

Agenda – Finance Committee

Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 15 May 2019

Meeting time: 10.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

SeneddFinance@assembly.wales

The Committee resolved on the 9 May 2019 to exclude the public from the start of the meeting (items 1–5)

1 Senedd and Elections (Wales) Bill: Consideration of draft report

(10.00–10.30)

(Pages 1 – 42)

Paper 1 – Draft Report on financial Implications of the Senedd and Elections (Wales) Bill

Paper 2 – Letter from the Llywydd on the Senedd and Elections Bill – 7 May 2019

2 Inquiry into the funding of directly funded bodies: Consideration of correspondence

(10.30–10.45)

(Pages 43 – 53)

Paper 3 – Consideration of draft Memorandum of Understanding

Paper 4 – Letter from the Assembly Commission – 30 April 2019

Paper 5 – Letter from the Wales Audit Office – 1 May 2019

Paper 6 – Letter from the Public Services Ombudsman for Wales – 1 May 2019

Paper 7 – Letter from the Minister for Finance and Trefnydd – 2 May 2019

3 Public Services Ombudsman for Wales 1st Supplementary Budget 2019–20

(10.45–10.50)

(Pages 54 – 57)

Paper 8 – Public Services Ombudsman for Wales 1st Supplementary Budget 2019–20 Explanatory Memorandum



Cynulliad
Cenedlaethol
Cymru

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Wales

**4 Wales Audit Office and Auditor General for Wales 1st
Supplementary Budget 2019–20**

(10.50–10.55)

(Pages 58 – 69)

Paper 9 – Wales Audit Office and Auditor General for Wales 1st
Supplementary Budget 2019–20 Explanatory Memorandum

5 Assembly Commission 1st Supplementary Budget 2019–20

(10.55–11.00)

(Pages 70 – 80)

Paper 10 – Assembly Commission 1st Supplementary Budget 2019–20
Explanatory Memorandum

**6 Introductions, apologies, substitutions and declarations of
interest**

(11.00)

7 Paper(s) to note

(11.00)

(Pages 81 – 83)

Minutes of the meeting held on 9 May 2019

**8 Inquiry into the Welsh Government's capital funding sources:
Evidence session 4**

(11.00–12.00)

(Pages 84 – 106)

Gwyn Llewelyn, Director, Infrastructure Advisory, KPMG LLP

Stuart Pearson, Senior Associate – Construction, Energy and Projects, Capital
Law

Paper 11 – Written evidence: KPMG

Paper 12 – Written evidence: Capital Law

Research Brief

[Consultation pack](#)

- 9 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting, the meeting on 23 May 2019 and the start of the meeting on 5 June 2019**

(12.00)

- 10 Inquiry into the Welsh Government's capital funding sources:
Consideration of evidence**

(12.00–12.15)

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Elin Jones AC, Llywydd

Cynulliad Cenedlaethol Cymru

Elin Jones AM, Presiding Officer

National Assembly for Wales

Llyr Gruffydd AM
Chair of the Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Our ref: EJ/HG

07 May 2019

Dear Llyr,

Senedd and Elections (Wales) Bill

Thank you for your letter of 17 April 2019, and the opportunity to provide evidence to you on the Senedd and Elections (Wales) Bill at your meeting of 4 April 2019. In your correspondence, you asked if I could clarify a comment made during the session that the Assembly Commission does not have “the ability to legislate” for direct payment to the Electoral Commission from the Welsh Consolidated Fund. You asked whether the capacity referred to was a matter of legislative competence specifically in relation to the Assembly Commission legislating, or some other restriction.

The issue here relates to the Assembly’s legislative competence.

The provisions relating to the Welsh Consolidated Fund (WCF) are set out in Part 5 of the Government of Wales Act 2006 (GoWA). Section 124 deals with payments out of the WCF and in subsection (3) specifies the relevant persons to whom sums may be paid out of the WCF as:

- “(a) the Welsh Ministers, the First Minister and the Counsel General,
- (b) the Assembly Commission,
- (c) the Wales Audit Office, and
- (d) the Public Services Ombudsman for Wales.”

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Thus, the GoWA expressly allows direct payment out of the WCF for the Wales Audit Office and the Public Services Ombudsman for Wales.

The Assembly does not have the competence to add bodies or office-holders to that list, as section 124 of the GoWA is one of the provisions which cannot be modified, within competence, by virtue of paragraph 7 of Schedule 7B to the GoWA.

This is the issue to which I – and my official Anna Daniel – referred to during the committee’s meeting.

I am exploring the options by which the portion of the Electoral Commission’s budget which relates to devolved elections in Wales could potentially be funded and the legal and constitutional issues associated with these options.

Section 124 does allow other payments to be made out of the WCF, if they are for “meeting expenditure payable pursuant to a relevant enactment”. A relevant enactment is an enactment which provides for payment out of the WCF. Therefore such a provision could, in principle, be included in the Senedd and Elections (Wales) Bill, by way of amendment.

However, the Electoral Commission is a “reserved authority” under Schedule 7B of GoWA and the Assembly is subject to a number of constraints in how it can affect reserved authorities, unless the UK Government consents to such (paragraphs 8–10). The Electoral Commission is an exception from some of those constraints, but an Act of the Assembly would nevertheless need UK Government consent in order to modify its ‘constitution..., including modifications relating to its assets and liabilities, and its funding and receipts’.

Not all provisions relating to funding would fall foul of the restriction. For example, a provision that permitted the Assembly Commission to make payments to the Electoral Commission (beyond existing powers in paragraph 5 of Schedule 2 to GoWA relating to the promotion of awareness of the election system and devolved government) would not – in itself – modify the Electoral Commission’s constitution. Thus, the provision would be within competence, because it was about “financing” the Electoral Commission; and it would not need the consent of the UK Government, because it did not affect the Commission’s constitution.



Elin Jones AC, Llywydd

Cynulliad Cenedlaethol Cymru

Elin Jones AM, Presiding Officer

National Assembly for Wales

However, provision that entitled the Electoral Commission to receive funding directly from the WCF would almost certainly be interpreted as affecting its constitution, and so as needing consent.

The Assembly may, of course, agree other amendments which would modify the constitution of the Electoral Commission.

Discussions regarding the matter are continuing between my officials, the Electoral Commission and the Welsh Government. I anticipate that amendments to the Bill will be informed by those discussions and the deliberations of your Committee and others. I would very much welcome your consideration of this matter.

Yours sincerely,

Elin Jones AM

Llywydd

cc Mick Antoniw AM, Chair of the Constitutional and Legislative Affairs Committee

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English

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By virtue of paragraph(s) vi of Standing Order 17.42

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Public Services Ombudsman for Wales

Supplementary Budget 2019-20

Explanatory Memorandum to the Chair of the Finance Committee

Background

The Estimate for 2019/20 was scrutinised by Finance Committee in November 2018 and included in the Annual Budget Motion in December 2018.

Included within the Estimate submission were references to the requirement to submit a Supplementary Budget in respect of:

- Costs associated with the new PSOW Bill that reflect those detailed in the Explanatory Memorandum. These have been uplifted to reflect current pay and prices as per Conclusion 1 of the Finance Committee Scrutiny of the Public Services Ombudsman for Wales's Estimate for 2019-2020 published in November 2018.
- Additional employer pension costs in respect of National increases to the employer contribution rates for public sector pensions.

The additional cost of these two items are included in Annex A of this note.

Employer Pension Increase from 1 April 2019

The UK Government announced plans last year to introduce further changes to public service pension schemes from April 2019. These changes will result in increased employer pension contributions from April 2019 for which the UK Government set aside £4.7bn in the autumn Budget to help public sector organisations meet these costs in 2019-20.

It has been confirmed that the Welsh Government will provide additional funding to public sector organisations in 2019-20 to enable them to fully meet the additional costs associated with these pension changes.

Employer Pensions Notice 567, posted on 9 February 2019, provides information on the changes in employer contribution rates from 1 April 2019.

Band	2018-19	2019-20	Change
Band 1 (£23,000 and under)	20.0%	26.6%	6.6%
Band 2 (£23,001 to £45,500)	20.9%	27.1%	6.2%
Band 3 (£45,501 to £77,000)	22.1%	27.9%	5.8%
Band 4 (£77,001+)	24.5%	30.3%	5.8%

Pension Increase Effect on PSOW

PSOW employs 67 staff of whom 65 are members of the Civil Service Pension Scheme. The pay budget for 2019-20 is £2,514,000 and the impact of the pension increase is an additional 5.9% growth in employer contributions amounting to £148,000, payable to Civil Service Pensions from 1 April 2019 onwards. The costs are included in the Supplementary Budget at Annex A.

New PSOW Bill

The National Assembly for Wales approved the Public Services Ombudsman (Wales) Bill with a vote at the Senedd on Wednesday, 20 March 2019. It is the first Bill to be passed which was introduced by an Assembly committee.

Original costs detailed in the 2017 explanatory memorandum included additional staff, professional advice, IT and office costs as well as one-off set up costs including IT and office equipment as well as staff recruitment. These amount to £340k and are detailed in the table below.

	Pay	Advisor Fees	Travel Training	Office / IT	One off Costs	Total
	£000	£000	£000	£000	£000	£000
Oral complaints	35	0	1	5	5	46
Own Investigation	115	10	2	10	10	147
Complaints standards	115	10	2	10	10	147
Total	265	20	5	25	25	340

It was agreed that when the Bill was approved the costs should be updated to current prices - CPI inflation, pay awards and the employer pension increase. The full year cost is £359k.

	Pay	Advisor Fees	Travel Training	Office / IT	One off Costs	Total
	£000	£000	£000	£000	£000	£000
Oral complaints	36	0	1	5	5	47
Own Investigation	121	11	2	11	11	156
Complaints standards	121	11	2	11	11	156
Total	278	22	5	27	27	359

It is anticipated that following Royal Assent the commencement date will be July 2019, resulting in part-year recurring costs of £224k plus one-off costs of £27k amounting to £251k – as shown below.

	Pay	Advisor Fees	Travel Training	Office / IT	One off Costs	Total
	£000	£000	£000	£000	£000	£000
Oral complaints	24	0	1	3	5	33
Own Investigation	81	8	1	8	11	109
Complaints standards	81	8	1	8	11	109
Total	186	16	3	19	27	251

These part-year recurring costs and one-off set up costs are included in the Supplementary Budget at Annex A.

Public Services Ombudsman for Wales

Supplementary Budget 2019/20	Budget 2019/20	Pension Costs	New PSOW Bill		Total Revised Budget
			Recurring (Part Year)	One-off	
	£000	£000	£000	£000	£000
A. Capital DEL	22	0	0	5	27
B. Fiscal Revenue DEL					
Staff costs	3,385	148	186	0	3,719
Training and recruitment	55	0	0	20	75
Advisory and legal fees	260	0	16	0	276
Communications	45	0	0	0	45
Travel and subsistence	35	0	3	0	38
Office costs	120	0	19	1	140
IT	180	0	0	1	181
Premises	380	0	0	0	380
Sub total	4,460	148	224	22	4,854
Income	-17	0	0	0	-17
Total Fiscal Revenue DEL	4,443	148	224	22	4,837
C. Non-cash DEL					
Depreciation	70	0	0	0	70
Revenue DEL (B+C)	4,513	148	224	22	4,907
Total DEL (A+B+C)	4,535	148	224	27	4,934
Annually Managed Expenditure					
Movement on LGPS	0	0	0	0	0
Provisions movement	20	0	0	0	20
Total AME	20	0	0	0	20
Total Managed Expenditure	4,555	148	224	27	4,954
Resources Required	4,555	148	224	27	4,954
Depreciation	-70	0	0	0	-70
Change in Provisions	-20	0	0	0	-20
Movements in Working Capital	20	0	0	0	20
Net Cash Requirement	4,485	148	224	27	4,884

Agenda Item 4



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2020

Date issued: May 2019

Document reference: 1243A2019-20

Explanatory memorandum

Submitted to the Finance Committee of the National Assembly for Wales for consideration under Standing Order 20.35.

Adrian Crompton
Auditor General for Wales

Isobel Everett
Chair, on behalf of the **Wales Audit Office**

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Purpose of this explanatory memorandum

Introduction

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the National Assembly. The Committee must examine that estimate and lay it before the National Assembly after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2019-20 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 15 January 2019 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £14.475 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £7.146 million of other resources in support of our expenditure plans for the year. Together, this £21.621 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 4 The Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2020.

Reason for change

- 5 Our [Estimate for 2019-20](#) referred to an expected increase in employer's pension contributions due to a valuation of the Civil Service Pension Scheme which was being carried out, but which had not been completed at the time our Estimate was laid.
- 6 Our expectation was for an increase to our costs of around £750,000 which, as explained at that time, could not be absorbed within our budget for the year. We explained to the [Finance Committee](#) that our options would be either to come back to the Committee to increase our call on the Welsh Consolidated Fund (WCF) or look to pass it on through our fee charges in which case we would need to come back to the Committee to agree a revised fee scheme as well as a revised Estimate.
- 7 On 7 February 2019, the Cabinet Office announced rates from 1 April 2019 based on the draft valuation results and plans to revise these from 1 April 2020 once the valuation has been completed. Now that the rates from 1 April 2019 have been confirmed, we can quantify the increased cost to the Wales Audit Office as £732,000 for the financial year 2019-20.

- 8 We have been advised that the Treasury has provided funding to departments to meet these increased costs in 2019-20¹. And, on 8 March, Rebecca Evans AM, Minister for Finance and Trefnydd, announced that the 'Welsh Government will provide additional funding to public sector organisations in 2019-20 to meet the additional costs associated with the UK Government pension changes'.
- 9 We have reviewed the scope to absorb a proportion of these additional costs within our existing Estimate for the year and have concluded that the financial risks in doing so would be too high. This is in the context of our Estimate requiring in-year staff vacancy savings of circa £800,000 plus an additional £574,000 to be found in-year through other savings and efficiencies.
- 10 We also considered increasing our fee rates and therefore the fees we charge public bodies for our audit work, to meet the additional costs. We concluded this would carry significant reputational damage for the Wales Audit Office, particularly with the Minister having protected public services from the direct costs of the increase. For these reasons, we seek the Finance Committee's support to increase our call on the WCF. This Explanatory Memorandum sets out the adjustments required to the Wales Audit Office Estimate for 2019-20.

Adjustments to revenue and capital resources

- 11 As explained above, the Wales Audit Office is seeking to increase its requirement for revenue resources by £732,000 for 2019-20 to fund the increase in employer's pension costs. Further detail is provided in [Appendix 1](#).
- 12 The budget changes required are set out in [Exhibit 1](#).

Exhibit 1: budget changes 2019-20

	Approved Estimate 2019-20 £'000	Supplementary Estimate 2019-20 £'000	Revised Estimate 2019-20 £'000
Revenue resource	6,936	732	7,668
Capital resource	210	–	210
Accruing resources	14,475	–	14,475
Total expenditure	21,621	732	22,353

¹ [Pensions: Written statement – HCWS1286](#) '... the Treasury is in the process of allocating funding to departments to help with these costs'.

Net cash requirement – explanation of changes

- 13 Along with increasing our net cash requirement to reflect the increase in employers' pension contributions, we need to make a further technical adjustment to reflect our cash position for the year just ended.
- 14 In previous years, at the year-end we have returned only the element of underspend which specifically relates to the budget for 'resources, other than accruing resources', in our approved budget ambit (as adjusted for any movements in working capital and non-cash transactions such as depreciation). In other words, we only returned the element of cash that related to WCF-funded activities.
- 15 This reflected the fact that our cash balances are largely in respect of fee income from audited bodies which had been received in advance of audit work being carried out. Most of our fees are charged in monthly instalments through the year, with the phasing of audit work continuing across financial years.
- 16 In other words, when we receive income before having undertaken the work to which it relates, we need to carry forward that income to match our costs when we do actually undertake the work. Throughout the financial year it is a non-issue, but at the year-end, it becomes an issue for WCF accounting as we move from one financial year to another. Income received by March for work undertaken from April onwards needs to be carried forward from one financial year to the next.
- 17 Our Director of Finance has agreed a revised accounting approach with Welsh Government Finance officials and our external auditors which, from 2018-19 onwards, notionally returns our full cash balance to the WCF at the year-end (31 March) then re-draws it the following year (1 April). This is a notional return and re-draw rather than a physical transfer of cash and is in line with HM Treasury's Financial Reporting Manual. Our draft accounts for 2018-19 include a year-end cash balance of £1,776,000.
- 18 Under this revised accounting approach, we will notionally return our **full cash balance** at the year-end (£1,776,000 for 2018-19) and seek an adjustment to the WCF cash funding Estimate in the new financial year (2019-20) to reflect the year-end position.
- 19 To carry forward this balance for the new financial year and reflect the increased cash required to meet additional pension costs, we need to increase our net cash requirement for 2019-20 by £2,640,000 as represented in **Exhibit 2**.

Exhibit 2: changes to net cash requirement 2019-20

	Approved Estimate 2019-20 £'000	Supplementary Estimate 2019-20 £'000	Revised Estimate 2019-20 £'000
Net request for resources – revenue and capital	7,146	732	7,878
Non-cash adjustment	(200)	–	(200)
Adjustment for working capital 2018-19 (per Exhibit 3)		1,908	1,908
Net cash requirement from the WCF	6,946	2,640	9,586

- 20 The adjustments for working capital per our draft Annual Report and Accounts 2018-19 are as set out in [Exhibit 3](#).

Exhibit 3: adjustment for working capital 2018-19

	£'000
Trade receivables and work in progress at 31 March 2019	(2,259)
Other receivables at 31 March 2019	(339)
Trade and other payables at 31 March 2019	1,538
Deferred income at 31 March 2019	2,371
Provisions for liabilities and charges due in 2019-20 at 31 March 2019	597
Adjustment to cash balances 2018- 19	1,908

Summary

21 **Exhibit 4** provides a summary of the revised capital and revenue resources and net cash requirement on approval of this supplementary estimate.

Exhibit 4: summary of revised resources and cash requirements 2019-20

	Resource request £'000	Net cash requirement £'000
Revenue resource	7,668	9,376
Capital resource	210	210
Total	7,878	9,586

Appendix 1

Wales Audit Office Income and Expenses 2019-20 (revised)

Exhibit 5: Wales Audit Office Income and Expenses 2019-20 (revised)

		Estimate, year to 31 March 2020 (Revised) £'000	Estimate, year to 31 March 2020 £'000
Expenses	Staff costs	15,917	15,185
	Short-term contracted staff	737	737
	Travel and subsistence	1,216	1,216
	Accommodation	993	993
	Private sector firms (including VAT)	905	905
	Balance of irrecoverable VAT	500	500
	ICT	480	480
	Wales Audit Office Governance Arrangements	300	300
	External training	289	289
	Translation of documents	165	165
	Legal and professional fees	162	162
	Other supplies and services	479	479
	EXPENSES TOTAL	22,143	21,411
Income	Audit fees	13,277	13,277
	Grant certification fees	1,198	1,198
	INCOME TOTAL	14,475	14,475
	Total revenue budget to be funded by the WCF	7,668	6,936

Appendix 2

Summary of the 2019-20 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 ('the 2006 Act'), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending 31 March 2020, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#) below.

Table 1: summary of the estimated 2019-20 budget requirements

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office: <ul style="list-style-type: none">• Revenue• Capital	7,668 210
Accruing resources from fees and charges for audit and related services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences and provision of administrative and professional and technical services; for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	14,475
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	9,586

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Agenda Item 5

Llyr Gruffydd AM
Chair of Finance Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
CF99 1NA

3 May 2019

Dear Llyr

I am writing to bring to the Committee's attention the Commission's proposed change to its approved 2019-20 budget through the Supplementary budget process. The Commission is proposing to increase its resource budget by £0.750million.

The Resource Budget

The Commission's operational budget is for the funding of resource and capital costs associated with the administration and operation of services to support the National Assembly for Wales; promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board and any other payments relating to functions of the Assembly or the Commission.

This budget is mainly used to fund the following items:

- Staff salaries and related costs, including pension contributions;
- Accommodation and facilities costs;
- ICT Costs; and
- Other costs e.g. audit fee, translation, training and travel costs.

Employer Pension Contributions to the Civil Service Pension Scheme

As noted within the Commission's 2019-20 budget, laid in November 2018, the final costs associated with the employer contributions to the Civil Service Pension Scheme (CSPS) could not be calculated accurately until confirmation of the anticipated increase had been



received. An estimate was included within the narrative of the 2019-20 budget document. This was based on the expectation at that time and was estimated to be in the region of £1million.

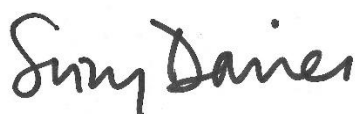
Confirmation of this increase has now been received and the current estimate of the impact of the increase in employer pension contribution increases to the CSPS, is £0.98million. This supplementary budget increases the Assembly Services budget requirement by £0.750million or 76.5% of the expected increase in employer contributions impacting on the Commission's budget during 2019-20. With careful management of the budget, efficiencies and prioritisation, it is anticipated that the shortfall can be absorbed within the existing Commission budget.

The Commission is therefore proposing a Supplementary budget for its Resource Budget of £40.076million. The effect on the overall Commission budget for 2019-20 will be as shown in the table below:

	Approved Budget £m	Proposed Supplementary Budget £m	Proposed revised Budget £m
Resource Budget	£39.326	£0.750	£40.076
Members' budget	£16.197	-	£16.197
AME Budget	£1.500	-	£1.500
Total	£57.023	£0.750	£57.773

In accordance with Standing Order 20.32 the Commission will be laying an explanatory memorandum with this Supplementary Budget request. A copy of this document is attached for your convenience. If you need further information, please let me know.

Yours sincerely



Suzy Davies

cc Manon Antoniazzi, Nia Morgan



Supplementary Budget 2019-20: Explanatory Memorandum

May 2019



The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

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Supplementary Budget 2019-20: Explanatory Memorandum

May 2019



The image shows the interior of the Welsh Parliament (Senedd) building. The ceiling is a prominent feature, made of horizontal wooden slats that create a rhythmic pattern. A large, light blue structural beam runs diagonally across the upper part of the frame. In the foreground, a glass display case is visible, containing a sign. The sign has text in both Welsh and English. The Welsh text is in a pinkish-red color, while the English text is in a lighter color. The display case is held together by metal brackets and a horizontal bar.

Croeso
i'r Senedd
—
Welcome
to the
Senedd

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1. Background

The Commission's **2019-20 Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 14 November 2018, following scrutiny by the Assembly's Finance Committee.

The budget motion provided the Commission with £57.023million of Resource Budget in relation to:

- £39.326million for Assembly services; and
- £16.197million for the Remuneration Board's Determination for Assembly Members.

A further £1.500million was provided for non-cash accounting adjustments in respect of the Assembly Members' Pension Scheme, through the Annually Managed Expenditure budget.

This Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved budget, via Supplementary Budget Motion.

1.1. Explanatory memorandum

The effect of the Commission's supplementary budget will be to increase the Assembly Services budget in line with projections.

1.2. Assembly Services

The Assembly Services requirement within the Commission's budget provides resources for use by the Commission on resource and capital costs associated with the administration and operation of services to support the National Assembly for Wales ('the Assembly'); promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board and any other payments relating to functions of the Assembly or the Commission.

The Assembly Services budget mainly comprises funds to cover the Commission's operational budget, for example:

- Staff salaries and related costs;
- Accommodation and facilities costs;

- ICT Costs; and
- Other costs e.g. audit fee, translation, training and travel costs.

As noted within the Commission's 2019-20 budget, laid in November 2018, the final costs associated with the employer contributions to the Civil Service Pension Scheme (CSPS) could not be calculated accurately until confirmation of the anticipated increase had been received from Cabinet Office. An estimate was included within the narrative of the laid budget document. This was based on the current expectation at that time and estimated to be in the region of £1million.

Confirmation of this increase has now been received and the current estimate of the impact of the increase in employer pension contribution increases to the CSPS, is £0.980million. This supplementary budget increases the Assembly services budget line requirement by £0.750million or 76.5% of the expected increase in employer contribution impacting on the Commission's budget during 2019-20.

The Commission is therefore proposing a supplementary budget for Assembly Services of £40.076million.

1.3. Budget impact

The Supplementary Budget Motion proposes the following:

- an increase to the Assembly Services budget of £0.750 million to £40.076 million.

2. Budget Ambit

This supplementary budget submission is laid in compliance with National Assembly Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Assembly Commission for the year ending 31 March 2020.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Assembly Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2019-20 Budget for the Assembly Commission, addressing the revised requirements, is set out in Table 1 below.

Table 1	Revised £000
Resources other than accruing resources for use by the National Assembly for Wales Commission ("the Commission") on resource and capital costs associated with the administration and operation of services to support the National Assembly for Wales ('the Assembly'); promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Assembly or the Commission. Resources other than accruing resources for use by the Commission in respect of decisions of the Remuneration Board and expenditure in respect of Assembly Members' Pension provision.	57,773
Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the Commission: <ul style="list-style-type: none"> from the disposal of fixed assets and other capital income for use on the purchase or acquisition of fixed assets; or rental income; gifts; grants; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Assembly. 	220
Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.	54,373

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

Table 2: Cash requirement	£000
	2019-20 Revised
Members' Revenue Requirement	16,197
Commission Revenue Requirement	39,576
Capital Requirement	500
Assembly Members' Pension Provision (AME)	1,500
Subtotal	57,773
<i>Adjustments:</i>	
Depreciation (Non cash)	(2,250)
Movements in provisions	(1,500)
Movement in debtors and creditors	350
Subtotal	(3,400)
Net cash requirement for issue from the Welsh Consolidated Fund	54,373

Agenda Item 7

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Thursday, 9 May 2019

Meeting time: 09.21 – 11.52

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/5540>

Attendance

Category	Names
Assembly Members:	<p>Llyr Gruffydd AM (Chair)</p> <p>Rhun ap Iorwerth AM</p> <p>Mike Hedges AM</p> <p>Rhianon Passmore AM</p> <p>Nick Ramsay AM</p>
Witnesses:	<p>Julie Morgan AM, Deputy Minister for Health and Social Services</p> <p>Karen Cornish, Welsh Government</p> <p>Sarah Canning, Welsh Government</p> <p>Howel Jones, Local Partnerships</p> <p>Rosie Pearson, Local Partnerships</p> <p>David Ward, Tirion Group</p>
Committee Staff:	<p>Bethan Davies (Clerk)</p> <p>Leanne Hatcher (Second Clerk)</p> <p>Ryan Bishop (Deputy Clerk)</p> <p>Christian Tipples (Researcher)</p>



1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Alun Davies AM and Neil Hamilton AM.

2 Paper(s) to note

2.1 The papers were noted.

2.1 PTN1 – Letter from the Minister for Finance and Trefnydd – Supplementary budgets 2019–20 – 30 April 2019

2.2 PTN2 – Letter from the Counsel General and Brexit Minister – Legislation (Wales) Bill – Government response to the Committee's report – 3 May 2019

2.2 The Committee agreed to write to the Counsel General and Brexit Minister in response to his letter.

3 Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill: Evidence session

3.1 The Committee took evidence from Julie Morgan AM, Deputy Minister for Health and Social Services; Karen Cornish, Deputy Director, Children and Families Division and Sarah Canning, Head of Legislation, Research and Parenting Branch on the financial implications of the Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill.

3.2 The Deputy Minister agreed to provide further information on how the number of cases of reasonable punishment reported to the police was estimated and how this links to the number of prosecutions in Wales each year.

4 Motion under Standing Order 17.42 to resolve to exclude the public from items 5, 7–9 and the start of the meeting on 15 May 2019

4.1 The motion was agreed.

5 Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill: Consideration of evidence

5.1 The Committee considered the evidence received.

6 Inquiry into the Welsh Government's capital funding sources: Evidence session 3

6.1 The Committee took evidence from David Ward, Chief Executive, Tirion Group; Howel Jones, Corporate Director, Programmes and Project, Local Partnerships; and Rosie Pearson, Corporate Director Business Development, and Programme Director PPP and PFI, Local Partnerships on the Welsh Government's capital funding sources.

7 Inquiry into the Welsh Government's capital funding sources: Consideration of evidence

7.1 The Committee considered the evidence received.

8 Retention payments in the construction industry

8.1 The Committee considered the paper and agreed to write to the Chair of the Economy, Infrastructure and Skills Committee.

9 Assembly Commission – Voluntary Redundancy Scheme Update and Relaxation of the Establishment Cap

9.1 The Committee noted the correspondence from the Assembly Commission regarding the update on the voluntary redundancy scheme and relaxation of the establishment cap.

Agenda Item 8



KPMG's Response to the Inquiry into the Welsh Government's capital funding sources

May 2019

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1 Foreword

KPMG is a professional services firm employing around 15000 people across the UK. Within Wales, KPMG employ around a 100 staff across many professional services disciplines.

KPMG has a leading role in developing infrastructure across the world. In the UK we have more than 150 staff wholly dedicated to infrastructure and capital projects, covering a broad range of sectors and offering expertise across the whole lifecycle of an infrastructure asset.

This includes infrastructure strategy, economic analysis, policy and regulation, developing business cases, procurement, financial/commercial structuring, transaction negotiation and due diligence, financial modelling, project management, cost monitoring, restructuring services, tax and accounting.

The comments below are drawn from conversations with a number of senior practitioners within the firm and reflect genuinely held views. Our team cares about building better infrastructure for everyone, enabling better delivery of public services through high quality built environment, protecting our environment and supporting innovation. We have no ideological or financial interest in any particular infrastructure finance model, preferring to select the best solution for a given project.

This document is the KPMG response to the inquiry into the Welsh Government's capital funding sources.

2 About the Author

This document represents the views of a number of senior practitioners at KPMG rather than the views of an individual. However, they have been pulled together by Gwyn Llewelyn, a Director in our Infrastructure Advisory Group who has spent the last 14 years advising on the delivery and financing of public infrastructure with a recent focus on healthcare, education and local government.

Gwyn has advised on financings using a wide variety of commercial structures, including Aberdeen City Council on the UK's largest municipal bond, the Scottish Non-Profit-Distributing model, concession models and several PFI contracts in England. He is part of an advisory group to the National Infrastructure Commission looking at the evidence base to support private finance into infrastructure.

Gwyn will be present to speak with you on 15th May.

3 Context for the Review

The backdrop to this review is the challenge posed in creating infrastructure fit for the 21st century that includes improving broadband speeds and mobile coverage, enabling housing development, improving our health and education infrastructure to improve social outcomes, decarbonising our energy networks, reducing journey times, investing in water networks, increasing our resilience to climate change and the impact of new technology.

This requires major investments from both the public and the private sectors, and in a changing landscape. The rapid development of new technologies will create new funding and financing challenges, and the UK's relationship with the European Investment Bank (EIB) will change as we leave the EU potentially further restricting access to low cost capital.

4 The Structure of Our Response

The response sets out thoughts on the areas identified for investigation by the review although does not cover them strictly sequentially as many of the issues discussed are interlinked and overlap. We instead provide general commentary on the use of public and private funding and cover the identified topics where relevant.

5 Commentary on UK infrastructure finance market

The UK has a large, well-established and technically expert finance market for investment in infrastructure. It has a global reputation in all aspects of finance and is the go-to market for overseas territories seeking best practice.

As a result the UK attracts talented individuals and global investors alike, further enhancing the diversity of expertise and innovation across all the financial markets and professional services.

This is supported by a consistent legal and regulatory environment enabling all parties to be confident of both fair and predictable treatment.

The UK regulators have a strong reputation as independent, clear and open institutions establishing further the trust between the private and public sectors.

The use of consistent trusted contractual structures and financing methodologies increases the understanding of the risk balance available in UK infrastructure.

The financial expertise is complemented by large UK based engineering firms with the technical skills to deliver complex projects helping to de-risk the provision of financing to UK infrastructure.

The UK's place as a leading OECD country within the G7 can also be viewed as a supporting pillar to the UK infrastructure finance market. The broader economic stability and prospects that this brings helps give the UK infrastructure finance a comparative advantage through association.

As a result of all the above there is plenty of money, debt and equity, ready to invest in UK infrastructure as long as projects have the right risk profile and investment characteristics. This availability of private capital to support projects is valuable where it can demonstrate advantages over the use of public capital, or it can supplement it.

6 What are the weaknesses in the infrastructure finance market?

The current uncertain political environment is a deterrent to investment.

There is political uncertainty regarding policy for private finance, with the abolishment of PFI and its replacement PF2 in England, the NPD model paused in Scotland and MIM model just beginning in Wales. The opportunity to help drive future policy is welcome, this consultation in itself signals further uncertainty to the market when MIM is trying to establish itself.

Historic Government focus on balance sheet treatment driving commercial solutions has weakened the industry's reputation, leading to some deals that are not necessarily right for a particular transaction but are financed that way to avoid the need for capital budget.

This is particularly an issue for the construction industry. MIM style project structures seek to pass significant risk to main contractors, few of whom in the UK have the financial standing to bear that risk, particularly when many smaller subcontractors in the supply chain refuse to have the risks passed on down to them.

Construction is a low margin business and whilst competition for new public sector work continues to be heavily price-led this will continue. But to paraphrase one CEO of an international contractor "3% margin businesses cannot take 50% risks". The criticism of PFI/PF2 in England leading to excess profits is rarely set against the collapse of Carillion, Interserve, Jarvis, Ballast Wiltshier et al.

Press coverage of infrastructure tends to focus on the negatives. There is no consistent voice standing up for the positive transformation that infrastructure can bring. Proper informed debate is undermined by headline grabbing sound-bites.

Delivering projects in the UK is typically more expensive than in other jurisdictions. The reasons for this are complex (and not necessarily negative) but lengthy and costly bidding processes can act as a significant deterrent or barrier to entry.

7 Appraising the merits of different forms of finance

Too often, the debate around source of finance for a project focusses on a comparison to UK gilt rates. This is incorrect. All academic and corporate finance literature is clear that investment appraisal should be based on the risk level of the investment, not the party borrowing the money.

To explain the point, in an efficient market the expected return generated by an investment increases with its level of risk, with risk measured as volatility of return¹.

An investment grade borrower (such as a public body) will have a low cost borrowing rate as they themselves are stable with limited volatility – they can be trusted to repay borrowing. A higher risk borrower with unstable income will have a higher cost of borrowing as there is less certainty on whether they can repay their borrowing.

The value of an investment is not different for the investment grade borrower than the higher risk borrower just because he has a lower underlying cost of funds. The value of an investment is driven by the risk of the investment (how likely is it to repay funds), not the party investing in it.

If the reverse was true, it would encourage borrowers with a low cost of capital (such as public bodies) to borrow heavily and invest in risky projects, as risky projects on average return a higher amount. Such a strategy would be widely discredited (although we can see it happening from time to time across English local authorities who are borrowing cheaply from the Public Works Loan Board and making speculative investments into real estate, unfortunately).

Why are we covering this? Because the government gilt rate represents the cost of borrowing for UK government, not the required return that should be sought from an investment into infrastructure given its risk level. In fact, the gilt rate becomes an irrelevance apart from the fact that it also underpins the market cost of borrowing. A capital project should be appraised using a project specific rate (usually as a discount rate for future cash flows), which unless there is a market failure, should be a market rate reflecting the risk of the investment. Comparing cost of finance with looking at risk allocation, whilst tempting, should be left to the tabloids.

8 Why can the government borrow cheaply?

Putting it another way, the only reason government can borrow so cheaply is its right to tax in the future. This is established through the credit rating methodologies used to rate sovereign

¹ (this is a slight simplification to ignore adjustment for idiosyncratic risk, but the point holds and it is not the purpose of this paper to discuss the valuation of risk in depth)

credit risk.² The market rate for finance is typically driven by the equilibrium between supply and demand for capital, the largest moving parts of which are pension and insurance funds. Put simply, the market rate represents the rate we expect our pension fund managers to achieve on an investment with any given risk level with our retirement savings, given other available options. Just because government can borrow more cheaply to raise capital doesn't mean it should, as that capital is cheap because it is taking into account the right of government to tax future generations. In other words, it is taking bets with the taxable income of future generations for a lower return than we are happy to accept from our pension funds with our own income. That doesn't sit well.

9 Funding versus financing

Most infrastructure is funded in one of two ways – either through user charges or through tax payers. Private finance can be used for both as set out in the simplified diagram below.

Funding/ Financing	Public finance	Private finance
User Charges	Gilt borrowing, repaid through user charges	Private infrastructure, regulated assets, concession models
Tax payers	Gilt borrowing, repaid through tax income	DBFM structures, such as MIM

There are exceptions, where infrastructure can be paid for not by the user but by other beneficiaries, such as land value uplift or developer charges.

Ultimately, in our view, the biggest challenge for Welsh Government capital financing is one of funding not one of financing. Is the funding generated by user charges for infrastructure, or the increases to tax receipts it is likely to generate over time, sufficient to fund the capital cost plus appropriate borrowing costs. Can sufficient revenue be generated from assets to pay for them. If so, a myriad of options exist for raising the finance to deliver them whether public or private.

The decision of public or private finance then boils down to a number of factors, the most pertinent of which are:

- The risk to the public balance sheet and whether the public sector is well placed to take and manage that risk
- The incentives the finance creates on the delivery and operation of that infrastructure. Private investment being at risk can be a powerful incentive to meet contractual obligations.
- Tying in private sector expertise in delivering and operating complex infrastructure
- The level of control, influence and flexibility demanded by the public sector over an assets

² The right to tax is of primary importance. When we advised Aberdeen City Council on their £400m+ municipal bond, the ratings agencies took the view that a local authority does not have sufficient right to tax and so only qualifies as sub-sovereign, meaning the cost of finance was some 100bps+ higher than gilts.

- Whether there is any market failure in the private financing market that justifies government intervention.

The latter two points are worthy of further exploration below.

10 Control, influence and flexibility

A frequently levied criticism of private finance is that it leaves the public sector with complex and inflexible contracts. In many instances this is justified.

PFI contracts in particular are complex, often negotiated by specialist advisors not the people who will ultimately be left to manage them. Steps have been taken with MIM to address this, but it is likely they will still be more complex than public capital.

Change within such a contract can be costly, with consent needed from lenders and investors for change.

As a result of the complexity of contract, we have found many instances where projects are managed on the basis of custom and practice rather than contractual obligation, so the contracts are not followed. In some of these instances it results in the public sector not getting what they are paying for.

The industry (public and private) can take some criticism for treating contracts for a road the same as a hospital or schools. Simplifying the argument slightly, but a road is a strip of tarmac whose performance lies in being kept open and safe. A hospital is a building of complex public service delivery with changing needs and models of healthcare. It necessarily needs more flexibility and active contract management – on both sides of the table. Unfortunately, standard form contract and management practice have not always delivered such active management and true partnership. There are good exceptions to that criticism.

11 Market Failure

Whilst it is frequently noted that there is a 'wall of private capital' available to well-structured projects, typically this is capital seeking investment grade projects (ie long term and low risk). As technology develops, it is hard to match that to the risk of the types of infrastructure being developed. Easy examples are emerging technologies in battery storage, electric vehicle charging points, drones, heat networks, tidal lagoons, 5G networks. These are investments that are higher risk than traditional building projects, with shorter life spans. More and more the lifespan of infrastructure is not governed by its physical life but how long before technological obsolescence. Can we really appraise the building of car parks over 40 years when market commentators are suggesting autonomous vehicles and low rates of vehicle ownership in 25 years? As such, there is a clear financing market failure for new and novel assets.

There is also a market failure for financing of very large assets, such as nuclear power stations, where co-ordinating private finance is challenging without government intervention.

Taking that to its logical conclusion would suggest that government should be reserving its limited capital to areas of market failure which are typically larger and higher risk projects, leaving private capital to finance infrastructure where there is a proven market rate for capital and better understood risk – such as schools, hospitals. That can be counter-intuitive and contrary to the general adverse media that accuses the use of private capital for such assets as profiteering or having limited risk transfer.

12 What models of finance are appropriate for the future

Generally, moving away from making financing sourcing decisions on the basis of balance sheet treatment and more on the basis of value for money and addressing market failure has to be a good thing. That is not to say we don't appreciate the budgetary constraints facing government, rather that they shouldn't be the overriding factor.

This will allow more appropriate sharing of risk between parties – ESA2010 government accounting treatment has a checklist of more than 80 commercial considerations and often contracts are designed to tick the ESA2010 box rather than what is commercially sensible.

Once balance sheet treatment is removed as a decision making factor, it allows better partnership between the public and private sector. Examples would include:

- Joint funding, with some public and some private capital. This could be through public sector capital contributions alongside private finance, something we have experience of with an example being the Royal Papworth Hospital PFI in Cambridge that opened earlier this year, which combines 40% public capital with 60% private capital. Of the private capital, 50% of the senior debt was provided by EIB and the all-in cost of finance was less than 4%, but still transferred all construction and operational performance risk to the private sector. Such models seem worthy of further exploration.
- Mixed funding. Increasingly infrastructure is not delivered as a single asset for a single owners (a hospital delivered for a health trust, for example), but infrastructure systems of multiple assets delivered to make an area work, i.e. a life sciences park may need NHS involvement, university involvement, local authority involvement, pharmaceutical and industry involvement etc. They may need new transport links, key worker housing, commercial buildings and laboratory infrastructure. The deals needs are complex and bespoke, and need to be worked through on the basis of what is the best form of government intervention to make the project happen. Sometimes but not always that intervention will be the public sector providing all the capita.
- Targeted risk taking. Often there is a market failure in private investment because of specific risks. This tends to be in areas where high impact low probably events can severely impact lenders downside cases. In these cases government intervention by underwriting certain specific risks (maybe only in an extreme downside event) can be all that's needed through some form of financing guarantee.

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Capital Law

Inquiry into the Welsh Government's capital funding options

9 May 2019

Introduction

We provide this brief paper in anticipation of giving evidence to the National Assembly for Wales' Finance Committee on 15th May 2019 in relation to the funding sources available to the Welsh Government.

Our approach

“We see the Mutual Investment Model (MIM) proposal as the only viable tool to provide significant finance to fund ambitious Welsh projects”

Our observations in this document are targeted towards the way this may be achieved, and are split into three areas:

- Delivering an effective funding strategy
- MIM and value for money; and
- MIM v PPP / PFI

The focus of this inquiry is broad. Therefore, our approach is to concentrate on the specific elements which are relevant to our business.

Delivering an effective funding strategy

“Best practice in relation to delivering projects is reliant on an effective funding strategy”

Given our involvement in significant projects (such as the M4 Relief Road and Hinkley Point C) several very clear best practice themes arise in relation to project delivery and an effective funding strategy must be based around these.

An effective funding strategy must have regard to the specific requirements of a project and the maturity of the project. In the most basic of terms the lifecycle of a project has four distinctive steps:

Step 1 Project Pipeline - identifying a pipeline of projects around which a strategy can be formulated.

Given that a project pipeline will extend beyond the electoral cycle, the project will require multi-political party support and be in the public interest generally. The Well-being of Future Generations (Wales) Act 2015 facilitates this Step by requiring that all public sector projects must improve our social, cultural, environmental, and economic well-being.

Step 2 Project Feasibility – identifying specific projects within the pipeline for delivery

Once the pipeline of projects has been established the next step is to consider the requirements for delivering a specific project along with identifying and mitigating risks. This step typically revolves around the following:

- **Funding** – identifying at an early stage an appropriate source of funding for delivery of the project.
- **Pooling resources** – there have been several projects throughout Wales that have used a public to public collaborative approach. Local Authorities have worked together with suppliers, to produce efficiency savings in costs and share work practices. In turn, this increases the value of prospective contracts, making them more attractive to the market.
- **Market engagement** - yields benefits in relation to cost estimation, risk management, and ease of delivery.
- **Defining the project and specification** – this is the initial process of defining the project requirements, which will be informed by the other elements of this step.
- **Procurement** – planning and choice of procurement route is crucial at this stage.

Step 3 **Project De-risking** - carrying out the de risking steps and delivering the project.

This is the implementation stage of the strategy and is the process of getting the project “Delivery-ready” and builds on the feasibility step. The key elements here are:

- **Clearly defining the project and specification** – this is a priority at this stage and the outcome should be a clear scope based on up to date market price information. The projects specification must be approached in a way that allows the prospective contractors to price clearly.
- **Early Contractor Involvement** – is a useful tool at this stage to develop the specification.
- **Funding** – any preconditions relating to the project delivery funding should be considered / satisfied at this stage and requirements and obligations incorporated into the specification / procurement process as required.
- **Procurement** – is the final element of this step and must be carried out in a way that demonstrates transparency, fairness, integrity, competition, and accountability. Planning and choice of procurement route is crucial at this stage. Competitive dialogue (where candidates are invited to take part in a dialogue process, during which the nature of the project may be discussed and possible solutions may be developed) has a proven track record for delivering projects and is a good precursor to collaborative working during project delivery.

Step 4 **Project Delivery** – appointed contractor delivers the project in accordance with the specification.

This is the final step and the key here is a project that is delivered on time and within budget and relies on the following:

- **Funding** – ensuring that the funding requirements are satisfied promptly to ensure cash-flow into the supply chain; and
- **Collaborative working** – there needs to be a framework to provide quick decisions on key issues and effective mechanisms to communicate with stakeholders, manage risks, and resolve conflict. Controlling risks is central to this – with the party best placed to handle the risk being tasked to do so.

It is clear from the generic lifecycle above that funding is key at each step. This also highlights that the level of funding and the type of funding will vary during a project. For example, Project Delivery will require the highest level of funding but the amount of funding should be clearly definable. Project Feasibility, on the other hand will require a lower level of spend but the extent of the expenditure will be speculative in nature in order to explore mitigation options to ensure price certainty at Project Delivery.

In summary an effective funding strategy depends on multiple sources of funding (ranging from conventional funding to public / private partnership models such as MIM) appropriate to the relevant point within a project's lifecycle.

MIM and value for money

“The premium paid for finance and delivery of a MIM project does lend itself to the principle of - Something for Something”

Put simply MIM is a form of project agreement to fund and deliver “off balance sheet” privately financed public projects. Given that WG do not have access to the level of capital funds, the MIM proposal is the only viable tool to provide significant finance to fund ambitious / high value projects. Therefore, the fact that MIM is more expensive than direct funding is a moot point.

However, the MIM model is not necessarily in search of the lowest price but rather best value. Consideration should be given to the ancillary benefits available. For example, those driven by the Well-being of Future Generations (Wales) Act 2015.

For example, in relation to the dualling of A465 (project earmarked for MIM funding), the procurement focus will be on:

- £300 million being spent with Welsh companies (70% of the total spend)
- Creating 140 apprentice roles
- Community benefits.

The comparison with debt funding is not so clear cut. If the MIM project proposed has a clear specification which in turn can be accurately priced the investment risk is minimised. The aim is to provide a project which requires a

defined level of funding (i.e. the risk of cost overrun is minimal) which is offset by the annual payments. In effect the aim is for the level of return to be guaranteed – meaning that lenders risk, and in turn its rate of interest, is reduced. This should make the project competitive with the rates of debt funding available.

MIM v PPP / PFI

“The MIM process must be collaborative and have regard to the lessons learnt from PPP/PFI projects.”

The MIM and PPP / PFI models have a number of factors in common but MIM has the benefit of hindsight and must have regard to the lessons learnt from PPP / PFI models. The table below provides a comparison of the three models.

	Private Finance Initiatives (PFI)	Private Finance Initiatives (PPP)	MIM
1.	PFI is a form of PPP where a private sector company finances and provides a public service that might include construction, maintenance and operation, for which they are paid by a public authority.	Although PPP technically includes PFI and Concession Contracts (payment recouped via tolls) it is more commonly associated with Institutional PPP where a joint venture company is established jointly by a public authority and a private company to provide a public service	MIM is a form of project agreement to fund and deliver “off balance sheet” privately financed public infrastructure projects. In effect a Public Private Partnership (PPP) – to enable private partners to build and maintain public assets
2.	Funding – usually traditional bank debt funding repayable by the authority.	Funding - usually traditional bank debt funding repayable by the authority.	Funding – combination of equity and debt funding to SPV No direct repayment of debt by the authority but an annual payment for facilities management paid by authority
3.	Design and construction – SPV procures the supply chain and is usually asked to take a great deal (if not all) of the project risk from the authority. However, the price will reflect this.	Design and construction – as per PFI	Design and construction – SPV procures design and construction but the project specification is intended to be de-risked prior to it being handed over to the SPV.
4.	Facilities management – anticipated that hard and soft facilities management. This is the main criticism of PFI as costs escalated.	Facilities management – as per PFI	Facilities management – hard facilities management only (limited to identifiable maintenance) and <u>not</u> soft maintenance (e.g. replacing street lights) this responsibility to remain with the authority.
5.	Control – Authority tending to maintain control by being a significant shareholder in the SPV (on-balance sheet risk)	Control – Authority has 50 per cent or more share in profits and has veto / approval rights (on balance sheet risk)	Control – 15% - 20% equity stake for the Authority with a nominated director to the board of the SPV i.e. limited control (off balance sheet)

Conclusion

The challenge / opportunity will be to advance the project pipeline supported by a robust funding strategy. This will make sure that several ambitious and high value projects are capable of delivery.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted