was provided to us that BETS now has an electronic database recording officials’ registered interests, and the actions taken to mitigate such interests. We were told that:

“As far as BETS is concerned, which is what we are looking at at the moment, all of those manual declarations of interest forms are then entered onto an Excel database. So, there is a database, and the BETS one, for example, currently holds 148 entries. Part of the system includes the description of management action, which is to mitigate any conflicts.”¹⁰⁷

134. We welcomed the introduction of this electronic database of officials’ registered interests and the actions taken to mitigate such interests.

¹⁰⁶ RoP, Public Accounts Committee, 23 October 2012, Para 263

¹⁰⁷ RoP, Public Accounts Committee, 19 November 2012, Para 54

135. However, the evidence of our inquiry suggested that this system was not consistent across the Welsh Government as a whole. In particular, the Welsh Government did not initially appear to hold accessible information on how many of its officials currently held management or board-level positions with external organisations. The current head of governance said:

“We cannot give you the number because, basically, this is held in a paper system at the moment, so we do not have a database that we can easily amass.”¹⁰⁸

136. The Welsh Government subsequently provided this information through written correspondence. The Welsh Government stated that:

“There are currently approximately 103 members of staff that hold board membership or are senior management of external bodies. These are broken down by Directorate General area as follows:

- Business, Enterprise, Technology and Science - 33
- Central Services (Permanent Secretary's Division, Legal Services, Strategic Finance and Performance and People, Places and Corporate Services) - 11
- Health, Social Services and Children - 12
- Sustainable Futures - 2
- Local Government and Communities - 17
- Education and Skills - 28

“Most departments collate the information annually so some positions may no longer be held, hence the approximate figures.”¹⁰⁹

137. Given that its officials can freely move between departments, we were concerned that there was no central database for the whole of the Welsh Government on officials’ registered interests.

We recommend that Welsh Government develops a central database for storing the information of all officials’ registered

¹⁰⁸ RoP, Public Accounts Committee, 19 November 2012, Para 39

¹⁰⁹ Welsh Government, Response to action points at Public Accounts Committee meeting of 19 November 2012,

interests, and the actions taken to mitigate against the potential for conflicts of interests. Such a database should be publicly available.

5. The timing of, and findings from, reviews undertaken within the Welsh Government

The internal compliance review

138. The Wales Audit Office report describes that during 2009 and 2010 senior Welsh Government officials were becoming increasingly concerned about the probity, robustness and value for money of previous decisions in respect of the River Lodge.¹¹⁰ In July 2009 the Welsh Government launched an internal compliance review of the decisions taken by that date. The Wales Audit Office report states that this review was completed in February 2010.¹¹¹

139. During our inquiry, we heard concerns about how this internal compliance review was developed. In particular Amanda Brewer expressed concern that key conclusions in the internal compliance review had changed after its author had 'finalised' it. She said:

"The key findings of the report... [Amanda Brewer's line manager] and I were given in early June 2010 (supposedly issued 26 February 2010) differed substantially from what we expected having regard to... [a] telephone conversation... [between Amanda Brewer's line manager and the author of the report] and the key findings... [that were] included in the draft ministerial submission of 17 February 2010."¹¹²

140. In written evidence, she asserted that she believed there to have been:

"serious malpractice and wrongdoing by Welsh Government (WG) officials in relation to the disciplinary process in respect of... myself. The matter under consideration is the anomalies surrounding the publication of the... Project Review Report,

¹¹⁰ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 7

¹¹¹ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Appendix 2

¹¹² Amanda Brewer, Perceived malpractice and wrongdoing in relation to the Compliance Review Report..., Page 5

referred to as the Compliance Review Report in the Wales Audit Office Report on River Lodge.”¹¹³

141. The Welsh Government’s former Director General of Economy and Transport concurred that changes had been made to this report. He detailed that:

“Chris Munday’s report was put in final draft form, but quite a lot of representations were made by Mike Clarke from legal services, which resulted in changes. A document was sent to Sharon Linnard and me. I had some concerns that it was not the finished article, because there were still outstanding matters regarding the legal aspects, but that is when it was taken over by the Permanent Secretary, who was commissioning the internal audit report at that time.”¹¹⁴

142. We asked the former Welsh Government Director General of Economy and Transport why the report was called ‘final’ if it was still a draft. He responded that:

“Chris Munday thought that it was his final report, and both Arwel and I saw it as a final draft report, which was never formally concluded because it was then overtaken by events, namely the formally instigated internal audit report. However, once again, I repeat the point that it was not buried, but that it was informing that and was presented in all its detail to the Wales Audit Office.”¹¹⁵

143. When asked whether it was not for the author of a report to determine when it was ‘final,’ the former Welsh Government Director General of Economy and Transport responded:

“I asked Sharon Linnard (to initiate the review), and it should have been for Sharon Linnard to accept the report.”¹¹⁶

144. The evidence of our inquiry clearly indicated that changes were made to the internal compliance review after it was in- what its author considered at the time to be- its ‘final’ version.

¹¹³ Amanda Brewer, Perceived malpractice and wrongdoing in relation to the Compliance Review Report..., Page 1

¹¹⁴ RoP, Public Accounts Committee, 8 October 2012, Para 422

¹¹⁵ RoP, Public Accounts Committee, 8 October 2012, Para 449

¹¹⁶ RoP, Public Accounts Committee, 8 October 2012, Para 451

145. However, we were not clear as to how substantial these changes were, and whether the rationale for such changes was robust. We therefore asked the Welsh Government to provide us with the compliance review, with tracked changes to detail what had changed between the various iterations of the review.

146. In response, the Welsh Government provided us with a summary of changes to the review, and the report author's witness statement, submitted to the employment tribunal which was originally convened to determine Amanda Brewer's claim of unfair dismissal.

147. We were disappointed that the Welsh Government did not provide us with a copy of the compliance review, with tracked changes to detail the specific changes to the document. Despite our best efforts, without such a document we are not satisfied that we have sufficient evidence to determine whether the rationale for revising conclusions in the internal compliance review was reasonable or not.

148. The report author's witness statement stated that the internal compliance review's conclusions were amended because of additional information he received between 17 February 2010 and 26 February 2010. The witness statement clarifies that despite the investigation having been initiated in July 2009, it significantly escalated in late February:

"as I had been given a deadline of the end of February within which to submit my review report. During this period I circulated working versions of my report for input from others. In response to this I received further information which I subsequently inputted into the report."¹¹⁷

149. The witness' statement said that the report author had:

"initially been provided with a snapshot of the e-mails sent from Ms Brewer's account. These examples were provided by Ms Brewer herself. Subsequent to 17 February 2010 I was made aware of further examples of the e-mails Ms Brewer had been sending from her Welsh Government e-mail account. The

¹¹⁷ Welsh Government, Response to PAC, Annex 1

volume of these personal e-mails was considerably greater than I had initially appreciated.”¹¹⁸

150. The statement says that the report author was also:

“made aware of direct contact Ms Brewer had, had with the Welsh Government Legal Service Department most notably a series of telephone conversations Ms Brewer had with Mair Williams on 10 March 2008 and the subsequent concerns raised by Patricia Clarke, Senior Lawyer, about such contact. In my view the fact that Ms Brewer had been chasing Legal Services directly for the Powys Fadog lease was a serious issue. For Ms Brewer to have contacted the Welsh Government’s legal team directly, circumventing Martin Williams who was dealing with the lease negotiations on behalf of the Welsh Government was in direct contravention of established protocol. I felt in doing so, Ms Brewer had blurred the line between her involvement on behalf of Powys Fadog and as a Welsh Government officer. Ms Brewer, as Director of Powys Fadog had no business in dealing directly with the legal advisers of the landlord who was granting the lease, such negotiations should have gone through the appropriate legal channels.”¹¹⁹

151. In conducting inquiries and investigations, we have personal experience of the importance of keeping an open mind to the implications of new information. We recognise that reports’ conclusions do need to take account of all evidence received. However, we were concerned by several issues highlighted by the witness statement. In particular, we were surprised that an eight-month investigation only gathered seemingly critical information to inform the content of the final report in its final week. For clarity, we are not critical that such information was gathered. Rather, we are disappointed that such information was not gathered at an earlier stage.

152. Earlier in this report, we noted that a Ministerial Briefing dated 15 January 2010 was prepared by Amanda Brewer’s line manager, indicating an intention to enter into a head lease with Clwyd Alyn Housing Association. This briefing was then withdrawn “as it had not

¹¹⁸ Welsh Government, Response to PAC, Annex 1

¹¹⁹ Welsh Government, Response to PAC, Annex 1

been cleared by Legal Services.”¹²⁰ We understand that a Submission Folder was subsequently drafted, presumably inviting the Minister to make a decision on whether to enter into a head lease with Clwyd Alyn Housing Association. Amanda Brewer stated to us that the author of the compliance review provided its key findings “in the form of tracked changes to the SF [Submission Folder] which... [another person] was preparing.”¹²¹ We note that this Submission Folder was in turn withdrawn, as a consequence of the Permanent Secretary initiating an internal audit review in March 2010 (which we have considered in the following sub-chapter). Consequently, the Minister did not see this Submission Folder.

153. However, we found it astonishing that a draft Submission Folder would include detail on ‘key findings’ of an investigation which was yet to be concluded by input from other officials. This had the potential to provide an unbalanced brief.

154. We consider that the production of considerably different ‘final’ versions of the compliance review does not inspire confidence. The fact that an investigation apparently went on for the best part of eight months before gathering input from other officials in the space of a week is also concerning. Were these issues to arise in the production of an external report, we believe the Welsh Government would be criticised for not being professional in its approach. We consider that an internal report should be subject to similar standards.

We recommend that the Welsh Government reviews its processes to ensure that the production of an internal report is every bit as robust as those associated with the production of an external report.

The internal audit review

155. Given the significant findings of the final version of the internal compliance review,¹²² the Permanent Secretary commissioned an immediate internal audit review. The then Permanent Secretary described in oral evidence that:

¹²⁰ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 3.16

¹²¹ Amanda Brewer, Perceived malpractice and wrongdoing in relation to the Compliance Review Report

¹²² Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.2

“The findings of the compliance review, which the WAO lays out clearly for us, said, ‘Oops, this is not something sound’ and Gareth Hall [former Welsh Government Director General of Economy and Transport] came to see me to say, ‘We have a problem here; this is not a safe decision’. I wanted it looked at independent of anybody in that part of the organisation, which is why I commissioned Arwel to do it. So, it was raised with me because of concerns at DG level in that part of the organisation. Once we got to that point, the system worked fine; it was up to that point that I cannot justify.”¹²³

156. The internal audit review concluded that:

- there had been an absence of proper option appraisals at key stages of the project;
- the conflict of interest on behalf of a Welsh Government official contributed to the failure to ensure that its interests were protected in terms of securing value for money; and
- the handling of the conflict of interest by regional management had been wholly inadequate.¹²⁴

157. The Wales Audit Office report states that the findings of the internal compliance review and internal audit review:

“led to the Welsh Government suspending the conflicted official and her line manager from office in April 2010, pending the outcome of... disciplinary investigations.”¹²⁵

158. We do not consider it appropriate for us to comment on the circumstances of individual disciplinary cases, or the different disciplinary measures undertaken in relation to different officials. This is an area where an employment tribunal would be better placed to comment than a committee of Assembly Members.

159. However, as an observation on the Welsh Government’s disciplinary process themselves, we believe that a person who has

¹²³ RoP, Public Accounts Committee, 10 July 2012, Para 141

¹²⁴ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.3

¹²⁵ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.6

previously been involved in any of the decisions in a case should not normally also be the Decision Maker in a disciplinary process.

160. We believe it would normally be appropriate for the Welsh Government's disciplinary processes to be conducted by officials who are outside the line management chain of the member of staff who is under disciplinary investigation.

6. The Welsh Government's communications with outside parties

Communications with Powys Fadog

161. The Wales Audit Office report notes that the relationship between the Welsh Government and Powys Fadog deteriorated once officials were suspended. The outcome was a sustained deluge of requests for information, complaints, appeals and pre judicial review action. The report details that these challenges had a significant impact on the workload of Welsh Government officials. Indeed it prompted the Welsh Government to review its approach to handling information requests of this type and volume.¹²⁶

162. We asked the then Permanent Secretary of the Welsh Government whether she considered Powys Fadog to have been fairly treated. In response, she commented that:

“Although the lease was signed and we should not have signed it, we honoured it and the lease conditions. It had up until June 2011 to generate the money. Its problem was that it was dependent on 100% funding coming from the public purse and it had already been rejected by two different bits of the Welsh Government. It knew that it had been rejected by those two bits of the Welsh Government. So, I believe that, with an unsafe decision, it was treated perfectly fairly.”¹²⁷

163. The Wales Audit Office report concurs that the Welsh Government was legally bound to grant a lease if Powys Fadog had been able to satisfy the financial precondition by 17 June 2011, and complete the refurbishment within a further two years.¹²⁸

164. As the former Deputy First Minister, and Minister for the Economy and Transport, Ieuan Wyn Jones AM expressed concerns around the Welsh Government's communications with Powys Fadog, and Pol Wong in particular. He suggested that Powys Fadog might have initially been given inflated expectations, commenting that:

¹²⁶ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.7 to 4.9

¹²⁷ RoP, Public Accounts Committee, 10 July 2012, Para 143

¹²⁸ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 2.3 and 4.5

“When you look at the evidence, you will see that Powys Fadog clearly believed that the scheme was to proceed. However, of course, on one level, that was unrealistic, but that impression was given. It was only in April 2010 that it became quite apparent that the plan was not going to happen.”¹²⁹

165. Correspondence provided by Karen Sinclair indicates that Welsh Government officials were also concerned about the accuracy of their communications with Powys Fadog. A communication between Wales European Funding Office (WEFO) officials on the final version of a letter to Powys Fadog has a comment that one official had a:

“remaining concern... that we have perhaps not stated clearly enough that the project is to be rejected outright as opposed to put on reserve”¹³⁰

166. Pol Wong illustrated that by stating that the project was ‘placed in reserve’ rather than rejected outright, WEFO had given him an impression that the project itself was seen as viable, and that the only reason it was not given funding was severe competition. He commented that:

“On the WEFO application, I note that the Permanent Secretary stated that we were unsuccessful and that we were turned down because of due diligence. That is simply not true. For a start, it put us on the reserve list. The reason we were not successful in getting the funding and were only put on the reserve list, according to the letter that I got, was due to the severe competition. There was no mention of due diligence in the letter that I had.”¹³¹

167. He detailed that from his perspective, Welsh Government officials had appeared to be enthusiastic, detailing that:

“right up to the point when we put in our proposal [the Clwyd Alyn Housing Association proposal]—January 2010—everyone had been very supportive. Even the WEFO officials did not refuse our funding—it put us on the reserve list—and the

¹²⁹ RoP, Public Accounts Committee, 19 November 2012, Para 216

¹³⁰ Draft Funding Decision Letter, 8 July 2009, Correspondence provided by Karen Sinclair

¹³¹ RoP, Public Accounts Committee, 8 October 2012, Para 162

officer we were dealing with in WEFO, Ken Cook, was very keen and enthusiastic.”¹³²

168. Ieuan Wyn Jones AM also expressed concern that once the Welsh Government was conducting an options appraisal, insufficient communication was provided to Powys Fadog. He observed that:

“I am not sure that he [Pol Wong] was fairly treated, in the sense that if there was a decision not to proceed with the scheme, or if there was a feeling once the business plan had been reviewed that it was not robust enough, then Powys Fadog should have been informed far earlier that the scheme would not be progressed. I think that the delays that happened were unacceptable.”¹³³

169. Pol Wong was also critical about the lack of communication he received from the Welsh Government after January 2010. We asked Mr Wong what sort of feedback his organisation had received about why the Welsh Government’s view had changed. He advised us that no feedback had been received, commenting that:

“After that point, I never heard anything again. In fact, to this day, I have not had a decision on that. Every time that I have tried to approach the Welsh Assembly Government to explain what is happening—and, obviously, I have submitted the letters that I have written to the Permanent Secretary—I have never had an answer. The response has been, ‘We are doing an investigation’, ‘We are doing this or that’, ‘We are doing an options appraisal’, and I have never had an explanation.”¹³⁴

170. Pol Wong also advocated that this lack of communication impeded Powys Fadog in attempting to gather funding. He commented that:

“as I am sure that most of you know, if you make an application for the lottery or whatever, you have to make a detailed application; you have to know the current status of the grants that you thought that you had and ask, ‘Do we have them or not?’ We could not get answers from the Welsh Assembly Government. Its officials refused to speak to us. They would

¹³² RoP, Public Accounts Committee, 8 October 2012, Para 53

¹³³ RoP, Public Accounts Committee, 19 November, Para 214

¹³⁴ RoP, Public Accounts Committee, 8 October 2012, Para 53

not give us any information, and they would not even talk to us. So, we could not get grants. We were actively stopped from getting grants. In fact, once, when I attracted some potential funders related to the World Martial Arts Council, I had arranged with the Welsh Assembly Government to do a site visit. The funders came from York, but, when we got to the building, the security staff told us, 'We have been phoned this morning by the Welsh Assembly Government and it has told us not to let you in'. The Government did write to me about that, saying, 'Sorry, it was a terrible mistake' and so forth, which was okay, I suppose—we all make mistakes—but the point is that that happened and things like that have happened absolutely consistently since January 2010."¹³⁵

171. Pol Wong also commented that while Powys Fadog had not had communication with the Welsh Government, the Welsh Government had apparently communicated with other parties:

"even during March 2010, when we were still thinking that everything was fine, it had been in discussions with Betsi Cadwaladr LHB, negotiating on making a bid for the very same site."¹³⁶

172. We note that there was a legally binding agreement for lease in place that the Welsh Government were obliged to fulfil if Powys Fadog could meet the pre-conditions. However, we are critical of the Welsh Government's communications with Powys Fadog for two reasons.

173. Firstly, we believe Powys Fadog was given inflated expectations up to the Welsh Government conducting an options appraisal. We consider that it is perfectly acceptable for Welsh Government officials to want to appear enthusiastic and supportive of a project. But this cannot be at a cost of not informing a stakeholder of perceived concerns or weaknesses in their project. Withholding such information prevents a stakeholder from potentially revising and improving their project.

174. Secondly, we believe Powys Fadog was given very limited communication of what was happening once the internal audit was underway. We do not believe Powys Fadog should have been subjected

¹³⁵ RoP, Public Accounts Committee, 8 October 2012, Para 57

¹³⁶ RoP, Public Accounts Committee, 8 October 2012, Para 181

to what appears tantamount to a ‘communications blackout.’ We believe it was perfectly appropriate for the Welsh Government to conduct an options appraisal on its use of the property, but Powys Fadog could have been advised of this in an open and informative manner.

Communications with Karen Sinclair

175. Karen Sinclair commented that her communications with Welsh Government Ministers left her with a sense that she was being “stonewalled.”¹³⁷

176. A note of explanation may be required at this point. Many people may assume that if they were to write a letter to a Government Minister, then a Minister will read their letter, and either write back themselves, or ask an official to draft a response. However, Ministers sometimes only read correspondence after a civil servant has drafted a suggested response to the letter. Indeed, if civil servants are late in producing a response, a Minister wouldn’t necessarily even know about the original correspondence.

177. The then Permanent Secretary noted that in this instance the responses to Karen Sinclair’s letters were being drafted by Amanda Brewer’s line manager and counter-signing officer “who were actually involved in having taken the decision to proceed with the River Lodge.”¹³⁸ She commented that:

“You have to remember how systems and processes work. When something very detailed comes through, you ask the people with the expertise to respond. Normally, that is fine. In this case, you were asking for a response from the people who were at the heart of why we had a problem.”¹³⁹

178. We were concerned that the Welsh Government’s communications with Karen Sinclair were effectively being drafted by the very people charged with managing the conflict she was expressing concern about. We consider that there is a need to review the Welsh Government’s systems to avoid such an occurrence happening again. For example, the Welsh Government could ensure that any correspondence about a potential conflict of interest has to be considered outside the relevant

¹³⁷ RoP, Public Accounts Committee, 19 November 2012, Para 133

¹³⁸ RoP, Public Accounts Committee, 10 July 2012, Para 96

¹³⁹ RoP, Public Accounts Committee, 10 July 2012, Para 96

official's line management chain, or required to be actively signed off at- as opposed to being copied to- a very senior (i.e. Management Board) level.

We recommend that the Welsh Government review its systems for handling Ministerial correspondence, so that concerns about a conflict of interest (or the conduct of an official) are not responded to by the person who is being complained about or their line manager.

We recommend that the Welsh Government publicly clarifies how Assembly Members' correspondence is handled, particularly if an Assembly Member has written correspondence repeatedly on a particular issue.

179. Additionally, Ieuan Wyn Jones AM stated that he was not aware of the concerns that Karen Sinclair had previously expressed to Andrew Davies. He explained that this was because "no Minister is allowed to see papers that were presented to previous Ministers."¹⁴⁰

180. In subsequent written evidence, the new Permanent Secretary confirmed that Ministers may not see papers previously provided to a Minister of a different political party, even if they are in a coalition Government at the time. He detailed that:

"It is a long established UK Government convention that Ministers of the current Administration may not generally see documents of a former Administration of a different political party. The convention exists in order to provide a degree of privacy to previous Ministers. The convention also applies with the Welsh Government, but with modification so as to take account of the existence from time to time of coalition governments here... This means that the convention is applied when Ministers change and a new Minister is of a different political party to their predecessor."¹⁴¹

181. His correspondence states that while Ministers could not see such documents:

¹⁴⁰ RoP, Public Accounts Committee, 19 November 2012, Para 181

¹⁴¹ Derek Jones, CB, Permanent Secretary, 6 December 2012

“We recognise that there is a need to reconcile the general principle of withholding access to previous Ministerial documents with practical considerations including, where appropriate, facilitating the continuity of policy. So where it is necessary to advise Ministers about work undertaken or decisions made by previous Ministers from a different political party... it is appropriate for civil servants to brief Ministers by providing them with a summary of what was at issue, and the action taken, without giving them access to the actual papers.”¹⁴²

182. Unfortunately, the evidence of our inquiry strongly suggests that such briefings are not happening as effectively as they should. We consider that the cumulative effect of a high staff turnover, combined with Ministers having no access to their predecessors’ papers, and from the remarks made by Ieuan Wyn Jones AM- potentially limited handover arrangements, is to weaken the on-going Welsh Government’s collective corporate memory. We appreciate the rationale behind the original convention, but are very concerned that it this could be damaging in Wales’ political landscape where the political party occupying a particular Ministerial position could potentially change repeatedly.

We recommend that the Welsh Government reviews its convention, to enable Ministers to have access to papers considered by their predecessors.

We recommend that Welsh Government civil servants ensure that incoming Ministers are fully briefed on all aspects of their new portfolios, including on-going and outstanding correspondence. We consider that this should include seeking feedback from Ministers on the effectiveness of such briefing.

Communications with the Wales Audit Office

183. The Wales Audit Office report notes that:

“Concerns about the acquisition of the River Lodge and proposals for its use were first brought to the attention of the Wales Audit Office in January 2010 by a former Assembly Member, who had represented her concerns to Ministers on a

¹⁴² Derek Jones, CB, Permanent Secretary, 6 December 2012

number of occasions but had not been satisfied with the information she had been given in response. In examining these concerns the Wales Audit Office became aware of the Welsh Government's Compliance Review, which was ongoing at the time, and maintained a watching brief over the Compliance Review, the subsequent Internal Audit Review and the Welsh Government's responses to the reviews' recommendations.”¹⁴³

184. During our inquiry, Amanda Brewer expressed concern about correspondence between the Welsh Government and Wales Audit Office which she considered raised concerns around “the impartiality and independence of the Wales Audit Office.”¹⁴⁴

185. In particular, she provided correspondence from a member of the Wales Audit Office, to Karen Sinclair in August 2010, which stated that:

“I have just received confirmation from the Head of Corporate Governance in WAG that he has received the report from the internal investigation. I have arranged to meet him tomorrow afternoon so that he can pass the report over to me and have initial discussions on the findings.”¹⁴⁵

186. We asked the Wales Audit Office if they wished to comment on this correspondence. They confirmed that the internal investigation (of August 2010) being referred to was the Welsh Government's internal disciplinary investigation. However, they outlined that the updates they provided to Karen Sinclair on this internal investigation was:

“limited to informing her only about the progress of the reviews, to assure her that her concerns were being addressed by the Welsh Government. It did not extend to providing her with copies of, or any detail about, the content of those reviews.”¹⁴⁶

187. The Wales Audit Office also set out that its role at this time:

¹⁴³ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 14

¹⁴⁴ Amanda Brewer, River Lodge, Llangollen, Correspondence to Chair of Public Accounts Committee 14 January 2013.

¹⁴⁵ Correspondence provided by both Karen Sinclair and Amanda Brewer, titled ‘Update’ and dated 26 August 2010.

¹⁴⁶ Wales Audit Office, Response to concerns raised by Amanda Brewer.

“was one of maintaining a watching brief on developments (as referred to in paragraph 14 of the WAO report). During the period in question... [the Wales Audit Office] maintained regular contact with... the Head of the Welsh Government’s Corporate Governance and Assurance Division... which was, and still is, a key part of progressing any concerns that arise during the audit cycle. When the Welsh Government produced reports from their various reviews, they were shared with the WAO to demonstrate that the issues raised by the correspondent were being progressed. At that stage our role was to ensure that the concerns raised by Karen Sinclair were being dealt with by the Welsh Government, and that we did not need to undertake any additional work. At no stage did the WAO share the results of these reports with Karen Sinclair; neither did the WAO have any input into the reports themselves.”¹⁴⁷

188. The Wales Audit Office emphasised that:

“at no time during the period when the WAO was maintaining a watching brief on matters relating to the River Lodge (January 2010 to October 2011) or subsequently, as part of our audit examination of the River Lodge, has the WAO engaged in any discussions, or engaged in any other action, that could be construed as having an influence on disciplinary investigations or related proceedings. Apart from knowing of their existence and their outcomes... we have no knowledge of the investigatory/disciplinary proceedings against individual members of staff, which were outside the remit of our own audit examination.”¹⁴⁸

¹⁴⁷ Wales Audit Office, Response to concerns raised by Amanda Brewer.

¹⁴⁸ Wales Audit Office, Response to concerns raised by Amanda Brewer.

7. The options appraisal and the Welsh Government's current position on the River Lodge Hotel

189. The Wales Audit Office report sets out that the then Permanent Secretary accepted the Internal Audit's recommendation for an options appraisal to be carried out. In April 2010 she commissioned the Director General for the Department for the Economy and Transport to do this.¹⁴⁹ The options appraisal report in October 2010 made clear that it had been prepared only to provide a basis for identifying feasible options, in terms of the extent to which they were consistent with the Welsh Government's new economic renewal objectives. It did not include an assessment of the costs and benefits of alternative options, but stated that a more detailed analysis was required, to include investment appraisals, to determine the most appropriate of the feasible options.¹⁵⁰

190. The options appraisal did not make any specific recommendations on a preferred option, and made it clear that additional work was needed before a decision could be made by Welsh Ministers.

191. However, it concluded that if the site was not required for strategic regeneration purposes, it should be treated as surplus for disposal in line with the requirements of *Economic Renewal: A New Direction*. Under such circumstances, the options available were to liaise with other public bodies, including Betsi Cadwaladr Local Health Board which had previously expressed an interest in the site, to assess whether demand exists for any other public use of this land, or to dispose of it on the open market.¹⁵¹

192. We consider that undertaking an appraisal of options for the disposal of the property was prudent. Indeed, we consider that this should have been undertaken as an integrated part of decision making in both 2007 and 2009.

¹⁴⁹ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.6

¹⁵⁰ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.10 to 4.12

¹⁵¹ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 4.13

193. However, we were disappointed that the options appraisal did not include assessment of different options' costs and benefits, and by implication whether they represented value for money. We concur with the comments of the current Welsh Government Director General of Business, Enterprise, Technology and Science that:

"the question that should have been asked, more than whether it fitted with the policy of the day, was whether it represented value for money."¹⁵²

194. We recognise that assessing the costs implications of options is not always necessary, and that options can sometimes be rejected by civil servants outright on the grounds that they will self-evidently not represent value for money, run counter to law, etc. We also recognise that a balance needs to be struck between considering options' policy implications and their value for money. However, on this there appears to have been no value for money consideration.

195. The current Welsh Government Director General of Business, Enterprise, Technology and Science notably commented that:

"Ironically, not declaring it surplus would have allowed it to be dealt with far more quickly, because we could have just sold it. It is only when you declare it to be surplus that you cannot sell it."¹⁵³

We recommend that the Welsh Government publicly clarifies the process by which an asset is declared surplus.

Lack of previous options appraisal

196. One of our broader concerns, arising from this inquiry, is the lack of re-assessment and options appraisal undertaken by the Welsh Government between 2007 and 2010. Our interpretation of the evidence arising from this inquiry is that once the Welsh Government had made a decision that it intended to purchase the River Lodge Hotel, and lease it to Powys Fadog, the project had a momentum which meant that concerns about its viability were seen as obstacles to be overcome, rather than opportunities to reassess the fundamental

¹⁵² RoP, Public Accounts Committee, 23 October 2012, Para 188. The Wales Audit Office's report is also critical of the absence of a fully-costed options appraisal (para 18).

¹⁵³ RoP, Public Accounts Committee, 23 October 2012, Para 194

assumptions upon which it was founded. The then Permanent Secretary acknowledged in oral evidence to us that:

“At no point did people stop to say, ‘Hang on; we have looked at due diligence, but we need to check the options, so let’s reassess... people got into group-think mode. They decided that they wanted to do something really important for renewal in Llangollen, and they had a vision of what it was going to be, and that vision drove across putting the appropriate due diligence checks in place... What happened here was that nobody stopped to think and look at it.”¹⁵⁴

197. The Welsh Government’s Director of Governance observed that a key lesson from the River Lodge Hotel Project was that:

“sometimes, you just need to stop. When something is really worrying you, you need to say ‘Hold on here, let’s all just stop and take another calm look at this to see which way we are going.’ That is not always easy to do, because these things tend to gather momentum, but that is one of the key lessons, to stop.”¹⁵⁵

198. We are severely critical of the Welsh Government for the lack of robust value-for-money options appraisals conducted both before and repeatedly after the River Lodge Hotel’s purchase in 2007.

We recommend that the Welsh Government reviews its systems to enable any long term project or policy development to have in-built opportunities for options appraisals (considering value for money), peer review and reassessment.

The future of the River Lodge Hotel

199. The Wales Audit Office report details that, since the Welsh Government purchased the River Lodge it has fallen into a state of disrepair. The central heating was turned off, which led to burst pipes and water damage. The degradation of the property attracted vandals and numerous break-ins took place. The estimated costs of repair and refurbishment are now considerable and may exceed £1 million.¹⁵⁶

¹⁵⁴ RoP, Public Accounts Committee, 10 July 2012, Paras 7, 38 and 121

¹⁵⁵ RoP, Public Accounts Committee, 19 November 2012, Para 17

¹⁵⁶ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Summary, Para 10

200. The report noted that, more than 18 months after the options appraisal was undertaken, and almost 12 months after the expiry of the Agreement for Lease, the River Lodge remains in the Welsh Government's ownership. In the meantime, the Welsh Government had continued to incur the costs associated with ownership, and had gained nothing in return for its substantial investment in the land and property. The report commented that whilst changes in the Welsh Government's policy and priorities had helped identify the options available to Welsh Ministers, urgent action was needed to find a use for or to dispose of the property.¹⁵⁷

201. The current Welsh Government Director General of Business, Enterprise, Technology and Science said that the Welsh Government had made some progress in disposing of the property. He stated:

"we have entered into an options agreement with the local health board to buy the site. It is not as good a news story as I would have liked to have told you, because the health board is viewed as part of the Welsh Government, in a way... Through the options agreement, we have to sell the health board the site for £500,000 with the building on it, or for £600,000 with the building demolished—it will, most likely, be demolished anyway. Therefore, it is at no cost to the organisation. It has to exercise it by September 2013... I say that I am less happy because if we were going to bill the health board if it did not do it, it would be incentivised to complete. As it is, it is not incentivised to complete. If it does not purchase by that time, we will simply sell the site on the open market."¹⁵⁸

202. We note the Welsh Government's limited progress in disposing of the property.

¹⁵⁷ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, Summary, Para 4.15

¹⁵⁸ RoP, Public Accounts Committee, 23 October 2012, Para 222

8. Governance changes that have taken place since the purchase of the River Lodge and the signing of the Agreement for Lease

203. The Wales Audit Office report states that there are important lessons for the Welsh Government to learn from this case, and sets out that a number of governance changes have taken place since these events.

Governance Arrangements

204. The Wales Audit Office report sets out that in recent years the Welsh Government has sought to overhaul its governance arrangements and management processes. It details that good governance is now seen as integral to the day to day business of the Welsh Government.¹⁵⁹ We understand that these changes have been made with the intention of improving the robustness of the Welsh Government's decision making, and of reducing the risk that poor quality decisions- such as those made in respect of the River Lodge- are made in the future.

205. The former Welsh Government Director General of Economy and Transport stated that following the River Lodge Hotel project, he ensured all property transactions were peer reviewed. He commented that:

"The one satisfaction that I got from it was that there was no issue regarding any other property transaction in the Welsh Government, which amounted to many millions of pounds. It was good to hear from the evidence that the Permanent Secretary and James Price [the current Welsh Government Director General of Business, Enterprise, Technology and Science] gave you that that process is now embedded in the systems and processes of the Department for Business, Enterprise, Technology and Science. My conclusion on that one is that it was not a systemic issue, but there was an issue about the conflict of interest and how line management within their

¹⁵⁹ Wales Audit Office, The Welsh Government's acquisition and action to dispose of the River Lodge Hotel, Llangollen, paras 5.3 to 5.5

delegations did not follow the set down and well-established rules and procedures.”¹⁶⁰

206. In response to these comments, Amanda Brewer stated that the original purchase of the River Lodge Hotel had also been peer reviewed. She said that the Finance department had checked her recommendation for financial due diligence, and that the recommendation was peer reviewed by the land division management team. She stated that:

“The project manager who initiated the project put the proposal online. It then went to the finance department for financial due diligence; it just checked that it was in the business plan. It fitted with the compliance there. That might not have been a senior official, but it was another official from a different department within the organisation. It then went to my line manager, who recommended it. From my line manager, it went to the head of finance and compliance, who then looked at the financial compliance of the transaction. Finally, it went to the regional director, who had the delegated authority to approve the transaction.”¹⁶¹

207. However, we note that the land division management team consisted of Amanda Brewer’s own line management chain. By contrast, the current Welsh Government Director General of Business, Enterprise, Technology and Science highlighted that all property transactions were now reviewed by the Property Leadership team in the department for Business Enterprise Transport and Science (i.e. outside the immediate team conducting the transaction), and all purchases went to the Minister for clearance (except for some delegations of very routine nature).¹⁶²

208. We welcome the role played by the Property Leadership Team in the department for Business Enterprise Transport and Science, in peer reviewing purchasing decisions. However, we believe it is important that the wider Welsh Government considers whether it can also learn from the wider lessons of the River Lodge Hotel project.

¹⁶⁰ RoP, Public Accounts Committee, 8 October 2012, Para 402

¹⁶¹ RoP, Public Accounts Committee, 8 October 2012, Para 211

¹⁶² RoP, Public Accounts Committee, 10 July 2012, Para 110-112

We recommend that Welsh Government departments review their systems to enable effective peer reviews to take place on all material purchasing arrangements, giving consideration to the system in the department for Business Enterprise Transport and Science.

209. We also welcome the emphasis placed on the Welsh Government not only on looking to strengthen its rules around governance, but also in developing training to explain the ‘spirit’ of such rules. The Welsh Government Director of Governance commented that:

“another lesson coming out of this very clearly is the need to keep emphasising basic values. It is not just about rules, but about values and principles. The two principles that scream out at you from the River Lodge report are value for money and propriety. So, alongside the rules, you just have to keep emphasising the standards and values that underpin them.”¹⁶³

Cultural transition

210. The Wales Audit Office report sets out that the culture of the WDA was significantly different to that of the Welsh Government today. Much of the custom, practice and business processes of the WDA effectively continued for some time after its integration into the Welsh Government in April 2006. Many former WDA officials who transferred across following the merger in 2006 found it difficult to make the transition.¹⁶⁴

211. A range of our witnesses concurred with this assessment. The Land Development Agency was also considered by a range of witnesses to have had a unique culture of its own, even when it was within the WDA.

212. In oral evidence, the then Permanent Secretary observed that:

“people did not recognise for some time that the standards and beliefs and the way that things worked in the old Welsh Development Agency, which was much more entrepreneurial in some ways, differed very much from what was needed within a governmental organisation. I think that people did not

¹⁶³ RoP, Public Accounts Committee, 19 November 2012, Para 16

¹⁶⁴ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Para 5.2

recognise in the transition for some time that those are two very different roles and that your use of public money in a Government has to be bound in much stricter ways.”¹⁶⁵

213. We asked the then Permanent Secretary whether this lack of recognition reflected a lack of strategy on the Welsh Government’s behalf in managing the transition of WDA staff into the Welsh Government. However, she responded that:

“Most organisations talk about it being about a three-year journey from the time of a merger to beginning to put the cultures together to create a new environment. It is not a quick fix. You do not move from here to there and then suddenly become imbued with the values of the new organisation. You of course bring things with you. That takes around three years.”¹⁶⁶

214. We asked Amanda Brewer what guidance and training had been put in place for staff transitioning into the culture of the Welsh Government. In response she told us:

“none whatsoever. The only thing that we were told was that it was going to be a merger, and that the reason for this merger was because the Welsh Assembly Government wanted to become a little bit more like the WDA. As it turned out, it was completely the opposite. To be honest, anything that was good about the WDA seems to have been taken away... The WDA was subsumed; there is no question about that. We became part of the Welsh Assembly Government, but we were not told what we were supposed to do. The Permanent Secretary is absolutely right, it took a good number of years and quite possibly there were still issues when I left. We still had not had proper property guidance, for instance, before I left.”¹⁶⁷

215. We asked Amanda Brewer how the transition could have been managed more effectively. She responded that:

“It would have helped if more thought had been given to how the transition was going to take place. I do not know, maybe it was better in Cardiff, but in north Wales we are a little bit out on a limb and, perhaps, the guidance did not get to us as

¹⁶⁵ RoP, Public Accounts Committee, 10 July 2012, Para 6.

¹⁶⁶ RoP, Public Accounts Committee, 10 July 2012, Para 9

¹⁶⁷ RoP, Public Accounts Committee, 8 October 2012, Para 253 and 254

quickly as it should have done, if there ever was any guidance. There should have been a lot of preparation and a lot more thought should have been given to the people on the ground trying to work.”¹⁶⁸

216. The former Welsh Government Director General of Economy and Transport disputed that there had not been preparation for the merger, commenting that he had personally undertaken an 18 month series of roadshows. He said:

“There was considerable communication about what was expected, the accountability to Ministers and what this meant. I went on a series of continuous roadshows with my senior management team over that 18-month period and following the merger process to explain what the new organisation would be about and how things would operate to engender, as has been described, that shift in culture.”¹⁶⁹

217. However, the former Welsh Government Director General of Economy and Transport also stated that the key message in the roadshows for people like Amanda Brewer was that it was:

“business as usual. We were very explicit in saying that as part of business as usual—policies, procedures and delegations, which were in place at the WDA—it was a wholesale shift across; there was no change.”¹⁷⁰

218. We recognise a possible desire for routine business not to be inadvertently put on hold, or prevented because of a forthcoming merger. However, we are extremely critical of using ‘business as usual’ as a key message in preparing staff for transitioning into a new organisation. We believe this would have created a very mixed message on whether the transition involved a shift in culture and operating practices. We believe using ‘business as usual’ as a key message, suggests there was potentially a lack of strategy behind the merger of the WDA into the Welsh Government. Indeed it is not clear that senior managers had undertaken detailed information sharing in advance of making statements that it was ‘business as usual,’ and

¹⁶⁸ RoP, Public Accounts Committee, 8 October 2012, Para 256

¹⁶⁹ RoP, Public Accounts Committee, 8 October 2012, Para 324

¹⁷⁰ RoP, Public Accounts Committee, 8 October 2012, Para 330

therefore didn't necessarily know what 'business as usual' actually meant.

219. The former Welsh Government Director General of Economy and Transport also stated that Ministers' vision for the new organisation was that:

"the new organisation should not become Cardiff centric, so Ministers wanted to have strong regional offices in north, mid, south and west Wales."¹⁷¹

220. However, this recollection was disputed by Andrew Davies (speaking as the former Minister for Enterprise, Innovation and Networks), who stated that he:

"was not keen on having strong regions, because what you were finding was that you had regional tourism partnerships, regional economic fora, as well as strong regions within the department, and part of the problem was that there was a lack of co-ordination and central direction... looking at the structures, there was a regional structure, but it was certainly not the case that I wanted strong regions in the sense that I think he was talking about."¹⁷²

221. It does not appear to us that Andrew Davies' vision for the structure of the newly merged organisation was carried out. We are disappointed at this finding, as it is imperative that civil servants seek to deliver the vision and ideas of Ministers.

222. We are not critical of the development of regional structures per se, as we recognise that they could have had certain strengths and advantages. However, as we have already stated in this report, we are highly critical of the way in which these regional centres were managed by the Welsh Government, with apparently weak all-Wales co-ordination.

We recommend that if the Welsh Government merges with another body in the future, it sets out a clear, well-evidenced purpose for the merger, accompanied by consistent communication and direction to staff during the period of change, which is consistent with Ministers' public announcements.

¹⁷¹ RoP, Public Accounts Committee, 8 October 2012, Para 323

¹⁷² RoP, Public Accounts Committee, 19 November 2012, Para 250

9. Ministerial briefings

Ministerial briefings in relation to the River Lodge Hotel

223. The Wales Audit Office report also raises specific concerns about the accuracy of briefings provided to Welsh Ministers by officials dealing with the purchase of the River Lodge.¹⁷³

224. These concerns were echoed by the then Permanent Secretary, who emphasised that Ministers were completely blameless in the River Lodge Hotel project, and that civil servants had not given Ministers the information they need. She said:

“I do not believe that Ministers, at any time, either supported or did not support this; Ministers are completely blameless in this. This is about the failing of the civil service machine to give Ministers the information they need. Therefore, I do not believe that Ministers were either in favour or not in favour—they were taking the advice that they were given, and it is our advice that was biased and not appropriate for Ministers to rely on. Therefore, I believe that Ministers are quite blameless in all this... Ministers have the right to assume that the civil service shows a number of things: integrity, honesty, objectivity and impartiality.”¹⁷⁴

225. Both the former Ministers we spoke with expressed concerns about the quality and accuracy of briefings provided to them in relation to the River Lodge Hotel project. Andrew Davies noted that a briefing note to him on the purchase of the River Lodge Hotel categorically asserted that there had been:

- no conflict of interest; and
- that the valuation by the district valuer had been “an approved red-book valuation, although, subsequently, that transpired not to be the case.”¹⁷⁵

226. We note that flaws in the quality of Ministerial briefings reflect badly on the system of preparing briefings as a whole. As one of our

¹⁷³ Wales Audit Office, The Welsh Government’s acquisition and action to dispose of the River Lodge Hotel, Llangollen, Paras 1.22 to 1.24

¹⁷⁴ RoP, Public Accounts Committee, 10 July 2012, Para 148 and 156

¹⁷⁵ RoP, Public Accounts Committee 19 Nov, Para 236. This point was also made in the Wales Audit Office report, para 1.24

Members commented “inaccurate statements were made, but they were not picked up by senior management.”¹⁷⁶

227. We are very critical of a system which led to inaccurate briefings being provided to Ministers.

228. Ieuan Wyn Jones AM also noted that he had only been briefed after the decision to lease the hotel to Powys Fadog, and commented that his “hands were tied”¹⁷⁷ by the fact that he felt he could not undo a decision already made. Ieuan Wyn Jones AM also noted that all briefings to him in relation to the River Lodge Hotel project were marked MB (Ministerial Briefing) as opposed to SF (Submission Folder). This meant that the only documents in relation to the River Lodge Hotel which came to Ministers were for information only. Given the implications of an MB potentially ‘tying a Minister’s hands,’ we were concerned that there needs to be a clear rationale as to why some briefings are provided as MB and others as SF. We consider that clarity is required on this, as key decisions could be made by relatively junior officials. It is critical that there is a clear system which enables officials to be accountable both for such decisions, and for the quality of briefings.

We recommend that the Welsh Government publicly sets out its overarching rationale for determining whether briefings are Ministerial Briefings (MB) or Submission Folders (SF).

Broader issues on the quality of Ministerial briefings

229. The former Permanent Secretary suggested to us that the quality of Ministerial Briefing in the River Lodge Hotel project was:

“in a league of its own [in a negative sense] for the information and the way that that information was presented. I have never seen anything written that way.”¹⁷⁸

230. However, both Ieuan Wyn Jones AM and Andrew Davies were critical of the general quality and accuracy of Ministerial Briefings, beyond the specific briefings of those associated with the River Lodge Hotel project. Ieuan Wyn Jones AM commented that:

¹⁷⁶ RoP, Public Accounts Committee, 10 July 2012, Para 80

¹⁷⁷ RoP, Public Accounts Committee, 19 November 2012, Para 206

¹⁷⁸ RoP, Public Accounts Committee, 10 July 2012, Para 35

“Many of them were entirely clear and would tell you, ‘This is the decision that we recommend you take or that we have taken, and this is the rationale behind it’ and would come to a conclusion. I have to admit that, on occasion, briefings could be ambiguous, unclear and could offer no clear guidance. Therefore, to be honest, I would send those back when they were ones on which I was required to make a decision. When a decision had already been made, it was difficult to do that, because the decision was delegated.”¹⁷⁹

231. Similarly, Andrew Davies commented that:

“The quality varied considerably. There were those officials whom you knew if you had a briefing and recommendations from them, you could put money on it. There were others whose punctuation you checked because the quality was not good and the advice was not sound... I found as Minister that as you become more knowledgeable and more experienced, not just are you aware of those differences in personal qualities, but you understand issues far more deeply.”¹⁸⁰

232. The current Welsh Government Director General of Business, Enterprise, Technology and Science noted that since the River Lodge Hotel project, the Government Business Unit had been established. This unit was intended to check:

“that things have a policy rationale, that gobbledegook is not being written down, and that things are consistent and coherent across a time period.”¹⁸¹

233. We welcome the development and role of the Government Business Unit, but consider that its effectiveness needs to be kept under review.

234. We are very concerned that the quality of Ministerial Briefings has been criticised in the evidence of both this inquiry, and our ongoing investigation into Grants Management. It is imperative that Ministers are able to take informed decisions based on accurate information. A critical role of civil servants is to ‘tell truth to power’ to make Ministers aware of things which aren’t going well, or to advise Ministers that an

¹⁷⁹ RoP, Public Accounts Committee, 19 November 2012, Para 173

¹⁸⁰ RoP, Public Accounts Committee, 19 November 2012, Para 287

¹⁸¹ RoP, Public Accounts Committee, 23 October 2012, Para 152

idea is unworkable. It is vital that Ministerial briefings are of the highest quality possible.

We recommend that the Welsh Government reviews the effectiveness of the Government Business Unit in improving the quality and accuracy of briefings by surveying Ministers' opinions and introducing inter-departmental peer reviews.

Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full via the Committee's webpages:

<http://abms/ieListMeetings.aspx?CId=230&Year=0>

19 November 2012

David Richards	Welsh Government
Arwel Thomas	Welsh Government
Karen Sinclair	Former Assembly Member
Ieuan Wyn Jones AM	Former Deputy First Minister and Minister for Economy and Transport
Andrew Davies AM	Former Minister for Enterprise, Innovation & Networks

23 October 2012

James Price	Welsh Government
Jeff Collins	Welsh Government

8 October 2012

Pol Wong	Powys Fadog
Gareth Hall	Former Welsh Government Director for Economy and Transport
Amanda Brewer	Former Welsh Government Official and member of Powys Fadog

10 July 2012

Dame Gillian Morgan	Permanent Secretary, Welsh Government
James Price	Welsh Government

Written evidence

A range of people and organisations provided written evidence to the Committee.

All of this evidence was considered by the Committee.

All documents which are referred to in this report, or which were referenced in the Committee's proceedings were considered for publication, but some of these have been redacted or withheld for legal reasons.

Written evidence can be viewed at

<http://abms/ieListDocuments.aspx?CId=230&MId=1099&Ver=4>