

Agenda – Y Pwyllgor Cyfrifon Cyhoeddus

Lleoliad:	I gael rhagor o wybodaeth cysylltwch a:
Ystafell Bwyllgora 3 – Senedd	Fay Buckle
Dyddiad: Dydd Mawrth, 1 Rhagfyr 2015	Clerc y Pwyllgor
Amser: 09.00	0300 200 6565
	SeneddArchwilio@Cynulliad.Cymru

1 Cyflwyniad, ymddiheuriadau a dirprwyon

(09.00)

2 Papurau i'w nodi

(09.00–09.05)

(Tudalennau 1 – 3)

Craffu ar Gyfrifon 2014–15: Llythyr gan Prif Weithredwr a Chlerc y Cynulliad – Cynllun Ymadael Gwirfoddol (19 Tachwedd 2015)

(Tudalennau 4 – 5)

Cronfa Buddsodd Cymru mewn Adfywio: Gwybodaeth ychwanegol gan Lambert Smith Hampton (23 Tachwedd 2015)

(Tudalennau 6 – 13)

Cronfa Buddsodd Cymru mewn Adfywio: Llythyr gan y Prisiwr Dosbarth (24 Tachwedd 2015)

(Tudalennau 14 – 17)

3 Cronfa Buddsoddi Cymru mewn Adfywio: Sesiwn Dystiolaeth 6

(09.05–10.15)

(Tudalennau 18 – 32)

PAC(4)–33–15 Papur 1

Papur Ymchwil

Langley Davies – Cyfarwyddwr, South Wales Land Developments Limited

4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y busnes canlynol:

(10.15)



Eitemau 5, 6 & 7

5 Cronfa Buddsoddi Cymru mewn Adfywio: Trafododd aelodau'r Pwyllgor y dystiolaeth

(10.15–10.30)

6 Craffu ar Gyfrifon 2014–15: Trafod yr adroddiad drafft

(10.30–10.45)

(Tudalennau 33 – 88)

PAC(4)–33–15 Papur 2

7 Blaenraglen Waith: Trafod rhaglen waith gwanwyn 2016

(10.45–11.00)

(Tudalennau 89 – 93)

PAC(4)–33–15 Papur 3

Cofnodion cryno – Y Pwyllgor Cyfrifon Cyhoeddus

Lleoliad:

Gellir gwyllo'r cyfarfod ar [Senedd TV](#) yn:

Ystafell Bwyllgora 3 – Senedd

<http://senedd.tv/cy/3285>

Dyddiad: Dydd Mawrth, 24 Tachwedd

2015

Amser: 09.06 – 11.03

Yn bresennol

Categori	Enwau
Aelodau'r Cynulliad:	Darren Millar AC (Cadeirydd) Jocelyn Davies AC Mike Hedges AC Julie Morgan AC Jenny Rathbone AC Aled Roberts AC Keith Davies AC (yn lle Sandy Mewies AC)
Tystion:	Dr Andrew Goodall, Llywodraeth Cymru Joanna Jordan, Llywodraeth Cymru Martin Sollis, Llywodraeth Cymru Janet Davies, Llywodraeth Cymru
Staff y Pwyllgor:	Fay Buckle (Clerc) Claire Griffiths (Dirprwy Clerc) Joanest Varney-Jackson (Cynghorydd Cyfreithiol) Dave Thomas (Swyddfa Archwilio Cymru)



TRAWSGRIFIAD

Gweld [trawsgriafiad o'r cyfarfod](#).

1 Cyflwyniadau, ymddiheuriadau a dirprwyon

- 1.1 Estynnodd y Cadeirydd groeso i'r Aelodau i'r cyfarfod.
- 1.2 Cafwyd ymddiheuriadau gan Sandy Mewies. Dirprwyodd Keith Davies ar ei rhan.
- 1.3 Cafwyd ymddiheuriadau gan Mohammad Asghar.

2 Papurau i'w nodi

- 2.1 Cafodd y papurau eu nodi.
- 2.1 **Trefniadau Llywodraethu Bwrdd Iechyd Prifysgol Betsi Cadwaladr: Llythyr gan Simon Dean, Prif Weithredwr Dros Dro Bwrdd Iechyd Prifysgol Betsi Cadwaladr (16 Tachwedd 2015)**
- 2.2 **Cyllid Iechyd 2013–14: Llythyr gan Gyfarwyddwr Cyffredinol y Grŵp Iechyd a Gwasanaethau Cymdeithasol/Prif Weithredwr y GIG, Llywodraeth Cymru (16 Tachwedd 2015)**

3 Llywodraethu Byrddau Iechyd GIG Cymru

3.1 Bu'r Pwyllgor yn craffu ar Dr Andrew Goodall, Cyfarwyddwr Cyffredinol Iechyd a Gwasanaethau Cymdeithasol a Phrif Weithredwr GIG Cymru, Llywodraeth Cymru; Joanna Jordan, Cyfarwyddwr Iechyd Meddwl, Gwasanaethau Corfforaethol a Llywodraethu, Llywodraeth Cymru; Martin Sollis, Cyfarwyddwr Cyllid, Llywodraeth Cymru; a Janet Davies, Cyngorydd Arbennig – Ansawdd a Diogelwch, Llywodraeth Cymru, fel rhan o'i ymchwiliad i lywodraethu byrddau iechyd.

3.2 Cytunodd Dr Goodall i ddarparu gwybodaeth ychwanegol am:

- Y broses benodi ar gyfer aelodau annibynnol o'r byrddau iechyd
- Y llwybrau a pherthnasau sydd gan Fwrdd Iechyd Lleol Betsi Cadwaladr yn eu lle ar gyfer gwasanaethau arenol o ran y model both ac adenydd.

- Rhagamcan o sefyllfa ariannol pob bwrdd iechyd ar ddiwedd y flwyddyn ariannol 2015–16

3.3 Yn ystod Eitem 5, wrth drafod y dystiolaeth a gafwyd, gofynnodd yr Aelodau am gael gwybod beth yw statws uwchgyfeirio pob bwrdd iechyd.

4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y busnes canlynol:

4.1 Derbyniwyd y cynnig.

5 Llywodraethu Byrddau Iechyd GIG Cymru: Trafod y dystiolaeth a ddaeth i law

5.1 Trafododd yr Aelodau'r dystiolaeth a ddaeth i law.

Darren Millar AM
Chair, Public Accounts Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
Cardiff

19 November 2015

Dear Darren

When the Public Accounts Committee (PAC) recently scrutinised the Commission's Annual Accounts for 2014-15, we were asked a question about severance schemes. In light of that, and in the interests of transparency, I am writing to both PAC and the Finance Committee to inform you of our decision to run a voluntary severance scheme.

As we have mentioned during scrutiny by your Committee, the Assembly Commission has a formal approach to capacity planning to help ensure that the Commission has the right staffing complement and structure. This ensures that we: align our resources in terms of capacity and skills; improve workforce effectiveness; achieve structural change to best support the business of the Assembly; and integrate capacity and service planning.

As part of this work we have been considering whether to run a voluntary severance scheme and, having carefully weighed the benefits against the negative aspects and risks, we have concluded that we should. This has been discussed and reviewed by Management Board and the Investment and Resourcing Board and is a decision that I have taken within my delegated authority as Accounting Officer. The purpose of the scheme will be to:

- allow the organisation to respond to shifts in our skill requirements;
- facilitate organisational change, including within particular teams;



- improve workforce efficiency; and
- deliver long-term savings where possible and/or avoiding additional costs in meeting skill shortages.

We intend to launch the scheme this week and those employees whose applications are accepted will leave by 31 March 2016 or early in the new financial year. The scheme will be run in accordance with Cabinet Office/Treasury rules, will be similar to the scheme run recently by the Welsh Government and will have robust assessment criteria and decision processes. The Trade Union Side (TUS) has been informed of our intention to run the scheme and they will be invited to observe the decision process.

In planning the scheme, we have taken full account of the recommendations arising from the internal audit review of our previous schemes and from the wider WAO VFM study into severance schemes. The cost, benefits and savings from the scheme will be published as part of the 2015-16 Annual Report and Accounts in July 2016.

This letter is for information only, but please do let me know if you would like any further information.

Best wishes



Claire Clancy

**Prif Weithredwr a Chlerc/Chief Executive and Clerk
Cynulliad Cenedlaethol Cymru/National Assembly for Wales**



23 November 2015

Public Accounts Committee
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Lambert Smith Hampton
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For the attention of Darren Millar AM, Chair

Our Ref: JG237

Dear Sirs

PUBLIC ACCOUNTS COMMITTEE – INQUIRY INTO RIFW

Further to our attendance at the meeting of the Public Accounts Committee on 20 October 2015 and your second request for information dated 6 November 2015, please find below the responses to your questions:

- 1. During the Committee’s oral evidence session with you on 20 October you (Mr Green) made the following comment that “the only thing we would do again would be to strive to prove that we had achieved best value” [Transcript #455]. I would be grateful if you could expand on how you would prove ‘best value’ and with hindsight, what specific actions you would have taken to do this.**

In the circumstances, the way to ‘prove’ best value would have been to obtain an independent valuation of the assets prior to the portfolio sale. As you know, we supported this action at the time and in November 2011 provided a quote to Amber for Jones Lang LaSalle (formerly King Sturge) to provide an update to their original valuation (see the attached copy email in [Appendix 1](#)).

You are also aware that Amber did subsequently commission an independent valuation (March 2013) from Colliers, which confirms their opinion of the value of the portfolio of assets at £19.4m as at the date of exchange of Contracts (18 February 2012).

- 2. In your letter dated 28 October, you provided further information in relation to the interest shown by Legat Owen but did not provide any information relating to all other expressions of interest, which the Committee had requested by e-mail dated 21 October. The Committee also questioned you (Mr Mogridge) on why interest in the assets from potential purchasers was not consistently reported to the RIFW Board, specifically asking what the process was for communicating offers and interest to the Board. The Committee were told that you (Mr Mogridge) would check. The Committee wishes to seek clarification on this issue and requests that the following details be provided to the Committee:**

a) Details of each expression of interest shown in the assets from potential purchasers or their representatives:

We have consistently stated we did not undertake formal marketing of the assets contained within the portfolio due to significant impairments identified in the legal Titles, which needed to be resolved. We did however undertake soft marketing to gauge the level of interest and reacted to enquiries from this activity, reporting all enquiries where serious interest or offers were submitted directly to the Fund Manager, either via email or verbally.

It was originally intended that once the ARP was approved in March 2011, and the legal due diligence completed, further marketing activity would be undertaken on a site by site basis.

A significant ongoing concern was that RIFW was in the unusual position of incomplete knowledge on Title issues that could affect the saleability of the individual properties. LSH advised that formal marketing could not be undertaken effectively without evidence of marketable Title and an associated sales pack. The opportunity of a sale at a good price and on a 'warts and all' basis presented a realistic opportunity for RIFW to dispose of a potentially difficult bundle of assets in a declining market.

In March 2011, the Board resolved to appoint legal advisors to complete the required legal due diligence on the assets in order to facilitate proper marketing and promotion. Due to the extent and nature of the impairments, this process was not completed until January 2012.

Therefore, any prospect of marketing the assets had to be delayed until these impairments had been addressed.

All offers and expressions of interest reported to Amber as Fund Manager are detailed within the RIFW Asset Realisation Report prepared by the Fund Manager dated 14 December 2012 (see the attached extracts in [Appendix 2](#)). Referring to Section 7.3 of the Report:

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

To add context to the offers:

1. Llandudno Junction (reported verbally to Amber)

At the time of the offer from Fairways Care (27 April 2011) the offer on the whole portfolio was being considered and further legal due diligence on the assets was required to prove marketable Title. Full Title had not been transferred to RIFW, restrictive covenants not identified on the Title posed a risk to development and there was an issue regarding access relating to an unregistered and unadopted parcel of land at the entrance to the site.

2. Bangor (reported verbally to Amber)

At the time of the offer from Redrow Homes (22 July 2011) terms had already been agreed and solicitors instructed to progress the portfolio sale. Redrow had acknowledged that they were aware of the portfolio sale. Welsh Government did not own all the land believed to be in the Title. Four parcels of land were missing from the Title and as such were not transferred to RIFW. There were significant concerns that the site did not have adequate access for development.

In line with instructions and normal market practice, contact was maintained with these interested parties throughout the portfolio sale due diligence process in order to keep the interest active in the event that the sale to GST did not complete.

b) To whom and when these expressions of interest were reported by Lambert Smith Hampton.

All serious expressions of interest / offers were reported upon receipt either verbally or by email to the Fund Manager, Amber. Details of these are confirmed in the attached extracts from Amber’s Report ([Appendix 2](#)).

c) Details of the process by which expressions of interest were reported to the Board.

Expressions of interest were reported to Amber, the Fund Manager, upon receipt, either verbally, by email or by way of monthly update reports.

As previously advised, it should be noted that the reporting process from LSH was directly to Amber and not to the Board. The Fund Management Agreement provides for the Board to be notified of decisions taken by the Fund Manager and, as such, the quarterly Board

Meetings were not intended as a vehicle for reporting general interest in the assets.

- d) In instances where expressions of interest were not reported to the RIFW Board, the reasons for this (Auditor General Report, paragraphs 3.78 and 3.82 – 3.83 refer).

To place this request into context, the following extracts have been taken from the Auditor General’s report :

3.78

“The District Valuer’s report states that “a significant divergence exists between our valuations and the sale values achieved. Based on my investigations, I believe such a divergence could have been mitigated by a carefully handled disposal process with prudent and proper marketing”. The assets were not openly advertised and no marketing materials were produced or distributed. Wales Audit Office staff conducted a written survey of LSH’s marketing contacts and have confirmed that:

- a. LSH’s activity was reactive in response to enquiries from interested potential purchasers.
- b. Interest expressed in buying individual sites was not consistently followed up by LSH.
- c. Offers and expressions of interest received by LSH were not consistently and promptly reported to Amber or the RIFW Board.”

In dealing with the points raised in order, firstly the District Valuer’s report (July 2015) is indeed a significant divergence between the sales values achieved and its valuation. It should be noted that the District Valuation Officer’s report also varies significantly (by up to 43%) from valuations undertaken by international firms King Sturge (October 2009/March 2010), Savills (January 2012) and Colliers (March 2013) all of whom concur that the sale value achieved represented the Market Value at the date of exchange of Contracts in February 2012.

	REPORT DATE	VALUATION / SALE DATE	PORTFOLIO VALUE
DVS	July 2015	March 2012 (Brackla - March 2013)	£30.919m
King Sturge	October 2009	Updated March 2010	£19.830m
Savills	January 2012	January 2012	£17.741m - £20.332m
Colliers Int	March 2013	February 2012	£19.400m
Sale Price	n/a	18 February 2012	£21.747m

In response to points (a) to (c) above:

- a. LSH has always maintained that marketing activity was reactive, on the basis that the majority of assets were significantly impaired and incapable of being sold on an individual basis without significant work being undertaken to mitigate these impairments.
- b. Interest expressed in individual assets was consistently followed up by LSH with a limited number of expressions of interest being received and two separate transactions actually being concluded. Part of Cogan Hall, Penarth, sold for £185,000, and part of Brackla Industrial Estate, sold for £60,000.
- c. This has been answered in responses at 2 (a) and (b) above.

3.82

“On 1 June 2011, Amber summarised Board Members areas of concern about the proposed sale in an e-mail to LSH querying: “Is it appropriate to sell the properties now without a formal market test” and noting that soft market testing yielded 2 offers only”. A RIFW Portfolio Transaction Report “Supplement” dated 2 June 2011 stated “the portfolio has not been openly marketed but has been considered by a number of developers and investors who are active in the Welsh market...the portfolio of properties has not yet been marketed as a whole and the bids received have been opportunistic, but encouraged, with the majority of parties expressing interest in the whole portfolio initially showing interest in individual assets and progressing their interest to the whole”.

This statement is correct, having regard for the extremely poor prevailing economic and market conditions, the issues relating to the saleability of the individual assets as a result of their impairments combined with the lack of availability of debt finance (highlighted as this is the reason why RIFW was established) LSH made a recommendation based upon commercial circumstance to progress with the cash offer on a “warts and all” portfolio sale as we believed that this would be the correct decision for the Fund as it offered certainty of disposal at what was deemed to be an extremely good market price with upside potential on the two most valuable sites if they achieved a planning consent.

3.83

“Offers and expressions of interest from prospective purchasers were not always reported to the RIFW Board and were not dealt with consistently by LSH. On 13 April 2011, LSH received an e-mail from Legat Owen advising that one of their clients would be interested in all of the North Wales sites as a single portfolio and had requested a meeting. LSH promptly responded back: “...it is a little premature at this stage and we still have to collate significant amounts of information”.

We have not found any records of the interest being reported to the RIFW Board and, in contrast, we note that GST Investments were not advised that their own interest in the portfolio, received some 5 weeks earlier, was premature. In addition, LSH’s Manchester office received an unconditional offer of £2,000,000 for the Bangor site in July 2011, after the terms of the portfolio sale were agreed. This offer was not included in LSH’s report to the RIFW Board. An LSH report to the Board reported that a Company had “expressed an

interest” in the site and in a paper for a meeting with Amber, that LSH met the Company in relation to Bangor, Llandudno and Abergele”.

As stated in our letter to the Public Accounts Committee on 28 October 2015 the enquiry from Legat Owen in respect of possible client interest in a North Wales portfolio sale in April 2011 was followed up, however nothing arose as a result of their enquiry. Legat Owen continued a dialogue with LSH Manchester through to August 2011 when tracking interest in the Llandudno site. Legat Owen did not raise their client’s interest in the North Wales portfolio any further and no offer was ever received.

The offer from Redrow on the Bangor site was received on 22 July 2011, five weeks after the offer from GST had been accepted and one week after solicitors had been instructed to proceed with the agreed Heads of Terms on the “warts and all” portfolio sale to GST. The offer was verbally reported to the Fund Manager in the week leading up to the RIFW Monthly update meeting on 1 August 2011. Redrow was specifically named in the August 2011 monthly report to the Fund Manager as having interest in Bangor, Llandudno and Abergele.

This offer was not progressed as terms for a sale had been agreed on the portfolio. The offer was at a price below the Asset Specific Business Plan figure of £3m placed on the asset if sold individually, and the asset was greatly impaired at the time and incapable of being sold without additional legal work being undertaken.

The Asset Specific Business Plans presented with the First Business Plan at the March 2011 Board meeting also record Redrow’s offer of £150,000 for the two assets at Llandudno Junction and Abergele against the combined ARP value of £1,150,000.

- 3. In your letter dated 28 October, on page 5, you list a number of Lambert Smith Hampton’s staff who had business dealings with Langley Davies (or with Companies with which he is involved) which occurred between June 2007 and February 2010. Please can you confirm:**
- a) That the list in your letter comprises a complete list of all business dealings between Lambert Smith Hampton and Langley Davies or with companies of which he is a Director, including outside the period covered by the list in your letter).**

We confirm that our records show the list provided in our letter dated 28 October is complete, other than the instruction that was confirmed in March 2012, following the sale of the assets.

- b) Did any of the named individuals attend any RIFW Board meetings or provided any advice (directly or indirectly) to the RIFW Board in relation to asset values, asset disposals or the portfolio sale to SWLD?**

One of the named individuals did attend a number of RIFW Board meetings, as did others within the LSH team who attended as observers. The team collectively provided advice to the RIFW Board as they were working on the Asset Specific Business Plans from an agency, valuation and planning background. The team was also involved with the identification of the asset impairments, working alongside Morgan Cole, Solicitors on RIFW’s behalf, and

were therefore involved on a technical basis in respect of the portfolio sale as well as providing valuation advice to Amber.

c) If so, were these individuals' relationships with Langley Davies declared to the RIFW Board and when?

Our disclosure was at a corporate level (as LSH) and was made to Amber.

d) What specific measures did Lambert Smith Hampton put in place to avoid or mitigate conflicts of interest in relation to any / all of these individuals?

LSH had a conflicts of interest protocol in place, which was agreed with Amber at the outset of the appointment. The specifics of this situation were that there were no active instructions at the time that involved these individuals and therefore no requirement to invoke the conflict of interest protocols.

Can Lambert Smith Hampton confirm that any such declarations and measures were compliant with the terms of their appointment under the RIFW Investment Manager's Agreement; RICS Professional Standards; and Lambert Smith Hampton's own policies and procedures?

We believe that all declarations and measures were compliant with the terms of our Appointment under the RIFW Investment Manager's Agreement, RICS Professional Standards and LSH's own policies and procedures.

4. In an email dated March 11 2011 (referred to in the Deloitte report), Mr Mogridge states that there was "a need to respond formerly to GST...this is a genuine cash offer...knowing the individual involved". Please confirm the identity of "the individual" as the Committee is currently unsure whether this is a reference to Mr Langley Davies or to Sir Stanley Thomas. Can you also confirm the nature of Mr Mogridge's knowledge of / relationship with "the individual" to whom Mr Mogridge refers.


This statement is made in respect of Sir Stanley Thomas. Mr Mogridge had no personal knowledge of, or relationship with, Sir Stanley Thomas prior to receipt of the offer made on behalf of GST by Barclays Wealth on 4 March 2011. The phrase "knowing the individual involved" was in reference to his reputation. The first and only meeting with Sir Stanley Thomas took place on 30 March 2011.

5. The Committee would like to clarify the status of the supplemental transaction report for RIFW assets, dated 15 December 2011 including who prepared it and whether (and if so when) it was shared with the RIFW Board.

The Supplemental Transaction Report dated 15 December 2011 was prepared by LSH. It was the third of four Reports that were submitted prior to exchange of Contracts. The Report was submitted to Amber. It was for Amber to report to the Board, which we understand they did.

We trust that the above answers all the points raised and would ask that if you require any further clarification that you contact either Lee Mogridge or Jeremy Green directly.

Yours faithfully



Jeremy C Green
Director
For and on behalf of
Lambert Smith Hampton

████████████████████
■ ██████████

Encs.

Cc: Lee Mogridge – LSH

Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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DVS
Valuation Office Agency
4th Floor
Wingate House
93-107 Shaftesbury Avenue
London
W1D 5BU

Our Ref: 1452619
Please ask for: [REDACTED]
Telephone: [REDACTED]
E Mail: [REDACTED]

Date: 24th November 2015

Dear Chair,

PAC HEARINGS: REGENERATION INVESTMENT FUND FOR WALES (RIFW)

- 1: I refer to your request for DVS to address the former RIFW Board members' view, expressed in their note of 12th October 2015, that the DVS report provided to the Wales Audit Office, and released (with redactions) as part of your committee's review, is "not RICS compliant".

Having read the former RIFW Board members' note of 12th October and consulted with my project team, I confirm that I am satisfied that the DVS report does comply with the provisions of the RICS (Royal Institution of Chartered Surveyors) Professional Standards (commonly referred to as the "Red Book").

- 2: Although the former RIFW Board do not specifically state how, in their opinion, the DVS report fails to be RICS compliant in terms of the professional standards, their letter does outline a number of areas in which they believe questions arise, as follows:

Paragraph 2: *"There are questions about special assumptions, statutory valuations and hope valuation which are not addressed in the body of the report."*

Paragraph 3: *"The report makes reference to Case Law but the references are on the basis of statutory valuations, which is a slightly different basis as they all revolve around a single payment (i.e. no overage). More significantly, the report does not refer to the latest case on the subject."*

Paragraph 4: Queries the extent and quality of the comparable land transaction information used.

Paragraph 5: In respect of the Lisvane site: *"...we would simply make the observation that the District Valuer himself led the work for the Auditor General but also appeared in person to put forward the Council's case in the Planning Inquiry."*

- 3: With regard to their paragraph 2, the former RIFW Board do not specify what their precise issue relates to in respect of the comment: *"there are questions about special assumptions.....which are not addressed in the body of the report"*.

In the RICS Red Book, VPS 4 at para 3 describes what special assumptions are, while VP3 at para 7i states that any special assumptions made in a valuation report shall be clearly stated. In the published DVS report, at section 2.8 on page 10, the valuer explicitly confirms that no special assumptions have been adopted in the DVS

review. This reflects the valuer's conclusion that no special assumptions exist. By clearly stating the position adopted on special assumptions, the report complies with RICS professional standards.

Further in their paragraph 2, the former RIFW Board state that they consider '*questions about hope valuation are not addressed in the body of the report*'. The DVS report explicitly addresses the matter of hope value on pages 8 and 32, and in doing so complies with RICS professional standards.

- 4: Regarding the comments made by the former RIFW Board in their paragraph 3 about the case law referenced by the valuer being concerned with statutory valuations, the DVS report simply states that the valuer has had regard to the case law referenced within the report along with other relevant information.

The summary case law list provides useful information on principles and practices but was never intended to be regarded as exhaustive, nor purported to be.

The referenced case law addresses value at a specific date, which is most easily thought of as a single payment but which does not necessarily have to be configured as a single payment. The actual configuration of payment was not determined within the named case law and, as the Monmouth sale shows, in practice payment for larger development sites often takes place on a phased basis.

The unnamed 'latest case' which the former RIFW Board may be referring to is *David Strange Steel and Richard Strange Steel v Scottish Ministers*, which DVS assisted with. In this case the Lands Tribunal concluded that sites with development potential should typically be valued with reference to a "top down" approach (full development value less an appropriate discount) rather than a "bottom up" approach (i.e. a sale at existing use value, with a premium added), unless it is anticipated the purchaser would be most interested in a continuation of current use.

As further context, I note that other market valuations of the RIFW assets prepared by another party (which the former RIFW Board has not had sight of, but DVS has) considered the RIFW land values on the basis of a percentage of full development value. Our valuer team's investigations therefore also included consideration of this approach as a part of the review, and it was deemed helpful that our report provide summary case law as context to the review, together with the range of percentage development values which have been determined in other cases.

- 4.1: Commenting on the use of the residual method of valuation, the former RIFW Board state in their paragraph 3 that: "*Case Law demonstrates that the residual method of valuation is fraught with risks and is the "method of last resort". The District Valuer states he has primarily used comparative method, which is true in respect of a number of valuations he undertook. However, in the relegation to (valuation of) Lisvane and Monmouth, the two most valuable sites in the portfolio, he has adopted the residual method.*"

The residual method of valuation is commonly used by both valuers and developers for the valuation of development land. In its Valuation Information Paper (VIP) 12, the RICS accepts the residual method of valuation as being an appropriate way to value land which has development potential, and this is specifically confirmed at paragraph 4.4 of the DVS report.

Additionally, it is understood that the Colliers valuation of the RIFW portfolio which was commissioned by the former RIFW Board itself also adopted the residual method of valuation.

I can confirm however, for the avoidance of doubt, that the comparative method of valuation was also considered when undertaking the valuations of the Lisvane and Monmouth sites and helped inform them - albeit direct singular comparable sales are

less common for the larger sites since the market typically adopts a phased sale approach to these (as occurred in SWLD's subsequent resale of the Monmouth site).

- 4.2: The former RIFW Board also make the following general comment in their paragraph 3 in respect of the Lisvane and Monmouth sites: *"Given the significant assumptions he has had to make, we would have expected, and reasonably expected, as a minimum, a qualified valuation rather than a specific figure."*

The DVS valuations are qualified opinions, drawing upon the combined use of the comparative and residual methods, and valuation commentary has been included within the summaries appended to the main report.

- 5: The former RIFW Board makes the following comments at their paragraph 4 regarding the Monmouth site: *"In relation to Monmouth (Ref: 15), we note in advice to the Board, Lambert Smith Hampton valued the site at £13.8 million and it sold this year for £12 million on a phased basis. The District Valuer's opinion is almost 50 per cent above the sale price achieved. The report also suggested the value could be even higher, which would represent nearly double the price achieved. It should also be noted the sale price actually achieved was in markedly better market conditions, which means the percentage variance is in fact much greater. Surprisingly, his report is silent on the transaction, which was completed before his report was finalised on 10th July 2015."*

The DVS valuation was based on good comparable land transaction evidence available around the time of the sale (March 2012). A residual valuation approach was also applied. The team are content that the valuation arrived at was reasonable on the basis of the evidence available at the time.

It is understood that LSH began formal marketing of the Monmouth site for South Wales Land Developments on 30th May 2012 (just under three months after SWLD's site purchase from RIFW) and that the subsequent Monmouth sale exchanged on October 2013 but on a delayed completion basis with phased payments over a 2 year period after completion. At present, the valuer still has not been advised of a final sale completion date and to have included this subsequent sale would have been to value at a certain date with the benefit of hindsight.

Additionally, the DVS valuation includes the employment land which is excluded from the subsequent land sale that the former RIFW board make reference to.

- 6: In their paragraph 5, the former RIFW Board make the following observation in respect of the Lisvane site: *"...we would simply make the observation that the District Valuer himself led the work for the Auditor General but also appeared in person to put forward the Council's case in the Planning Inquiry."*

In compliance with RICS guidance, both Cardiff Council and the Wales Audit Office were notified prior to DVS accepting the latter instructions for the separate case and approval was sought from both bodies. Only once their explicit approval to proceed was received was the second instruction accepted. This was fully in compliance with RICS professional standards on ethics, objectivity and disclosures as captured in the RICS Red Book at PS 2.

This matter has as you know been raised previously by the former RIFW Board and we understood they accepted the position that there was no conflict of interest and that DVS had acted appropriately. However for the avoidance of doubt, DVS can reaffirm that apart from seeking and receiving the prior approval of both parties to proceed, the two exercises were markedly different, one being a viability assessment for planning purposes while the other was a land valuation review, and each was undertaken at different valuation assessment dates; the planning inquiry was in mid-2015, while the RIFW sale which is the subject of the valuation review had a completion date of March 2012. It would also be incorrect to infer that both cases

were simply undertaken by the same individual as the RIFW exercise involved input from a team of valuers.

As the valuer has already confirmed to you, the DVS report was produced by a project team with the assistance and overview of other DVS technical specialists. It may also be helpful to note that DVS operates a Quality Assurance process which is regularly reviewed with the RICS.

Having regard to all of the above, I am satisfied that the DVS report does comply with RICS professional standards.

Yours sincerely


Director of VOA Property Services
DVS – Valuation Office Agency

Public Accounts Committee

Inquiry into Regeneration Investment Fund for Wales

Response from Mr Langley Davies (12 November 2015) to Darren Millar AM, Chair of Public Accounts Committee, letter of 5 November 2015

I have addressed my responses to you in the hope that they will be passed on to the Minister and other members of the PAC.

In terms of responses to date I was asked some time ago if I wished to comment in writing on the findings of the WAO in their report on RIFW and latterly on the PAC hearings to date. I have not read the WAO report in any great detail and have not had the time to devote to watching the sessions of the PAC so I am not in a position to provide general comments on these matters.

I am, however, happy to comment upon specific matters if I am able.

In response to the Chair's questions:-

1. I first became aware that the asset portfolio was to be offered for sale in 2010. There were press announcements around the transfer into RIFW of approximately £20m in WG assets, which were to be converted to cash, and £10m in cash as part of a matched funding process.

My interest in the portfolio came about in late 2010 because I had previously sought to purchase some land in Imperial Way, Newport, which formed part of the Imperial Courtyard site from WG. The land was to provide further car parking spaces for some 95000 sq ft of office space that I had developed from 2004-2006 on Imperial Way. I had dealt previously with King Sturge who were the agents on the Imperial House and Courtyard sites at that time. King Sturge informed me that they were no longer agents on these assets and referred me to LSH as the new agents.

I had dealt previously with LSH as they were joint letting agents with Fletcher Morgan on our existing office space and I was directed to Mr Lee Mogridge to discuss the Imperial House and Courtyard properties. This was my first professional association with Mr Mogridge.

I met with Mr Mogridge in January, 2011, and I was informed that the Imperial House and Courtyard assets were part of a portfolio of assets being brought to the market by RIFW and I expressed an interest in the assets (and the wider portfolio) when further information was available through the LSH sales process. I was informed that LSH would be running a competitive

process for the sale of the assets.

2. LSH had acted for me on bank valuation work, office agency work and possibly some rates related work in respect of the Imperial Way properties probably from 2006/7 onwards. I would have to ask them for specific engagements and dates but it would have been around that time.

The nature of my relationship with LSH is (and always has been) a purely professional relationship. My dealings have been on standard professional terms and I have not had any separate engagements or dealings with any LSH employees in a personal capacity. I have been engaged in property development in South Wales for some 25 years and have engaged many other property professionals on the same basis during that time.

3. This statement suggesting that SWLDL would not wish to undertake a "formal valuation" of the assets in isolation could be subject to misinterpretation.

It was not the case that SWLDL did not wish to undertake a formal valuation of the assets prior to completion of the purchase. In fact the contrary is true and SWLDL did undertake a formal valuation process. I understand that the Savills valuation commissioned by SWLDL and disclosed to WAO is the only contemporaneous valuation of the assets. This valuation confirmed to the Directors of SWLDL at that time that the price offered (and Paid) by SWLDL was in Savill's opinion a fair market price and was in fact at the higher end of the price range that they would have expected at that time for a portfolio transaction.

The specific issue that this quote relates to was the requirement for RIFW to ensure that they had adequate security for any outstanding payments due over the two year period after the deal completed.

As part of our on-going price negotiations with Mr Leo Bedford of RIFW we had agreed a higher price than originally offered for the assets on the basis of an instalment related payment deal. At this time the deal was £22.5m (some assets were removed by the time we completed 12 months later) which was to be paid as £12.5m on completion and two further annual instalments of £5m.

When we eventually moved to detailed contracts RIFW required that, if we were to sell any of the portfolio assets, the entire portfolio would have to be revalued on each sale event to ensure that RIFW's security position for the outstanding monies was not adversely affected by such a sale.

Whole portfolio valuations on every sale would have been expensive, circa

£10,000 per valuation. In addition, the sales process would have been time consuming if RIFW had to agree every sale and subsequent valuation (effectively a veto over our selling of any portfolio assets for two years) and this might have prejudiced our ability to complete sales of individual properties.

Given that the portfolio deal on day one was satisfactory in terms of value to both sides and that there was a high level of equity cover (headroom) for RIFW (£22.5m of asset cover against £10m of outstanding monies) SWLDL was of the view that revaluations to verify security cover on each sale were unnecessary. The future payments were already being guaranteed by Barclays Wealth Trustees in Guernsey in any event.

We eventually resolved this valuation issue by agreeing to remit 50% of any proceeds received on any asset sales to RIFW whilst monies remained outstanding to them over the two year period and Savills, at SWLDL's cost, would also provide a brief update to their initial report to ensure that RIFW's security position remained at an acceptable level.

Taking this approach was recognised by all parties as providing a secure structure to RIFW and one where formal valuations on an on-going basis would not be required.

4. Monmouth.

a. The current position in respect of Monmouth is that we have not yet completed on the sale of the land earmarked for residential development. In order to complete on the purchase RIFW need to remove their charge on the land relating to the overage. The overage payable is as yet not agreed between the parties but is progressing and given the formula and procedure contained within the legal agreements will be resolved. We have requested RIFW to remove their charge on the land the subject of the sale and complete and for them to hold all monies received in Escrow until any overage issues are resolved. That would obviously be in the interests of all parties and carries no risk for RIFW. The planned completion date was in early October.

b. This disposal is for the residential element of the site and comprises some 35 acres with a further 3 acres required for access roads. There is further amenity land for drainage and ancillary residential uses as part of the planning consent which will be transferred as part of the sale at nil value as it has no commercial value. There will be some remaining agricultural land which has no planning consent and has a nominal value and there is remaining employment land of some 13 acres as part of a mixed use planning consent which will remain with SWLDL.

In value terms it is our assessment that that around 85% of the site's total value is made up of the residential development land which is subject to the overage provisions and the sale to BDW Trading Limited.

c. The sales proceeds are payable £5,750,000 on agreement of the overage following completion, £3,125,000 on the first payment anniversary and £3,125,000 on the second anniversary.

d. Overage will be calculated at 50% of the sales proceeds less allowable costs and an agreed base value. The overage will be paid on a pro rata basis on the same payment profiles as the consideration received (outlined above). Therefore the first overage payment will be remitted to RIFW following receipt of monies from BDW post completion and agreement of the overage.

I hope this is useful and would be happy to provide further information if I am able. As I hope you will gather from the fullness of my answers I wish to assist with the Committee's inquiry as the facts demonstrate that the transaction was one that took place on commercial terms and at a fair market price at the time of the deal. As you will appreciate from my comments on the overage provisions above, there is potential for significant additional value to accrue to RIFW on both the Monmouth and Lisvane sites.

Regards

Langley Davies

Director – South Wales Land Developments Limited

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