

# THE NATIONAL ASSEMBLY FOR WALES

## AUDIT COMMITTEE

Report presented to the National Assembly for Wales on 26 April 2006 in accordance with section 102(1) of the Government of Wales Act 1998

### Funding for the National Botanic Garden of Wales

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## Summary

1. The National Botanic Garden of Wales (the Garden), which opened in May 2000, is now an important part of the tourist infrastructure of Wales, continuing to attract visitors. About half of the £43.6 million capital costs of the Garden were provided by the Millennium Commission. The remainder of the capital came from a range of sources, including £6.3 million from the European Regional Development Fund (ERDF), administered by the Welsh Office, £2.1 million from the Welsh Development Agency (WDA) and £1.2 million from the Wales Tourist Board (the Tourist Board).
2. The Garden was an inherently risky project: it was to be one of the few self-funding botanic gardens in the world, planning to attract more than 200,000 visitors a year to a sparsely-populated part of west Wales. It also intended to establish itself as a centre for scientific research, which was to be largely funded by surplus revenue generated from visitor income. Soon after it opened, the Garden ran into financial difficulties caused largely by higher than anticipated expenditure, subsequently made worse by falling visitor numbers and visitor income. Nonetheless, the Garden remains open and is meeting its targets under an agreed recovery strategy. The Garden's continued survival has come at a cost, with the Assembly Government, and subsequently also the Millennium Commission and Carmarthenshire County Council, all providing additional funding to help keep it operational and secure a viable future.
3. On the basis of a report by the Auditor General for Wales,<sup>1</sup> on 1 December we took evidence on the funding provided to the National Botanic Garden of Wales by the Welsh Assembly Government, the WDA and the Tourist Board (referred to as "the Welsh funders") from Sir Jon Shortridge, David Richards and Martin Swain of the Welsh Assembly Government, Gareth Hall and Ron Slater of the WDA, and Jonathan Jones and Lucy O'Donnell of the Tourist Board. Sir Jon Shortridge subsequently provided us with some helpful additional material, at Annex B to this report. In particular we examined whether there are lessons to be learnt that could be applied to other large projects from the way Welsh funders identified, assessed and addressed the risks involved in providing funds to the Garden. We conclude that:

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<sup>1</sup> Auditor General for Wales report, *Funding for the National Botanic Garden of Wales provided by the Assembly Government, Welsh Development Agency and Wales Tourist Board*, November 2005

- a. Welsh public funders recognised that the Garden was a risky project but did not adequately probe and challenge its business plans;
- b. Welsh public funders could have collaborated more effectively during the appraisal, capital development and crucial early operational phases of the Garden project; and
- c. since 2002, the Assembly Government and key stakeholders have worked together effectively with the Garden towards establishing a sustainable future for it.

### **Welsh public funders did not adequately assess and address the risks involved in funding the Garden**

4. The Garden was a high risk project – intended to be self-funding once open to the public. There is nothing whatever wrong with the public sector putting money into risky projects – but the risks involved need to be identified and managed, as this Committee has observed on more than one occasion. Although each of the Welsh funders carried out its own appraisals of the Garden’s business plans at various stages and identified risks and benefits, we consider that, in general, the Welsh funders did not sufficiently probe and challenge the Garden’s forecasts, particularly around visitor numbers and income. The funders should have focused more on the risks associated with the Garden failing to meet its forecasts, and challenging the Garden on how it would manage such a scenario. Proper use of sensitivity analysis would have alerted the funders to these risks.
5. Neither did the Welsh funders question the significant changes made to the Garden’s business plans before it opened. It is not unusual for plans for major projects to alter as circumstances change, but there needs to be shared understanding of the reasons behind changes – particularly when, as in this case, the changes involved forecasts of significantly increased income from visitors. The Welsh funders did not challenge the Garden as to why its forecasts had changed, and they took insufficient steps to assure themselves that the Garden was not using visitor numbers as a balancing item to ensure that the project still met the criteria of being self-sustaining.
6. We are left with the overall impression that, in their desire to attract significant lottery funding to Wales, the Welsh funders placed undue reliance on the fact that the Millennium Commission had seen fit to fund the project, failing to appreciate

sufficiently that, if the Garden failed to achieve its financial targets, it would be its Welsh funders, particularly the Assembly Government, to whom it would naturally turn for support.

### **Welsh public funders could have collaborated more effectively during the appraisal, capital development and crucial early operational phases of the Garden project**

7. Each of the Welsh funders provided resources for different, specific elements of the Garden project. Each therefore had to follow its own procedures governing the grants made – in appraising initial bids and monitoring the outcome, for example. Nonetheless, the funders shared the same ultimate goal of a successful Garden. We consider that, during the appraisal and construction phases, the Welsh funders should have adopted an explicitly collaborative approach to the Garden project. In particular, we note that:
  - a. in appraising the Garden's original plan, all of the Welsh funders had independently identified risks, but no collective view appears to have been taken;
  - b. the establishment of a funders' liaison group, of which the WDA and Tourist Board were members, to oversee the capital development stage was an admirable initiative, but it ended in 1997, well before the construction had been completed and the Garden opened;
  - c. some Welsh funders took assurances from partner funding bodies about the viability of the Garden's forecasts without properly considering whether the due diligence carried out by the partner for its own purposes met their needs as well; and
  - d. the Welsh funders did not collaborate sufficiently to take a collective view of the risks posed by subsequent changes to the Garden's visitor, income and expenditure forecasts.
8. In our view, the Welsh funders could also have better collaborated to monitor events once the Garden had opened; this is a crucial and challenging period for any new enterprise, let alone a large scale flagship tourist attraction. We recognise that the Garden was an independent organisation and that it was the responsibility of the

Garden's management to run the operation. However, the Welsh funders had a collective responsibility to monitor the Garden's progress towards delivering the project as they had promised. In the event, some Welsh public funders were presented with possible signs that the Garden might be facing financial difficulties – and might not be able to fund its science programme, for example – but they did not collectively build a comprehensive picture of the situation until the Garden's finances had reached a crisis point.

### **Since April 2002, the Assembly Government and key stakeholders have worked together with the Garden towards a sustainable future whilst minimising the cost to the public sector**

9. The actions of the Welsh funders to attempt to secure the healthy future of the Garden demonstrate what is possible with an effective collaborative approach. In April 2002, the Assembly Government brought together the main public funders to build a full picture of the Garden's financial situation and to look at ways they could work collaboratively to assist the Garden. During 2002 and 2003, the Assembly Government emphasised that it wanted to help secure a sustainable future for the Garden, but that it was unwilling to provide an indefinite public subsidy or invest in a business plan without significant changes at an operational, managerial and trustee level. During this period, while rejecting the Garden's requests for significant additional funding, the Assembly Government provided £1.57 million short term revenue funds to enable the Garden to meet essential revenue costs and appointed consultants to review the Garden's situation.
10. In March 2004, the Assembly Government, Millennium Commission and Carmarthenshire County Council agreed to support a five-year recovery strategy for the Garden. Under the plan, the three funders gave the Garden £300,000 each in 2004-05. The Assembly Government also agreed to provide a further £150,000 for each of the four subsequent years. We are satisfied that the Assembly Government struck an appropriate balance between seeking to protect the public asset that had been created, and minimising the risk of throwing good money after bad.
11. We are pleased to note that the Garden appears to be meeting most of its key recovery strategy targets, and that the future now looks better for the Garden – in part, of course, owing to the efforts of the organisations which gave evidence to us. Whatever the rights and wrongs of having provided public support to the Garden, we

were able to see for ourselves the most impressive results. We are also pleased to note the WDA's confidence that we will soon see a resolution of some of the problems of the Garden's Science Centre.

## Recommendations

- i. Welsh public funders did not adequately assess and address the risks involved in funding the Garden. In particular, more could have been done to examine the impact of any failures to meet the business plan forecasts and to challenge the reasons behind significant changes to the Garden's forecasts in later applications. **We recommend that, when appraising applications for large capital projects, public sector bodies should:**
  - a) **be guided by intelligent use<sup>2</sup> of sensitivity analysis, identifying and analysing the impact of variations to key operational forecasts;**
  - b) **require contingency plans in the event that risks to the financial viability of the project materialise; and**
  - c) **robustly challenge any changes to business plan forecasts – especially those that might be based on undue optimism.**
  
- ii. Where there are multiple Welsh public funders of a large capital project they should work together to take a collective view of the risks and to provide ongoing support during the crucial early operation phase. **We recommend that, when dealing with large third-party capital projects, public sector bodies should:**
  - a) **collaborate to identify the benefits and risks, setting out clear lines of responsibility for particular aspects of business plans relative to organisational expertise; and**
  - b) share material information throughout the project cycle, including, in particular, significant changes to business plans.

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<sup>2</sup> As described, for example, in the Treasury guidance document, *The Green Book: Appraisal and Evaluation in Central Government*

## Funding for the National Botanic Garden of Wales

### Welsh public funders recognised that the Garden was a risky project but did not adequately probe and challenge its business plans

12. During the early 1990s, the Welsh Office considered various proposals for a national botanic garden for Wales, including proposals for a garden on the Middleton estate in Carmarthenshire. After commissioning a 1995 study on the feasibility of a national botanic garden at four different sites in Wales, the Welsh Office decided it would not provide the capital and revenue funding that such a garden would require. It did, however, advise potential sites of the availability of lottery funding from the Millennium Commission.<sup>3</sup> Of the four, only Middleton applied for the first round of Millennium Commission funding in 1995.<sup>4</sup>
13. In 1995, the Garden project team also applied to the Welsh Office for European Regional Development Funds (ERDF) and to the Tourist Board and the WDA for further capital contributions to match fund the potential Millennium Commission funding.<sup>5</sup> The Garden's business plan, submitted in support of these applications, set out the Garden's twin goals of being a successful tourist attraction and establishing itself as a centre for scientific research. Unlike other national botanic Gardens in the UK, under its plan the Garden's activities, including its research, would be largely funded from revenue from visitors, and would not require ongoing public revenue funding. The business plan predicted that the Garden would attract 100,000 visitors in year one, rising to 200,000 by year five. On that assumption it predicted that the Garden would run at a loss for the first three years, before generating a surplus in year five.<sup>6</sup>

### *Funders' appraisal of the initial business plan*

14. The Welsh funders recognised that the possibility of a large iconic tourist attraction in west Wales offered a number of benefits, most notably in terms of tourism, economic regeneration, job creation and environmental enhancement.<sup>7</sup> We have no doubt that

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<sup>3</sup> AGW report, paragraph 1.6 to 1.9, and Q125

<sup>4</sup> AGW report, paragraph 1.10

<sup>5</sup> AGW report, paragraph 1.10

<sup>6</sup> AGW report, paragraph 1.11 to 1.13 and Figure 3

<sup>7</sup> AGW report, paragraph 2.2

the possibility of attracting a large amount of Millennium Commission funding to help construct the Garden was a further attraction for the Welsh public funders.<sup>8</sup> In these circumstances, robust project appraisal would be vital for ensuring that risks were identified and, as far as is reasonable, managed so that scarce public funds were only provided to support worthwhile projects. Funders need to be aware that there is a perverse incentive for applicants for capital funding for projects to predict that they will be operationally self-sustaining. It is therefore crucial that funders scrutinise critically the forecast operational performance of such projects before committing capital funding. With such projects there is always the risk, as Sir Jon Shortridge highlighted, that the public sector will become the funder of last resort if the project turns out not to be self-sustaining.<sup>9</sup>

15. All the funders carried out their own appraisals of the Garden's original business plan before approving funding. In general, these appraisals could have been much more robust in view of the risks involved – in particular around the project's dependence on income from visitors.<sup>10</sup> All the funders told us that they recognised the Garden was a high risk project.<sup>11</sup> As Sir Jon Shortridge told us, forecasting variables such as visitor numbers will always be a very inexact science.<sup>12</sup> In the case of the Garden, accurate forecasting was particularly difficult because it was a novel project with very few comparators in terms of scope and location.
16. However, the Welsh funders did not carry out sensitivity analysis on the Garden's original business plan to analyse the consequences of any of the forecasts on visitor numbers, income or expenditure proving to be inaccurate.<sup>13</sup> (The Tourist Board did conduct a sensitivity analysis in 1999, but this was long after construction had begun.<sup>14</sup>) As Sir Jon Shortridge told us, sensitivity analysis has long been part of Treasury guidance on economic appraisal<sup>15</sup> and is, in any case, a matter of basic commercial prudence. We also recall the comments made by Sir Jon when he gave

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<sup>8</sup> Qs 8 and 118

<sup>9</sup> Q159

<sup>10</sup> The Welsh Office did conduct a robust examination of the Garden's initial plans but this work was overtaken by events as the Garden's plans changed – AGW report paragraphs 2.7 to 2.10

<sup>11</sup> Qs 13, 14, 17, 18, 21, 56, 76

<sup>12</sup> Q147

<sup>13</sup> AGW report paragraph 2.4

<sup>14</sup> Q16, AGW report, paragraph 2.26

<sup>15</sup> Q203

evidence to us in connection with our first investigation of the Assembly's new building project when he assured us that sensitivity analysis was an integral part of the appraisal process for major capital projects.<sup>16</sup> We do not understand why such analysis was not carried out on the Garden's plans when they were submitted. We can only agree with Sir Jon that it would have been preferable for there to have been more and better consideration of the forecasts.<sup>17</sup>

17. Had the Welsh funders used sensitivity analysis on the Garden's plans from the outset, they would have been aware of the financial risks to themselves if the forecasts of visitor numbers failed to materialise. Such awareness could have been expected to prompt funders to explore with the Garden its contingency plans for such circumstances. The Welsh Office and the WDA had identified risks around the Garden's *planned* deficits and the need for deficit funding in the first three years.<sup>18</sup> The funders did not sufficiently challenge the Garden as to how it would ensure it remained self-sustaining if it incurred any additional *unplanned* deficits due to its forecasts proving to be inaccurate. We welcome Mr Jones's statement that in the future the Tourist Board will require clear plans to handle unforeseen circumstances.<sup>19</sup>
18. We note the argument put forward by Sir Jon Shortridge in his evidence, that the Welsh Office had limited discretion in terms of its ability to appraise the Garden's bids for ERDF funding. This was on the basis that the Welsh Office was no more than an agent of the European Commission (which, because of the size of the bid, had the final say on the application), and would not have been justified in doing more than was required by the Commission.<sup>20</sup> In particular, Sir Jon told us that sensitivity analysis was not carried out in this case as it was not a European Commission requirement to have one.<sup>21</sup>
19. We were surprised at this viewpoint. It cannot be right that the Welsh Office would fail to provide the same level of rigour to its analysis of projects funded by the structural funds that it would apply to Welsh Office funded projects; in both cases

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<sup>16</sup> Evidence given to Audit Committee, 9 November 2001, Q3

<sup>17</sup> Q147

<sup>18</sup> AGW report paragraphs 2.7, 2.20

<sup>19</sup> Q205

<sup>20</sup> Qs 13, 23, 35 to 38, 41, 44 to 45, 133 and 134

<sup>21</sup> Q43

there was an accounting officer responsibility to ensure that projects offered value for money. The suggestion that officials were actively prevented from applying rigorous and robust standards did not figure in our two earlier investigations on Wales' application of the structural funds.<sup>22</sup> We conclude that, in this particular case, it was incumbent on the Welsh Office, in appraising the Garden project, to assess the risks involved in order to come to a decision about its likely value for money, and that the use of sensitivity analysis would have helped the Welsh Office in that assessment. In this context we note the assurances subsequently provided by Sir Jon about the systems now in place for appraising projects and his overall accountability for all functions exercised by the Welsh European Funding Office.<sup>23</sup>

### **Funders' appraisal of the changes to the Garden's business plan**

20. In March 1998 the Garden submitted a bid for further ERDF funding to the Wales European Programme Executive (WEPE), an organisation set up by the Welsh Office to appraise and approve applications for structural funds. This bid was based on a revised business plan which contained more optimistic forecasts than the original May 1996 plan.<sup>24</sup> In July 1999, the Garden bid for capital funding from the Tourist Board on the basis of a business plan, dated October 1998, containing further revisions to its key forecasts.<sup>25</sup> The key features of these three plans are set out below in Figure 1.

**Figure 1: Changes to the Garden's Business Plan Forecasts**

Planning assumptions for Year 1 (2000) and Year 5 (2004)	May 1996 Plan		March 1998 Plan		October 1998 Plan	
	2000	2004	2000	2004	2000	2004
<b>Predicted visitor numbers (000s)</b>	100	200	150	250	175	250
<b>Predicted income (excluding science) (£000s)</b>	730	1,902	1,335	2,467	1,601	2,546
<b>Predicted expenditure (excluding science) (£000s)</b>	1,246	1,456	1,546	2,139	1,627	2,189

(Source: Wales Audit Office)

<sup>22</sup> Audit Committee reports: *European Union Structural Funds: maximising the benefits for Wales* (AC 08-02), 5 December 2002; *European Union Structural Funds: progress on securing the benefits for Wales* (AC 09-04), 30 November 2004

<sup>23</sup> Annex B, iv) and vii)

<sup>24</sup> AGW report, paragraph 2.11

<sup>25</sup> AGW report, paragraph 2.25

21. These changes to the Garden's plans significantly increased the risks involved in the project: with each revision the Garden would need to attract more visitors, spending more money to cover its rising expenditure forecasts.<sup>26</sup> Neither WEPE, in appraising the application for ERDF funding on behalf of the Welsh Office, nor the Tourist Board challenged the Garden as to why the plans had changed.<sup>27</sup> Sir Jon Shortridge told us that WEPE would have appraised the business plan as it was submitted, and would not necessarily have gone back deeply into the records. He also said that WEPE would have consulted Welsh Office officials who would have told WEPE if they thought the past was material to consideration of the present.<sup>28</sup> Whether WEPE did liaise with the Welsh Office or not, and whatever the substance of that liaison was, there is no evidence that WEPE was aware that the forecasts had changed significantly from the earlier plans on which funding had been approved.<sup>29</sup> Given the profile and scale of the Garden project, and the fact that this was a second bid for ERDF, this is indefensible. We examine this apparent breakdown in communication in more detail in paragraph 28.

22. Mr Jones told us that the Tourist Board believed the revised forecasts were reasonable because they were based on the original visitor study.<sup>30</sup> However, the Auditor General's report shows the revised figures were significantly higher than those in the original study and were based on new research that was not included in the application to the Tourist Board, and therefore presumably not seen by it.<sup>31</sup> Mr Jones also told us that the Tourist Board was satisfied that the Garden would meet the revised forecasts after it had seen and assessed the Garden's marketing plan.<sup>32</sup> He did not expand on how the Tourist Board established that this marketing plan would make the Garden capable of attracting 50,000 more paying visitors – an increase of 25 per cent – than it had previously forecast. We remain unconvinced that sufficient analysis of this key variable was carried out.

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<sup>26</sup> AGW report paragraph 2.3, Figure 9 and Appendix 2

<sup>27</sup> AGW report, paragraphs 2.17 and 2.30

<sup>28</sup> Qs 51 to 52

<sup>29</sup> AGW report, paragraph 2.17

<sup>30</sup> Q74

<sup>31</sup> AGW report, paragraphs 2.24 to 2.26, Figure 12, and Appendix 2

<sup>32</sup> Qs 101 to 102

23. Mr Jones also argued that the revised forecasts had proved to be robust because they were exceeded in year one.<sup>33</sup> However, the forecasts needed to be robust for the lifetime of the Garden, not only one year.<sup>34</sup> As the Auditor General's report clearly shows, after year one, visitor numbers at the Garden declined steadily, rather than rise, as the plans predicted.<sup>35</sup>
24. As was the case with the Garden's initial business plan, neither the Tourist Board nor WEFO challenged the Garden on how it planned to ensure financial sustainability if the challenging revised forecasts proved inaccurate and it incurred additional unplanned deficits.<sup>36</sup> We note that the Tourist Board did carry out a sensitivity analysis on the revised plan in 1999.<sup>37</sup> However, despite recognising that failure to achieve the new forecasts would result in the Garden incurring additional unplanned deficits, it did not press the Garden on what it would do should this possibility materialise.<sup>38</sup> The Tourist Board received assurances that the Garden would use funds raised through a leaseback arrangement to cover its predicted deficits, but this was not arranged until 2000, after the funding had been approved in principle and, in the event, this money was actually used to fund capital works, not the revenue shortfall.<sup>39</sup>

### **Welsh public funders should have collaborated more effectively during the appraisal, construction and crucial early operational phases of the Garden project**

25. It is not unusual for major projects to seek, and obtain, funding from a number of public sector organisations for different aspects of the project, as was the case for the Garden. While the Welsh funders may have had different interests and internal processes, ultimately they were all investing public money to the same end: a successful Garden. Against this background, we believe that there was a collective responsibility on the Welsh funders throughout the project cycle to share information, to take a collective view of risk and to monitor the Garden's development and

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<sup>33</sup> Qs 74 and 108; AGW report, paragraph 1.16 and Figure 5

<sup>34</sup> Q75

<sup>35</sup> AGW report, paragraph 1.16 and Figure 5

<sup>36</sup> AGW report, paragraphs 2.17 and 2.30

<sup>37</sup> Q16 and AGW report, paragraph 2.26

<sup>38</sup> AGW report, paragraph 2.30

<sup>39</sup> AGW report, paragraph 2.29

performance once it had opened. While there was a degree of collaboration between some Welsh funders at some stages of the project, we believe this could have been considerably more consistent, effective and comprehensive.

### *Funders' collaboration during the appraisal and capital development phases*

26. Each of the Welsh funders independently carried out their own appraisals of the Garden's original plans, but no collective view appears to have been taken. For example, the Welsh Office had a number of serious concerns about the viability of the Garden based on its appraisal of the Garden's original business plan, the WDA identified some risks, whilst the Tourist Board believed that the Garden's original plan was realistic and viable.<sup>40</sup> It would have been helpful if the Welsh funders had come together to explore why they held such different views and to develop a collective view of how best to manage the risks involved.
27. Where the funders did discuss the Garden's viability and its forecasts, we believe there was scope for considerably more clarity around accountabilities. Mr Hall told us on a number of occasions that the WDA had taken comfort from the assurances of "partners" as to the Garden's overall viability.<sup>41</sup> The WDA also took assurance from its assumption that the Millennium Commission had undertaken due diligence, although it did not actually see this work and did not document this assumption at the time.<sup>42</sup> It makes good common sense for funders not to duplicate each others' work. But assurances taken by an individual funder need to be on an informed basis. This, in turn, requires good basic communication and information sharing. Where funders take such assurance from partners regarding the viability of a project, they need to be absolutely clear as to who is vouching for what and to verify that the relevant due diligence work is robust and satisfies their own requirements.
28. The dangers of poor communication are well illustrated by the example of the Welsh Office and WEPE in respect of the Garden's second bid for ERDF, referred to earlier (paragraph 21). Although the Welsh Office had expressed a number of concerns about the risks involved in the Garden these were not passed on to WEPE when it was considering the Garden's bid. Sir Jon Shortridge told us that the view taken previously by the Welsh Office might not have been relevant because the plan had

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<sup>40</sup> Q18; AGW report, paragraphs 2.6 to 2.7. 2.19 to 2.21 and 2.24

<sup>41</sup> Qs 58, 61, 66 and 68

<sup>42</sup> Qs 4 to 7

updated various assumptions.<sup>43</sup> We believe that it is precisely because of the changes in the forecasts that the Welsh Office's concerns about visitor forecasts and calculation methods would have been particularly relevant and useful for WEPE in its appraisal. For example, if WEPE had been aware that the Welsh Office considered that the Garden's original forecast of 200,000 visitors at maturity was slightly over-optimistic and had generated its own estimate of 190,000,<sup>44</sup> it might have been more assiduous in challenging whether the revised prediction of 250,000 visitors at maturity was robust. In any case, we cannot see how WEPE could have judged the relevance or otherwise of the Welsh Office's previous concerns without being made aware of them. We note Sir Jon Shortridge's assurance that WEFO, which currently appraises ERDF funding bids, consults relevant parts of the Assembly Government and more widely.<sup>45</sup>

29. In its initial appraisal, the WDA recognised the risk that capital costs at the Garden might overrun and that there was a need for a funders' liaison group to oversee the construction phase.<sup>46</sup> In this respect, both the WDA and the Tourist Board were part of a funders' liaison group that met until 1997.<sup>47</sup> There was no representation from the Welsh Office in this group, even though it was responsible for approving ERDF funds to the Garden.<sup>48</sup> Mr Hall told us that this group lasted the duration of the capital works and only ended when the construction stage was over.<sup>49</sup> In fact, construction at the Garden carried on after the Garden opened in 2000<sup>50</sup> – long after the funders' liaison group had disbanded.

### ***Collaboration in the first two years after the Garden had opened***

30. The collaboration imperative applies just as much to monitoring the performance of the Garden once it had opened. We have made the point already that, although each of the Welsh funders was separately providing funding for discrete capital projects, their overall goal was the construction and operation of a successful Garden. The views expressed to us by witnesses were indicative of a narrower focus. Mr Hall told

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<sup>43</sup> Q52

<sup>44</sup> AGW report, paragraphs 2.7 and 2.17

<sup>45</sup> Q54

<sup>46</sup> AGW report, paragraph 2.20

<sup>47</sup> Qs 14 and 29

<sup>48</sup> Qs 85 to 86

<sup>49</sup> Q29

<sup>50</sup> AGW report, Appendix 3

us that the WDA's monitoring of the Garden was limited to "ensuring that it was physically there and used".<sup>51</sup> Mr Jones told us that once the Garden had spent the Tourist Board's capital funding, the Tourist Board had to "stand back and hope that it will do what it says that it is going to do in its marketing and business plan".<sup>52</sup>

31. Had the Welsh funders collaborated more effectively to monitor the Garden once it opened, they may have been more alert to early signs that the Garden was experiencing difficulties. During 2000 and 2001, some of the Welsh funders were separately presented with a series of possible signs that the Garden might be experiencing financial difficulties but the funders did not come together to build a complete picture until the Garden had reached a crisis point.<sup>53</sup> For example, the Tourist Board's concerns about the financial situation at the Garden in the first year led it in December 2000 to require the Garden to provide copies of management accounts as a condition of one of its grants. These accounts showed that the Garden was continuing to incur higher than anticipated deficits.<sup>54</sup>
32. Shortly after opening, the Garden began making a series of bids to the Assembly Government for revenue funding for its science programme.<sup>55</sup> The Assembly Government refused to consider these requests without a full business plan.<sup>56</sup> However, these requests were an indication that the Garden was diverting at a very early stage from its plan to be self-funding. And these funding bids had particular implications for the Science Centre and BioTechnium venture – the proposal to incorporate twelve specialist incubator units as a commercial start up facility for scientific entrepreneurs.<sup>57</sup> The WDA, who signed a joint agreement with the Garden in March 2001, believed that the Garden's own science activities would have been the unique selling point for the incubator units and therefore needed to be up and running in advance.<sup>58</sup> The fact that the Garden was unsuccessfully applying for revenue funding for its science activities should have alerted the WDA and WEFO, who were both providing funding to the Science Centre, to the possibility of the

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<sup>51</sup> Q65

<sup>52</sup> Q109

<sup>53</sup> AGW report, paragraphs 2.38 to 2.39

<sup>54</sup> AGW report, paragraph 2.32 to 2.33 and 2.38

<sup>55</sup> AGW report, paragraph 1.17

<sup>56</sup> Q123

<sup>57</sup> AGW report, paragraph 3.5

<sup>58</sup> AGW report paragraphs 3.9 to 3.10, and Q190

Garden not having its own science programme in place and the need for a contingency plan. In the event, the Garden was unable to fund its science activities with the result that the Science Centre lost its unique selling point; the incubator units have remained unoccupied and almost no science has taken place within.<sup>59</sup>

33. Sir Jon Shortridge told us that it was the Garden's responsibility to manifest the nature of its problems.<sup>60</sup> He also said that he did not know whether it would have made a difference if the Assembly Government had intervened earlier, when the Garden was making funding requests.<sup>61</sup> These are reasonable points, and we recognise that these matters are not a case of black and white. The ability of the Welsh public bodies, relatively small funders of the Garden, to affect the progress of the project after opening was very limited. And even with the benefit of hindsight it is difficult to assert that funders should have stepped in earlier to seek to rescue the project. But in our view it is incontrovertible that, particularly for a high risk high profile project such as this one, there was collective responsibility on the part of the funders to keep each other as informed as possible and that during the first years of the Garden's operation, the Welsh funders could have collaborated to put together their various pieces of information to build a more comprehensive picture of what was happening at the Garden. As Sir Jon Shortridge and Mr Hall observed, the merger of the WDA and the Tourist Board into the Assembly Government offers the opportunity to reflect the lessons learnt from this experience and to improve the level of collaboration.<sup>62</sup>

### **Since 2002, the Assembly Government and key stakeholders have worked together with the Garden towards a sustainable future whilst minimising the cost to the public sector**

34. The actions of the Welsh funders since 2002 to attempt to secure the healthy future of the Garden demonstrate what is possible with an effective collaborative approach. Sir Jon Shortridge told us that in April 2002, the Garden's problems had become so serious that collaborative intervention was needed.<sup>63</sup> To that end, the Assembly

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<sup>59</sup> Q190 and AGW report 3.8 to 3.16

<sup>60</sup> Q159

<sup>61</sup> Q151

<sup>62</sup> Qs 155 and 204

<sup>63</sup> Q154

Government brought together the main funders of the Garden to meet as a Stakeholder Group. During these meetings funders began to gain an equal understanding of the Garden's financial position.<sup>64</sup>

35. In June 2002, the Garden informed the Assembly Government that it would breach its overdraft limit in the next month if it did not provide funding.<sup>65</sup> With the Garden facing a financial crisis and the Millennium Commission unable to provide any revenue support,<sup>66</sup> the risks previously identified had materialised and the Assembly Government became the funder of last resort. If the Assembly Government did nothing, the Garden would probably close and there was little possibility that the Welsh funders would recover any of their funding.<sup>67</sup> However, the Assembly Government had serious concerns about financial management and governance at the Garden and was concerned to minimise the risk of throwing good money after bad.<sup>68</sup>
36. After much consideration, the Assembly Government agreed to provide £360,000 to help the Garden with operational costs. As a condition of the funding the Assembly Government insisted that the Tourist Board, as the Stakeholder Group representative, should attend full meetings of the Garden's trustees as an observer. It also required that consultants (KPMG) be appointed to undertake a review of the Garden's financial position and its potential to become self-sustaining.<sup>69</sup>
37. In December 2002, KPMG reported on the likely future financial requirements of the Garden based on four scenarios; it concluded that each of the scenarios would require that the Garden receive a public subsidy in perpetuity. After considering the report, in January 2003 the Assembly Government made clear its position that it would not fund the Garden in perpetuity, but that it remained committed to exploring alternative options. Between January 2003 and November 2003, it provided a total of £1.21 million towards ongoing operational costs while the Garden sought to develop a business plan showing how it would achieve self-sustainability. The Assembly rejected the Garden's revised business plan in May 2003 and rejected a recovery

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<sup>64</sup> AGW report, paragraph 1.20

<sup>65</sup> AGW report, paragraph 1.22

<sup>66</sup> Q122

<sup>67</sup> Qs 121, 157 and 205; AGW report paragraphs 2.40 and 2.41

<sup>68</sup> Qs 121, 141, and 172

<sup>69</sup> AGW report, paragraphs 1.22 to 1.24

strategy in November 2003. The Assembly Government was unconvinced that investment in these plans would lead to a sustainable future for the Garden; in particular, they did not go far enough to address the Assembly's concerns about management and governance. In November 2003, the Assembly Government stated that no further funding would be provided to the Garden.<sup>70</sup>

38. This period in the Garden's history was very difficult for all concerned: jobs were lost and livelihoods were threatened.<sup>71</sup> We consider that, with the need to secure value for money paramount, the Assembly Government was entitled to take the view that it was only when the Garden confronted the seriousness of its position that it would make the changes the Assembly Government felt were necessary to secure a sustainable future.<sup>72</sup>
39. In the following months, the Garden commissioned PricewaterhouseCoopers LLP to rework the recovery strategy. In March 2004, the Assembly Government, Millennium Commission and Carmarthenshire County Council agreed a tri-partite funding package to help stabilise the Garden. Each would provide £300,000 in 2004-05 and the Assembly Government would pay a further £150,000 in each of the four subsequent years. The revised recovery strategy was based on significant changes to the Garden's governance and management, as well as setting significantly lower targets for visitor and income than had previously been proposed by the Garden.<sup>73</sup>
40. We are very pleased to note that Garden is currently on track with most of its bottom-line recovery strategy targets, new trustees have been recruited and the Garden has strengthened its management team.<sup>74</sup> We note that the Garden will be constructing a new hothouse with Millennium Commission funds and will be looking at ways to boost visitor income as well as visitor numbers.<sup>75</sup> We also welcome Mr Hall's statement that the WDA is in an advanced stage of negotiations with the University of Wales Swansea, who were among those who originally supported the establishment of the BioTechnium,<sup>76</sup> to take over day-to-day management of the Science Centre as a

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<sup>70</sup> AGW report, paragraphs 1.25 to 1.27; Qs 141 and 170 to 172

<sup>71</sup> AGW report, paragraph 1.26

<sup>72</sup> Q146

<sup>73</sup> AGW report, paragraph 1.28 and Figure 7

<sup>74</sup> AGW report, paragraphs 1.29 to 1.30 and Figure 7

<sup>75</sup> Q205

<sup>76</sup> Annex B

satellite of the Institute of Life Sciences.<sup>77</sup> The Committee looks forward to hearing more positive news on this front in the future.

41. Sir Jon Shortridge told us that once the Garden's problems became apparent, the Assembly Government's priority had been to safeguard the significant public funding that had already been provided to the Garden.<sup>78</sup> We recognise that, given the limited options it had, the Assembly Government has acted appropriately and proportionately in protecting a major, £40 million asset. We also believe it has used its funding to exercise proportionate leverage over the Garden and help bring about a situation where the Assembly Government now feels there are reasonable grounds for optimism that over the next three years the Garden will be able to operate on a self-sustaining basis.<sup>79</sup> We hope that this proves to be true and that, after what has been a difficult period, the Garden has turned the corner so that it may fulfil its considerable potential.

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<sup>77</sup> Qs 182 and 190

<sup>78</sup> Qs 121, 146 and 205

<sup>79</sup> Q141





**Cynulliad Cenedlaethol Cymru  
Y Pwyllgor Archwilio**

**The National Assembly for Wales  
The Audit Committee**

**Dydd Iau, 1 Rhagfyr 2005  
Thursday, 1 December 2005**

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

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included.

*Aelodau o'r Cynulliad yn bresennol: Janet Davies (Cadeirydd), Leighton Andrews, Mick Bates, Alun Cairns, Jocelyn Davies, Mark Isherwood, Irene James, Denise Idris Jones.*

*Swyddogion yn bresennol: Gillian Body, Swyddfa Archwilio Cymru; Jeremy Colman, Archwilydd Cyffredinol Cymru; David Powell, Swyddog Cydymffurfiaeth; David Richards, Cyfarwyddwr Cyllid; Syr Jon Shortridge, Ysgrifennydd Parhaol; Martin Swain, Cangen Polisi'r Loteri, Prif Ddigwyddiadau a Busnes Corfforaethol; James Verity, Swyddfa Archwilio Cymru;.*

*Eraill yn bresennol: Gareth Hall, Prif Weithredwr, Awdurdod Datblygu Cymru; Jonathan Jones, Prif Weithredwr Bwrdd Croeso Cymru; Lucy O'Donnell, Bwrdd Croeso Cymru; Ron Slater, Awdurdod Datblygu Cymru..*

*Gwasanaeth Pwyllgor: Kathryn Jenkins, Clerc; Mike Lewis, Dirprwy Glerc Gweithredol.*

*Assembly Members in attendance: Janet Davies (Chair), Leighton Andrews, Mick Bates, Alun Cairns, Jocelyn Davies, Mark Isherwood, Irene James, Denise Idris Jones.*

*Officials in attendance: Gillian Body, Wales Audit Office; Jeremy Colman, Auditor General for Wales; David Powell, Compliance Officer; David Richards, Finance Director; Sir Jon Shortridge, Permanent Secretary; Martin Swain, Lottery Policy Major Events and Corporate Business Branch; James Verity, Wales Audit Office.*

*Others in attendance: Gareth Hall, Chief Executive, Welsh Development Agency; Jonathan Jones, Chief Executive, Wales Tourist Board; Lucy O'Donnell, Wales Tourist Board; Ron Slater, Welsh Development Agency.*

*Committee Service: Kathryn Jenkins, Clerk; Mike Lewis, Acting Deputy Clerk.*

*Dechreuodd y cyfarfod am 9.30 a.m.  
The meeting began at 9.30 a.m.*

*Cynhaliwyd y cyfarfod yng Ngardd Fotaneg Genedlaethol Cymru.  
The meeting was held at the National Botanic Garden of Wales.*

## **Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau Introduction, Apologies, Substitutions and Declarations of Interest**

**Janet Davies:** Good morning. Croeso. I welcome committee members, and the members of the public. As you know, this is a meeting of the National Assembly for Wales's Audit Committee to look into the issue of the public funding of the National

Botanic Garden of Wales. You will probably know that we try to get out of Cardiff occasionally, and this is one of those meetings. It raises the profile of the Audit Committee and gives the people who live locally a chance to attend.

I have just a few housekeeping points to start with. The committee operates bilingually, so people may speak in Welsh or English. The headsets can be used to listen to the translation in English and, also, if you have problems hearing—I am not quite sure what the acoustics will be like—the headsets amplify sound. If there is an emergency, please leave by the nearest of the two exits, and follow instructions from the ushers, who will see you safely out. We have received apologies from Carl Sargeant and Catherine Thomas. Do any members of the committee have any declarations of interest to make? I see that you do not.

9.31 a.m.

**Y Cyllid y mae Llywodraeth Cynulliad Cymru, Awdurdod Datblygu Cymru a Bwrdd Croeso Cymru yn ei Roi i Ardd Fotaneg Genedlaethol Cymru  
Funding for the National Botanic Garden of Wales Provided by the Assembly Government, the Welsh Development Agency and the Wales Tourist Board**

**Cwestiynau 1-206  
Questions 1-206**

[1] **Janet Davies:** The main item on the agenda is the funding for the National Botanic Garden of Wales. We are aware that things have not always gone smoothly for the garden since it opened in 2000, but I am pleased to read in the Auditor General Wales's report that things are improving and that the garden is making good progress. Although some of the events that are reported by the auditor general took place some time ago, his report points to valuable lessons for Government bodies in general when considering whether to provide funds for similar large, high-profile projects. I would like the evidence session to be conducted with this in mind.

I will start with the key issues raised in the report. The first is the decisions by the Welsh funders to support the capital development of the garden, as set out in part 1 on page 12. We will then pick up the Assembly Government's role in supporting the garden's operation when it ran into difficulties, and conclude with the science centre, which is an interesting case study.

I now welcome the witnesses. Could you introduce yourselves, please? We have quite a number of witnesses today, so, I think that there will be some logistical problems in coping.

**Sir Jon Shortridge:** I am Jon Shortridge, Permanent Secretary of the National Assembly for Wales.

**Mr Richards:** I am David Richards, finance director of the National Assembly for Wales.

**Mr Slater:** I am Ron Slater, from the Welsh Development Agency.

**Mr Hall:** I am Gareth Hall, the chief executive of the WDA.

**Mr Swain:** I am Martin Swain, from the Welsh Assembly Government.

**Mr Jones:** I am Jonathan Jones, the chief executive of the Wales Tourist Board.

**Ms O'Donnell:** I am Lucy O'Donnell, from the Wales Tourist Board.

[2] **Janet Davies:** Given the number of witnesses here, I would be grateful if you could try to make your answers to questions as brief as possible, while still giving us a full explanation of what is happening. We will begin with some general questions concerning the capital funding. This is a question for all the witnesses, but I will start with Sir Jon Shortridge and then go to the WDA and the WTB. I refer you to paragraph 1.2, figure 1, and paragraph 2.22. To what extent was the prospect of securing a significant amount of Millennium Commission funding for Wales a factor in deciding to support the capital development of the garden?

**Sir Jon Shortridge:** In the case of the Welsh Office, which was the Government department in place when the Millennium Commission awarded its funding, that was not a consideration, because the Welsh Office did not contribute any funding.

**Mr Hall:** The agency's contribution is listed in the table there. We recognised that our funding was a contributory factor, but a minor amount of money in the whole scheme of things—the total project cost of £44 million.

[3] **Janet Davies:** Before we move on to Jonathan Jones, to what extent did you place reliance on the fact that the Millennium Commission had approved the garden's application when deciding to approve the application, even though it was only a minor one from your own organisation?

**Mr Hall:** It states further on in the detailed report that our funding approvals were always contingent upon the other funding coming from the Millennium Commission.

[4] **Janet Davies:** Did you liaise with the Millennium Commission, such as on the issue of the due diligence work that was undertaken?

**Mr Hall:** Yes. We were in close contact, not just with the Millennium Commission, but with all the other players. Again, it states in the body of the report that we orally asked it for confirmation of due diligence, but it chose not to give that to us in writing. However, it confirmed orally that it was satisfied with the due diligence.

[5] **Janet Davies:** So it was the Millennium Commission that did not let you see the due diligence report, rather than that you did not ask?

**Mr Hall:** We asked, but it was not given.

[6] **Jocelyn Davies:** Just to clarify that, you say that you asked orally, but it did not give it to you in writing. Why did you not ask for it in writing?

**Mr Hall:** We have tried to check the files on that, but the person who dealt with that

is no longer with us; that was the confirmation of a colleague who was working on the project at the time.

[7] **Jocelyn Davies:** So we have a second-hand report that someone asked orally for confirmation that he or she could not get in writing?

**Mr Hall:** We do not have written confirmation, but one of the WDA team has confirmed that orally they checked and that they were satisfied with the telephone conversation from the Millennium Commission about the robustness of the due diligence exercise.

[8] **Janet Davies:** Mr Jones, if we could go back to the first question, which was about the extent of securing a significant amount of Millennium Commission funding, was that a factor with you?

**Mr Jones:** I echo what Gareth said, but from a tourism point of view, we were delighted that an organisation was, hopefully, going to get this large amount of millennium funding and would leave us with an icon of tourism attraction. Our view was that we wanted to do everything that we possibly could to help them secure the match funding needed to bring down the Millennium Commission money. However, we carried out our own analysis in exactly the same way as we do for any capital grant project.

[9] **Janet Davies:** Did you liaise with the commission on the issue of the due diligence work that it undertook?

**Mr Jones:** No, we did not, because we were in contact with our colleagues in the WDA, and we just carried out our own normal appraisal process on the initial grant.

[10] **Janet Davies:** So, in other words, everybody was relying on the Millennium Commission's work?

**Mr Jones:** We do not rely on anyone else's work. As I said, every single project that comes before us is analysed in exactly the same way, and we carry out the same methodology. This project, like every other project that comes before us, had a risk element. We felt that there was a high risk here, so we carried out the work that we thought was necessary to ensure that the money was being well spent.

[11] **Leighton Andrews:** I will go back to Sir Jon on his answer about the Welsh Office. I just want to be absolutely clear; you said that these matters did not arise for you because you were not involved in the funding; is that what you said?

**Sir Jon Shortridge:** That is right.

[12] **Leighton Andrews:** However, you were, at quite an early stage, making appraisals of the garden project.

**Sir Jon Shortridge:** The Welsh Office, way back in the early 1990s, was looking at the possibility of having a national botanic garden, but it reached the conclusion that it did not think that it wanted to contribute to the funding of such a garden because it

was not really persuaded that it could be financially self-sustaining at that point. So, no capital money went into the garden from the Welsh Office, nor, indeed, from the Welsh Assembly Government.

[13] **Leighton Andrews:** It is clearly spelt out throughout the Wales Audit Office report that there were a significant number of changes in the operational plans and predictions for income and expenditure. These happened on several different occasions. I ask each of the witnesses: did this not lead you to question the overall viability of the project, given how many times the predictions seemed to change?

9.40 a.m.

**Sir Jon Shortridge:** Again, in the case of the Welsh Office, at both ministerial and official level, there were reservations about this project. Obviously, I should say that, in terms of the European regional development fund grants that went in, the Welsh Office and then, subsequently, the Welsh Assembly Government, acted as the EU's agent in terms of the process for appraising and considering ERDF grants. So, the people involved in those appraisals were aware, as part of their due diligence exercises, of the nature of the business plans at each point. However, for both the main ERDF grant applications that were submitted, the decision to make those grants was one for the European Union and not for the European Union's agent, the Welsh Office.

**Mr Hall:** As far as the agency is concerned, I refer you to paragraph 2.20 on page 31, and the schedule there in figure 13, and the grants towards infrastructure investment under the rural programme, section 15. Section 15 of the Welsh Development Agency Act 1975 is specifically about agency support to improve the environment, and if you look at the italics in paragraph 2.20, you will see that we did raise questions about the funding, and we reached the conclusion that the capital investment that we were supporting was fully justified in terms of enhancing the environment and meeting that statutory power and obligation of the WDA. In fact, the WDA uses its section 15 powers to make similar sorts of investment such as in broadwalks, paths, tree planting and other capital works in country parks, for example, where we used our other powers to remove dereliction and undertake land reclamation. That has free access to the public.

[14] **Leighton Andrews:** So, Mr Hall, should I interpret your answer as being that the WDA did not really care whether the project was viable, as long as it fulfilled its own obligations under the Act?

**Mr Hall:** No, we were concerned about the viability of the project and the need for co-ordination. If you turn the page, you will see that we identified risks and said that,

“some form of control of the overall project would ... be considered desirable”—some type of funding bodies' liaison committee with a watching brief”,

and that group was set up to co-ordinate the capital activities.

[15] **Leighton Andrews:** I put the same question to Mr Jones.

**Mr Jones:** We assessed the first grant back in 1997—for £300,000—against the original business plan, and that gave visitor figures of 175,000 in year 1. We were satisfied with the research that was done, and the end result in year 1, of course, was that the visitor figures stood at 240,000. When we then came to assess the second grant in 1999 for £400,000, that was towards an additional audio-visual facility, and the business plan then changed because the organisation thought, and we agreed, that by putting in an audio-visual facility, it would increase the business and visitor numbers. So, the second business plan showed that, in year 1, the visitor figures would be 200,000, but I go back to what said, in that the actual figures in year 1 were 240,000.

[16] **Leighton Andrews:** Okay.

**Mr Jones:** Sorry, Chair, I forgot to mention that we did carry out the sensitivity analysis during that period, and as part of that, we made our grant conditional on ensuring that the organisation provided us with evidence that it could meet any deficits caused by not meeting the visitor numbers. We asked for confirmation of overdraft and a sinking fund, and, of course, the Lombard leaseback arrangement came in. So, we were satisfied that the organisation should have money available to cover any deficits were it to fail to reach the 200,000 figure. However, as I said, it did in fact reach 240,000 in year 1.

[17] **Leighton Andrews:** I will come back to some of those questions later in the session, but for now I will stick with figure 9, which indicates the changes in the business plans on the forecast of visitor numbers and on income and expenditure. Income and visitor numbers for such a project were always likely to be unpredictable, within certain parameters of your assessments. However, frankly, expenditure is one thing that is controllable by trustees or any private company. Aside from completely unforeseen circumstances, it is the one element of your budget that, by and large, you can control.

Here you have an operation that is coming to you for support, and its costs are significantly in excess of what had previously been expected. I want you to be absolutely clear about this: did you never, at any stage, doubt the viability of the project, the information that you were getting, or the controls that were in place for the management or trustees of the garden? Did it at no time cross your mind that, at the end of the day, this might not deliver? That question is to all of you.

**Sir Jon Shortridge:** It was obviously a risky project. That is one of the reasons why it was funded by the Millennium Commission. However, the Welsh Office and the Assembly Government did not put in any capital funding. In the case of the European regional development fund funding, for which I acknowledge an accounting officer responsibility, we complied with all the commission's appraisal requirements. By the time that the gardens opened in May 2000, the capital expenditure from the ERDF grant had been used and the construction was on time and on budget. At that point, the money had been spent.

[18] **Leighton Andrews:** The money may have been spent, but I am trying to establish whether you had any doubts about the viability of the project, or about the way in which it was being managed, based on the changes that kept coming through

on the expenditure side from the garden.

**Sir Jon Shortridge:** There were doubts and reservations about the sustainability of the project, but the decision on the ERDF grant was taken by the European Commission, and not by the Welsh Office.

[19] **Leighton Andrews:** I will leave the ERDF grants. I know that my colleagues will be asking questions on that.

**Mr Hall:** I wish to reinforce the point in paragraph 2.23 that, although we gave approval in principle, we put measures in place to ensure cost control of the capital works that we were funding. That is why we made sure that we saw all the tender documents and design briefs. Our professional staff were liaising and inspecting as the work progressed to ensure that the capital projects were delivered on time and to budget.

[20] **Leighton Andrews:** Did your professional staff have any views on the expenditure profile that seemed to be coming through—the changes to it and so on?

**Mr Hall:** That work focused specifically on the capital projects. As is highlighted in the report, we raised concerns because we did our own appraisal of the visitor number projections. That is why we verified it with the Millennium Commission. We carried out a detailed and robust independent assessment.

[21] **Leighton Andrews:** That deals with the income, but what about the expenditure? You said that you had questions about the income side, but what about the expenditure side? I appreciate that you were more interested in the capital, but I assume that you look at a project in the round, rather than on a let-us-build-it-and-run-away basis.

**Mr Hall:** We wanted to put capital investment into a resource that was a visitor attraction. Our capital element was a fundamental part of delivering an attraction for visitors to come to. As you say, those are inextricably linked. Later on, due attention was paid by the trustees to putting in more project management resource, to reducing costs and to quite stringent cost controls.

9.50 a.m.

**Mr Jones:** We said that we recognised that it was a risky project, but one might consider that the tourist board, from time to time, does not take enough risk when one considers that, over the last ten years, of all the capital grants that we have allocated, less than 3 per cent of those projects have failed. We should possibly be taking even more risk. However, we accepted that there was a risk in this case, and we felt that, because of the visitor numbers, it could be viable if it achieved those visitor numbers. I go back again to say that, in year 1, it far exceeded even the second business plan. By that time, our first two grants, in 1997 and 1999, had been paid, and the project had been delivered on time and to cost. We had been very satisfied that our money had been spent according to plan, because we do not pay out any grant until the quantity surveyor has assessed the work, to see that it has been done correctly.

So, by the time you come to any internal expenditure issues, our grants had been paid, we had carried out our due diligence on the way in which the money had been spent, and, in 2001, of course, we were all hit by something which no-one could have predicted, namely the foot and mouth disease outbreak, which had a disastrous affect, not only on visitor numbers here, but on all organisations in terms of tourism figures in Wales.

[22] **Leighton Andrews:** I am not sure if I have got to 2001 yet—I am still looking at the expenditure in 1996-98. As I said at the outset, income and visitor numbers were always going to be unpredictable, but expenditure is controllable by management. Did the tourist board not have concerns about the way in which the expenditure seemed to be well in excess of that in the original forecasts, and seemed to be changing?

**Mr Jones:** We always take management ability into consideration, because, ultimately, it is management that delivers the business plan. The business plan can be good or bad, but it is delivered by the men and women who run the business. We had confidence that the business would be run properly, but once we have allocated our money, we have no locus at all in the way in which the business is run. We would not want to get into a situation of going into any organisation to assess how it is running its business, because you would be considered to be acting as shadow directors, which is something that we would not wish to do.

[23] **Leighton Andrews:** Okay. I will ask you about the science issues. Paragraph 2.11 deals with these. Essentially, the garden, in its March 1998 plan, suggested that science would be self-funding. Did you, perhaps, take from this that it indicated a change in the garden's approach to science as part of its project?

**Sir Jon Shortridge:** Again, the Welsh Office did not put any money into this. Some European regional development fund grant went in, but that was appraised using the commission's appraisal requirements.

[24] **Leighton Andrews:** Did the Welsh Office have a view?

**Sir Jon Shortridge:** Not that I can recall.

[25] **Leighton Andrews:** When you say 'not that I recall', does that mean that files have not been checked?

**Sir Jon Shortridge:** A lot of research has been done, but, at the moment, I cannot be absolutely sure whether Welsh Office officials or Ministers identified a different view from the view that I have given up to now, which is that they did not want to make a financial contribution to this project.

[26] **Leighton Andrews:** Chair, can I request that we ask for a further written note on that?

**Sir Jon Shortridge:** I would be very happy to provide you with a note.

[27] **Alun Cairns:** If that was the case, Sir Jon, why, under paragraph 1.10, did the Welsh Office bring forward the interchange scheme, which would support the

project? If it did not have a view, and if it was not committing finance at that stage, why did it bring forward the road project? It was indicative support, if nothing else.

**Sir Jon Shortridge:** It was certainly prepared to bring forward that project, but the fact that it had brought forward that project does not relate to the specific point which Mr Andrews asked about, in terms of whether the Welsh Office had a particular view in respect of the science element.

[28] **Janet Davies:** Do you want to come in now or later, Jocelyn?

[29] **Jocelyn Davies:** I would like to come in now. Mr Hall, in your response to Leighton Andrews's question, you placed some reliance on the existence of the funders' liaison group. For the record, what was that group's remit? It ended in 1997. Perhaps you could tell us who was involved in it and why it stopped meeting.

**Mr Hall:** We proposed the liaison group for the reasons that I gave in answer to Mr Andrews, namely that several different arms of Government were coming together and weaving a tapestry of funding support. It was a question of ensuring that we exchanged information. That is why it lasted for the duration of all of the capital works and it came to an end on the date that you mentioned.

[30] **Jocelyn Davies:** Did it stop meeting because it was felt that there was no further need for it, because the capital works—

**Mr Hall:** Yes. The specific terms of reference were to ensure that there was a joined-up approach in seeing through the capital works.

[31] **Jocelyn Davies:** This report showed us that there was no joined-up approach.

**Mr Hall:** There was—

[32] **Jocelyn Davies:** There was no joined-up approach after 1997.

**Mr Hall:** There was a joined-up approach afterwards as a result of the work that the Assembly Government did and the recommendations of the independent KPMG review; that is why the stakeholders group was set up.

[33] **Leighton Andrews:** I would like to ask the Welsh Development Agency and the Wales Tourist Board about the science questions. In the March 1998 plan, it looked like the science was going to be self-funding. The essential question is: did that suggest that the garden was changing its approach to science as part of the project?

**Mr Hall:** The twin aims at the outset of the whole concept for the garden were to have a science centre and a visitor attraction. The detailed part of the report, on page 41, talks about the science centre and the funding of it in figure 16. The agency was asked to fund the science centre, which is outside our remit. At that time, there was a commitment to leading-edge and world-class scientific research. The agency came in with a funding offer of £500,000 to capitalise on this proposed scientific research by bringing the science centre into the technium concept and funding incubator space so that we could commercially exploit the research that was proposed. The table on page

41 shows how the funding figures changed. We have to cast our minds back. While construction started in December 2000, the original contract for the design and build of the science centre, including the incubator space, was agreed and signed off a year before, in November 1999. As at the end of 1999, when we entered into that contract and the joint venture agreement heads of terms, there was still very much a commitment to the gardens going forward with this scientific research but, following events after 1999, which have already been explained, the garden, quite rightly, focused on its core business of visitor attraction. The contract had been let for the construction and we came in and contributed some more funding towards that. If you wish, I could give you the latest situation as regards the status of the science centre.

**Mr Jones:** We had no involvement in the science centre; we just took the lead from the WDA.

[34] **Janet Davies:** We are going to move on and look at the European funding. Alun Cairns, do you have a question?

10.00 a.m.

[35] **Alun Cairns:** Sir Jon, you mentioned the ERDF funding in response to some questions from Mr Andrews. Could you expand further and perhaps give us an introduction on that, because my interpretation of your answer was that it was done according to EC criteria. Yours was almost a dismissive approach in that it did not really matter. That is how I interpreted it, so I want to give you an opportunity to put that right.

**Sir Jon Shortridge:** I am certainly not being dismissive, but the situation is that the Welsh Office, at the time, was acting as the European Commission's agent for the administration of structural funds in Wales. It, therefore, had to put in place systems and arrangements to ensure that applications for those funds were dealt with and appraised in accordance with EC requirements. That is what it did, and, in the case of the two big ERDF grants, it made a recommendation to the EU, which in turn, conducted its own due diligence and took the decisions. It would not be open for me to add to the due diligence requirements of the EU.

[36] **Alun Cairns:** How does your role as accounting officer play in that respect when, after all, the Assembly is acting as agent and you are the accounting officer for the all the money that goes to the Assembly?

**Sir Jon Shortridge:** I have a responsibility to ensure that the process for deciding these grants is in accordance with the appraisal arrangements. I then have a responsibility, once the grant decision has been made, to satisfy myself that that money has been spent in accordance with European grant conditions. In the case of these grants, that is what happened. For the two major grants, the projects were completed on time and on budget and there has been a full audit on behalf of the EU of how that expenditure was incurred and there has been a clean audit certificate.

[37] **Alun Cairns:** So, you are telling me that on the risks identified in paragraph 2.7—which appear to be reasonable risks to me—you had no obligation to ensure that those risks were addressed in the smaller-scaled second bid, if you like, for funding.

**Sir Jon Shortridge:** We had to exercise our responsibilities in accordance with the guidance and rules of the commission and that is what was done. I have a continuing responsibility to satisfy myself that, on the one hand, assets that have been created using public funds are properly safeguarded. My dilemma, and the judgment that I had to make, was that those assets had been created, there was a need, from 2002, to ensure that they were being safeguarded and I had to find a way which represented value for money to safeguard those assets. You are here today, this garden has now been in existence for over five years and the assets are being fully used.

[38] **Alun Cairns:** You are telling me that you did not have any responsibility to ensure that those risks, identified by the Welsh Office, were resolved before any money was paid because it was European money and it met European criteria and you did not really care about it.

**Sir Jon Shortridge:** I have a responsibility to ensure that we act in accordance with the EU's guidance. In the agent role, if I were to go beyond its guidance, a grant applicant would have reason to criticise me because I was introducing things that were not part of the scheme that they had applied for.

[39] **Alun Cairns:** I am quite surprised by your answers. Why identify the risks in the first place, if that was the case?

**Sir Jon Shortridge:** Are we talking about 1995?

[40] **Alun Cairns:** Yes. My comments relate to paragraph 2.7.

**Sir Jon Shortridge:** The Welsh Office was certainly taking an active interest in whether or not it should be funding the gardens. Those were the conclusions that it reached at the time and it decided not to fund the gardens. Our role in terms of the provision of structural funds was separate and different from the role of the Government department.

[41] **Alun Cairns:** So, you are effectively telling me, Sir Jon, that you do not have the same due diligence, if you like, with European money as you would have had with the Welsh Office money, as it was at that time, or Assembly money as it is now. I find that quite breathtaking.

**Sir Jon Shortridge:** As I say, the decisions on those grants were taken by the European Commission, which was satisfied that these applications met the criteria. It is possible for a Government department to take a different view on whether it wants to fund a project from that of the European Commission.

[42] **Alun Cairns:** Okay. Could you tell me what a sensitivity analysis is? I know that Jonathan Jones has referred to it on two occasions, but can you tell me what is the purpose of a sensitivity analysis?

**Sir Jon Shortridge:** A sensitivity analysis in this case would be to look at the robustness of the business plan against different visitor number forecasts.

[43] **Alun Cairns:** So, why did you not use one in this respect?

**Sir Jon Shortridge:** It was not a European Commission requirement to have one.

[44] **Alun Cairns:** Therefore, you were happy to see public funds being used to support a project that could well put the Welsh Office, and subsequently the Assembly, in a position that would require it to bail out a project that might well fail, although there were clearly identified risks, a sensitivity analysis was not considered, and there was no plan to address any unplanned deficits.

**Sir Jon Shortridge:** The position is that if the Welsh Office had not recommended to the European Commission that this grant should be paid on the basis of an analysis that was not required by the European Commission, that would have made us vulnerable to going beyond our responsibilities.

On the sensitivity analysis, I am not disagreeing with you, because I agree that on major, risky capital projects of this nature, there should be a sensitivity analysis. In the light of this report, I have written to all the accounting officers in Wales to remind them of the need for this in the future.

[45] **Alun Cairns:** Why was there not one in this case?

**Sir Jon Shortridge:** This was up to 10 years ago, and guidance was not as explicit at that time as it is now. I repeat that our job was to comply with the requirements of the European Commission when we were acting as its agents.

[46] **Jocelyn Davies:** On a point of clarification, at that time, 10 years ago, sensitivity analysis was not required by the European Union, but it was surely something that was routinely carried out for big projects.

**Sir Jon Shortridge:** There was certainly guidance extant at the time on sensitivity analysis. Since then, the Treasury guidance on these matters has been updated and strengthened in that regard.

[47] **Jocelyn Davies:** You have just told us that you feel that it should always happen with large projects, but, at that time, you did not think that it should always happen.

**Sir Jon Shortridge:** We are talking about a time well before I was accounting officer and well before the Assembly came into being. At that time, Welsh Office Ministers were not persuaded that they should be funding this project. If you like, whether they had conducted a sensitivity analysis or not, they were not persuaded that the risks were worth spending Welsh Office money on.

[48] **Jocelyn Davies:** Okay.

[49] **Janet Davies:** What was the Treasury guidance at the time? I realise that it was 10 years ago, so it may not have been the same as it is now.

**Sir Jon Shortridge:** I have a reference to it here, Chair, and, if you bear with me, I will find it. Alternatively, I can answer your question subsequently if you want to

continue.

[50] **Janet Davies:** That would be helpful. Alun, do you have more questions to go through?

[51] **Alun Cairns:** The auditor general's report, Sir Jon, states that the Wales European Programme Executive was not aware of the previous concerns identified by the Welsh Office, particularly the risks in paragraph 2.7. Why was that the case?

10.10 a.m.

**Sir Jon Shortridge:** WEPE would have looked at the business plan and the proposals as they were at that time and carried out the due diligence test on those, without necessarily going back that deeply into the files. However, it would have consulted Welsh Office officials throughout this process, and if those officials thought that the past was material to a consideration of the present, I have no doubt that they would have told WEPE.

[52] **Alun Cairns:** Do you not think that it would be reasonable that an executive that is considering supporting the expenditure of public money, albeit European money, should be made aware of the real concerns that the Welsh Office had at the outset, bearing in mind the history of the case?

**Sir Jon Shortridge:** It might have been reasonable. As I say, it was a long time ago. The business plans, as you said, had changed, and a due diligence test would have been done on the latest business plan, which had updated a variety of assumptions. So, the view that had been taken earlier may or may not have been relevant at that point.

[53] **Alun Cairns:** Can you assure us that, under current European funding arrangements, arrangements are now in place to ensure that one department talks to the other?

**Sir Jon Shortridge:** There is always consultation within the Assembly Government on European grant applications, and relevant parts of the office are given an opportunity to contribute.

[54] **Alun Cairns:** What I am getting at is, would concerns relating to a project that the Assembly Government may have made available to WEFO for it to consider in terms of its applications?

**Sir Jon Shortridge:** I can only give you a general answer, which is that WEFO consults relevant parts of the Assembly Government, and more widely, on applications that come before it.

[55] **Janet Davies:** Thank you, Alun. Mick Bates will now return to WDA funding.

[56] **Mick Bates:** Moving to paragraph 2.20 on page 31, I wish to establish a few bits of process first, Mr Hall. In this paragraph, we read that there was a recognition that other botanic gardens in the UK required a public subsidy. When you received that

information as part of your appraisal, what led you to the conclusions that you came to at the time?

**Mr Hall:** We did some basic research and we benchmarked with other similar establishments. We have to remember that this was the first new botanic garden in the UK for over a century, I think. We recognised the risks, and this is spelt out in the report. As I said in my answer to Jocelyn Davies, we recommended that the different funding bodies come together to ensure that we were taking a joint approach. The point is made explicitly in paragraph 2.22. We carried out our own internal risk assessment because it was a complex major capital scheme, took advice from the gardens and their professional advisers, and also liaised very closely with the other funding partners, namely WEFO and the tourist board. Again, the point, which was made earlier, is that part of this consultation was with the Millennium Commission, and we were liaising closely with it.

[57] **Mick Bates:** Thank you for that answer, Gareth. However, that close liaison did not require written confirmation of points within the Millennium Commission appraisal, of course. So, that was all conducted by word of mouth. Returning to the issue of the example and evidence of other botanic gardens, the report states:

‘However, it concluded that even if deficit funding was required but not forthcoming, the WDA’s investment would have “created a high quality country park based on the restoration of an historic landscape”’.

You concluded that the failure of the garden would result in the sale of this property, presumably. What grounds did you have to say that the sale of the property would be a satisfactory course for your investment?

**Mr Hall:** I do not think that we say anything about the sale of the property. The information is in the table. We were asked to contribute £750,000 towards capital elements, including the boardwalk, the paths, the tree-planting and so on. That capital investment was needed to create the entity that was the National Botanic Garden of Wales. You would want that sort of investment if your visitor numbers were on track, or were above or below the target. That is needed to create the attraction and to get the people through the door.

[58] **Mick Bates:** Are you telling me that you did not consider an exit strategy or look at whether the business plan was not robust enough to meet the visitor number targets and so on? Did you consider an exit strategy?

**Mr Hall:** As we said, we had concerns, and those concerns were answered—as we say in paragraph 2.22—by our close working relationship with the other partners and the robustness of the projections.

[59] **Mick Bates:** Would it be reasonable to assume that if you provided capital funding, as you did for this project, you would have a long-term stake in the success, or otherwise, of the project?

**Mr Hall:** Yes. There are two ways of looking at the capital investment. The first point is that it is an end in itself. The investment enhances what is an important historic

landscape. However, that investment is also a means to an end, which is creating a major visitor attraction for Wales. We were looking to answer both those questions.

[60] **Mick Bates:** Thank you very much for that; I understand that. However, you recognised that there were issues of co-ordination, and suggested that a liaison committee be established. In making your investment, did the joined-up approach identify any risks that would give rise to some concern about the revised business plan, for example?

**Mr Hall:** I think that it is a question of timing, as Jocelyn Davies said. That group was there to liaise on the capital investment. The issues arising from visitor numbers associated with foot and mouth disease and cost control arose later, after that was disbanded. That precipitated the involvement of the Assembly Government and the establishment of the stakeholder group.

[61] **Mick Bates:** Would your attitude at the time have been affected had you seen the revised business plan, which forecasted an increase in visitor numbers?

**Mr Hall:** Yes. From the advice that we received from the partners, we were satisfied at the time with the projected visitor numbers.

[62] **Mick Bates:** Thank you. You were satisfied. Moving on to paragraph 2.23, it is interesting to read:

‘Before releasing the funds, the WDA ensured that it saw detailed tender documents and design briefs, assessed supporting documentation’.

What was the other documentation that you considered?

**Mr Hall:** That is standard practice for the WDA and, as Jonathan Jones said, for the tourist board. When we make any form of capital grant, we always make sure that we are party to the specification. We only sign off the payments after we have had independent professional confirmation that that has been achieved, such as a quantity surveyor’s report. Supporting documentation would be the bills of quantities and the sign-off from the quantity surveyors and the contractors.

[63] **Mick Bates:** You said that you had specialist business advice. Was that internal advice?

**Mr Hall:** We have our own professional staff internally, but we also use external professional consultants to validate the payments—quantity surveyors, building surveyors, architects and so on.

[64] **Mick Bates:** Within that process, did anyone ever raise the question of the robustness and viability of the business plan, which would have given you cause to look at your investment?

10.20 a.m.

**Mr Hall:** No. That documentation was purely to confirm that the grant for capital

works was being spent properly. It was purely to do with capital works.

[65] **Mick Bates:** I see. What is the role then to monitor your investment? What do you specify? Once you have made the investment, how do you monitor that afterwards?

**Mr Hall:** The monitoring of the investment was to ensure that it was physically there and used, and that is the case.

[66] **Mick Bates:** Did you not feel at the time that you had a responsibility to point out that you had already identified some risks, and that other national botanic gardens worked on deficit funding?

**Mr Hall:** To return to my answer to your previous question, as I have explained, we were satisfied that the capital works that we were grant-aided were needed to create the National Botanic Garden of Wales. We were not just saying, 'Capital investment, go away'. Those are the powers that we were using. That is why we liaised with the other partners, and did not just see it as a one-off capital investment. We got comfort from the other partners, and from the Millennium Commission. We believed that, in the robustness of the visitor projections, those capital assets would be used to their best extent.

[67] **Mick Bates:** So, you considered what might happen if a risk materialised and the garden could not pay its own way. Did you ask the garden what steps it would take to address the issue of operating a deficit budget?

**Mr Hall:** I am not aware of us having asked that specific question.

[68] **Mick Bates:** In view of what you have said before, it surprises me somewhat that you had identified the risk—the evidence of other national botanic gardens showed clearly that they required extra funding—and yet you did not ask them about it in their plans, and the fact that their ambitious visitor numbers would cause them to have a deficit in their budget.

**Mr Hall:** While I am not aware—or it is not documented—that we asked them that specific question, I go back to the point that we raised the issue of the risk assessment. We sought our partners' advice, some of whom have particular expertise in visitor numbers, and we got the comfort and assurance from them that they believed in the robustness of the forward projected visitor numbers in the garden's business plan.

[69] **Alun Cairns:** I would like to go back to Mr Hall, if I may, on visitor numbers. You said that you were satisfied with the visitor numbers on the advice of other partners, and you mentioned the robustness of the visitor projections. Did it never occur to you that, as the different plans and proposals were presented, visitor numbers were being used almost as a balancing item to ensure that the project fitted the criteria?

**Mr Hall:** No, I would not say that from the evidence that I was aware of. The visitor projections went back to the original plan—you can see from figure 13 on page 31 that the WDA got involved in this from the outset, back in July 1995. We made a

contribution to have an independent business plan about the viability of the garden assessed. That was the basis, then, of the garden's application for Millennium Commission and other funding.

[70] **Alun Cairns:** Could you be specific about how you interpreted the visitor numbers to be robust, and how you were satisfied with comments from your partners? How did you reassure yourself? So much hinged on the visitor numbers. You talk about robustness, yet, even during the early stages, the Welsh Office highlighted concerns about the projections.

**Mr Hall:** That is right. It did express concerns. However, throughout this report, the best possible intelligence and information from independent advisers and consultants were sought by all parties.

[71] **Alun Cairns:** Could you be more specific about how you were satisfied with the visitor numbers, because you are just talking about partners? Who told you, 'Yes, they can achieve it'? What you are really telling us is what you said in answer to Mr Bates.

**Mr Hall:** I go back to the point, which we mentioned to the Wales Audit Office and which is in paragraph 2.22, that we did our own risk assessment, as I have explained. We liaised with all the advisers, we got the best information available, and we also validated that with the Millennium Commission, which was also investing more than £20 million—10 times as much as us—in this project. I have accepted that that was done orally and we have no record of it in writing. However, I would say that, when you are working in partnership, in a close working relationship, you accept professional advice.

[72] **Alun Cairns:** Other Members have addressed the issue of the lack of records of visitor numbers. In your response you talked about the Millennium Commission and the fact that it was investing 10 times as much as you, and so on, but I must point out that the Millennium Commission criteria are completely different from those that we would expect of the Welsh Development Agency, the Assembly Government and the tourist board, because its timescales are nowhere near as prevalent as those of the Assembly Government and its agencies. Is that fair?

**Mr Hall:** I do not think that it is fair. Whether you are the Millennium Commission, the Welsh Office, the WDA or the Wales Tourist Board, you are still spending public money and there is a consistent obligation to do a risk assessment and to do proper due diligence reviews.

[73] **Alun Cairns:** I am surprised by that answer, because it is completely different from the answer that we had from Sir Jon Shortridge. He said that he is spending European money, but—I am sorry—there are different criteria for that. It seems to me that the argument is being adjusted depending on the questions that are being asked.

[74] **Jocelyn Davies:** On that point, it seems to me that a false sense of security was being built up between all the partners about this wholesale confidence in the visitor numbers when what we see in this report and what we hear from everybody is that everyone acknowledged that this was a highly risky project. We have heard that time and again, and I do not think that you would need to be an expert to realise that this

was a highly risky project. Were you all acting under the impression that the bottom line would be that the Welsh Assembly Government would pick up the tab if it all went belly up? I think that that is a fair question. The Welsh Office had already said that it would not pick up the tab, because it recognised the risks.

**Mr Jones:** That was certainly not the view of the Wales Tourist Board or my view, as the accounting officer towards the end. We genuinely believed that we had an asset that would and could benefit Wales if the management was done properly. You talk about the visitor numbers, but they were robust. The ILEX Leisure research forecast that, during year 1, there would be 175,000 visitors. In the revised business plan, that figure went up to 200,000 and, in the event, there were 240,000 visitors in year 1. Therefore, with hindsight, I think that we can say that that research was robust, because the year 1 figure was more than achieved.

[75] **Jocelyn Davies:** It needed to be a success more than in only year 1, and you cannot keep blaming foot and mouth disease. What do you say, Mr Hall, about the question that I put? Did you think, ‘Here we are, the WDA; we are all involved in this great big project, we can get millions of pounds of lottery money’—all too enthusiastic about it—‘and, anyway, if it goes belly up, it is not our problem because we would achieve what we wanted to achieve and the Welsh Assembly Government would pick up the tab’?

**Mr Hall:** That was not the stance adopted by the WDA. I reiterate that the agency adopted a very similar approach to that of the tourist board. I think that that is underpinned by the fact that we raised issues about risk. I believe that we satisfied ourselves about the due diligence and the robustness of the visitor numbers. So, I would say that that was not our attitude in any way; far from it.

[76] **Jocelyn Davies:** I think that you heard what you wanted to hear from the Wales Tourist Board and the Millennium Commission. You went ahead with this project and I do not accept that you carried out a due diligence review, because you readily admit that you did not. You all seem to have been too enthusiastic about this project to recognise the risks—except for the Welsh Office, which recognised the risk and said that it did not want anything to do with it.

**Mr Hall:** I repeat the point made in the document, which is that we identified the risks and we sought assurances from, as it says there, the Wales Audit Office regarding the comprehensive due diligence activities of the Millennium Commission.

[77] **Jocelyn Davies:** You had those assurances orally. Okay.

[78] **Mick Bates:** On this point of the risk, you considered that it was desirable to have some form of overall control of the project. What led you to that conclusion, and why did that desire never come to fruition?

**Mr Hall:** We did suggest that there should be ‘some type of funding bodies’ liaising committee’, and that was set up. It worked very well during the phase of capital investment.

10.30 a.m.

[79] **Mick Bates:** I accept that there must have been some concern there, but, of course, that committee finished in 1997. You expressed a desire for the overall control of the project, did you not?

**Mr Hall:** No, what I said was about making sure that there was a joined-up approach on the capital projects.

[80] **Mick Bates:** Sorry, but I refer you to the top paragraph on the left-hand side of page 32. I quote from it.

‘Because of this risk, the WDA felt that “some form of control of the overall project would...be considered desirable”.’

Why did you reach that conclusion?

**Mr Hall:** Look at the sentence before that.

‘The appraisal also recognised the possibility that capital costs might overrun and that the public sector may have to cover those costs if funding from the private sector was not forthcoming.’

That is why we set up the liaison group to look at those capital costs. It is exactly as it says in the report.

[81] **Mick Bates:** Sorry, but when you said that you wanted the overall control of the project, who was to take control? Who were you aiming to have in control?

**Mr Hall:** We said we wanted ‘some type of funding bodies’ liaising committee’. The outcome was the liaising group of all funding partners.

[82] **Mick Bates:** How long did that liaising group last?

**Mr Hall:** About two years, during the period of the capital works.

[83] **Mick Bates:** Were you satisfied that that liaising group was in overall control of the project?

**Mr Hall:** I was satisfied that the liaison between the different public sector funding bodies to make sure that the capital works were delivered led to that coming to fruition.

[84] **Mick Bates:** I am sorry, Chair, but this liaison group is beginning to interest me more. Who were the members of this?

**Mr Hall:** As I said, they came from the public bodies involved: the WDA, the tourist board and the garden.

[85] **Mick Bates:** Was the Welsh European Funding Office not a part of this, to give the European side?

**Sir Jon Shortridge:** WEFO did not exist at that point.

[86] **Mick Bates:** I am sorry. What about its predecessor? The Welsh programme—

**Sir Jon Shortridge:** There was no Welsh Office or Assembly involvement.

**Mr Hall:** It approved funding for other people to carry out the works, which was the garden.

[87] **Mick Bates:** This opens up a whole new chapter for me. So, this overall control group comprised you, the WTB and the garden's trustees?

**Mr Hall:** No. What we said was that some form of control would be desirable, and the outcome of that was the group of people that we just mentioned working in partnership.

[88] **Mick Bates:** Certainly. Were the meetings of this overall group minuted?

**Mr Hall:** Yes. We will have copies of the minutes, certainly.

[89] **Mick Bates:** Thank you very much. It would be quite interesting to see those.

**Mr Hall:** Sure.

[90] **Mick Bates:** Why did it end in 1997?

**Mr Hall:** It ended when that phase of the capital works came to an end.

[91] **Mick Bates:** I see. Were any recommendations left from that liaising group?

**Mr Hall:** None that I know of. I will check the minutes, and we will send them to you.

[92] **Mick Bates:** Did that liaising group have any contact with the then Welsh Office, in view of its belief that the project was risky anyway?

**Mr Hall:** No, because, as I said, the point was that it was a liaison group of the capital funders. As Sir Jon said, the Welsh Office was not a capital funder.

[93] **Mick Bates:** Sir Jon, were you aware of this liaison group and its overall role? Are there records that the Welsh Office was aware of it?

**Sir Jon Shortridge:** I would have to check the files on the records. My understanding is that this liaison group was established by the garden's trustees whose garden this is, and who were the controlling minds, essentially. It was they who decided to close it down.

[94] **Janet Davies:** Before you come in, Mick, there are mobile phones and electronic gadgets on in this room that are affecting the broadcast. So, would anyone with a

mobile on please switch it off, even if it is in 'silent' mode, because the broadcasters are having problems? Sorry, Mick.

[95] **Mick Bates:** I do not think that I will get much further, actually, with the remit, conclusions and recommendations of the liaison group. It is important that the minutes of the liaison group are made available to us, as well as any record from the side of the Welsh Office of the work of the liaison group. If that could be forwarded to us, I could gain a better understanding of the role of that group and its view of the overall risks. Sir Jon, do you want to comment on that?

**Sir Jon Shortridge:** We will search our files, and if there is anything that we can give you, we will let you have it. Our corporate memory here does not have a recollection at the moment that we had access to these papers at the time, but we will check our files and, if we have them, you will see them.

[96] **Janet Davies:** There has been much mention of the European Commission being satisfied with the funding requirements. Are you aware of any changes in its monitoring and guidelines for checking on funding in the last 10 years?

**Sir Jon Shortridge:** In the light of experience, it certainly has strengthened its procedures in a number of respects, and if you would like to have a note on how those procedures have evolved, I can let you have that.

[97] **Janet Davies:** We cannot ask the same questions about the Millennium Commission because that is no longer in existence, or at least it is not active.

**Sir Jon Shortridge:** I think that it still has some residual role. I can ask it to provide some information, and I am pretty confident that it would do so, if you would find that helpful.

[98] **Jocelyn Davies:** Put it in writing, Sir Jon.

**Sir Jon Shortridge:** I always do. [*Laughter.*]

[99] **Janet Davies:** We now turn to the matter of funding by the tourist board.

[100] **Leighton Andrews:** Mr Jones, paragraph 2.26 refers to the difficulties that the tourist board said that it had in reconciling the predicted visitor numbers given by the garden at the point at which you made the recommendation to the Assembly Government for the additional £300,000. What did the WTB do to try to reconcile the discrepancies in the visitor numbers?

**Mr Jones:** We did carry out a sensitivity analysis on that £400,000 grant, and it was quite clear from the business plan that there would be a deficit for the first three years. We asked the garden to put in place certain things to ensure that that deficit could be covered should the visitor figures not be met. So, there was a sinking fund, an overdraft facility, and the garden placed fundraising from the private sector, and the leaseback arrangement with Lombard came in, whereby Lombard could claim the capital allowances against the assets, which, of course, the charitable trust could not do. So, I think that we did as much as we could to ensure that those things were in

place should the worst end of the sensitivity analysis come into place. What we were not able to do, of course, was to then ensure that the management did that, because that was outwith our remit.

[101] **Leighton Andrews:** Sure, but did you try to assess why those discrepancies in the visitor number forecasts were not reconcilable?

**Mr Jones:** We then asked for a robust marketing plan, and once we had seen the marketing plan and the budget for that, we were satisfied that the visitor numbers could be achieved.

[102] **Leighton Andrews:** So, you were satisfied that the numbers could be achieved. Would you say now, in looking back, that you considered sufficiently the danger that the garden might fail to meet its targets for income and expenditure?

**Mr Jones:** Looking back, I think that we would have to say that we always considered this a risk—I will put my hand up on that—but we wanted to make it work, and we really wanted to help the garden to make it work, which is why we looked very hard at its marketing. I believe that the tourist board has a good reputation for its own marketing, and our marketing people looked at that plan, and we thought that, if this was delivered in the way that was stated, and the money spent, we would be confident that the visitor figures could be delivered. With any attraction, almost before it opens its doors properly, the quality of the product has to be taken into account, and that has always been in the hands of the garden, and outwith our control.

[103] **Leighton Andrews:** Okay. Would you have gone ahead and released the £400,000 for the AV unit if the leaseback money had not materialised?

**Mr Jones:** It was a condition of grant, so, no, we would not.

10.40 a.m.

[104] **Denise Idris Jones:** Paragraph 2.31 on page 35 of the report shows that the Wales Tourist Board took steps to manage risks after the Assembly Government channelled £500,000 to the garden through the tourist board. It reports that the decision by the Assembly Government in May 2000 to provide £500,000 was taken ‘in principle’. It is written in quotation marks. Can you define that more clearly?

**Mr Jones:** As it says in the report, it was subject to further scrutiny. The Welsh Assembly Government said that it would conduit £500,000 through us, but, as accounting officer, I had to ensure that we could account for that money properly. That is why it took us seven months, working with the trustees and the management. It was not a delay; we were not sitting on the facts and figures and keeping the garden waiting. Lucy and her colleagues worked with the management to build up a robust project to satisfy us and our auditors that we were doing the right thing. I am satisfied that we did everything within our power to ensure that that £500,000 was spent correctly.

[105] **Denise Idris Jones:** That it was well spent?

**Mr Jones:** Yes.

[106] **Denise Idris Jones:** So you were looking to see what you were going to spend that £500,000 on—where you were going to channel it?

**Mr Jones:** Yes. It was a case of finishing off the project. Everything is shown here—transport, exhibitions, gallery, viewing terraces, boardwalks, seating, shelters, landscaping and interpretation. On all those things, we worked with the management to establish exactly what was needed and how that £500,000 could be spent to finish the garden and improve the experience of the visitor.

[107] **Denise Idris Jones:** So it looked good—as though it would attract a lot of people?

**Mr Jones:** Yes it did.

[108] **Denise Idris Jones:** At that time, you thought that that was going to happen?

**Mr Jones:** Yes I did. I go back to the fact that, in year 1, it far exceeded the highest predictions of visitor numbers.

[109] **Denise Idris Jones:** So, what you now have to look at is why that did not continue to happen in the following years.

**Mr Jones:** Yes. I accept Jocelyn's point that we cannot blame everything on foot and mouth disease, but it had a huge impact. That hitting in year 2 was not a good thing for any business. However, thereafter, I have to say that we had done our bit, and it was then in the hands and the management of the trustees of the garden. As is the case with any business that we support with a capital grant, we have to stand back and hope that it will carry out what it says that it is going to do in its marketing and business plans. We do not go in there—we are not allowed to—to micromanage businesses. If businesses do not carry out the work to the standard in the plan that we have agreed, we can reclaim the grant. There are conditions laid out in all our grants that allow us to reclaim them. We have reclaimed grants, and we will continue to do so, where businesses do not fulfil the conditions laid out in the grant.

[110] **Denise Idris Jones:** So, you reclaimed the £500,000?

**Mr Jones:** No. In this case, the garden carried out the work, and it is still working. I am saying that in the cases of businesses that fail or collapse, or where people sell to make a profit, we can reclaim the money, and we do that.

[111] **Denise Idris Jones:** Turning to Sir Jon, why was the decision by the Assembly Government in May 2000 to provide the £500,000 taken before it was known what the money would be spent on? Mr Jones has just said that he knew what it was going to be spent on—it was going to be spent on these various projects.

**Sir Jon Shortridge:** This was an Assembly Government that, up to this point, had not put any funding into the garden. At this point, the garden was just about to open or was open, so the assets were there. Therefore, there was a case for how you were

going to seek to maximise the use of the benefit from those assets. There was an element of investing a bit more to safeguard public funds and to ensure the best use of public funds. That led to a view that, although the Assembly Government was not going to provide core funding for the organisation, there was a case for making a contribution to enhance its tourism attraction. Therefore, in principle, if an appropriate investment for that sum of money could be put together, it would support that.

[112] **Denise Idris Jones:** So the money was put in before you had decided to approve the grant?

**Sir Jon Shortridge:** We said to the tourist board that this money would be available, provided that it did sufficient due diligence to satisfy itself that it would be good value for money.

[113] **Alun Cairns:** Was it intended as a slush fund?

[114] **Denise Idris Jones:** We are still not sure what it was.

**Sir Jon Shortridge:** It was not a slush fund. It was saying that there was a case for investing £0.5 million in capital expenditure to enhance the attraction of this tourism destination. It was not just some cash reserve.

[115] **Denise Idris Jones:** Why was it put in via the tourist board?

**Sir Jon Shortridge:** Because the tourist board is the Assembly Government's agent with responsibility for tourism matters.

**Mr Jones:** Chair, I will add, if I may, that one of the major attractions that we helped to bring forward then was the walled garden, which has made a difference, and which we hope will continue to make a difference with the plans that the garden now has in place to put in a new glasshouse against the back wall. So, there was certainly no element of a slush fund in this case. The money was meant to enhance the product, which we genuinely believe that it did.

[116] **Alun Cairns:** To pursue this matter a little further, do you often provide grants of around £0.5 million without knowing on what it will be spent, Sir Jon?

**Sir Jon Shortridge:** This was not a case of us providing a grant. This was us saying that we would make £0.5 million available to the tourist board, if it could satisfy itself that the money could be spent to enhance this visitor attraction. Until it had satisfied itself on that, the money was not released.

[117] **Denise Idris Jones:** But we were five days away from the deadline when the £0.5 million was put in. So, in a way, this money was a bit like a shotgun last attempt, was it not—'put it in or else, we are in a mess here'? Do you not agree with that?

**Sir Jon Shortridge:** It certainly helped to lever down additional Millennium Commission funding.

[118] **Denise Idris Jones:** So it did help, as you were only five days away.

**Sir Jon Shortridge:** Of course. There was an issue about the extent to which we want to have Millennium Commission funds spent in Wales, rather than elsewhere.

**Mr Jones:** I will just remind Members, Chair, that the money was not revenue funding—it was for capital work. So, it was not a revenue boost to get the garden instantly out of trouble. It took us seven months to work out the proper use for this money, so that we, the garden and, hopefully, the customers, were satisfied that they had got the right product at the end of the day.

[119] **Janet Davies:** I will just go back to paragraph 2.21 for a moment. It is about the WDA grant. Sir Jon, there was a grant condition that the garden should make its best endeavours to achieve phase 2. We often see these types of phrases in different documents, not perhaps in exactly the same words, but in similar ones. It always seems to me that one side is covering itself by asking for something like that to be put in, and the other side is happy for it to be put in because it knows that there is no way of enforcing that. For example, you would hardly go take legal action to try to prove it was its second-best endeavours. To what extent do these conditions carry any weight? I realise that this is a more general question, but it emerges specifically from this report.

**Sir Jon Shortridge:** They obviously do not carry that much legal weight, but they provide a clear statement as to what the expectation is. To that extent, it is better to have that than nothing at all, bearing in mind that we are often seeking to achieve things through negotiation and influence, rather than by seeking to enforce a contractual condition through the courts.

[120] **Janet Davies:** Okay, thank you. We will stop for a coffee break now for a quarter of an hour.

*Gohiriwyd y cyfarfod rhwng 10.49 a.m. a 11.05 a.m.  
The meeting adjourned between 10.49 a.m. and 11.05 a.m.*

[121] **Janet Davies:** I ask everyone to settle down so that we can start again. Apparently, there are still problems with phones affecting the broadcasting; please ensure that your phones are switched off, because it is a major problem at the moment.

In paragraphs 1.7 and 1.9 on page 13, the report says that the Welsh Office did not want to commit itself to the ongoing revenue costs of a botanic garden. In paragraphs 1.22 to 1.27, we see that the Assembly Government provided the garden with £1.5 million in revenue funding. So, Sir Jon, although the Welsh Office approved the idea of a national botanic garden, it did not really want to fund it, but then it came in with money to keep it afloat in 2002. I am well aware that many things had developed by that time. Did that represent a change of policy? What is current Assembly Government policy on the existence of a national botanic garden?

**Sir Jon Shortridge:** The Assembly Government's position has been pretty consistent throughout. When it became apparent, in 2002, that the garden was in serious difficulties, it had to take a view as to whether or not it should step in to support the

garden. I was, personally, very involved in that as accounting officer. At that point, with the £43 million investment made, there were, effectively, three options available. The first was that we should agree—and I am sure that the garden would have readily accepted this—that we move to a position where we core-fund the garden and keep it afloat in its present form. The second was that we should be hands-off and not provide any sort of help and support, in which case I think that the garden would have gone into liquidation, and the third was that we seek to work with the garden to see whether the whole basis of the garden and its future plans could be changed in a sufficiently sustainable way so that it could operate in accordance with its original intention of not requiring any public subsidy.

So, at that point, the Assembly Government, with my support as accounting officer, provided a series of short-term grants to keep the garden afloat. It was only very late on, when we were finally satisfied with the recovery plan in around March 2004, that we agreed to this joint funding of the garden and the commitment to a further £300,000 a year for four years. This goes back to what I was saying earlier. Having got this asset—and I think that we need to remind ourselves that it is a great asset—my job is to see what can proportionately be done to safeguard the public funds that have been invested in it as against the overall capital cost and the money at risk. We have put in the equivalent of about £2.1 million—although it may be £2.4 million; my sums are not good—and then a continuing £150,000 to sustain the garden's future. That is the policy, but the position remains clear that the Assembly Government has not committed itself to supporting this garden in perpetuity and I would not have given my endorsement to what has been done unless I was satisfied that the garden itself had addressed the governance and management deficiencies that it had up to that point. I was only prepared to endorse this approach because it had appointed a lot of new trustees and a chief executive. That is the policy.

11.10 a.m.

[122] **Janet Davies:** Thank you, Sir Jon. The Millennium Commission was the main funder. The amount of money that it put in far outweighs that put in by everyone else, so do you have any idea why it did not take on the role of ensuring sound finances for the future?

**Sir Jon Shortridge:** The rules governing the Millennium Commission are such that they can only make capital grants available. When we got into a situation of rescue and recovery, someone who had the powers had to step in to provide revenue funding. In the absence of the Millennium Commission, the Assembly Government, given this huge asset that is here for the benefit of Wales, could not—subject to the conditions that I have mentioned—simply ignore the needs.

[123] **Jocelyn Davies:** On a point of clarification, you said that it became clear in 2002 that there were problems, but the garden first approached you in 2000. That was two years before you stepped in to offer any help. The report states, under paragraph 1.17, that the garden first approached you in 2000. You just said that it became clear in 2002.

**Sir Jon Shortridge:** The garden approached us on a succession of occasions and did not satisfy us on the basis of the case that it put to us and the business plans at those

times that there was a basis for changing the policy of not providing funding for the garden. It was in 2002—June in particular—when the garden came to us indicating that it had a serious cashflow problem, that we realised the potential seriousness of the position and appointed KPMG to undertake a thorough financial analysis for us. The underlying point is that the policy at the time was not to help the garden, so we needed sufficient evidence before we would move from that policy and the fact that it was asking us for particular pieces of funding was not sufficient evidence. I will leave it there for now. I may want to come back on other things.

[124] **Leighton Andrews:** It is clear that 2002 is an important date. I want to be clear in my own mind about the Welsh Office's previous position on this. Paragraph 1.7 states that the Welsh Office agreed in principle to Wales having its own botanic garden, but that the deficit would not justify its own support. Paragraph 1.9 makes it clear that, after the Eres report was published in 1993, the Welsh Office would not alter that position. It was in favour of having a national botanic garden, but was not prepared to provide the capital and revenue funding. The capital is eventually provided in March 1997—which I think is an interesting date—when the WDA money is agreed. Clearly, at that stage, the Welsh Office wanted Wales to have a national botanic garden, but was not prepared to commit to it itself. Is that a fair summary of the Welsh Office position?

**Sir Jon Shortridge:** Yes. I do not think that it would do anything actively to prevent it from happening, but it was not going to put in any financial resource of its own.

[125] **Leighton Andrews:** Clearly, the garden's management and trustees were directed towards the Millennium Commission by the Welsh Office. That is stated in the report.

**Sir Jon Shortridge:** Indeed. I am sure that that was the case.

[126] **Leighton Andrews:** And by 1997, the WDA is providing capital money.

**Sir Jon Shortridge:** Yes.

[127] **Leighton Andrews:** So, at the end of the day, would it be fair for me to conclude that the Welsh Office wanted this project to go ahead and was seeking to encourage it without committing to it in order to try to get a botanic garden on the cheap?

**Sir Jon Shortridge:** It was doing nothing to prevent it. We just have to keep reminding ourselves that this is not a public body, but a company limited by guarantee with independent trustees, who are entitled to seek to establish a botanic garden in Wales if they so want, and to try to secure whatever public funding support that they can.

[128] **Leighton Andrews:** But, it is rather different as a national botanic garden is it not, rather than just any old botanic garden somewhere in the Welsh countryside? When something has the kudos of the word 'national' before it, certain things start to flow from that in terms of how it is interpreted, talked about and the decisions that are subsequently made. When do we think that this whole idea of it being the national

botanic garden came about and what was the Welsh Office's role in giving an endorsement to that or not?

**Sir Jon Shortridge:** Martin Swain will correct me if I am wrong, but my understanding is that it was the garden that took the decision to make itself the national botanic garden. There was never any endorsement from either the Welsh Office or the Assembly Government for that name.

[129] **Leighton Andrews:** I am only interested in the Welsh Office part—certainly up until 1997. Throughout this report there seems to be some encouragement to the concept of Wales having a national botanic garden explicitly by the Welsh Office.

**Sir Jon Shortridge:** My take on it—I hope that this is not a semantic point—was that it could see that there was a case for having an iconic botanic garden located in Wales. I do not think that anyone was hung up on the term 'national' at that stage. When we talk about the national library and the national museum, they are publicly funded institutions. There was never an expectation that this would be a publicly funded institution.

[130] **Leighton Andrews:** That is all very well, but according to paragraph 1.9, in 1993 after the Eres report:

'the Welsh Office decided that it would not alter its original standpoint: although it was in favour of having a national botanic garden in Wales, it was not prepared to provide the capital and revenue funding that such a project would need.'

It seems to me that a policy decision was taken somewhere that Wales should have a national botanic garden, however it would be provided.

**Sir Jon Shortridge:** The Welsh Office was not going to do anything to stand in the way of the establishment of a botanic garden, but it was not going to positively finance it.

[131] **Leighton Andrews:** I do not want to get hung up with the word 'national', but it is important. It is specified in the report. I could go along to the Rhondda Heritage Park and suggest that it becomes the 'National Mining Heritage Park—Rhondda', and establishes itself in that way and then seek to get further public support. I want to establish whether there was de facto encouragement by the Welsh Office in the 1990s to create a national botanic garden in Wales.

**Sir Jon Shortridge:** In fairness to the committee, I will have to research the files and produce a note on that, because I would not want to mislead Mr Andrews or the committee on that point.

[132] **Janet Davies:** That would be fine. Thank you, Sir Jon.

[133] **Alun Cairns:** Sir Jon, you will be aware of my concern at your earlier comments and the impression that I certainly received of the accounting officer's role in the Assembly or the Welsh Office in terms of European funding, acting as agents. I had the impression of a mechanical sort of a structure whereby no opinion was taken.

Paragraph 2.5 clearly highlights that:

‘the Welsh Office was responsible for appraising ERDF applications and the final decision was made by the Secretary of State’.

Bearing in mind those risks that I highlighted, that clearly suggests that some responsibility falls on the Welsh Office at the time and to the accounting officer who would have given advice.

**Sir Jon Shortridge:** I read paragraph 2.5 when I was researching for today. When we were checking this report, we should have drawn attention to that because paragraph 2.10 makes it clear that there was subsequent approval by the European Commission. My clear understanding is that when we are responsible for a grant scheme, we have to act in accordance with the terms and conditions of that scheme. We cannot say that an application conforms with the scheme—in this case a European scheme—but we do not like it, so we are going to turn it down.

11.20 a.m.

[134] **Jocelyn Davies:** If you tick all the boxes, it goes, but if you do not tick all the boxes, it does not go. There is no discretion.

**Sir Jon Shortridge:** In these circumstances, those people appraising this grant did not consider that they had discretion, not least because they knew, given the scale of this project, that they had to refer it on to the commission for approval. It is quite dangerous if you have a grant scheme and something complies with the terms of the scheme and then you decide, for extraneous reasons, that you are not going to support it.

[135] **Alun Cairns:** So, are you telling us that paragraph 2.5 is inaccurate?

**Sir Jon Shortridge:** I was surprised when I reread it at the weekend, because it is certainly not my understanding that the Secretary of State made decisions on ERDF grants. He would be informed of them, but I think that his scope to intervene with one would be very limited indeed.

[136] **Janet Davies:** But, Sir Jon, you have agreed the report.

**Sir Jon Shortridge:** Absolutely. I acknowledge that, but I am saying that I think that there is an inconsistency in the report. If you read paragraph 2.10, it makes it clear that there was subsequent approval by the European Commission.

[137] **Leighton Andrews:** In that case, what would be different, under the Welsh Assembly Government, in terms of approving ERDF grants? As I understand it, Ministers are quite keen to indicate an arm’s length relationship with ERDF grants that are made through WEFO. So, if it were now, what would the situation be? With regard to WEFO-made grants, do you believe that the final decision should be made by the Minister or the First Minister or whoever?

**Sir Jon Shortridge:** WEFO makes the grants and the decisions.

[138] **Leighton Andrews:** If we were holding the Welsh Assembly Government accountable in this context for processing ERDF applications, you would not expect to see the sentence, ‘and the final decision was made by the Minister’.

**Sir Jon Shortridge:** No, and, as I say, when I read the report again at the weekend, I was surprised to see that. I am essentially accountable as accounting officer, and I must be satisfied that these decisions have been taken properly.

[139] **Janet Davies:** We are still looking at the role of the Assembly Government during the operational phase. Mark has some questions on that.

[140] **Mark Isherwood:** You have stated that you would not provide revenue funding in perpetuity. We have also heard reference to the KPMG report of December 2002, which stated, after looking at all the options, that every option considered by the garden would require a revenue subsidy in perpetuity. Why was Welsh Assembly Government money provided after that report was published?

**Sir Jon Shortridge:** We did not provide any money on the basis of that report. We did not provide any money to implement any of the recommendations in that report. Some continuing funding was put in, as I said earlier, to enable the garden to continue trading, but that was a different matter.

[141] **Mark Isherwood:** But that, at the very least, gives the impression, if not a tacit acceptance, that long-term revenue funding would be required. Was the garden not in a position where it could draw conclusions from that?

**Sir Jon Shortridge:** No. If you look at the timeline, for example, on page 45, you will see that the Assembly Government was constantly turning down requests for funding. I do not think that the garden was ever in any doubt that we were not persuaded of the need to do anything other than give it sufficient funding to keep trading, while work was taking place to see how we could put in a recovery strategy for the garden. That was the policy. As I say, from where I was sitting, you would not have a sustainable solution to the future of the garden while the existing governance and management arrangements were in place.

There was a reference earlier to the very substantial costs of the garden in the early years, with the overhead costs being substantially more than they were in the business plans. That was sending us some really serious signals. Where you had a situation wherein the garden, for whatever reason, did not seem to be able to control its costs sufficiently, I was not prepared to agree to a solution that would have involved revenue funding in perpetuity. However, we clearly—and I felt it keenly—had a responsibility to do all we could to safeguard the public funds that had been invested in the garden. It was only, in my view, once we had allowed a situation to develop whereby the trustees of the garden had to confront the seriousness of the situation that they faced and acknowledge that they would not get a solution in terms of continuing funding from the Welsh Assembly Government, that we were able to move to a situation with a recovery strategy and where there were fundamental changes in the governance of the garden. In my judgment, that means that we now have reasonable grounds to believe that, over the next three years of transition, the garden will be able

to operate on a self-sustaining basis. I acknowledge that it may not be able to do that, and we will not know for three years, but the signal that I am giving to the garden, and which the Assembly Government has consistently given to the garden, is that, 'You established yourself on this basis, and you have to find a way of operating where you can continue on this basis, but we will help you through this transitional period'.

[142] **Mark Isherwood:** That brings us on to the recovery plan and the targets within it. We have already heard how changes in the business plan have, in the past, tended to produce increased forecasts of income and visitor numbers. We see in paragraph 2.15 that the method used by the garden for estimating visitor numbers differed from that which had recently been agreed by the parties involved, and had, therefore, been compiled incorrectly. We now see that the key targets in the recovery plan are being met, which is good news, but we also see that the targets for income and visitor numbers in the recovery plan have again fallen below the level originally planned. It seems that we have a helter-skelter, up-and-down ride here on the targets applicable at different times. What is your view of the long-term prognosis for the garden? Can it operate realistically as both a visitor attraction and a scientific institution without ongoing public investment and revenue support?

**Sir Jon Shortridge:** As I said, I am hopeful that it can, beyond the period of commitment that we have given in the recovery strategy. There are no certainties in this, and a lot depends on things that are happening in the garden at the moment. It is important that all those who have the garden's interests at heart should be doing what they can to enhance its reputation and give it the opportunity to recover in this way. In terms of its performance for 2004-05, which can be seen in figure 8 on page 23, it is ahead of the strategy on income and gross profit, but behind the strategy in terms of salaries and overheads. That is something that is causing us some concern at the moment.

[143] **Mark Isherwood:** Why is the garden now sustainable on the lower figures when the original plan stated that we needed higher figures in order to sustain a self-funding organisation?

**Sir Jon Shortridge:** There are things that the garden is doing in order to raise money to help it and, through the investments being made at the moment, it is seeking to increase its visitor numbers over time and to improve the garden as an attraction. It is now a very different garden than the proposition made in 2000. For me, the most important change is the change to the trustees, the governance, and the appointment of a new chief executive. I have focused on looking at whether we have an independent body that has the capacity to deliver these outcomes. I have much greater confidence in the capacity of the garden as it is currently set up than at the time when my advice to Welsh Office and Assembly Ministers was that they should not be putting continual funding into this garden.

[144] **Mark Isherwood:** One of the means in the recovery plan for generating the additional income is property development. How is that going, and what will happen if that does not materialise?

11.30 a.m.

**Sir Jon Shortridge:** That is probably more a question for the garden than for me. Commercial negotiations are going on at present, which it would not be appropriate to disclose to this committee.

[145] **Mark Isherwood:** What information are you getting to monitor the performance of the garden, and is that information sufficient?

**Sir Jon Shortridge:** We are now getting a lot of financial information, and this is one of the differences. Where you are giving—albeit, at present, in the short term—core financial support to the garden, on the basis of that, you can put in place specific terms and conditions around that continuing support, so that if the garden is not meeting our requirements, it knows that the tap can be turned off. Therefore, we now have these monthly meetings with the stakeholder group, we share information, and we monitor closely how the garden is currently performing. As I say, we are pleased with visitor numbers and gross profit, but we are still concerned about overheads.

[146] **Mark Isherwood:** What lessons should be learned from this for other publicly supported ventures?

**Sir Jon Shortridge:** In one respect, it is difficult to generalise from individual cases. This is a special case. Going back to the discussions earlier this morning, there are issues around the nature of the safeguards that public organisations should require when supporting major capital investment. You are right to ask about those things and about sensitivity analysis, and so on. However, ultimately, unless the approach is one of total risk avoidance, big projects like this, if they go ahead, will have a significant amount of risk around them. I agree that, on this occasion—certainly with the benefit of hindsight—more could have been done to seek to identify those risks, through, for example, sensitivity analysis, before a judgment was taken as to how much mitigation needed to be made of those risks, against the fact that we have a major £43 million investment here. I hope—and I am sure that everyone sitting behind me who works in the garden hopes—that the garden will be a huge, iconic success in time. Therefore, the issue is much more around what are the appropriate and adequate safeguards around capital grants.

Once you have moved into the situation where the capital is being spent, and you are into the operation of, in this case, a garden, the opportunities to recover the investment that has been made are, by definition, limited—for reasons that you may want to go into. Therefore, my role as accounting officer has always been to ask how can I seek to ensure that the investment that has been made by public bodies is appropriately safeguarded. The amount of investment that we have had to make at the moment is proportionate, given the amount of non-Assembly money that has been attracted into the garden and into Wales. At present, the balance sheet looks pretty much our way, but we have had to take some hard and tough decisions. You will know, because you have followed this from a political perspective, that the garden got close to folding. To a significant extent, that was because we took the view that it would only be when it confronted the seriousness of the position, and knew that it would not get a lifeline from us, that you could have the changes that have been made—which I applaud—which give the prospect of this garden becoming sustainable.

[147] **Mark Isherwood:** Should all of that include more consistency and discipline in forecasting, and, more to the point, scrutiny of those forecasts, where, as I mentioned earlier, it appears that the methodology used was—to put it politely—inconsistent with that which had been agreed.

**Sir Jon Shortridge:** I think that we have to acknowledge that forecasting will always be a very inexact science, so there are limits to what can be done. My reading of, and reflection on, these papers, with the benefit of hindsight, made me realise that it would have been nice had there been more and better consideration of some of those forecasts. I agree on the sensitivity analysis point, and I have written to all accounting officers on that point this week as I think that it is an important issue to come out of this report. We need to remind ourselves that you can never have certainty and therefore there will always be residual risk. The issue is to get the best intelligence that you can around that risk, so that you can make an informed judgment.

[148] **Leighton Andrews:** I have just one question in relation to what you said about the trustees. The impression that I got from what you said was that there was a period, around 2002, where you certainly would not have been prepared to recommend ongoing funding for the garden but, come May 2004, with the recovery plan and the changes in governance and management, you were more comfortable about it. Is it fair to say that the Welsh Assembly Government did not feel that the information that was coming through from the garden's management trustees in that period, or the track record that was being demonstrated, was sufficiently reliable for you to engage in that way?

**Sir Jon Shortridge:** If you look at the timeline on page 45, at May and November 2003, you will see that we had a business plan in May and a recovery strategy in November 2003, but that both those were rejected. Those were tough decisions, given what we can see here today. However, we were not sufficiently persuaded, at that time, that the garden had confronted the issues that it faced adequately and we sought to have a materially different approach to its future and recovery than it had been proposing to us since 2002. These were difficult times, because people's jobs were at stake and were lost through this, but we were looking for a sustainable garden.

[149] **Jocelyn Davies:** On that point, as I mentioned earlier, you were first approached in 2000, which was two years earlier, and you have justified that by saying that you had to let it go right to the wire so that these people would realise that you were serious and that they had to make changes. Did you try to intervene before that point? Two years is a long time and there was an awful lot of anxiety, because people's jobs were under threat. It seemed as though you were playing the blinking game with the then trustees. Is there any evidence to justify the fact that you let it go right to the wire?

**Sir Jon Shortridge:** We moved quickly following July 2002—and I am sticking with the timeline on page 45. We provided some interim funding in July 2002 and we became much more closely engaged. We subsequently appointed KPMG to write a report, which was published. On the basis of that, we had continuing discussions with the garden through 2003 and beyond. We asked the trustees to produce revised business plans so that we would have a basis upon which we could decide what, if any, continuing funding to give them. We were not satisfied with their plans.

[150] **Jocelyn Davies:** I know and understand that—you said that earlier. The point that I am trying to make is that it was in 2000 that the garden first came to you for assistance, and that two years passed before you rejected those plans. The things that you have pointed out to us that made the difference in 2000 were the trustees, the governance and the new chief executive. It was not, in fact, the funding, which we know you were quite determined not to part with. What I am saying is, had you intervened earlier in those two years, would there have been an awful lot of anxiety, at the least, saved?

11.40 a.m.

**Sir Jon Shortridge:** You have to have a basis for intervening. The garden, which is an independent body, came to the Assembly Government, and, indeed, the former Economic Development Committee, to ask for support. However, we did not know the full picture, we did not have access to all its financial modelling and projections at that point, and we did not really have a basis on which to demand it. I believe that the Economic Development Committee was sympathetic to that request, but said that there needed to be a business plan or a better business plan. We were always looking for sufficient justification for the expenditure of public money.

[151] **Jocelyn Davies:** I am not making the case that you should have acceded to the grant that it was asking for; I am saying that intervention would have been timely, had it been earlier. I take you to paragraph 2.38, which lists the possible early-warning signs that the garden was in trouble. In October 2000, it made the formal bid for revenue support, which—as I understand perfectly—it was decided to reject. However, the tourist board had access to the garden's accounts from December 2000, which showed that the garden was accruing higher-than-anticipated deficits, and so on. So, there is a list of early warning signs, and I am just suggesting that earlier intervention—not necessarily with funding but through other interventions—could have saved a lot of trouble.

My next question is more about the communication between all the funders, because you seem to be on the spot now, Sir Jon, and everyone else is sitting back and relaxing a little. However, from listening to the answers given earlier, it seemed to me that each funder was focusing on different elements, when surely you must all accept that there was a collective responsibility. Why did you not exercise collective responsibility? In fact, why were the garden's plans not challenged harder by you all?

**Sir Jon Shortridge:** I accept a collective responsibility, but—and I do not want to appear overly defensive about it, which is why I accept it—one also has to acknowledge that the Welsh Assembly Government funders, if I can put it that way, were a small part of the whole thing. So, the extent to which we could have engaged at that stage to make things different is the issue. It goes back to your earlier point that the garden is an independent body. There was a policy of the Assembly Government not to provide it with funding. It was asking for money, but we did not know the extent of its difficulties. So, at what point did we have a sufficient basis to decide that we were going to intervene, given what I have also been saying, which is that, essentially, it was an issue for the garden to confront its problems and change its governance arrangements? You may be right; you may be wrong. Had we sought to

become involved a year earlier, would that have changed anything? I just do not know.

[152] **Jocelyn Davies:** What about everyone's collective responsibility, given that you were focusing on your separate elements?

**Mr Jones:** From the tourist board's point of view, we would have had no expertise in assessing anything that the WDA was working on, in terms of science or anything else. I still say, as does the report, that we did challenge and put actions in place to try to ensure that our grants had certain conditions placed on them. If those conditions were not met, we would have reclaimed. On all three occasions, those conditions were met. You may say that we should have set tougher conditions, and I would accept that.

[153] **Jocelyn Davies:** Do you accept that, although you held it with the other funders, you did not exercise collective responsibility?

**Mr Hall:** I would reinforce what Sir Jon and Jonathan have said. Before the break, we talked about the agency looking to get that collective responsibility with the garden, which was the body being funded, on the capital projects. Then, following the KPMG report, it transpired that we were active members of the stakeholder group.

[154] **Jocelyn Davies:** In such circumstances, this committee always says, 'If this were to happen again—', not that we will have another national botanic garden, you will be pleased to hear, Leighton; it will be something in the Rhondda. [*Laughter.*] However, if these circumstances were to reoccur, and you were all funders of one project, how do you imagine that you might learn from the mistakes set out in this report?

**Sir Jon Shortridge:** I am not quite sure whether I would put it quite as strongly as that. From April 2002, we collaborated. We then became involved and exercised those responsibilities. The point that you put to me was whether we should have collaborated earlier.

The particular difficulty that I had was that I was serving the Welsh Office and the Assembly Government, whose Ministers' policy was not to support the garden. Under those circumstances, it is quite difficult to say, 'Well, despite all that, I am going to involve myself'. The issue was really at which point did the problems that were manifesting themselves become so serious that this collaborative intervention was needed. As a matter of fact, that point was April 2002. The issue for you, I think, is whether we should have taken that initiative earlier.

[155] **Jocelyn Davies:** The issue is whether it would be possible for you, if it were to happen again under similar circumstances, to collaborate and exercise collective responsibility, rather than say, 'This is my bit of the project that I am interested in, and that bit is okay' only to find out, when you put it all together, that it is not actually okay.

**Sir Jon Shortridge:** If it were to happen again, we will be well informed by this experience, and it is possible that, in future, we will move that much more quickly.

However, the issue is one of timing and not of the nature of the collaboration. I think that the collaboration that we have had since April 2002 has, under very difficult circumstances, been pretty effective.

[156] **Jocelyn Davies:** But that is a recovery plan, rather than the setting up of capital in the crucial early years. Mr Jones, I see that you want to comment.

**Mr Jones:** I would just like to add to that. Before the appearance of this report, we were already working very closely together on what we had hoped would be a major tourism project to come on-stream soon. That was with the economic development and transport department of the Welsh Assembly Government, the tourist board, the WDA, RSA and the local authority, and that was before the First Minister's announcement that the WDA and the WTB were to be merged. So, maybe we learned from our own lessons, before the appearance of this report.

[157] **Jocelyn Davies:** We have heard about clawback several times from Mr Jones. There were clawback conditions on the grants made to the garden by all three funders, but they would not have been applied had the garden gone into administration. You said on three or four occasions today that the clawback conditions were there, but you would not actually have been able to exercise them, would you?

**Mr Jones:** In any case for which we give support through our capital grant, we are at the bottom of the list of creditors. Banks and everybody else come first, and we would have been in the same position in this case.

[158] **Jocelyn Davies:** Thank you for clarifying that.

[159] **Alun Cairns:** I would like to press Sir Jon on his comments about whether he was able to intervene with regard to the gardens, because I respect the fact that it was a private body, and that perhaps the Welsh Assembly Government did not have such a responsibility. Of the two points that I wish to make, the first is that the garden was a private body that had become dependent on public funds, so, obviously, there would be an interest in that. I would therefore expect an interest at least to find out what was going on, from which warning signs should have come up. Secondly, surely, a broader judgment would have made you realise that the Welsh Assembly Government would become the funder of last resort. It was almost like the Bank of England in the respect that, because of the status that the garden had acquired in Welsh life, if it came to the position that it did come to, the Assembly would have to intervene. Can you respond to the points about when you would intervene?

11.50 a.m.

**Sir Jon Shortridge:** On your point that it was dependent on public funds, it had certainly been established with a very substantial amount of public funds, but, as a going concern, I do not think that it was dependent on public funds at that point. It had received capital grant, but not continuing revenue grant money. I think that I have shared sufficiently with the committee the nature of my concern throughout this period. That was because I was well aware that, if the garden got into difficulties, which it did, the Assembly would be the funder of last resort. The issue for me—the judgment that I and Ministers had to make—was one of timing.

When you consider this you may, by all means, criticise me on the timing point, but this is an independent organisation; the view that I took at the time was that it was for it to come with proposals to us, rather than for us to ask for lots of further due diligence processes to establish whether we should put in more money. That was the issue; I felt that it was for it to manifest the nature of the problem. When it became manifest, we provided a lot of short-term assistance to help the garden through. From my perspective, that was because I was looking to find a proportionate way to safeguard the investments that had been made.

[160] **Alun Cairns:** Mr Hall, the structure of the Welsh Development Agency at the time particularly meant that there were strong regional offices, and, in view of the fact that this was in the heart of the south-west division, would it not be normal to expect some sort of working relationship, bearing in mind the innovation and the impact that it could have on the regional economy?

**Mr Hall:** A working relationship between whom?

[161] **Alun Cairns:** Between the gardens and the regional office of the Welsh Development Agency.

**Mr Hall:** There was a very close day-to-day relationship.

[162] **Alun Cairns:** Well, did that not flag up some early warning signs that there were problems with funding, that costs were escalating out of control, that visitor numbers were not quite what were expected? At least you or the accounting officer in the Welsh Development Agency could then have made a judgment as to whether the Permanent Secretary should have been involved because of the risk of the Assembly becoming the funder of last resort?

**Mr Hall:** Yes, but go back to the timeline, the agency's capital contributions were to projects and elements of the infrastructure that were put in place before the garden opened. We have said that it was only during 2000 that the issues started to come to the surface.

[163] **Alun Cairns:** I accept that, but the regional structure of the Welsh Development Agency at the time would have lent itself to a close working relationship with a major institution that is in the heart of one of the regions. That relationship would have meant early warning signs for the Welsh Development Agency's accounting officer, and those concerns would then have been brought to the attention of the Assembly's accounting officer.

**Mr Hall:** We became aware of certain issues, but we did not have an overview.

[164] **Alun Cairns:** Were any of those issues communicated to the Assembly Government?

**Mr Hall:** When we come on to the science centre, there were concerns regarding the costs.

[165] **Alun Cairns:** I am not talking about the science centre specifically on this occasion. I am talking about the general running of the garden at the time, when visitor numbers were not being achieved, and costs were higher than forecast, which would have brought a concern to the Welsh Development Agency that it was not running as it should have been at the time, and as a result the Assembly Government had to be informed or we needed to be concerned as funders. Obviously, the family of public bodies in Wales should also have a concern.

**Mr Hall:** All I can say in answer is that when these issues became apparent, because of our working relationship, they were flagged up and that precipitated the KPMG report that was initiated by the Assembly Government.

[166] **Alun Cairns:** In 2002?

**Mr Hall:** Yes.

[167] **Alun Cairns:** So what happened between 2000 and 2002 about that working relationship?

**Mr Hall:** I think that it was only towards 2002 that the scale of the issues began to come to the surface.

[168] **Alun Cairns:** So, that relationship between the regional office of the Welsh Development Agency and the garden was not particularly strong, bearing in mind that it was supposed to be such a major economic hub at the time?

**Mr Hall:** From my time as managing director of the south-west division, it was one of a 100 projects going on at any one time, and at least a dozen major projects.

[169] **Alun Cairns:** But was it not the largest?

**Mr Hall:** No, the largest project at that time would have been the SA1 Swansea waterfront project.

[170] **Leighton Andrews:** I was just wondering, Sir Jon, about the timing question. One of your responsibilities in considering revenue funding is to protect public money. It seems that a question arises in that you therefore have a responsibility, I suppose, if you are giving public money, to extract as much as leverage as possible, in the sense of having confidence in how things are managed. Was there a definite point at which the Welsh Assembly Government made it clear to the trust/management of the botanic garden that changes were needed in the management, and can you precisely date that?

**Sir Jon Shortridge:** On the precise date, I will bring Martin in, because he is more likely to have it at his fingertips than I. I will go back partly to Alun Cairns's point before I answer your particular point. Throughout the period from 2000, when we received requests from the garden, our response was always to say 'Let us see a business plan, so that we can satisfy ourselves'. That was the nature of the engagement that went on. In terms of extracting leverage, you are quite right that that was very much what we had in mind. It was only in March 2003, when we came to

the agreement involving Carmarthenshire County Council and others, that we satisfied ourselves that the garden would do sufficient work to reshape itself. That is my understanding, but I will bring Martin in, because I do not want to mislead the committee.

**Mr Swain:** In terms of the precise timing, it was in May 2003 when the garden finally submitted its business plan, which we had requested since 2000. That business plan was predicated on organisational change, and the Assembly Government concluded that the change that was suggested was not nearly enough. It was one of the reasons why the business plan was rejected.

[171] **Leighton Andrews:** So, in May 2003, you received an indication that organisational changes were to be put in place, or had they still not been put in place at that stage?

**Mr Swain:** At that stage, they were not in place. The business plan suggested some changes, but our analysis suggested that it did not go far enough. For example, it did not touch on changes to the board of trustees—it merely suggested changes at a management and officer level. That is why it was rejected. The recovery strategy that was then submitted, also indicated a level of organisational change, but on the same basis as the business plan, which was, again, a reason why it was rejected. It was only when the revised recovery strategy, which was developed with PricewaterhouseCoopers, came in, that it began to talk about organisational changes at trustee and management level that the Assembly Government was comfortable with.

12.00 p.m.

[172] **Leighton Andrews:** So, basically, for a period of years when the garden is submitting requests for funding, you are saying that you must have a business plan, you do not get the business plan, and you are then trying to get into the collective brain of the garden that it needs to face up to changes in management and governance. That comes forward in May 2003 and, even at that stage, you are not satisfied and it is only with the revised recovery strategy in May 2004 that you are finally satisfied that it is on the way.

**Mr Swain:** It is important to realise that this is just one aspect of why the business plan and the first recovery strategy were rejected. It was not the only reason. It was only when the final recovery strategy came in that we were confident that it would effect the changes that we wanted.

[173] **Jocelyn Davies:** On the timeline, when did the Welsh Assembly Government consider the full recovery package, whereby the garden would have become a national institution with free admission?

**Sir Jon Shortridge:** I think that that is to do with KPMG but I will hand you over to Martin.

**Mr Swain:** That was considered as part of the KPMG review. It was also looked at as part of a wider analysis. It is also important to realise that KPMG did not analyse

every possible option that there is for the garden, and the current recovery strategy is not a model that KPMG looked at; it is different. So, it is important to make that point, but that was the point at which it was looked at.

[174] **Janet Davies:** We now move on to the science centre.

[175] **Denise Idris Jones:** My opinion is that this would have been a successful tourist attraction that could possibly be compared to the Eden project in Cornwall. It could have attracted students and worked alongside universities. Paragraph 3.7 on page 40 observes the extra challenge placed on the garden's management by adding the incubator unit element to the science centre. It also says that the Assembly Government's agriculture division was not consulted about funding for the incubator unit and that it considered locations elsewhere in Wales better placed for such support. Sir Jon and Mr Hall, I would imagine that adding the incubator unit stretched the challenge for the garden's new management team, so, to what extent do you consider the capability of management to cope with a particular grant project when considering applications?

**Mr Hall:** To answer the point specifically, the garden always proposed a science centre for research, which would also be a visitor attraction.

[176] **Denise Idris Jones:** It would have been a huge attraction.

**Mr Hall:** It would have been, and we would endorse what you say 100 per cent. The agency, through its experience with the technium concept, which was proven, believed, and still believes, that, by adding incubator space, you can not only get visitors and students, but you can get company spin-outs from the research that goes on in a centre of excellence such as this.

On the management, it needs particular management expertise. We have a management model from the successful techniums, for example, that in Swansea, so we know how they should operate and the sort of expertise that you need to run a science centre of this nature.

[177] **Denise Idris Jones:** So you would need a particular kind of scientist, a botanist, on the management team.

**Mr Hall:** You need two things, and a person who met these skills sets was recruited. You need scientific knowledge and credibility, but you also need to understand the entrepreneurial process and business management. So there are two skills sets to come together.

[178] **Denise Idris Jones:** But no such person was available?

**Mr Hall:** A person who fitted that bill was appointed.

[179] **Denise Idris Jones:** Okay, thank you. Sir Jon, paragraph 3.7 states that your agricultural division was not consulted about the incubator units. Do you agree that wider consultation should have taken place? If so, what steps are being taken to ensure that that happens in the future?

**Sir Jon Shortridge:** I am not convinced it was necessary for our agricultural department to have been consulted on this occasion. The issue that they were raising was the location of scientific research and we have not funded scientific research.

[180] **Denise Idris Jones:** Westminster and the Scottish Parliament did it, did they not, with Kew and Edinburgh, but we did not believe that it was necessary to do so in Wales?

**Sir Jon Shortridge:** The point that was being made by the agricultural department was that, if we were going to fund scientific research was this the best place to do it, given that we have other foundations in Wales where it can be done. But, as I say, my understanding is that we have not, up to now, put in funding for scientific research.

[181] **Denise Idris Jones:** If we look at figure 17 on page 41, in November 2001, WEFO agreed to provide £278,000 of revenue support for the operation of the biotechnium.

**Sir Jon Shortridge:** Yes. The distinction that I am making is between the creation of the biotechnium units and funding for the use to which those units were going to be put. Certainly, it is the case that, among others, WEFO approved ERDF grants to part fund the biotechnium.

[182] **Denise Idris Jones:** If we look at the bottom box, from September 2002 to February 2005, it says that

‘the science centre building remained unequipped and unoccupied. Expenditure has been incurred on recruitment and marketing’—

in fact, the revenue approved was quite considerable—

‘but the rest was not paid, and essential maintenance (WDA—an additional £16,000)’.

Paragraph 3.11, on page 42, notes that the garden, because of changing priorities, became unable to fund the purchase of scientific equipment despite the adverse effect that this had on its ability to market the incubator units. So, it had the incubator units, but could not do anything with them.

**Mr Hall:** Yes. We did all the planning for this in 1999 before the garden opened and the contract was let in December 1999 for a design and construction contract for the science centre, including the incubator units. At that time, the garden remained committed to the science dimension as well as the visitor attraction. It was a design and construct contract, which starts off with a broad specification and a concept and then is worked up with the contractor into a detailed programme of works to deliver the facility. As it says on the chart, construction did not start until a year later because you had to get the detailed planning consents and let all the contracts. So, we now had a situation where the agency was funding the element for the incubator units with, as you just said, the garden focusing on the core business of ensuring that it kept the costs down and the visitor numbers up. We then had to find a unique selling point in terms of a search to attract the sort of quality companies that we wanted.

We have talked a lot about risk this morning. The WDA is in the business of risk. We invest in a lot of advanced and speculative premises ahead of market demand, sometimes, where private developers fear to tread. More often than not, sooner rather than later, we find occupiers for these premises. So, ever since this construction was under way, we have been looking to identify suitable occupiers for the premises. To bring you fully up to speed, there was a recent announcement by the University of Wales Swansea for a £50 million-plus Institute of Life Science, and we are in advanced negotiations with the university and with a company from Wiltshire that is looking to locate five start-up operations in life sciences. The two things that are attracting that company are the links with the university in Swansea and the research, expertise and the skill sets available there. We are looking for the Institute of Life Science to be a major supplier of spin-out companies and start-ups, in the life sciences field, that will incubate in the science centre.

12.10 p.m.

As I said, we are at an advanced stage of negotiations to broaden the terms of the joint venture so that it can be managed on a day-to-day basis by the University of Wales Swansea as a satellite of the Institute of Life Science. We have a group of companies that are looking to take up 25 to 30 per cent of the space.

Our experience is that once you have companies in such a building and they have dipped a toe in the water, you normally get a momentum of other companies coming in behind them. I had a meeting with the managing director last week; this combination of investment in the University of Wales Swansea plus the facilities that are available there makes it a very potent attraction to any sort of start-up company that is operating in the life sciences, particularly with regard to the equipment that we have there for organic chemistry. Things are looking much more positive.

[183] **Denise Idris Jones:** They are looking much more positive?

**Mr Hall:** Yes. We have five companies that are looking to sign up to go in there.

[184] **Denise Idris Jones:** The University of Wales Swansea has been there a long time. It was there in 2002.

**Mr Hall:** It was, but it did not have the unique selling point that is the Institute of Life Science which is a huge investment and has a big private-sector investment from IBM. I do not know that much about it, but life sciences these days, post-genome, is bringing together DNA. It is all about bringing together deep computing power with science and chemistry. With all those coming together Wales has a unique proposition on a global scale, attaching the biotechnium to the institute. That is where we have a USP that we can attract these sorts of high-tech and high-growth businesses.

[185] **Denise Idris Jones:** So, do you think that this will happen?

**Mr Hall:** Yes.

[186] **Denise Idris Jones:** That sounds positive. I am not convinced, but I am

listening. [*Laughter.*]

**Mr Hall:** I will keep you posted.

[187] **Denise Idris Jones:** It sounds good. Having said that, neither WEFO nor the WDA had any say in the decisions not to equip the science centre as planned.

**Mr Hall:** Yes. I was personally involved with this when I was working in our Swansea office. In the run-up to letting the contract in November 1999 there was very advanced dialogue taking place with some major international companies about providing, free of charge or at cost, on the back of the research proposed by the garden, the equipment to go in there. That did not come about when the garden made the decision to focus on the visitor attraction rather than the science centre.

[188] **Denise Idris Jones:** Okay. Should you have put in place a requirement to be consulted on such matters?

**Mr Hall:** When we committed to this, the best evidence available to us in the run-up to November 1999 was that it would generate the revenues to make up the deficit in the running costs. A contract was let and when you let a contract for building you have to see it through to fruition. Therefore, during the construction period, a couple of things happened such as a change in focus, as we have just said, and certain costs went up. There are issues and lessons to be learnt in terms of project management and a design-and-build type of contract. When you have an architect based in London and you do not have that degree of detail, there is a certain amount of latitude with the contractor. The WDA realised that this was going to be an important resource in terms of job creation. We came in and made further contributions to the costs and that impacted on a readjustment of the joint venture. So, the more that you put in, the more returns you get.

There were some defects that have become apparent. We are doing two things: we are paying for the immediate repairs to be carried out so that there is no deterioration in the fabric of the building, that would not be in anyone's interest, and we have used our professional expertise, and have negotiated for remedial work to be done by the contractor. Part of this is at the contractor's own expense, and, again, the agency will be making a contribution to bring the building into a state of repair, with fixtures and fittings that are fit for purpose for the occupiers that we are about to sign up.

[189] **Denise Idris Jones:** But the building has never been fit for purpose.

**Mr Hall:** The original design was for an incubator centre with basic equipment. That equipment alone is very attractive for the five companies that we are signing up because of the facilities that we have for organic chemistry, for example, fume cabinets, ventilators and so on. So, that basic equipment has been good. From the outset, the garden was looking at what it wanted in terms of additional equipment that would complement the sort of research that it was proposing to carry out. However, the research was never carried out. We did not want to go to the expense of paying for very specialist equipment that did not meet the needs of potential occupiers. So, we were cautious about spending more money on fixtures and fittings until we knew the specifications of the companies that would go in there.

[190] **Denise Idris Jones:** Was that because of a lack of consultation between all the parties involved?

**Mr Hall:** There was consultation throughout the process. The issue with the science centre was the change in circumstances, which was mainly down to the fact that the USP was going to be the research that would be carried out by the garden, which did not happen. The WDA team has been looking to find another centre of research that could substitute for that, and we have now found it with the Institute of Life Science at the University of Wales, Swansea.

[191] **Alun Cairns:** I think that one issue that has arisen from the evidence given by Sir Jon and Mr Hall is the lack of planning, which the committee will be concerned about. Do not forget that in 1999 you mentioned that you became involved with the science unit here in terms of supporting the project. It will now be 2006 before some companies move in. Is the whole point of this not that there was no contingency plan if the science unit did not get off the ground, and that there would be an empty, flash office block, which is what we currently have? By the sound of it, you have been saved by the Institute of Life Science at Swansea, in 2005-06. That has helped us out at the end, but the committee will be concerned about the lack of planning at the outset and the period between 1999 and 2006, which is in a month's time.

**Mr Hall:** I would not say that we have been saved by Swansea university. You make your own luck, and the WDA, the Assembly Government, the university and WEFO have been involved for the last three to four years in establishing the Institute of Life Science. In terms of the fact that the garden was no longer going to set up its research centre, the contingency plan that we in the agency tried to pursue was that this space was available to start-up businesses. In 2000-01, when we realised that was not going to happen, we were looking—and no stone was left unturned—to try to find businesses to go in there.

[192] **Alun Cairns:** I do not think that there is any point in pursuing that much further, because any premises, even an empty field, can be considered as a place for a start-up business. I do not think that that is strong enough for a contingency plan. Also, I hope that we are not spending public money on the basis of saying, 'Well, we make our own luck and we will fill it afterwards'.

**Mr Hall:** No, Mr Cairns. You said that it was a stroke of luck that the Institute of Life Science came along. I was saying that we were following a strategy in line with the economic development strategy for Wales and key sectors, of which life sciences and biotechnology is one. We introduced a number of interested start-up companies from 2000 to date, but, for different reasons, they did not choose to occupy the offices.

[193] **Alun Cairns:** I wish to sound a note of caution on that. You mentioned life sciences and chemistry; there is no chemistry department in Swansea any more. But, that is another debate.

**Mr Hall:** I was very specific; I talked about organic chemistry and the facilities that we have on offer here to meet the precise needs of those businesses.

[194] **Alun Cairns:** The lack of planning is the key theme that I wish to highlight. Sir Jon mentioned that the agriculture department did not necessarily need to know about it because they were talking about the structure, and it was WEFO that supported its funding.

12.20 p.m.

This is another example, like that given by Mr Hall at the outset, of its only being concerned with the capital spend, and sustainability was not an issue for it. That is a key message that is coming through to the committee. It is only fair to give Sir Jon the opportunity to respond.

**Sir Jon Shortridge:** I would have to check the files, rather than give a general response. WEFO—and WEPE before it—has substantial arrangements for consulting across Government, and more widely. I would, therefore, be surprised if, at the time, there was not sufficient appropriate consultation taking place. However, I would have to check the files on that point. From April next year, the three organisations represented before you will become one, and I think that that will help the process of engagement and consultation within Government on matters of this nature in the future.

[195] **Janet Davies:** Thank you. Irene, you have been very patient. I know that you have some questions.

[196] **Irene James:** It has been hard, Chair.

I would like to look at pages 43 and 44. Paragraph 3.16 states that WEFO grants initially aided the appointment of staff to the biotechnium, despite the fact that the science centre's future was, dare I say, uncertain. Sir Jon, between 2002 and 2004, £95,000 was paid for managing and marketing the biotechnium. Are you satisfied that these grants should have been paid given that there were already doubts over the future of the science centre?

**Sir Jon Shortridge:** From memory, I think that this was an approval of £278,000 towards the revenue costs of the science centre. When the problems with the biotechnium became apparent, that payment was aborted, and that is why it was only the £95,000 referred to in paragraph 3.15. That is my interpretation.

[197] **Irene James:** Did you say that £278,000 was paid?

**Sir Jon Shortridge:** That was what was approved, but we did not pay all of it, because of the problems that were encountered. We aborted it at that point.

[198] **Irene James:** Dare I ask what was paid?

**Sir Jon Shortridge:** I think that it was the £95,000.

[199] **Irene James:** I would like to look at paragraphs 3.13 and 3.14, which cover the constraints preventing a quick resolution of ownership issues facing the science centre. I would like to ask Gareth Hall what the current situation is in terms of the

future of the science centre, and what arrangements are in place to ensure value for money.

**Mr Hall:** When we embarked on the construction, we entered into a joint-venture agreement with the garden. The basic agreement stays the same, though it has been amended to reflect the additional funding that the agency has put in—the additional cost plus the cost of the repairs. The knock-on effect of that is that any revenues that come in are apportioned using the same ratio. We have a situation where we are looking to update that joint venture to reflect the involvement of Carmarthenshire County Council in the garden. We are looking to set up, as a supplementary agreement, a joint-venture agreement with the University of Wales Swansea for the day-to-day operation of the technium facility.

[200] **Irene James:** Do you feel that this will give value for money?

**Mr Hall:** Yes. The technium is an established concept. It is successful. We have learned from the experience. We know that to make them successful, you have to have that link with research excellence in the university, and you also need access to specialist business support. The University of Wales Swansea is a partner of the agency in the running of other techniums, and it has the requisite expertise needed to do this.

[201] **Irene James:** Dare I say, thank goodness, so far, for the University of Wales Swansea.

**Mr Hall:** It is a valued partner of the WDA.

[202] **Irene James:** Yes, obviously.

[203] **Janet Davies:** I mentioned the Treasury guidelines for the mid 1990s. Sir Jon, do you wish to tell us what they are now, or send us a note on that?

**Sir Jon Shortridge:** I have found my reference. I was referring to what is called the Green Book, 'Appraisal and Evaluation in Central Government'. The key reference is at chapter 5, which talks about appraising the options. That guidance was updated in 2003 and represents current best practice. Therefore, since the time that we were talking about, there have been changes in the guidance. I am not equipped to give you chapter and verse on what those changes are now. However, I would put on the record that sensitivity analysis has been a part of Treasury guidance for a long time, and I would not want to give the committee the impression that it was not done because it was not part of the Green Book at the time; I am sure that that would not be the case.

[204] **Janet Davies:** Thank you. To conclude, I know that everyone here hopes that we will have a happy ending and a happy future for the garden, although there has been a long and complicated build-up. Starting with Mr Hall, could you tell us what the main lessons are that you have learned from your involvement in the garden project, and what steps you would take in future to improve matters in general?

**Mr Hall:** To pick up on what Sir Jon said, this was a complex project, which was led by the gardens. There were several funding partners. The relationship between capital

and what capital investment does to generate revenues going into the future are linked. We have the benefit of hindsight, but, at the time, I believe that we made the best possible and informed decisions that we could have made. Sensitivity is part and parcel of how you make those informed decisions. The discipline of sensitivity analysis and risk assessment has moved on since the early 1990s, and there are lessons to be learned there. That is part and parcel of how we do our business now. There was a lot of goodwill and there were personal relationships. From 1 April next year, the WDA, WEFO, the Wales Tourist Board and economic development will come together as the new, enlarged Economic Development and Transport Department. They will be the same people, as part of the same organisation, which, of itself, will very much help to ensure a much more joined-up approach.

[205] **Alun Cairns:** And one accounting officer, of course. [*Laughter.*]

**Mr Hall:** And one sub-accounting officer.

**Mr Jones:** I echo everything that Gareth has said. However, if we were looking at new attractions, we would be even more robust in looking at the projections. Having talked about foot and mouth disease, there are other things out there that happen from time to time and which are totally beyond our control. I do not want to bore people with them now, but there will have to be clear plans in place to handle any of those unforeseen circumstances, certainly in the three or four years of initial build-up of any attraction, which is crucial. Additionally, we must not get too hung up over visitor numbers; what is important is visitor spend. Having spoken to the chief executive, I know that he now not only wants to increase visitor numbers, but increase secondary and discretionary spend once they are in, which is an important aspect of any attraction.

**Sir Jon Shortridge:** I have given much thought to this. The main lessons are that those responsible for providing capital funding for projects such as this have to manage the risks as effectively as possible. In particular, that means that there was a need for a high-quality sensitivity analysis against all the relevant variables—in this case, visitor numbers. There should also be greater consideration of the governance arrangements and the calibre of those responsible for carrying the project through. Balancing that, I would say that there has to be, perhaps, greater acceptance and understanding of the fact that residual risks will remain. The people who are before you today, as part of their responsibilities, have to manage risks; we cannot eradicate those risks altogether.

12.30 a.m.

Another lesson to be learnt is that once the asset has been created, there will be very limited opportunity for recovery. If we were looking to recover this asset, we would have closed the thing down. In these circumstances, the main role for the public sector funders, once the asset has been created, is to do everything that they can to secure the continuing use of that asset and, as I have been explaining this morning, that is what I have been focused on throughout. I would claim that we have been relatively successful in that.

Sitting here now, I am much more confident than I was a year or so ago that we have

gone a substantial way to securing a very promising outcome for the garden. That is something that I am very pleased about. While there has to have been this examination by the auditor general, I would hope that, as we go forward, the nature of that examination will not unduly adversely affect the reputation of what is a very important flagship, iconic enterprise in Wales. I think that we have to keep all that in balance.

[206] **Janet Davies:** Thank you. Following on from that, it bears repeating that this has been an audit of the public funders of Wales, not of the garden itself and not of the Millennium Commission either, which is a UK organisation. May I just complete this session by thanking the witnesses for their help and their answers to some fairly searching questions? You will be sent a draft transcript before it is published. You will be able to correct any inaccuracies in that transcript and discuss them with the Wales Audit Office. Thank you very much.

12.32 p.m.



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Permanent Secretary

9 March 2006

*Dear Kathryn*

**FURTHER INFORMATION RESULTING FROM THE ASSEMBLY AUDIT  
COMMITTEE EVIDENCE SESSION, 2 DECEMBER 2005 – FUNDING  
PROVIDED BY THE WELSH ASSEMBLY GOVERNMENT, WELSH  
DEVELOPMENT AGENCY AND WALES TOURIST BOARD TO THE  
NATIONAL BOTANIC GARDEN OF WALES.**

At the hearing on 1 December 2005 I undertook to provide the Committee with further evidence on a number of issues.

**i) A note on the views of Welsh Office officials and Ministers as to whether to support financially the development of the garden and its scientific activities**

As the Committee will understand I am not an official of the UK Government, and am not accountable to the Assembly for Welsh Office Ministerial decisions taken at the time. I do however, regard myself as accountable for the consequences of their decisions as they affect the Assembly, and it is for this reason that I have taken action to safeguard the public funds that have been invested in the Garden. I have reviewed the relevant files that we still hold going back to the early 1990s, and I hope the Committee will find the following information helpful.

The original concept was developed by an independent Trust that wanted to develop a botanic garden on the former Middleton Estate in Carmarthenshire. The concept was put to the Welsh Office which considered that, while the idea had merit, there were a number of uncertainties in relation to the capital and revenue costs of such a proposal and that it was not in a position at that time to agree to fund its development.

Given the extent of support for the project, the Welsh Office agreed to consider the concept in more detail. In doing so the Welsh Office made it clear that, if the concept of a botanic garden were to be developed, there would be a need to establish where the location of such a venture should be. As the Auditor General's Report identifies, in 1993 the Welsh Office commissioned an independent study – carried out by ERES – to establish the feasibility of

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the development of a botanic garden and, if such a concept were feasible, where the best location in Wales would be for such a development.

ERES considered a total of 22 sites in all across Wales and finally reported in detail on a shortlist of four. One of these sites is the location of the NBGW at Llanarthne. The Welsh Office view at that time remained that, while the concept of a botanic garden had merit, there was no compelling case for support and that indeed there was still no prospect of the Welsh Office providing a direct contribution towards the initial capital costs, or towards the ongoing revenue costs.

The Welsh Office made this position clear to the independent Trust who were pursuing the development of a botanic garden at Middleton, as well as to the other parties who were considering the development of a botanic garden at other locations. At that stage the Middleton Trust were more advanced in their planning than other locations in Wales.

The establishment of the Millennium Commission to distribute Lottery funding to major projects enabled the Middleton Trust to pursue an alternative capital funding source. The Welsh Office encouraged all of the four short-listed sites to consider the possibility of applying for Millennium Commission funding. However, only the Middleton Trust pursued this option. The Welsh Office was asked to endorse the Trust's application to the Commission. While it made clear again its position that it was not against the development of a botanic garden in Wales, it did not endorse the application.

The business plan that was submitted to the Millennium Commission is clear that the botanic garden at the Middleton site would be self-funding and that no ongoing public subsidy would be required.

## **ii) Copies of Minutes of the Liaison Group**

The Welsh Office was not a member of the Liaison Group that was established by the Garden. We do not have any records on file that the Welsh Office was ever provided with copies of the minutes of the Liaison Group meetings.

## **iii) Welsh Office involvement with the Liaison Group**

We have no record that the Welsh Office was invited to be a member of the Liaison Group.

## **iv) A note on how ERDF procedures have evolved with regard to the appraisal, approval and monitoring of projects**

The EC requires that Structural Funds ( including ERDF) are administered using a partnership approach. The key features are:-

- a Programme Monitoring Committee which is responsible for ensuring the effectiveness of the implementation of Structural Funds

Programmes. Its responsibilities are set out in EC regulations and include approving criteria for project selection, and monitoring progress towards achievement of targets. It is made up of representatives (in equal balance) of the private, public and voluntary sectors and also representatives of the European Commission. Programme Monitoring Committees are chaired by Assembly Members (not Assembly Government Ministers) rather than by officials, which was the case prior to devolution;

- a managing authority designated by the Assembly, which is responsible for implementing and managing the programme. The managing authority is currently WEFO and was previously WEPE. The establishment of WEFO and WEPE have helped to make the independent nature of the appraisal and approval process more transparent;
- independent advisory groups that provide a qualitative assessment of the merits of projects. Advisory group arrangements vary between Structural Fund Programmes but, as an example, for the Objective 1 Programme they include Thematic Advisory Groups (with members chosen for their expertise e.g. in energy; the environment ; business support etc) and local partnerships (which provide a local view);
- an approval process that is arms - length from Assembly (and previously Welsh Office) Ministers. Approval of grant is through the issue of a formal approval letter from WEFO setting out terms and conditions of grant. Although the letters are issued under delegation from Ministers, they are not consulted on their content.

### ***Appraisal and Approval Processes***

When appraising projects WEFO considers the advice from the advisory groups together with: advice on fit with strategic priorities, any expert technical advice deemed necessary, and its own assessment of eligibility, compliance, value for money and risk, before making a decision on approval. If particular risks are identified then special conditions of grant are added to the approval letter. These are monitored as part of the post-approval activities. The level of rigour with which these projects are assessed has increased greatly since the earlier programmes.

### ***Monitoring***

Monitoring of projects can take place on a number of different levels.

Project sponsors are required to provide information on project progress as part of the claims process. Large - scale projects may also have a special condition requiring the project sponsor to report in detail, at specified intervals, to WEFO on progress. Significant variations from the profile of spend and/or

outputs are investigated. Each year projects are required to provide an audit certificate covering expenditure in the previous year. Payments are withheld or capped if problems are identified. This review process enables WEFO to ensure that projects are achieving their outcomes and ensures issues are addressed immediately rather than when it is too late to take corrective action.

More recently, Local Secretariats and Development Officers in organisations such as the WDA, WTB etc have exercised an enhanced post-approval role for projects they have supported, providing a "hand-holding" system enabling the applicant to receive direct support on how to proceed. This support was not available for previous programmes.

In addition to this post approval work WEFO has "Article 4" and "Article 10" teams.

The role of Article 4 teams is to visit selected projects once they have been approved and carry out on-the-spot verification work which is aimed at helping to ensure that the applicant has in place proper systems to manage and monitor delivery of the project, while ensuring compliance with regulations and the terms of approval letters. The Article 4 team was established in 2004 and is a significant addition to WEFO's monitoring capacity.

The Article 10 team undertakes a more comprehensive audit review, ensuring compliance with the terms of the approval letter, eligibility of expenditure, and compliance with procurement and publicity requirements. These reviews take place later in the life of projects than Article 4 visits. This process was also in place for previous programmes, and the Botanic Garden project was audited by the Article 10 team which found no problem with the compliance of the project with EC regulations and conditions of grant.

**v) A note on how the Millennium Commission appraise and monitor their projects**

The Millennium Commission has provided details of its appraisal and monitoring procedures. They are set out in the annex to this note.

**vi) Policy of the Welsh Office in promoting the idea of a 'National' botanic garden.**

The independent Trust that took forward the development established a company limited by guarantee known as the "Middleton Botanic Garden Ltd". The directors of this company then took the decision to change the name to "National Botanic Garden of Wales Ltd". To do this they were required to apply to Companies House to seek a change of company name.

The use of the word 'National' in the company name required the agreement of the Secretary of State for Trade and Industry.

Before agreeing to the change the Secretary of State consulted the Welsh Office. UK Government Ministers saw no reason to object to the change of name.

**vii) A note on whether WEPE consulted appropriately and considered the sustainability of establishing the Biotechnium.**

The Welsh Office were advised by the Welsh European Programme Executive (WEPE) – the forerunner of WEFO – on the merits of the project and would have carried out its own internal consultation with relevant Divisions. There is nothing on available files to suggest that Welsh Office officials opposed the bid.

Both Cardiff and Swansea Universities supported the bid as did Carmarthenshire CC. In addition the WDA and other smaller private sector donors made up the match funding package alongside the Millennium Commission funds. The normal financial appraisal was completed by WEPE's accountant who endorsed the approval of the grant.

**My Accountability for ERDF Funds**

Following the discussion in Committee I thought that it would be helpful if I set out in further detail the accountability surrounding ERDF project approvals. As I have stated earlier I do not regard myself as accountable to the Assembly for decisions taken by Ministers of the UK Government. But as Principal Accounting Officer I do have responsibility for safeguarding the public funds (including European Funds) that have been invested in the Garden.

I take assurance from the detailed partnership-based appraisal arrangements that are in place for Structural Fund projects (set out earlier in this note). Within the framework for Structural Funds administration set by the European Commission, I am accountable for the functions exercised by WEFO under the partnership arrangements for: project appraisal; approval; monitoring; overall programme management; and the commitment of financial resources that flow from this role.

In my evidence to the Committee I sought to express what I see as the key considerations for me arising from the Garden's successful ERDF bids:-

- I satisfied myself that the applications had been subject to the rigorous appraisal required by the European Commission and undertaken by it in approving the two ERDF grants in May 1996 and December 1999 respectively;
- I took assurance from the fact that two audits undertaken by the EU of the use to which their funds had been put contained no adverse conclusions; and

- I also successfully ensured that, despite the difficulties, the Garden remains a going concern so that continuing value is being obtained from the EU investment.

Having reviewed the available papers I understand that in the case of Regional Challenge bids (of which the initial Botanic Garden bid was one) the Secretary of State did have the power to determine whether projects over a certain threshold should be submitted to the EC for approval. This is not something I was aware of at the time I gave my evidence. "Regional Challenge" was a specific initiative run within the Industrial South Wales Objective 2 programme for 1994 -1996. The only other Regional Challenge bid that was subject to this procedure was the Valleys Sustainable Investment Initiative. This, like the Botanic Garden application, was also eventually approved by the Commission.

Decisions on all other ERDF project funding were (and are still) made without reference to Ministers. The second Botanic Garden funding application for £1.8 million, for instance, was not part of the Regional Challenge programme and the Secretary of State was not involved in the decision to refer it to the European Commission for approval.

Throughout I have ensured that correct procedures have been complied with. By working with Ministers, the Garden and other stakeholders I have ensured that a rescue package (together with the essential improvements in governance needed to implement it effectively) have been put in place. To this end I have endorsed the commitment of £3 million of Assembly money. This figure includes the £900,000 that is being made available to support the five year recovery strategy. This financial commitment has served to keep the Garden as a going concern and protect a total of £43.6 million in capital funding committed to the Project by other bodies.

*Yours sincerely*  
*Jon Shortridge*

JON SHORTRIDGE

## Annex

### **Millennium Commission response to a request for information on its appraisal and monitoring procedures from Welsh Assembly Government officials following the Audit Committee hearing into the funding for the National Botanic Garden of Wales**

Information was requested under two headings:

- The Commission's criteria for funding major capital projects;
- The Commission's monitoring processes.

#### **Criteria for funding major capital projects**

The criteria for funding, as set out in the application pack sent to all applicants, were as follows:

- that a capital project must enjoy public support; and must make a substantial contribution to the life of the community it was designed to serve;
- looked back over the millennium or forward into the new one;
- would be seen by future generations as marking a significant moment in their national or local history;
- were of high architectural design and environmental quality;
- Included partnership contributions to demonstrate the real support of the local community;
- would not have been possible without Millennium Commission funding;
- would not normally have been supportable from public funds nor fall within the scope of another Lottery Distributor.

The questions that Commissioners needed to be satisfied on when considering the applications before them included the following:

- how the application met the Commission's criteria as set out above;
- the degree to which the application would have benefited the public good;
- whether the application was mainly for capital expenditure;
- the extent of partnership contributions to the project – these could be from the private or voluntary sector, local authorities, Government programmes, European Union funds, fundraising schemes, public appeals;
- the long term viability of the project and the ability of the applicant to secure the long term running costs of the project;
- the ability of the project to achieve high standards of design and construction/implementation;
- the date upon which the project would become operational and the effectiveness of the management structure proposed.

Because the Commission received more applications than could be funded, and many met the criteria, Commissioners had to make a decision as to which were most attractive to them.

The Commission would not normally expect to make a contribution of more than 50 per cent of a capital project's costs. The maximum funding would not exceed £50 million

### **The monitoring process**

On concluding a grant agreement with the Millennium Commission the recipient of grant was subject to regular monitoring by the Commission during construction, normally using an externally appointed consultant (Project Monitor) with expertise in the field. This was undertaken as follows:

- obtaining baseline documents from the applicant which covered for example, the programme to completion, financial information about cost, co-funding, cash-flow; key general (not detailed) drawings; tendering processes and contracts; statutory consents; milestones to be achieved; bank details and key stakeholders. These baseline documents were used as a basis for ongoing monitoring by the Commission and any changes to them had to be discussed and, if appropriate, approved by the Commission;
- regular site visits (usually monthly) by the Commission's Case Officer and the external Project Monitor to review progress;
- a monthly progress report produced by the recipient of grant for review and checking by the Project Monitor – this would have been discussed at the monthly review meeting;
- submission of applications for grant payment and supporting information by the recipient for review and certification by the Project Monitor – this happened throughout the life of the project;
- review and certification of grant payment applications and monthly progress reports (produced by the Project Monitor) by Commission officials and, as appropriate, Commissioners;
- review of any changes to the project by the Project Monitor and Commission officials - some of which may have needed Commission approval;
- Commission involvement with project risk assessment workshops – during the capital construction;
- a Business Operational Review (introduced during 1999) – undertaken 12 months and thereafter quarterly before opening to consider a project's readiness for opening – e.g. to revisit business plan, record any obstacles to opening, assess the adequacy of working capital;
- a Project Completion Audit (PCA) undertaken by the Commission, using its Project Monitor – for example: to check that all contractual/legal issues resolved; full financial picture understood; completion certificates, insurances, statutory consents in place; project purpose achieved;

Final payment is made if the PCA is satisfactory.

Post Completion Monitoring is undertaken yearly to ensure: that the project continues to meet the purpose for which grant was awarded; that legal status

remains unchanged; ownership of assets remains unchanged; financial viability; benefits are being achieved; and Millennium Commission recognition is in place