



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyfrifon Cyhoeddus **The Public Accounts Committee**

Dydd Iau, 12 Mehefin 2014
Thursday, 12 June 2014

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are recorded in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

**Eraill yn bresennol
Others in attendance**

Jayne Dowden	Prif Swyddog Gweithredu Dros Dro, Prifysgol Caerdydd Acting Chief Operating Officer, Cardiff University
Syr/Sir Derek Jones	Ysgrifennydd Parhaol Llywodraeth Cymru Permanent Secretary, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
Damien O'Brien	Prif Weithredwr WEFO Chief Executive WEFO
David Richards	Cyfarwyddwr Llywodraethu Director of Governance
Yr Athro/Professor Colin Riordan	Is-Ganghellor, Prifysgol Caerdydd Vice-Chancellor, Cardiff University
Peter Ryland	Dirprwy Gyfarwyddwr, Perfformiad Rhaglenni a Chyllid Deputy Director, Programme Performance & Finance
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Fay Buckle	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Legal Adviser Cynghorydd Cyfreithiol
Meriel Singleton	Ail Glerc Second Clerk

*Dechreuodd y cyfarfod am 09:04.
The meeting began at 09:04.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Darren Millar:** Good morning, everybody. Welcome to today's meeting of the

Public Accounts Committee. If I could just give out a few housekeeping notices, the National Assembly for Wales, of course, is a bilingual institution, and Members and witnesses should feel free to contribute to today's proceedings through either English or Welsh, and there are translation facilities available via the headsets. I encourage everybody to switch off their mobile phones and any other electronic equipment in case they interfere with the broadcasting equipment. I also remind everybody that, in the event of a fire alarm, we should follow the directions from the ushers. We have received apologies today from both William Graham and Sandy Mewies. I call on Jenny Rathbone.

[2] **Jenny Rathbone:** I just need to make a declaration for item 4, as I am chair of the European programme monitoring committee.

[3] **Darren Millar:** Thanks for that. We will make sure that that is noted. Are there any other declarations? If there are not, we will move swiftly on.

09:05

Papurau i'w Nodi Papers to Note

[4] **Darren Millar:** Members have had a copy of the minutes of our meeting on 20 May and our meeting on 3 June. I will take it that those are noted. If Members are content, we will move swiftly on.

Cyflog Uwch Reolwyr: Sesiwn Dystiolaeth 8 Senior Management Pay: Evidence Session 8

[5] **Darren Millar:** Continuing with our inquiry into senior management pay, I am very pleased to be able to welcome Professor Colin Riordan, vice-chancellor of Cardiff University and chair of the Higher Education Funding Council for Wales at the moment—

[6] **Professor Riordan:** I am chair of Higher Education Wales. HEFCW is the funding council.

[7] **Darren Millar:** Pardon me. I also welcome Jayne Dowden, acting chief operating officer of Cardiff University. Welcome to you both. We appreciate very much your assistance with our inquiry. You will be aware that we have already taken evidence from right across the public sector and from organisations that are funded significantly by the public purse. Did you want to make any opening remarks before we go into questions from Members?

[8] **Professor Riordan:** No, thanks.

[9] **Darren Millar:** Thank you very much indeed for the papers that you sent in advance to the committee. One thing that the committee is obviously taking an interest in is the significant size of salaries for vice-chancellor and senior members of staff in the university sector. We note that your package is in excess of £0.25 million. Do you think that you are worth it?

[10] **Professor Riordan:** Yes, I think that I must be, otherwise, I would not be here, I guess. As it happens, I did not negotiate at all over my salary. I was offered a salary, and I accepted it. It was very much in line with the kind of salary that I had been receiving when I was vice-chancellor at the University of Essex. It was a bit more than that, but less than my predecessor at Cardiff received. I felt, 'Well, that's somewhere in between the two. That seems fine.'

[11] **Darren Millar:** There is a significant difference or gap, if you like, generally, in the university sector between vice-chancellor pay and deputy vice-chancellor pay. Is there some way that you can explain that? It seems to be a feature that is peculiar to the HE sector.

[12] **Professor Riordan:** Having experienced it myself—I have not been exactly a deputy vice-chancellor, but I have been on a senior team, as I was at Newcastle University, where I was a pro-vice-chancellor and in charge of a faculty of 10,000 students and 700 staff, it had a turnover of, from memory, about £60 million. I was paid initially about £75,000. It was in 2005, I think, that I started doing that, and I think that I ended on about £100,000. When I became a vice-chancellor in Essex, I moved up to £160,000, so that is quite a big difference, but nothing can quite prepare you for the difference in being a vice-chancellor from being a deputy, because it is you who accepts all the public scrutiny and the ultimate responsibility. There really is nowhere to go. You do not have a boss, in a sense. You are accountable to your governing body, as we all are, and that is very important, but it is expecting you to perform without any real handholding. So, there is a really big difference between being a vice-chancellor and being the deputy in terms of the responsibility that you have, the public scrutiny, external representation and all the rest of it.

[13] **Darren Millar:** However, that is the same as many other organisations, and they do not seem to have the sort of gap in terms of their most senior officer and the next most senior officer down the tree, do they? In your university, it is over £80,000.

[14] **Professor Riordan:** I cannot speak for other organisations. The way that salaries are set is that you have a job, you need it done and you want the best person to do it. You could look around—and I have not looked at this particularly—the university sector and you might find much smaller gaps than that. That is perfectly possible. There is no theory about it; it is more a sense that you need people in certain positions, you want to get the best people in them and you arrive at a point of mutual agreement.

[15] **Darren Millar:** However, you are not able to offer any explanation regarding your own university in terms of the gap?

[16] **Professor Riordan:** Except for the one that I have just given. It is not a gap that I have ever paid any particular attention to. You would expect there to be some gap, of course, but I have not paid any particular attention to that gap.

[17] **Darren Millar:** It has not been a matter of discussion with Higher Education Wales or among any of your peers or colleagues?

[18] **Professor Riordan:** We would never discuss that kind of thing between universities, because we are, as you know, autonomous institutions—we are not public bodies. We collaborate very closely but we are also in competition, not specifically within Wales—I am talking about across the UK and in the United States, Australia and in other countries around the world, very often, continental Europe. We would not discuss matters like that between ourselves, partly because of issues of competition law, but there is also the point that we are competing for the same types of people.

[19] **Darren Millar:** Why would you not discuss between yourselves as a sector?

[20] **Professor Riordan:** Because we are competing for the same types of people, and you would not—

[21] **Darren Millar:** And so are large parts of the NHS and other parts of other organisations that are funded by the public sector. There is even guidance issued by

organisations that are pan-HE sector, so they are clearly being discussed by some parts of the sector. So, why do you not discuss them with fellow vice-chancellors?

[22] **Professor Riordan:** Because we are not part of the public sector; we are separate institutions—

[23] **Darren Millar:** I appreciate that, but you receive significant funding, Professor Riordan, from the public purse. So, why is there no discussion on a pan-Wales basis about senior management pay and the setting of vice-chancellor pay?

[24] **Professor Riordan:** It is because we are not part of the public sector in the sense that we are not public bodies that are funded according to a standard scale; we are not like that. We have a national negotiation body called the Universities and Colleges Employers Association, and on behalf of all the universities in the UK it will reach an agreement with the unions on what the cost of living rise should be. For the past two or three years, that has been 1%. This year, it is 2%. That applies to everybody in the sector. However, senior pay—the pay of professors, senior teams and vice-chancellors—is a matter for each university. There are guidelines from the CUC around how that should be—CUC is the Committee of University Chairs. It has produced a set of guidelines on what is good best practice in setting pay, so you have a remuneration committee that adheres to those principles. Universities are autonomous institutions—that is a very important principle—and they are also in competition with one other. That is not a theoretical thing—it is just the reality that if someone wants to say to universities that are appointing a deputy vice-chancellor, for the sake of argument, you would not want to be discussing with the other university what kind of pay level you should be setting, because you are competing for the same person.

[25] **Darren Millar:** I do not think that anyone is suggesting that. I am just suggesting that there might be discussion around pay setting more generally within the HE sector, and that, perhaps, there might be an opportunity for organisations such as the Committee of University Chairs to provide some guidance on differentials, if you like, between the most senior and the next most senior post. A number of Members want to come in on this issue. I am going to bring Jenny Rathbone in first, and feel free to respond to the point I have just made in a few moments' time. I will then bring in Julie, and then Mike.

[26] **Jenny Rathbone:** Universities are, and always have been, autonomous institutions, but they are also mainly publicly funded.

[27] **Professor Riordan:** Not mainly.

[28] **Jenny Rathbone:** Well, you are funded from the fees from students who are subsidised by the public purse; there is a fee system. There are the research grants that come from Europe, which come out of the public purse. Ultimately, it is the taxpayer who is funding your institution, just as they are the banks, and there is increasing interest in how much people are paid. This is an important discussion to have to test the rigour with which universities set their higher salaries. I suppose what I am interested in is the rigour with which remuneration committees look at how much of the university's resources they are going to invest in their vice-chancellor. The make-up of the remuneration committee is exclusively from the university council. Are they laypeople?

09:15

[29] **Professor Riordan:** It is in our case. I am not sure whether it is in all cases.

[30] **Jenny Rathbone:** Fair enough. Are they always chaired by a layperson?

[31] **Professor Riordan:** Yes, as I understand it. Certainly all of the ones that I have been closely involved with, which is really only two: Essex and Cardiff.

[32] **Jenny Rathbone:** This is in the context of the concern that there has been about the way that remuneration committees have been operating in the financial sector. That is now drifting into being a public discussion around the pay of senior people in other institutions. So, I suppose that once it starts to become a subject of public debate by your stakeholders, it is something that universities need to respond to.

[33] **Professor Riordan:** Yes, absolutely. I have no problem with that.

[34] **Jenny Rathbone:** So, is there anything that you think could be done to improve the transparency of remuneration committees? By their nature, obviously, a lot of their deliberations are confidential, but that means that the public are a little bit suspicious as to what exactly goes on.

[35] **Professor Riordan:** Yes, well, this is obviously an issue that does arise in other sectors too, and the same problems are there, in the sense that remuneration committees are wary of including people who are employed by them. They set, not only the pay of the vice-chancellor and the senior team, but also all of the professors in the university, so they are wary of creating a situation that makes it difficult or uncomfortable for individuals, who may be entirely, as it were, bystanders in this, or, indeed, of making it more difficult to be a competitive university. We had an example of that when we brought in full economic costing for research grant proposals, because if you want full economic costing, you need to know exactly what the salaries of the people doing the research are. This caused quite a lot of debate at the time, and it is still difficult. There is a banding system that allows a certain degree of anonymity, which is what is used now, of course, when we publish our accounts, so that we can see what the issues are.

[36] In terms of transparency, certainly my pay is published in the accounts, and so is that of the highest earners—the people who are earning over six figures. That is all published. I think it is important that the governing body of the university, which is the council, is clearly in charge, as it were, and is a majority on the committee, and that it sets the pay and is held accountable for that. The remuneration committee of Cardiff University is chaired by the chair of council, John Jeans, who also happens to be a board member of the Universities and Colleges Employers Association, the national pay negotiating body, so he is very well placed to chair such a body. I guess that those are the people—that is, the chairs of remuneration committees—who will be able to give a better insight into how these things function. Clearly, I am not there when my own pay is discussed.

[37] **Jenny Rathbone:** No, of course. Do you have any staff representation on the remuneration committee? If not, have they ever considered it?

[38] **Professor Riordan:** I do not know whether it has been considered, but you have the membership there, which is three lay members of council, including the chair of council, and me as vice-chancellor and the deputy vice-chancellor. So, we are staff.

[39] **Jenny Rathbone:** Okay, but by ‘staff representation’ I think I mean somebody who represents one or another of the trade unions.

[40] **Professor Riordan:** No, we do not have that. I am not sure whether it has been considered.

[41] **Jenny Rathbone:** Okay, thank you.

[42] **Darren Millar:** I call on Julie Morgan.

[43] **Julie Morgan:** You told us that your pay actually went down 10% compared with the previous—was it 10% that you said?

[44] **Professor Riordan:** Well, I think that is—. Oh, I see, compared with my predecessor, yes. I do not know exactly the amount. I was not privy to what my predecessor was paid, or I did not check—I could have looked it up, I suppose. However, in the course of this, it did transpire—

[45] **Julie Morgan:** That your pay was 10% lower than your predecessor. Do you know how that was decided, or why? Was it because the remuneration committee thought that the salary was too high?

[46] **Professor Riordan:** No, I should think that would be on experience. My predecessor had been the vice-chancellor at Cardiff for 11 years. I was on a particular salary at Essex and I had been doing it for five years, but clearly successfully enough that they wanted me to come to Cardiff. They offered me a salary that I did not object to, so I accepted it.

[47] **Darren Millar:** Jayne, you wanted to come in on this issue. The microphones will work automatically.

[48] **Ms Dowden:** Okay, thank you. When we were appointing Professor Riordan, the chair of council at that time had regard to the salaries of other vice-chancellors in the Russell Group, but also to the salaries of vice-chancellors in Wales. The committee has before it, in the documents that we supplied, the comparative Russell Group salaries of vice-chancellors. You will see that the chair of council, in consultation with other members of the remuneration committee, felt that it was not appropriate to pitch to the higher end, but, in fact, to propose a salary to Professor Riordan that was consistent with that of a Russell Group vice-chancellor, because these are very large universities, but also consistent with the sector in Wales.

[49] In terms of the relativity with the previous incumbent vice-chancellor, Dr David Grant had been in post for 11 years and had obviously seen some salary growth in that time. He had accomplished the merger of Cardiff University and the University of Wales College of Medicine, which had an impact on his original salary. He had a performance increase as a result of achieving that significant change, by negotiation. Therefore, he had seen growth. Obviously, there would be potential for Professor Riordan to see growth should Cardiff University achieve the sort of growth that we are looking for from it.

[50] **Julie Morgan:** In terms of the salaries for the Russell Group universities, the information we had is that it is very low, the salary. How does it compare generally, throughout the sector?

[51] **Professor Riordan:** Is that for me or for Jayne?

[52] **Julie Morgan:** It is for either of you.

[53] **Professor Riordan:** I will take that question. In the Russell Group, I am in the lower decile, the bottom 10%; across the sector, I am in the top 25%. You have the information there somewhere. Hang on—I am in the upper quartile.

[54] **Julie Morgan:** You have made a strong case for universities being individual and competing, so do you feel that, with what you are being paid, you are competitive?

[55] **Professor Riordan:** It is very difficult; I do not know. I know that there are some

vice-chancellors who would not come to Cardiff for what I am being paid. You can look at it, and you will see that there are people who are being paid noticeably more than £100,000 more than I am, and I would be fairly sure that there are a number of vice-chancellors who are there or thereabouts who would expect more. They happened to get somebody who had lived for 12 years in Swansea, whose daughters—both his daughters—were born in Wales, who knew south Wales well, who enjoys rugby and who wanted to come here. So, I came here for that—or that was one of the reasons I came here. It is a complicated set of circumstances. It is clearly not just about salary.

[56] For years at Essex, I was in the bottom 10% of all universities. If you look at where Cardiff is ranked and look at the league table of vice-chancellors' pay, you will find that there are a lot of people who are paid more than me, but their university is ranked a lot lower than Cardiff. It might be the other way around for all I know, but I have not looked at that bit, because I was interested in the other way around. However, it is easy to see. There is not necessarily a direct correlation between the standing of the university or even the performance of the university; it depends on a lot of factors, some of which are historical, such as what a previous vice-chancellor was earning. That shapes expectations.

[57] **Julie Morgan:** You say that some universities would be paying £100,000 more than you get. What sort of universities would they be?

[58] **Professor Riordan:** The information is in the pack.

[59] **Darren Millar:** Are these some of the Russell Group universities?

[60] **Professor Riordan:** No, not just Russell Group universities; there are some vice-chancellors at post-1992, former polytechnic universities who earn more than I do—not in Wales, but in England.

[61] **Julie Morgan:** Finally, just to ask about performance-related pay: does that happen in Cardiff?

[62] **Professor Riordan:** Actually, it might be something that Jayne can come in on, because I am not fully au fait with it. I know that the remuneration committee was looking at it. My stance is that it is fine, but, frankly, I have never been particularly motivated by PRP. I have always been motivated more by—. Obviously, you do not want to feel that you have got a financial difficulty—nobody wants that—or do you want to feel that you are somehow not being paid a decent amount of money. I do not have any problem with that part, but, personally, I am not very—. Put it this way: if Cardiff University gets in the top 100 and gets into the top 20 and our research income increases the way that I want it to, and if all the other things that I have said in 'The Way Forward'—our strategy document—happen, I would be absolutely delighted, really. That would be absolutely great, but I would not then think, 'Oh, I must have a pay rise'. That is not the way it works. If you are an academic, which I am, you do not become an academic for the money; that is really not the reason you do it. It is not like becoming a captain of industry or something. We do not have shareholders and we do not make profits. We are a charity, and what we make goes back in. Any surplus goes back in to improve what we do. So, the motivation of most people—although, obviously people are interested in money, I would not say that nobody is, but that is not the primary motivation.

[63] **Julie Morgan:** Well, I hope that all that will happen at Cardiff.

[64] **Professor Riordan:** Thank you.

[65] **Darren Millar:** Sorry, but may I just extend the performance-related pay question? What about the rest of your senior management team and the senior management teams

within other universities? Do you have any overview as to whether there is extensive use of performance-related pay?

[66] **Professor Riordan:** It is quite widespread, and I know that our remuneration committee is looking at it, but I have not been part of those discussions, because some of it would impact on me. You know, I have had this discussion. I went through this in Essex and, somehow, it just never quite happened, probably because I was not dramatically keen on it. However, I think that our remuneration committee has a view on this, and Jayne might be able to update a bit more clearly on it. It is fairly common throughout the sector among a lot of my colleagues, certainly in the English sector, although I have not actually talked to anybody here about this. That is in chitchat; not in any formal talk about getting or not getting their bonuses and so on. So, I think that, in other universities, it is relatively common.

[67] **Darren Millar:** Okay. Jayne, are you able to shed any light on that?

[68] **Ms Dowden:** Yes. There is an increasing use across the UK sector of performance-related pay. I think that it comes from a wish, actually, not to ratchet up salaries, but to be more accountable for why particular decisions are made around salary. At Cardiff, what we have done so far over the time that I have been there—I have been at Cardiff for eight years, and I have worked with the remuneration committee over that period—is to set a very clear and transparent and published senior pay policy, which has clear principles. The principles are set out in the pack. We have quite a rigorous procedure that we follow every year to review the performance of people against their objectives, which then informs any pay decisions. We have done a lot to control pay costs within the range of staff who are covered by our remuneration committee. That is over 400 people, because we have a very large professoriate, and the remuneration committee also looks at that. We do not, as yet, have any formal performance-related pay scheme that says that if you do this, then you will get that. The chair of council is having a discussion with the remuneration committee about whether that would be appropriate for perhaps the vice-chancellor and perhaps the senior team. Those discussions have not come to a conclusion as yet. Before it could come to a conclusion, the entirety of the council would be involved in considering whether that was appropriate, whether it actually fits with where Cardiff is and where Cardiff wants to go, and would it actually help the university to achieve what it wants to achieve, and fit in with the culture of accountability, transparency, et cetera that we are trying to set for the university.

09:30

[69] **Darren Millar:** You mentioned transparency a couple of times there and, indeed, the senior pay policy of the university, and said that that was transparent and available. The paper that you have submitted suggests that the policy is confidential and not available in the public domain.

[70] **Ms Dowden:** I probably used the wrong word when I was writing it, then. What I meant there is that we do not put it on the external site, so another university cannot come in and see what our pay policy is. However, anyone who is a member of staff at Cardiff can actually enter their log in and password and access that document on our intranet.

[71] **Darren Millar:** Given that it is available to every member of staff, how many members of staff do you have as an organisation?

[72] **Ms Dowden:** We have over 6,000.

[73] **Darren Millar:** So, it is pretty easy, I presume, for any university to be able to get access to your pay policy.

[74] **Ms Dowden:** If they want to, but we do not particularly want to advertise to them that we are as organised as we are around pay.

[75] **Darren Millar:** Do you think that there might be merit in publishing that in the public domain in order to support transparency?

[76] **Ms Dowden:** I think there may well be merit. I have formerly been an HR director. If another HR director were to want advice from me about how to make sure that pay is well organised for senior members of staff, I would have no problem in actually indicating the types of things that I have included in that document—sorry, the remuneration committee.

[77] **Darren Millar:** But if all universities had to publish it, it would take the sting out of the tail in terms of competitive edge, would it?

[78] **Professor Riordan:** Except that we cannot make the Australian universities publish it, or the New Zealand ones, or the Canadian ones or American ones—

[79] **Darren Millar:** I appreciate that, but there are accounting directions, et cetera, in terms of the publication of your accounts. There could be grant conditions tied to some of the income that you receive from the Welsh Government or other parties.

[80] **Professor Riordan:** I am sure that you could make—. If it was required for us to publish our pay policy then we would, but that would only be in Wales, when we are competing for staff. The issue that always comes to our mind is what is going to happen when we are trying to get a particular person from another university, and there is a lot of negotiation back and forth. What can they use? Clearly, you do not want them to be armed—. I do not think that this would be a particular issue, to be honest. I cannot see how the pay policy would be really critical in this, but you just never know. To be a top-100 university you have to have staff who are capable of achieving that. You need to have professors who are absolutely world-leading and they are very hot property. Last year, we had the Sêr Cymru chair, Yves Barde, coming over from Switzerland, and it was an absolute coup to get somebody like that. It is difficult, this. It is a bit like football. You do not want to be put at a disadvantage in any way. Maybe we are being overcautious in having the pay policy on the intranet only, because we know that that still makes it accessible, but what you would not want is somebody pulling it up and saying, ‘Oh, look at their pay policy—you are not going to do as well there as you would here’. That is the sort of thing—I am just giving you an insight into the sort of thinking that we have about this. Or, for instance, ‘Look at their remuneration—you do not want to be there. Look at ours. It is going to be much better here’.

[81] **Darren Millar:** I am going to bring in Mike Hedges, who has been very patient.

[82] **Mike Hedges:** I have three points that I would like to raise. The first one, to paraphrase some of the things that you said—and tell me if I have got it wrong—we cannot look at Wales in isolation; you are more in competition with Birmingham than you are with Cardiff Met for students; and, in terms of looking for staff, you are in competition with the whole world—the whole English-speaking world, anyway.

[83] **Professor Riordan:** We are also competing for students—students and staff.

[84] **Mike Hedges:** The second thing is, I am looking at the figures and it is interesting that salaries are reasonably consistent for vice-chancellors across the old University of Wales universities—Aberystwyth, Swansea, Bangor and Cardiff. They tend to be relatively consistent. Is that what you would have expected?

[85] **Professor Riordan:** The first time I saw it was when we were looking at all of this. I

did not really have any expectations, but not necessarily. I said earlier that it is hard to find a rhyme or reason, because it is about how you get the right match, and how you get the right person to go to a particular place, but what you can see is that there are big differences in the size of universities. There are big differences in the total staff numbers, as indicated by the staff costs. You do not see those differences represented in the salaries. That is quite clear.

[86] **Mike Hedges:** Perhaps I ought to declare that I am a former postgraduate student at Cardiff University. The last point that I would like to raise is one that I think runs across all public sector or publicly funded bodies, and possibly the private sector and privately funded bodies as well, is this sort of ratcheting up. University X offers £200,000, so the next one has gone for £220,000 to get somebody, and then it moves up to £240,000, and then the one on £200,000 says, 'You're only paying me £200,000. There is £240,000 there. I am better than that'. There is this sort of ratcheting up and that is something that we have possibly identified in a number of other organisations, and where people invite external organisations to come in, they find the average, mean or median salaries and anybody who is below gets moved up and then, of course, you are moving the mean and median.

[87] **Professor Riordan:** That can happen. We did try to look for correlation between university turnover and pay, but that is difficult to find. Our turnover this year is going to be more like £460 million and next year £490 million. That is almost £0.5 billion. What should somebody be paid for being in charge of an organisation that has a turnover that big? It is an interesting question.

[88] **Mike Hedges:** The last question is: would it be helpful, probably not on a Wales basis, but certainly on a European basis, to publish the vice-chancellor's salary as a percentage of the total turnover of the organisation?

[89] **Professor Riordan:** That would be very easy to do, because our salaries are all published and so is the turnover in our accounts, so you could easily have a ratio there, saying that that is what the proportion is.

[90] **Alun Ffred Jones:** Byddai'n gofyn fy nghwestiwn yn Gymraeg. Beth yw neu beth ddylai fod yr elfen bwysicaf wrth bennu cyflog is-ganhellor?
Alun Ffred Jones: I will be asking my question in Welsh. What is or what should be the most important element in deciding salaries for vice-chancellors?

[91] **Professor Riordan:** Having never decided one for a vice-chancellor, I would have to speculate. I should imagine it would be ensuring that the vice-chancellor is motivated, first of all, to come to take the job and, secondly, to stay in the job.

[92] **Ms Dowden:** It is a question of getting the right leader for the institution at the right time for the state in which the institution finds itself. An institution like Cardiff has real ambition. It felt, when it was choosing the next vice-chancellor, that it needed someone who would have the drive, the ambition, but also the credibility to take the academic workforce with us on quite a rapid journey of change. We were, in fact—and I am talking about Cardiff because it is the one that I know—fortunate to find someone who would come to do that, who had empathy for Welsh higher education, but also for the UK and global role of a university like Cardiff. We were fortunate to find someone who could actually come to work for us at a price that we felt was appropriate within the sector.

[93] **Alun Ffred Jones:** Roedd cymhariaeth yn gynharach efo byd pêl-droed, lle mae pawb yn cystadlu am yr un dalent, ac rydym ni i gyd yn gwybod beth sydd wedi digwydd yn y fan honno. Rydych chi'n
Alun Ffred Jones: There was a comparison earlier with the world of football, where everyone competes for the same talent, and we all know what has happened there. You say that Cardiff is ambitious and is, therefore,

dweud bod Caerdydd yn uchelgeisiol ac felly yn chwilio am berson arbennig. Pam felly nad oeddech chi wedi cynnig cyflog llawer iawn uwch er mwyn cystadlu gyda'r rhai eraill sydd yn nhabl y Russell Group? looking for a special person. Why then did you not offer a much higher salary in order to compete with others who appear on the table of the Russell Group?

[94] **Ms Dowden:** When you are recruiting a vice-chancellor, you do not set the salary when you go to market. You do not say, 'We're looking for someone at this price'. You invite people to apply and invite people to come to talk to you and, as part of that process, when you get close to a decision and you get a shortlist, you are then, really, looking at what it would cost to get these particular people, with these particular experiences and level of seniority in the sector, to come to Cardiff. That is part of the decision making.

[95] **Professor Riordan:** I can tell you something, actually. When I was appointed, I got a phone call from the chair of council, saying, 'This is the salary that you can have. You know, in Wales, this will be a very political issue; you are not going to be able to earn the sorts of sums you would get working for Russell Group universities in England', and I said, 'Fine'. That is the reality of that.

[96] **Alun Ffred Jones:** Gyda llaw, nid wyf eisiau canolbwyntio ar eich cyflog chi ac a ydych chi werth yr arian o gwbl. A yw cyflogau uwch swyddogion o fewn prifysgolion—Prifysgol Caerdydd yn yr achos hwn—yn gysylltiedig â chyflog yr is-ganghellor mewn unrhyw ffordd? **Alun Ffred Jones:** By the way, I do not want to concentrate on your salary and whether you are worth that money at all. Is senior management pay within universities—Cardiff University in this case—linked to the salary of the vice-chancellor in any way?

[97] **Ms Dowden:** No.

[98] **Alun Ffred Jones:** Dim o gwbl. Rydych chi wedi cyffwrdd â hyn o'r blaen. Wrth edrych ar gyflogau is-ganghellorion o fewn prifysgolion yng Nghymru, un o'r pethau trawiadol yw nad oes unrhyw gyswllt o gwbl rhwng maint y brifysgol na'i throsiant, hyd y gwelaf i, a chyflog yr is-ganghellor. A ydych chi'n meddwl bod hynny'n beth rhyfedd iawn? **Alun Ffred Jones:** Not at all. You have touched upon this already. In looking at pay for vice-chancellors within universities in Wales, one of the striking things is that there is no link at all between the size of the university or its turnover, as far as I can see, and the vice-chancellor's salary. Do you find that strange?

[99] **Professor Riordan:** It is something that I pointed out earlier on. I do not think that universities sit down and say, 'Okay, our turnover is this, our staff numbers are these, this is our league table position and, therefore, this is the kind of salary that we need to set'. What they say is, rather as Jayne outlined, 'This is the position that we are in; this is where we think we ought to be; we need a person with the following qualities and not just that, but a person who is prepared to come to this place and work here'. So, they need to think about that and also, broadly, 'What are we prepared to pay to get that? Where do we think we should be pitching it?' This will be remuneration committees in universities up and down the country. In fact, it is almost certainly more driven by people on the remuneration committee or council, generally, who might have a big discussion about that. You therefore set parameters, 'We broadly think that we can afford this, or we should be paying this, and this is the kind of person we want who is able to effect a certain sort of change', and you then need to find someone who is prepared to come. So, you have these different parameters and the salary will end up as a product of those things.

[100] **Daren Millar:** Aled is next.

[101] **Aled Roberts:** Rwyf i eisiau mynd yn ôl at dryloywder y trefniadau hyn a gofyn y cwestiwn hwn ichi, yn y lle cyntaf. Fe gyhoeddwyd canllawiau gan y cyngor cyllido addysg uwch ym mis Mai 2013 yn datgan yr hyn yr oedd yn ei ddisgwyl fel gwybodaeth o ran taliadau uwch swyddogion. A allwch chi ddweud beth yn union yw statws y canllawiau hynny, wrth feddwl eich bod wedi dweud eich bod yn sefydliad annibynnol? A oes unrhyw rym cyfreithiol iddynt, neu a ydynt yn rhan o gynllun ffioedd a chynllun mynediad y brifysgol a'r trefniadau sy'n cael eu cytuno rhwng y brifysgol a'r cyngor cyllido?

Aled Roberts: I want to return to the transparency of these arrangements and ask you this question, in the first place. Guidance was published by HEFCW in May 2013 stating what it expected as information in terms of senior management pay. Could you say exactly what the status of those guidelines is, given that you have said that you are an independent institution? Is there any legal power or authority to them, or are they part of the fee plan and access plan of the university and the arrangements that are agreed between the university and HEFCW?

[102] **Professor Riordan:** I think that they are just guidelines. I do not believe that they have statutory power and I do not think that that is part of the fee plan, either. The fee plan is about the students and how we recruit them.

[103] **Aled Roberts:** Felly, nid oes unrhyw oblygiadau o ran methiant ar ran unrhyw brifysgol i ddilyn y canllawiau hynny. Rydym wedi cael gwybodaeth nad yw Prifysgol Fetropolitan Abertawe a Phrifysgol Cymru Y Drindod Dewi Sant, er enghraifft, yn cyhoeddi unrhyw fanylion ar ei gwefan yn ôl y canllawiau.

Aled Roberts: Therefore, there are no implications in terms of failure by any university to stick with those guidelines. We have had information that Swansea Metropolitan University and University of Wales Trinity St David, for example, does not publish any details on its website in accordance with the guidelines.

[104] **Professor Riordan:** Well, they are guidelines. My view is that, generally, it makes sense to. It is your funding body and we ought to work with it and we ought to follow guidelines wherever we can, but they are guidelines.

[105] **Aled Roberts:** A gaf ofyn hefyd ynglŷn â'ch dealltwriaeth chi o'r canllawiau? Mae'r canllawiau yn sôn am gyfanswm taliadau pennaeth y sefydliad, gan gynnwys unrhyw fonws. Rwy'n ymwybodol bod rhai prifysgolion yn darparu tŷ ar gyfer yr is-ganghellor, er enghraifft. A yw hynny'n rhan o'r trefniadau o ran yr holl drefniadau, achos bod y tŷ'n cael ei gyflwyno i'r is-ganghellor am ddim?

Aled Roberts: Could I also ask about your understanding of the guidelines? They mention the total pay of the head of the institution, including any bonus. I am aware that some universities provide a house for the vice-chancellor, for example. Is that part of the arrangements in their entirety, because the house is presented to the vice-chancellor for nothing?

09:45

[106] **Professor Riordan:** Yes, it certainly is in Cardiff's case. I think that Swansea has the same arrangement. About a third of the universities in the UK have that. It is interesting; I had that arrangement in Essex, and I would have been perfectly happy not to have it in Cardiff, because you do not have as much of a private life, in a sense, as you otherwise would. However, there was a desire on the part of the university that there should be a vice-chancellor's house where one can entertain. It adds a dimension; we have lots of very grand buildings and so on in Cardiff, so there is no shortage of places to entertain. However, there is clearly a difference between that and having a residence, as it were—it is probably too grand

a word—as somewhere where you can entertain people in a less formal setting. There are advantages to it, but it is six of one and half a dozen of the other. Some universities have houses and some do not.

[107] **Aled Roberts:** Ble mae'r ffigur hwnnw yn cael ei ddangos yn y taliadau yr ydym yn eu gweld o'n blaenau yma? A oes unrhyw ffigur yn cael ei roi ynglŷn â gwerth y tŷ o'i gymharu â thaliadau morgais ar dŷ?

Aled Roberts: Where is that figure shown in the payments that we see before us? Is any figure given in terms of the value of that house compared with mortgage payments on another house?

[108] **Professor Riordan:** Jayne would know that.

[109] **Ms Dowden:** I do not believe that it is captured in any of the benchmarking information, so I do not think that it is before the committee.

[110] **Aled Roberts:** Gai ofyn un cwestiwn arall? Nid yw'n berthnasol i'ch sefydliad chi; mae'ch sefydliad chi'n cyhoeddi manylion ynglŷn â thaliadau pensiwn. Fodd bynnag, nid yw o leiaf pedwar o'n prifysgolion wedi rhoi unrhyw wybodaeth am y taliadau pensiwn i is-ganghellor. Nid wyf yn siŵr os ydych yn ymwybodol o hynny.

Aled Roberts: May I ask one other question? It is not relevant to your institution; your institution does publish details of pension payments. However, there are at least four of our universities that do not provide information about pension payments to vice-chancellors. I am not sure whether you are aware of that.

[111] **Professor Riordan:** That is probably because they have stopped paying into their pensions, I would guess. Is that right?

[112] **Ms Dowden:** It is quite possible.

[113] **Professor Riordan:** We have to publish that information, so I can only imagine that they have reached their lifetime allowance, or something. I do not think that £0 means that they are not publishing.

[114] **Aled Roberts:** Nid oes unrhyw awgrym—. Rydych yn ymwybodol, rwy'n siŵr, o'r feirniadaeth sydd wedi cael ei gwneud o rai cynghorau yng Nghymru lle mae trefniadau wedi cael eu gwneud lle mae taliadau ar wahân wedi cael eu cynnig er mwyn i'r unigolion brynu cronfeydd pensiwn y tu allan i gronfa'r brifysgol. A fyddai hynny'n bosibl o fewn trefniadau cyllido unrhyw brifysgol?

Aled Roberts: There is no suggestion—. I am sure that you are aware of the criticism that was made of some councils in Wales where arrangements have been made where separate payments have been offered for individuals to be able to buy pension funds outside the university pension fund. Would that be possible within the funding arrangements of any university?

[115] **Ms Dowden:** Certainly, any university that is a member of the universities superannuation scheme—the USS—cannot offer alternative pension arrangements, because it is an exclusive scheme. If you step outside it for any employees, it actually affects your ability to be a member of the scheme. It is, of course, an individual choice whether to be in the pension scheme or not, and the changes in tax arrangements—lifetime allowance and annual allowance—have hit higher earners quite significantly over the years.

[116] **Aled Roberts:** A fyddech yn ymwybodol, o ran y sector yng Nghymru, faint o brifysgolion sydd o fewn cynllun cronfa'r prifysgolion yr ydych wedi sôn

Aled Roberts: Would you be aware, in terms of the sector in Wales, how many universities are in the fund for universities that you have talked about?

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[117] **Ms Dowden:** Certainly, the chartered universities—Aberystwyth, Bangor, Cardiff, Swansea and Lampeter—would have been. The post-1992 universities tend to be part of the local government pension scheme.

[118] **Aled Roberts:** A gaf ofyn un cwestiwn olaf? Rydym wedi dechrau trafod y Bil Addysg Uwch (Cymru) newydd sy'n sôn am god ariannol newydd rhwng y sector yng Nghymru a Llywodraeth Cymru, ac y byddai pwerau ymyrraeth gan Gyngor Cyllido Addysg Uwch Cymru pe bai'n anfodlon ag unrhyw drefniadau. A fyddai gennych unrhyw bryder ynglŷn â chynnwys y canllawiau hyn o ran taliadau uwch swyddogion a'r holl drefniadau o fewn unrhyw cod ariannol fel ei fod yn rhan o gytundeb rhwng Llywodraeth Cymru a'r sefydliadau o ran derbyn arian cyhoeddus yn y dyfodol?

Aled Roberts: May I ask one final question? We have started to discuss the new Higher Education (Wales) Bill, which talks about a new financing code between the sector in Wales and the Welsh Government, and that HEFCW would have intervention powers if it were dissatisfied with any arrangements. Do you have any concerns about including these guidelines in terms of payments to senior officials and all the arrangements within any financial code so that it is part of an agreement between the Welsh Government and the institutions in terms of receiving public funds in the future?

[119] **Professor Riordan:** It usually depends on what the details of all that are. The absolutely critical thing is that Welsh universities retain their autonomy and their competitive position and improve their competitive position. If we were to move to a position, as in, say, Ireland, where academics and universities are essentially public servants and are paid by the Government, or their pay is set by the Government, it would make an enormous difference to our ability to compete. Personally, I think that, if that were the case, and if our ability to buy our own buildings and set our own salaries—within the law, of course, and within the normal frameworks—and run our own affairs were constrained, it would seriously affect our competitive position.

[120] One reason the UK university system is second in the world only to the US—and in some measures is ahead of everybody—is because of our ability to run ourselves. Why are German universities such as Heidelberg not right up there? There is a good reason: it is because they do not have the freedom to act that we have; if they did, they would be very much more competitive. We are seeing capacity building around the world, particularly in China, but also in other places, from where students have been coming here in their hundreds and thousands and have been studying abroad for years and years. They are building universities at a huge pace and they are filled with people who have been educated here and in the US and in New Zealand and, over the next 10 to 20 years, we are going to see the global picture in higher education absolutely transformed. It is going to be very, very competitive. We are going to have to redouble our efforts and to be internationally more competitive. That is the real key to success. If Wales wants a successful university sector, we have to be sure that we retain our ability to act swiftly and flexibly and in response to global trends as well as national ones. What would concern me is anything that made it more difficult for us to do that.

[121] **Aled Roberts:** A ydych yn dweud felly fod hynny wedi digwydd, er enghraifft, gyda Choleg y Drindod yn Nulyn o achos y trefniadau hynny? Byddwn yn meddwl fod enw Coleg y Drindod yn well nag enw rhai o'r sefydliadau yr ydym ni'n edrych arnynt.

Aled Roberts: Are you saying then that that has happened, for example, with Trinity College in Dublin because of those arrangements? I would have thought that Trinity College's reputation was better than that of some of the institutions that we are looking at.

[122] **Professor Riordan:** Well, there are lots of factors at play. That is a very old university. There are lots of factors at play in terms of what influences a university's position. It is not only autonomy; autonomy is a sufficient, but not necessary condition—put it that way. However, we could certainly find TCD being much more competitive with Oxbridge perhaps—you could look at it that way—if it had the sort of autonomy that Oxbridge does.

[123] **Aled Roberts:** A ydynt, felly, yn cael problemau gyda recriwtio oherwydd yr holl oblygiadau sydd wedi eu gosod arnynt gan Lywodraeth Iwerddon? **Aled Roberts:** Do they, therefore, have problems with recruitment because of all of the obligations imposed on them by the Irish Government?

[124] **Professor Riordan:** A good person to ask about this would be John Hughes, the vice-chancellor of Bangor University; he used to be in Ireland. I would be amazed if a 20% pay cut, when that happened when austerity came in, did not make it more difficult to retain and recruit top-level staff. I would imagine somebody thinking—. I do not want to say anything invidious about any university, so let us take a hypothetical case and let us say that there is a place in the world where you are looking at going and you have noticed that, in the past, the Government has intervened very strongly, taking control of the pay and perhaps changing their conditions. Would you want to go there as opposed to somewhere where that is clearly not going to happen? You would make your own mind up, and think that there are some obvious consequences to all of that.

[125] **Darren Millar:** You do accept that, given the significant proportion of funding that universities receive from the public purse via one route or another, there ought to be some influence on these things without it fettering or restraining independence and crossing the line, as it were, in terms of your ability to respond and make sure that you are competitive.

[126] **Professor Riordan:** Absolutely, and that is why we have HEFCW, or HEFCE in England. So, you have the ministry and then, between the Minister, the ministry and the universities, there is a buffer body, which has been, up to now, the funding council. I know that a lot of taxpayers' money, by various routes, gets into universities, but the amount that comes to you as a block grant from the Government via the funding council has dramatically dwindled. Everything else you have to compete for: you have to compete for the students, you have to compete for the research grants, the European grants. Everything else you have to compete for. So, the amount that comes to you as a block grant, and this is the key, is the bit for which you need to be held accountable in a very clear way. There needs to be protection of the interests of students. In a sense, a kind of consumer protection, almost, needs to be there because that Treasury money and the fee grant money is coming in to fund them. I totally accept all of that—absolutely. I think that we do need a Bill. England actually needs a Bill; it just has not been able to do it for one reason or another. Now that the funding levers are not there in the same way, you have to have a regulatory framework that functions well, but it must take account of the need to preserve university autonomy while protecting the interests of students and of the taxpayer. Those two things are very important.

[127] **Darren Millar:** Jenny Rathbone, you have a question.

[128] **Jenny Rathbone:** I think that you have made some very coherent arguments as to why you are in a global competitive marketplace in setting your higher salaries, but I think that, if you are going to continue to be successful in the global world, one of the things that you will have to do is to take your stakeholders with you, which include your staff and your students. So, I suppose that all universities need to look at how they justify increasing the pay of their vice-chancellors and other senior staff by more—by a higher percentage—than that of most of their staff. That is what is fuelling a lot of the discussion about the rate of senior pay. I wondered how you think that you will cope with that, given that it has now become quite a

debate on campuses around the UK, and, presumably, elsewhere in the world.

[129] **Professor Riordan:** I agree. The way that I coped with it in Essex was by not having a pay rise for four years. Of course, that gets you to the point where the only way that you can get a pay rise is by moving. That is not the ideal route, either. I have not had a pay rise here since I got here. I do not necessarily anticipate one in the near future, but I do not control that, obviously. There is the—

[130] **Jenny Rathbone:** I am keen to look at the university sector as a whole, and the problem that it has, rather than your particular situation.

[131] **Professor Riordan:** Well, that is really difficult. We discuss this, obviously, at Universities UK. We can say what we like. If, at a particular university, a vice-chancellor accepts a pay rise of £104,000, £90,000, £80,000, £120,000 or whatever, some of us look on and say, ‘What do you think that you’re doing?’, but what can we do about that? It is one of the issues here. If you want to retain the real competitive nature of the UK system, which puts us in a very good place—there is no question about that—you have to accept that there are some imperfections, and you have to rely on a collective responsibility. On the whole, I think that people are very good. You will see, if you look across the whole of what happened last year, that there was a lot of disinformation about what was really going on in the university sector. Many vice-chancellors took no pay rise; some took pay cuts per the previous year. In terms of Cardiff, the total pay to the vice-chancellor will remain below what it was two years ago for at least another year—certainly, I would imagine so—or perhaps longer than that. You have to rely on each university to be responsible about this. We can certainly implore people to be responsible, but you cannot stop individual governing councils in particular universities in very specific circumstances—. It could be that their vice-chancellor is nearing retirement—all kinds of things could be happening; we just do not know what they might be. If you did move to regulate that, we would be losing something that could be very advantageous to us. I think that we would be throwing the baby out with the bathwater.

[132] It is all too easy to forget that, when we have national negotiations and, say, there is a 2% pay rise, that is not very much. On the other hand, there is something called incremental drift, and there are promotions within universities whereby people go up the incremental ladder, which can add up to 2% to 3% to the pay bill. So, some universities will be paying near a 5% increase, and their vice-chancellors may well not have had an increase of that nature. So, it is very differentiated.

[133] **Darren Millar:** We have to draw the session to a close. I have just one point for clarification and one final question, if I may. In terms of the residences that are available for some university vice-chancellors to use, can you confirm whether Cardiff University’s is tax exempt or not?

10:00

[134] **Ms Dowden:** It is tax exempt.

[135] **Darren Millar:** It is tax exempt, so there is no tax on the residence at all. I have one final question. We talked earlier about the gap between the most senior member of staff and the next in the pecking order, as it were. Do you think that the university sector should be more prepared, and that it may assist in reducing costs and encouraging restraints in pay, to promote from within an organisation rather than from without?

[136] **Professor Riordan:** Yes. We have just done that actually, have we not, Jayne? Jayne is no longer the acting chief operating officer; she is now the chief operating officer. So, yes, we would do that. In fact, Cardiff has a long tradition of promoting from within, so it has not

been the practice to promote from without. However, in terms of the vice-chancellor post, the University of East Anglia has twice promoted from within to the vice-chancellor post. You really have to test the market. If you want to be successful, you have to get the best person, and that means an international search.

[137] **Darren Millar:** Okay. On that note, that brings us to the end of this evidence session. Thank you very much indeed for your attendance; we are very grateful indeed. We will now take a short break before we start the next part of our meeting.

*Gohiriwyd y cyfarfod rhwng 10:01 a 10:07.
The meeting adjourned between 10:01 and 10:07.*

Rheoli Grantiau yng Nghymru Grants Management in Wales

[138] **Darren Millar:** The Public Accounts Committee is back in session. We are moving on to item 4 on our agenda, which is on grants management in Wales. I am very pleased to welcome the Permanent Secretary, Sir Derek Jones, along with David Richards, director of governance at the Welsh Government, and, in addition, Damian O'Brien, chief executive of the Welsh European Funding Office, along with Peter Ryland, director of finance at WEFO. Welcome to you all.

[139] As you will be aware, the committee, over a number of years now, has taken a keen interest in grants management. We have received an update report from the Welsh Government, the first of your annual reports on grants management, which was a consequence of a recommendation by the Public Accounts Committee, as a result of our work on grants management in the past. We also have an item on the agenda today to discuss the Auditor General for Wales's recent report on the public funding of Penmon fish farm, his report on the public funding of the Cywain centre in Bala, and his report on European Union structural funds. So, we have quite a meaty agenda to get through.

[140] I want to open questions in respect of the progress that has been made against the recommendations made by this committee and the Wales Audit Office in previous reports on grants management. You give us a good overview of the progress to date in the annual grants management report, Sir Derek. Do you want to make a few opening remarks on that, then we will go into further questions?

[141] **Sir Derek Jones:** Thank you, Chair. Good morning, everybody. *Bore da, bawb.* I was reflecting on the first time that I appeared before this committee, and I said at the time that I could not expect to enjoy these sessions. I am sure that there will be difficult issues and questions today, so the same holds true. However, I also said that, as a new Permanent Secretary and accounting officer, the subject of grants management was very much on my mind and my agenda, because I was aware that there had been difficult cases in the past, and that the audit office and this committee had produced reports that made for very uncomfortable reading for a new accounting officer. On the other hand, they were uncomfortable, but valuable, and on the basis of those reports, we have been able to introduce a substantial process of business improvement in the way in which the Welsh Government civil service manages grant business. There is still plenty to do, Chair, but we have already reached a stage where, as an accounting officer, I feel that the risk of repetition has been substantially reduced.

[142] **Darren Millar:** You say that the risk of repetition has been substantially reduced, but one of the difficulties that this committee has had in the past, and was unable to get any clarity on, frankly, from the Welsh Government, was the total number of grants that are

operated here in Wales. A noticeable increase in terms of the number of grants has been noted in the reports, from 480 back in 2009-10 to 517 in 2010-11. Is that because you have identified more? Do you have a grip on that now?

[143] **Sir Derek Jones:** I think we have. I do not have a target for the number of grant schemes, and perhaps we can come on to that a bit later. However, I am satisfied that the trajectory over recent years has been downwards in terms of the number of schemes—about 20% down. So, the number of awards that are being made is even more significantly down—by about 40%, I think. There are a number of factors behind that. Some of it is simply austerity budgeting in the public services. There is less money to be paid out. However, a good part of it reflects rationalisation to get more economical administration and to reduce the risks that inevitably arise with large numbers of relatively small schemes. So, there has been progress, I think, Chair, on reducing the number of grants, but that is only one part of it and I am intensely interested in the quality of the administration of those that remain, which is still a very significant number—around 400.

[144] **Darren Millar:** It is fair to say that Wales is still dealing with the legacy of the previous unsatisfactory grants management regime within the Welsh Government. We still have a tail of reports coming through—a bit like a comet passing—and we have two of them on the agenda today. How confident are you really, Permanent Secretary, that you have dealt with the major concerns that this committee, the Wales Audit Office and the auditor general had regarding the proficiency of the grants management processes within the Welsh Government? How can we be sure that taxpayers' money is being spent appropriately when it is awarded in grants to other organisations?

[145] **Sir Derek Jones:** Well, the first part of your question was to ask how satisfied I am that we have addressed the committee's concerns, and I would say that I am satisfied that we have made good progress, but there is more to do. As I said earlier, the risks are now substantially reduced: processes are better, training is better, communication between grant givers, both in Government and outside, is much better. We will come on to the assessment of businesses cases and their appraisal with things like the Penmon fish farm and Canolfan Cywain. So, I am satisfied that progress is good and that risks are significantly reduced.

[146] The second part of your question was almost like asking for an assurance that nothing will ever go wrong again. I wish I could give the committee that assurance, but I cannot. This is a very large, complex landscape that is administered by human beings. Things will go wrong and sometimes we, or our bodies, become the victims of deliberate fraud, and that is very difficult to prevent. The issue there is to spot it and capture it, and act promptly when it happens. So, as for a complete assurance that nothing will ever go wrong again, no, but I can give you a good assurance that we are making very good progress against the committee's recommendations. I hope that that comes across in the first annual report. It is only the first; we will get better at this.

[147] **Darren Millar:** Okay, thank you for that. Mike Hedges, you wanted to come in on this point.

[148] **Mike Hedges:** I have torn this information out about two projects—I did not look at what the projects were. This paper says,

[149] 'The project was always likely to fail because of flawed income assumptions...Decisions to provide grant funding were based on highly flawed assumptions, particularly with regard to projected income levels'.

10:15

[150] That could have been Powys Fadog, or it could be any one of those that we are looking at later. It almost seems as if people suspend critical analysis. With regard to Powys Fadog, which we looked at before, a cursory examination of that tells you that it could never work. A cursory examination of the Cywain centre in Bala tells you that it could not work. One of the problems is that people look at these spreadsheets, which look awfully nice and produce a plus at the bottom, but they do not appear to be critically analysed. This is not just in grants management. I look at Communities First, and I see houses worth £1 million in there and I have some of the poorest people in Swansea outside, because you just take these numbers. Do you not think that there is a role for some sort of critical analysis, rather than just the acceptance of numbers? Is that not one of the real problems? You can have all the policies you like, but if people are not capable or willing to critically analyse the data coming in, the mistakes are going to be replicated.

[151] **Sir Derek Jones:** There certainly needs to be good, objective, critical analysis. The Chair mentioned that some of these cases that we are looking at go back quite a way, but there is a lot to be learned from them nevertheless, and it is the robustness of challenge to the business plan being put forward, and that, particularly in the case of Canolfan Cywain, was poor. It was, I would have to accept, the triumph of hope over expectation. So, the intentions were good, and it was an effort to bring valuable economic activity in to support tourism and cultural activity in an area that needed all of those things, but it was not robustly enough assessed. Although, Chair, Mike Hedges was saying that even a cursory glance at the proposal would tell you that it would fail, I think that, actually, a number of bodies were involved in funding the project and gave it, I hope, more than a cursory appraisal and nevertheless felt that it was worth backing. Actually, they were wrong, and I think that we would do a much more rigorous and better job now than was done then.

[152] **Mike Hedges:** Can I respond to that? It leads on to my second question very nicely. If you draw a one-hour circle around somewhere and then a two-hour circle, you can get a reasonable expectation of attendance levels, which the Cywain centre was nowhere near sorting out. The real point is that, coming on from what you have just said, so many bodies are almost totally dependent on public sector money coming from a variety of sources. So, they have a grant from one place, and they use that grant to get grant support from another place. They use the two of those then to apply for another grant. I think that no-one takes an overview. So, you may be providing only 10% or 15% of it from a Welsh Government grant, but another 25% is coming in from WEFO, and another 20% is coming in from the local authority, and another 10% is coming in from the countryside commission or whatever it is called now, and all of a sudden, you have got up to 90% of it coming in from different public bodies, not one of which has a huge amount of money in it, but it is when combined. Does anybody actually look at the combination? I would urge you—I can do no more than that—once any project has more than 50% of its funding coming directly from the public sector, it needs a second look at it from somebody in a senior position.

[153] **Sir Derek Jones:** Well, I will certainly take that suggestion and compare it to—. This is a WEFO project that we are talking about here, although the lessons would apply more generally. I think that one of problems with multiple funding streams on a project like this is that there is a strong sense of a shared endeavour, but perhaps not a strong enough sense of a lead responsibility, with everybody relying on everybody else's due diligence. Really, it is the predominant funder that I think should take on responsibility. I think that that was WEFO with structural funds on this project. I can only repeat that I feel confident that a much more rigorous assessment of a business plan would be made now than was made then by WEFO, including the bringing in of appropriate expertise. I think that, in those days, the grant teams in the organisation were good administrators, and they would make sure that the forms were filled in properly, but in all honesty, Chair, I strongly suspect that the business expertise that was necessary was lacking. I think that you perhaps see the same issues with the Penmon fish farm. It is a complex business where a little more professional expertise was needed to assess

it—although there is a successful business happening there—and that would happen now.

[154] **Mike Hedges:** Powys Fadog was another one. I think that you have just summed up what the problem is, let alone trying to find a solution, in that they look at the forms, they look at the numbers, and the forms are all filled in neatly and have been typed out or word processed, and the numbers all look very nice at the end of it, so it is two ticks for completed and actually being profitable in the future without any critical analysis that some of the numbers are highly optimistic to say the very least.

[155] **Sir Derek Jones:** Indeed.

[156] **Darren Millar:** It is about managing risk, is it not, Permanent Secretary? If you were a relatively small contribution to an overall total, it would be very little risk to the taxpayer, if you are making those decisions in silo. What confidence can you really give Members here today, just about the cumulative decision making, if you like—collective decision making—of different grant bodies that might be different streams of funding, ultimately from the Welsh Government, or certainly from the taxpayer? Is there some co-ordination in decision making there?

[157] **Sir Derek Jones:** I have a couple of comments that I think are relevant. On the assurance about the protection of public funding, I think that it is reasonable for grant-giving bodies to take a proportionate view of their risk. If they are a minority funder, I think that it is reasonable for them to rely to a certain extent on the due diligence done by the leader of the project, or the predominant funder. If it were my organisation, I would still want some due diligence done on that, but I think that it is reasonable to be proportionate. The key thing is that the predominant funder takes a rigorous approach and brings in the necessary expertise that Mike Hedges was just talking about. However, overall, there is a need for proportion as well. In Canolfan Cywain, I think that there was a private sector element—I think that the land that was put into the project was private sector—but it was mostly public sector money. Particularly where business is being done with the private sector, the due diligence needs to be proportionate to the overall risk. This is a balance that I am trying hard to get right within the Welsh Government. We do not want to be so precautionary that our systems become so bureaucratic that we just become too difficult to deal with and lose projects for that reason. So, there is always a question of proportion. In this particular case, it went wrong. I think a good assessment of it at the start would have shown that that was likely, and it would not have been supported to the extent that it was. We would have to do better tomorrow.

[158] **Mike Hedges:** I agree that you would have to do better tomorrow. Are you convinced that you would? Would somebody now look at that project and say, ‘Yes, the numbers might look very good, but they do not actually add up, and the income is very optimistic’? We need at least some reason as to how we get to those numbers.

[159] **Sir Derek Jones:** I am confident. My colleagues are anxious to support me on this, Chair. Perhaps I will give an opportunity to Damien to say a bit more about precisely what assessment would be given to a project like that now that was not at the time.

[160] **Mr O’Brien:** With a project of that kind, I would refer it through to our technical and financial appraisal team, so it would be subject to an in-depth assessment of financial viability. That team operates through call-down contracts—it can call in specialist expertise on cost accounting, on legal aspects and on market analysis; it also taps into other specialist call-off contracts that the Welsh Government has covering areas like transport and animal health. So, a project of that kind would be subject to more rigorous assessment under the arrangements that we now have in place. I also think that our business model is very different. We have more of a development model rather than an application model, with a project development officer who provides continuity of handling for projects of that kind over their

lifetime. However, I very much agree that we must show due diligence with other funding bodies. WEFO often finds itself in a position of filling the gap on funding, so we are often working alongside other funding organisations and we now have arrangements in place to share those due diligence assessments. We do our own, of course, because we have particular requirements placed upon us by EU regulations, but we do share that with other funding bodies.

[161] **Sir Derek Jones:** I have just checked my notes, and the funding bodies, as well as WEFO, for this project—Canolfan Cywain—included the Welsh Development Agency, the Wales Tourist Board, the Arts Council for Wales and the local enterprise agency, and it had been flagged up as a priority project by the Gwynedd economic partnership. So, you can sense that willingness to make it work, but it just was not good enough and somebody should have blown the whistle on it at that time.

[162] **Darren Millar:** Of course, there were opportunities for intervention down the line at different points that were not taken, frankly. Do you want to give us some reassurance about the fact that there might be intervention in the future if similar circumstances were to arise with a project?

[163] **Mr O'Brien:** May I just comment on the award of additional funding to—

[164] **Darren Millar:** Yes, and we were talking significant amounts, were we not, in Bala?

[165] **Mr O'Brien:** Indeed.

[166] **Darren Millar:** The original approved grant was £900,000, but an additional £1.2 million, over the course of the project, was given above that figure.

[167] **Mr O'Brien:** This was to Canolfan Cywain. Any approach for additional funding now is subject to a full re-evaluation. We are going through that with a number of our projects now that are looking for extensions, and we put them into a full evaluation, so we do not simply roll things forward. We do a rigorous reassessment of the project application. That was a product of its time. I think that there was a lot of pressure in the system to utilise a resource that had become available, rather late on in the programme period. We had very sharp movements in exchange rates, moving from €1.40 to £1 at the beginning of 2008 down to €1.20 by the end of 2008—late on in a programme, that puts a lot of stress on the system—and projects were also declaring underspends, so there was a lot of money in the system that had to be utilised at relatively short notice. I do not think, looking back at this, that the decision to provide additional funding was an unwise decision. It should have been subject to a more rigorous challenge, but I think that there was a collective willingness to try to make this project work. I think that it would have been better had there been a more measured assessment of the risks involved and if a different decision had been taken. However, I think that it is important to understand what was going on during that period; it was a very difficult period.

[168] **Darren Millar:** In spite of the collective willingness, you were the only organisation sticking your neck out and giving extra cash, were you not?

[169] **Mr O'Brien:** Yes.

[170] **Darren Millar:** Digging further into your pockets and throwing cash at the money pit, as it were, and happened to be. I am going to bring in some other Members now—Julie Morgan and then Jenny Rathbone.

[171] **Julie Morgan:** Just looking at that point about willingness to make the project work,

obviously, those are not hard data, are they? Do you feel that that would not have such an influence now—that feeling rather than something concrete?

[172] **Sir Derek Jones:** I do. I think that the pressures are still going to be there. There is, sometimes, that pressure to try to make things happen. If it is an area of high unemployment or an area to which it is exceptionally difficult to attract investment, there are going to be local pressures in particular to try to make things happen. However, I am confident that those pressures would be more effectively resisted now, on the basis of rigorous assessment of a business plan, supported by the necessary expertise.

[173] **Julie Morgan:** Right. I see in the annual report that, for ongoing compliance, you now have spot checks. Could you say a bit about that? In terms of the numbers of grants, how many are you able to spot-check?

10:30

[174] **Sir Derek Jones:** The spot checks have been introduced as part of the business improvement programme that I mentioned at the beginning and as part of the work of the grant centre of excellence and the wider grant management programme. They are not a full audit of a grant scheme. An internal audit will also be at work in the normal way, identifying schemes that are new, novel, or might have a particular area of risk, and flagging those up for a full audit. However, the spot check is a sort of targeted intervention, probably to look at one or two aspects of the grant scheme, and brings with it an element of advice, guidance and support from the centre of excellence as well. The rate of spot-checking at the moment is around 20 per month; so, if you call that 200 in a year, it allows us, over a couple of years, to get around the majority of the grant schemes with, as I say, a spot check looking at at least some aspects of the work, and then following up with advice, guidance or corrections, as necessary.

[175] Our spot checks so far have found a mixed bag. So, although the advice and guidance has been prepared and distributed, I think that the issue now, predominantly for us, is behaviours and making sure that, even though the guidance is there, the standardised grant offer letters are available and that training courses are available and have been undertaken. Nevertheless, we are seeing some cases where, despite all of that, things are not quite as we would want. So, work is being done on a directorate-by-directorate basis now by the grants management programme, starting with the directorate that operates the majority of grant schemes, to become really closely involved with the grant managers in that directorate.

[176] **Julie Morgan:** ‘A mixed bag’ sounds rather ominous.

[177] **Sir Derek Jones:** There were some things that were not right. I do not think that that was the overwhelming picture, but there were some, so clearly—. I expect that we will never finish this process. I think that this, in practice, will be ongoing work.

[178] **Julie Morgan:** So, when you discover something that is not correct, how effective are you then at correcting it? Have you made any analysis of the—

[179] **Sir Derek Jones:** Pretty effective is what I want to say, but then you are going to ask me what the evidence for that is.

[180] **Julie Morgan:** Yes. What is the evidence?

[181] **Sir Derek Jones:** At which point, I think that I will turn to David.

[182] **Mr Richards:** As far as the spot checks are concerned, it is a kind of automatic

system; so, the spot-checkers will find something and they will go straight to the grant managers and say, 'This doesn't look right'. Often, it is not something major; it is not something that would make you feel that we should recover the grant. Often, it is simply something that has not been done as well as it could be—for example, someone using the wrong award letter. So, we will put those right at the point when it is met, if it is appropriate to put them right and learn that lesson straight away. We will also use that lesson, because it is the same part of the organisation that is doing the spot-checking as well, providing the training and the guidance for grants overall. So, the lessons from the spot check will then come back into the way that we train, revise and provide guidance. One of the early things that came out of the spot-check process was the award letters: that people were using different kinds of grant awards letters, and some of them were not very good. We have set a standard template for award letters now, with the right letter cleared with the lawyers. That is the go-to model. As a result of checking the organisation, and finding these areas, we have a much better standard way of proceeding. Of course, the award letters are so key because, if there is an issue, it is the award letter that sets down the terms.

[183] May I, Chair, just say something about the business plans as well?

[184] **Darren Millar:** Yes.

[185] **Mr Richards:** I think that this is just so important. If we still have people who are adding up columns of numbers, seeing that they add up at the bottom and giving them a tick, that is not good enough. You have to put together a business case with a considerable amount of professional scepticism, you have to test it and you have to see whether all the funding sources are sustainable. You have to ask what happens if these assumptions do not happen and try to arrange for it. One of the reasons why we set up and strengthened the grant centre of excellence was that, actually, we felt that our grant managers were not skilled enough in looking at the business cases, so we centralised the work. We have approached this in two ways: to raise the skills of the grants managers, which we do through better guidance and training about business cases, but also to provide a higher core of specialised people who do business cases as part of their job. So, there is a very easy way that people can pick up the phone and say, 'I'm not sure about this; can you help me and give me some advice?'

[186] **Sir Derek Jones:** I did not want to leave you with an alarming thought about the quality of administration. It is just a reality that some things are not right; we found that through the spot checks. However, we are dealing with the minority of cases, and where things have gone wrong it is really serious, it is public money, so, if it is not doing what it should do, or if it is lost or stolen, that is serious, but it is still a minority of cases and we are trying to reduce that risk further, but the majority of the administration is sound.

[187] **Julie Morgan:** Yes. So, have you had to consider withdrawing grants from a business facing a spot check?

[188] **Sir Derek Jones:** Yes. Well, clearly, grants have been suspended until we are satisfied and, sometimes, recoveries have to be made.

[189] **Mr Richards:** Yes; not as a result of the spot checks, I do not believe. We have not found anything in a spot check that we thought was serious enough to cause us to recover money. It has been more about relatively minor matters where we could have done things better.

[190] **Julie Morgan:** Well, it is reassuring that this is happening, in any case. Did any of this happen before you had this review?

[191] **Sir Derek Jones:** Internal audit would still have looked at grant schemes on a rolling

programme, but the spot checks are part of the grant management improvement programme that we have introduced since taking stock of the committee's reports and those bad cases to which I referred.

[192] **Darren Millar:** You obviously referred to the spot checks in your annual report, which was very welcome. It was good to see that the rolling programme is making good progress in terms of the number of grants that are being reviewed. However, you did not say what the proportion of spot checks was that picked up compliance issues or problems and you did not mention the scale of those problems or the types of grants or grant recipients that, perhaps, had the biggest challenge to overcome in terms of changing behaviour, et cetera. Are there worst offenders? What sort of proportion was it?

[193] **Sir Derek Jones:** I do not think that I have a number, Chair, or a percentage of the total spot checks that have produced something that needed corrective action. We could probably get a number for you

[194] **Darren Millar:** That would be very useful.

[195] **Sir Derek Jones:** I could write to the committee, but I do not think that I have that number now. When discussing with my colleagues in preparing for this session, my impression was that it has been a minority of spot checks that required some corrective action. Is that right, David?

[196] **Mr Richards:** Yes.

[197] **Darren Millar:** However, that could be 49% or 1%, could it not? I think that it would be good just to get a stab at that. What about worst offenders? David, you should have an indication as to whether it is local government that is the worst, or the third sector, or whether it is that the NHS is terrible at managing its grants. Where are you finding these problems? Which parts of the—?

[198] **Mr Richards:** As far as the health service is concerned, while, of course, the NHS and local government account for a huge proportion of the amount we give, it is unhypothecated and these are big organisations that are very professional at managing their resources. So, the very big grants go into the health service and local government and we all feel pretty confident.

[199] There are different issues with the different sectors. With the third sector, often the issues are around the capacity of an organisation. So, you would not expect a smaller organisation to have intense levels of financial expertise and that is fair enough, but there still need to be some systems. So, there is that. With bigger organisations, sometimes it can be such things as scaling their ambitions towards their funding, so that they do not extend themselves. Generally, all of these issues are sometimes about the effectiveness of the boards because, sometimes, on some of the boards of these organisations are hugely committed, brilliant people, but they do not have backgrounds in looking after large amounts of public money. Why would they, of course? So, there are big issues around training and guidance and we are working with the other partners across Wales to try to address that.

[200] **Sir Derek Jones:** I have just checked my notes, Chair, and I do not have a percentage of the spot checks that have produced the need for some corrective action, but I am sure that we will be able to find it.

[201] On worst offenders, perhaps I could promise to let you know whether those reveal any pattern.

[202] **Darren Millar:** Yes. That would be useful. Jenny Rathbone is next.

[203] **Jenny Rathbone:** This aspect of Government work is around tackling disadvantage, tackling difficulties and tackling particular groups—disabled people or people who do not speak English, or Welsh, or whatever. So, it is all about trying to find new ways of tackling long-standing problems. So, I would not want us to be designing out imagination or risk taking in trying to deal with complex problems.

[204] However, I think, in the Cywain example, what seems to have been lacking was an understanding of the local context, because you could have all the number crunchers that you like in Cardiff or Merthyr, or wherever, but if you did not understand that there was already a sheepdog centre up the road, then you would not know that this was probably not a great idea. As a result of this lack of understanding, the enthusiasm of people to try to do something to improve their community was then dashed by them chasing the wrong objective. It was really about the lack of local capacity building—the Government enabling other people who would be able to support that enthusiasm to develop a project that had a reasonable chance of succeeding.

[205] What concerns me most is the herd instinct that we had here. Partly, it was the lack of fundamental local knowledge that would have told you that the sheepdog centre was not a flier, which the tourist board picked up. All of the organisations that were brought in to back up this project that was not going to plan seemed to have just simply accepted the analysis that was done by the first organisation. We all now have the benefit of hindsight. We are trying to understand how it was that none of the six or seven bodies involved were asking the most basic question, ‘Who, really, is going to pay this much money to go and see a sculpture park?’

[206] **Sir Derek Jones:** I think that Mike Hedges made the point that you can draw some rings around a place and assess the population density, make some reasonable calculations about what visitor numbers might look like, and some assessment of how far people might travel for a particular attraction. There would then have been—there certainly are now—sources of data that you could go to for that kind of analysis. There should have been local knowledge. The local enterprise agency, as I mentioned, was involved in the project, as was the Gwynedd economic partnership. If I had looked at that without knowing that anything had gone wrong, I would have said that there should have been some local knowledge. However, I cannot argue with your analysis that it was that triumph of hope over any reasonable expectation.

[207] **Jenny Rathbone:** How can you build that capacity-building financial and business support into enthusiastic local projects?

[208] **Sir Derek Jones:** Peter is trying to catch my eye, I think.

[209] **Mr Ryland:** It is about a combination of things, really. As Derek says, there was some awareness, but there was, perhaps, less clarity about what exactly the centre was for than there might have been. That is something that we would not suffer now. If somebody comes to us with a business case now, it has to be absolutely clear about where it is going, what it is going to produce and how those outputs support the delivery of our programmes, because, in the end, we have a commitment to the Commission to produce a certain number of results across different areas. That clarity of what it is for and what it is going to do would get fleshed out at a much earlier stage now, I think, than was the case at the time, perhaps. So, it is more about that clarity of vision about what it was going to do.

[210] In particular, as we go into the next round, we have developed intervention logic tables, which are, really, just fancy words for being able to set down exactly what the problem

is, what this project is going to do to address that problem, what is going to be different afterwards and what you are going to measure that is going to be different afterwards. Taking people through that process, both at the initial stage and at any subsequent stage when it becomes apparent that the project needs to change for whatever reason—sometimes good, sometimes bad—would lead to a conversation that would challenge that herd instinct, if you like, and make it much harder for general enthusiasm to overcome common sense.

[211] **Jenny Rathbone:** Sticking with this example, if another similarly enthusiastic group of people comes along, are we better equipped to give them the business and financial support to enable them to shape a project that has legs?

[212] **Mr Ryland:** Yes, we are. You would actually be disappointed if they were not enthusiastic about it, would you not? Particularly where you have, as we did in the case of Antur Penllyn, a small community not-for-profit organisation, we are very conscious, as David mentioned earlier, that that kind of organisation will need support, to a degree, that a local authority or university might not.

10:45

[213] So, we are looking to fund posts with the national procurement service, for example, which would be able to provide a degree of support for the kind of organisation that might need it and that might struggle with procurement rules, for instance, or with some of the realities of dealing with some of these projects, which are challenging.

[214] **Sir Derek Jones:** May I respond to the point that you made earlier before asking the question? It was to do with risk and particularly the grant schemes where we are providing grant aid to the third sector and charitable bodies that are working on very entrenched and intractable issues in some communities in Wales, where different things have to be tried because other things have not worked in the past. Trying something different is going to be risky, but we need to be able to undertake that risk and also we need our due diligence and procedures to be proportionate to the ability of a third sector body to manage it. So, there is a need for risk and for an assessment or judgment about proportionality and due diligence and procedures in controlling those risks. I mentioned it in the context of working with the private sector earlier, but it holds equally true when working with the third sector in terms of that ability to take a conscious risk. It may sound a bizarre thing for the principal accounting officer to be saying to the Public Accounts Committee, but my general assessment of the civil service in the Welsh Government is that it is an organisation that needs to undertake more risk rather than less. I simply want it to be better-controlled risk, so that it is undertaken with eyes open and that the risk is managed and controlled and when, as sometimes will happen, things go wrong, there is a quick assessment and exit rather than sending good money after bad, which is what sometimes happened in the past. So, that is the challenge, picking up Jenny Rathbone's point, with all of our grant schemes, but particularly with those that require some imagination or trying something different.

[215] **Darren Millar:** Peter, you mentioned a sort of escalation-type process or an intervention or support process for grant recipients with WEFO. Is that a very clear pattern of intervention and support? Are you able to share a little bit more information?

[216] **Mr Ryland:** Do you mean the intervention logic?

[217] **Darren Millar:** Yes, that is it.

[218] **Mr Ryland:** Yes, it is on our website and it is something on which we are working with quite a wide range of potential beneficiaries of projects in the next round already. So, we are preparing for the next round and doing what we can with a due regard for the processes

around, for instance, our programme monitoring approving our selection processes. Given the work that we are doing in advance of approval of our operational programmes and the UK partnership agreement with local authorities, universities and third sector organisations to prepare new projects, we are walking them through this process and, effectively, what we are doing is flushing out the conversation right at the outset about what it is that the project is there to do and how it is going to contribute to the objectives that we are expecting to sign up to in our operational programmes. If we cannot establish that at an early stage, then however worth while, worthy and desirable and so on any given proposal might be, it might be one that we have to turn around and say, 'Good luck with it, but I am afraid that we cannot help you because it does not fit in with what this programme is for'. When all is said and done, the operational programmes are budgets for a purpose. On other worthy projects that do not happen to be aligned with that project, it would make sense for people to understand sooner rather than later that those are not going to go very far. So, it is all on the website; it is all available and has been there for some time.

[219] We have been rolling out training to potential beneficiaries. We had a round of that in the spring and we are due to start another one shortly. As I say, those projects that are most likely to be the early implementers, we have already walked through some of those early stages. We have a number of projects that have got past the initial conversation and are now into development, so we are reasonably comfortable that the process does work. Before we had even got that far, we had a number of work streams working on the next round, which had representation from across the different sectors, so that we could ask them whether it was going to work and whether it was a sensible way to work our way through initial ideas and proposals to make sure that they have got legs in the end and that they are going to be sound and are not just overenthusiasm.

[220] **Darren Millar:** Mike, is your question on this issue?

[221] **Mike Hedges:** Yes, it is on this point. On controlled risk, I think that is important, and you have noticed that I have not made any criticism of the Penmon fish farm whatsoever, because I would not have anticipated that not being successful. That is what I would call an acceptable fail; it was worth the risk. From just a cursory look at Cywain or Powys Fadog, which we looked at previously, you could tell that they were incapable of working. That is really what I am asking you. Are you in a position where you have the failures—and we will criticise you if you underspend because you are too cautious—that are what I would call acceptable fails? That is, it was a good idea—it cost more money, or did not work as we expected, but it could have worked, as opposed to those for which there was no way they were ever going to work.

[222] **Sir Derek Jones:** I am confident that it would be better. If the question is, 'Am I certain that nothing will ever fail in the future?', then the answer is 'no'.

[223] **Mike Hedges:** It was not a foreseeable fail; the Penmon fish farm was a controlled risk. I am not critical of it; it could have worked and it could have been successful. It was not; I would not have identified that in the beginning, and I would not have expected anybody else to do so. I think that Powys Fadog and things like Cywain should have been picked up at the beginning.

[224] **Sir Derek Jones:** I think that I have to give a 'yes' to our ability to spot a no-hope project now. Partly, I am optimistic about that because, even looking back, we are talking about a minority of cases, and probably quite a small minority of cases, that turn out to be a complete fiasco, and there are many risks undertaken by WEFO in the administration of structural funds that have proved successful. I challenged Damien earlier to name some and one of the first that he mentioned was the JEREMIE project, which was novel; nothing like that had been done before and there was a large investment in it, and, so far, it has repaid that

risk and has been successful.

[225] **Alun Ffred Jones:** Hoffwn wneud un sylw fel un a fu'n ymweld â Cywain ar fwy nag un achlysur. Mae'n werth dweud ei fod yn gynllun dychmygus a diddorol, er bod y cynllun busnes yn ffaeledig iawn. Mae'n bwysig hefyd nodi, wrth gwrs, nad oes elfen o dwyll yn ymwneud â methiant y cynllun hwnnw—hyd y gwn i, yn sicr. Fodd bynnag, mae'n bwysig hefyd, a chredaf fod pwynt Syr Derek Jones yn un pwysig iawn, na allwch gael gwared â'r elfen risg yn gyfan gwbl, neu byddwch yn gwneud fawr o ddim sy'n dangos unrhyw ddychymyg neu fenter. Mae'n bosibl cael gwared â risg yn gyfan gwbl a gwneud ychydig iawn o ddim byd.

Alun Ffred Jones: I just want to make a comment as one who visited Cywain on more than one occasion. It is worth saying that it was an imaginative and interesting scheme, although the business plan was very weak. It is also important to note, of course, that there was no element of corruption involved with the failure of that scheme—as far as I know, certainly. However, it is also important, and I think Sir Derek Jones's point is a very important one, that you cannot get rid of that element of risk entirely, or you will do hardly anything that shows any imagination or enterprise. It is possible to get rid of risk entirely and do very little.

[226] I fynd yn ôl at y pwyntiau mwy cyffredinol, mae nodiadau yn y papur ynglŷn â'r ganolfan rhagoriaeth mewn grantiau yr ydych wedi ei sefydlu. A allwch ddweud wrthym yn union lle mae'r ganolfan wedi'i lleoli a beth yn union yw ei chyfrifoldebau mewn perthynas â grantiau'r Llywodraeth?

To go back to the more general points, there are notes in the paper regarding the grants centre of excellence that you have established. Could you tell us where exactly that centre is based and what exactly its responsibilities are in terms of Government grants?

[227] **Syr Derek Jones:** Mae'n ddrwg gennyf; nid wyf yn siarad Cymraeg yn rhugl, a ddim yn digon da i wneud busnes gyda'r pwyllgor yma.

Sir Derek Jones: I apologise; I do not speak Welsh fluently, and not well enough to do business with this committee.

[228] The centre of excellence is part of my organisation within the Welsh Government and, David, I think its accountability, managerially, is—

[229] **Mr Richards:** The centre of excellence is there to provide a degree of central co-ordination for our grants; to provide a degree of clearing house for what we are learning, and also to provide experience and expertise that all our grant managers can draw upon, so it is part policeman, but also part coach-mentor learning stuff. Up until now, it has been part of our internal audit. We have increasingly felt that the issues that we have now with grants management are not to do with systems, structures, processes or guidance. The major issue that we need to move on to addressing next is the general behaviour of staff—making sure that staff really do exactly the right thing and that they have the skills and expertise. That seems to be the most compelling issue.

[230] Most of our grants are in the Sustainable Futures Directorate and we have a lot of small grants there. So, what we thought we would do is to start to work our way through the organisation, starting with Sustainable Futures, because that is where the bulk of the grants are, and we had already done some work looking at that. So, we have just moved the grants centre of excellence to be under Sustainable Futures. It will work its way, division by division, through all the grant schemes, just looking to see what we can do to improve them, whether they need to stay as grants or whether there is a different way of doing things, and helping to improve things. So, the bulk of the staff will be working on Sustainable Futures. The centre of excellence, while it will have the same line management chain, will still be available as a resource for the rest of the organisation, so that we are not neglecting the rest of the organisation. Overall, it will still have the same number of staff that it does at the moment.

Moving the centre away from internal audit runs the risk that the communication channels are not clear enough. However, I am pretty confident that we can manage that.

[231] **Alun Ffred Jones:** I fynd yn ôl, beth yw perthynas yr uned hon ag adran datblygu'r economi, sydd hefyd yn ymwneud â llawer iawn o grantiau, a beth yw ei pherthynas â WEFO? **Alun Ffred Jones:** To go back, what is the relationship of this unit with the economic development department, which is also involved with many grants, and what is its relationship with WEFO?

[232] **Mr Richards:** The unit will have the same relationship with the economic development department as it does with the rest of the organisation; it is there to support, advise, help and, to a degree, monitor the way we do grants across all the departments, so that would include the economic development one. WEFO has to have its own system because of what the particular requirements are. Peter sits on one of the steering boards for this and keeps in pretty close touch with it.

[233] **Alun Ffred Jones:** Rydym wedi canolbwyntio, oherwydd yr adroddiadau sydd ger ein bron ar rai o'r cynlluniau sydd wedi bod yn broblemus yn y gorffennol, ar fentrau oedd yn gobeithio gallu cynnal eu hunain yn y dyfodol. Beth am y grantiau i gyrff yn y trydydd sector, sydd, yn amlach na pheidio, yn cael eu gosod gan gorff y tu allan i'r Llywodraeth, er mai arian cyhoeddus yw'r cyfan? I ba raddau ydych chi'n gallu monitro'r rheini, achos nid yw'r rheini yn mynd i gynhyrchu incwm fel arfer, ond maent yn gwario ar ran y Llywodraeth neu gorff nodedig? Rydym yn meddwl yn arbennig am gorff fel yr AWEMA, lle mae'n amlwg bod y rheolaeth yn wallus iawn a lle nad oedd neb wedi llwyddo i adnabod hynny. **Alun Ffred Jones:** We have concentrated, because of the reports before us on some of the schemes that have been problematic in the past, on initiatives that had hoped to be self-sustaining in the future. What about those grants for bodies in the third sector, which are, more often than not, set by a body outwith the Government, although it is all public money? To what extent can you monitor those, because they will not usually produce an income, but they are spending on behalf of the Government or a sponsored body? We are thinking particularly of a body such as the All Wales Ethnic Minority Association, where it is obvious that the management was very weak and no-one succeeded in recognising that.

[234] **Sir Derek Jones:** The Welsh Government may be a direct funder of third sector organisations or it may be an indirect funder, with a local authority or a sponsored body as an intermediary. In those cases where there is a capable intermediary, we would look to that intermediary to have the main relationship in terms of due diligence, performance management and accountability. Where the Welsh Government is grant-funding directly, we would take those responsibilities ourselves. The accountability will not be a profit-and-loss bottom line, as you say. However, if it were a well-targeted scheme—and I think it would be now—there would be clear outcomes that would be required in return for the grant, and those would be monitored and checked, and the accountability would be their delivery.

[235] **Alun Ffred Jones:** Are you confident that a situation such as that with AWEMA will not arise again, and have you changed the way you monitor the way that third sector bodies administer their money?

[236] **Sir Derek Jones:** Yes, the AWEMA case was that first occasion, I think, Chair, when I came before this committee, or at least that was the leading item. In some respects, in terms of the financial losses, it was not a major case, but it told us a lot about ways of working and potential risk, which could have been repeated or could have involved a risk of a larger sum of money or more being at stake. So, we have learned a lot from that. Much of the work of the grants management programme and of the centre of excellence is related to the lessons learned from that case. As I said, I cannot say 'never', but I feel confident that we have

already reduced the risks of repetition in terms of the quality of checking but also just communication; there were multiple grant funders of AWEMA that were not well networked. There is now a front page on our IT system with due diligence pages that all grant-givers can go to to flag up who they are paying a grant to. Anybody else who is doing so and may be having difficulty with that body can then pass that information on.

11:00

[237] With regard to training, a lot of what is in the grants improvement programme and the work of the centre of excellence is related to reducing the risks of the repetition of something like AWEMA, either at that level or, indeed, on a larger scale.

[238] **Darren Millar:** Mike, is your question on this?

[239] **Mike Hedges:** I just have two quick points on this, Chair. Do you share my concern that there are a number of bodies in the third sector that are almost wholly dependent upon public sector money from one place or another, and that the withdrawal of any of that public sector money ends in the organisation collapsing? Sometimes, over 95% of their money can come from the public sector.

[240] Another concern that I have, which I do not think you will agree with, is the creation of new organisations as an intermediary for giving grants to, perhaps, a third party when you have things like the councils for voluntary service and local authorities, which are probably much more attuned to giving money out than some of these made-up organisations.

[241] **Sir Derek Jones:** Being wholly reliant on the public sector may not be a comfortable place to be for any organisation, and it probably does accentuate the risk of a particular problem proving terminal for the organisation, rather than being manageable. However, in some areas of work, and I suppose that I am going back to the areas that Jenny Rathbone asked me about earlier, there will not be an alternative to public funding. In those cases—we are probably straying into policy rather than administration here—it would be a matter for Ministers to decide whether the financial intervention is justified by the likely outcomes, whether it is purely public funding or a mixture of public and private funding.

[242] **Mike Hedges:** We have mentioned AWEMA, which was an organisation that was, effectively, set up to collect money from the Welsh Government and to give grants to third-party organisations, when you have councils for voluntary service and local authorities, which are more robust in doing such things.

[243] **Sir Derek Jones:** I think that is a little unfair, Chair, as a summary of why AWEMA existed and was established. It was, I think, a very well-intentioned attempt to create capability in an organisation providing services to the black and minority ethnic communities that did not otherwise exist. Clearly, I would not support the creation of new organisations for no good reason.

[244] **Mike Hedges:** Sorry, but AWEMA's major role, almost exclusively so, was to collect money and to give out grants, was it not?

[245] **Sir Derek Jones:** That was a large part of its business, but I do not think that that is wrong in principle.

[246] **Mike Hedges:** That is where you and I disagree.

[247] **Sir Derek Jones:** If it had done it well.

[248] **Darren Millar:** May I ask you, Sir Derek, to explain a little bit more in detail, because obviously there was a significant failure in terms of overview and oversight by the Welsh Government in terms of the AWEMA situation. We are obviously keen to have some confidence that, notwithstanding that things can occasionally go wrong, they are less likely to go wrong in the future. What are your escalation processes like now within the Welsh Government? Give me some examples of where you would have picked up the AWEMA situation much sooner, intervened, got the grant back, or done something in order to prevent it from getting to the situation that it did.

[249] **Sir Derek Jones:** Perhaps I should just say on AWEMA that there is quite a serious court case pending, with charges of fraud and theft—

[250] **Darren Millar:** I am not asking you to talk about the case.

[251] **Sir Derek Jones:** —and so I probably need to be pretty guarded, actually, and perhaps not comment further on AWEMA. Ironically, the case that immediately springs to my mind that would give good evidence of that is probably one that I should not discuss publicly today either, because it is in hand, but it has given me some confidence that our intervention now would be more prompt, more decisive and more concerned with the risk to public money and perhaps less concerned with other aspects of a situation. Other examples—

[252] **Darren Millar:** When you say ‘other aspects of a situation’, what do you mean? Do you mean adverse publicity?

[253] **Sir Derek Jones:** No, I do not think it is about publicity, but not allowing ourselves to give it a bit longer, to see whether things will turn around. I think that a more confident intervention would now be the case.

[254] **Darren Millar:** So, give me some examples of the sorts of things that might arise within an organisation that would give you reason to take notice, and the sort of intervention that might follow.

[255] **Sir Derek Jones:** Okay. I can think of a couple. First, whistleblowing, or some form of reporting, either from within the organisation or from related bodies, is to be taken very seriously, and, secondly, the filing of accounts and providing good financial monitoring returns, because if that does not happen then, again, it is potentially a litmus test for an intervention, rather than just another reminder. David is catching my eye.

[256] **Mr Richards:** There are three circumstances in which we would expect grant managers to escalate it: any suggestion of fraud—certainly, we have very well-rehearsed procedures for fraud to be referred; a suggestion that an organisation for which grant aid may no longer be viable, or if it looks to be no longer viable; or where there is a serious breach of grant conditions. Sometimes, this comes from the grant managers themselves. Sometimes, it comes through the normal process of monitoring and management. Sometimes, it comes from the organisation. Sometimes, it comes, as we were saying, from an external whistleblower. We would expect that to be escalated to the head of the grants management project or the head of internal audit, or to me. We have what we call a whistleblowing panel, which just happens to have two different functions, and that meets very regularly, several times a month. When issues about concerns in a grant area are raised, they will come to the panel, which has all the key people who are able to take a view on the matter, and we would oversee, effectively, the action. That action will be in different forms. Sometimes, we will ask internal auditors to go in to actually have a look at the organisation in question. Sometimes, we will ask the sponsor division to make some more enquiries. Sometimes, if it is an organisation that is once removed from us, we will talk to the intermediate body that is concerned with that. It is a variety of things; you know, it could be that an organisation looks as though it is running

out of money, it could be suspicions of fraud, things not looking right, and, sometimes, they do not come to anything. So, you look at something, you enquire, and actually, you leave it. Sometimes, there are occasions when we feel that if there is any legitimate reason to suspect that fraud has been considered, we will talk to the police, and we will then liaise with the police as we go through. Sometimes, it is simply a training and development issue with the body concerned.

[257] **Darren Millar:** Obviously, one of the factors with AWEMA—we do not want to go into the case in too much detail—was board resignations from that organisation. That is now part of the flagging-up system, as it were, is it not?

[258] **Sir Derek Jones:** Oh, yes.

[259] **Darren Millar:** So, in terms of that, how and when would you expect those sorts of things to be disclosed to you as Welsh Government? That is, if the chair resigns because of a dispute over the way something is being managed within the organisation, or if the FD suddenly disappears, do you expect that to be disclosed as part of the grant conditions now?

[260] **Sir Derek Jones:** Yes.

[261] **Darren Millar:** You are all nodding to say ‘yes’.

[262] **Sir Derek Jones:** Absolutely.

[263] **Darren Millar:** And you are confident that you are picking up those issues on your spot checks within Welsh Government, and any other work that you are doing as WEFO.

[264] **Mr Ryland:** Yes. It is what we call a notifiable event in the language of the grant offer letter that we should be notified of that kind of resignation and key changes in the organisation. We take more interest, I think, in terms of learning the lessons from AWEMA. We take more interest in the general governance of third sector organisations in particular. It is a bit unfair to pick on the third sector; it just happens to be that most of the smaller organisations that we deal with happen to be in the third sector. So, it is not a fundamental issue about the third sector per se. For instance, in terms of the funding, the bigger risk on the third sector, which distinguishes it from any other, is the commitment under our third sector scheme to provide funding in advance, where it is necessary to make things happen, because we understand that there are some areas that are harder to reach, and some particular beneficiaries are better addressed by specialist third sector organisations, but they simply do not have the wherewithal or the working capital to make the projects work unless we provide that kind of advance. Now, in the past, before AWEMA, I think that the culture had grown up where the assumption was that, if you were a third sector organisation, you would get funded in advance. We did not particularly challenge that, but we do now. We do collect management information, management accounts, cash flow forecasts and that sort of thing from organisations to give us a feel for what is happening there. It is something that we are much more aware of.

[265] **Darren Millar:** Julie, you want to come in.

[266] **Julie Morgan:** Sometimes, a cause of concern is a pattern of resignations, for example, over a period of time from a governing board or the trustees. Are you able to pick that up when it is not, say, a dramatic resignation of the chair or something? I have known of third sector organisations where it happens bit by bit, you know. How will you be able to pick up that sort of thing?

[267] **Mr Richards:** It is not always easy. Part of the problem in all this is that you do not

know what you do not know. It would be nice to feel that we were all-seeing and all-knowing, but we are not, I am afraid. Unless our normal monitoring procedures pick something up, or the organisation comes and tells us, or sometimes you hear it from a third party or in the press—all of which we will follow up—we simply do not have the resources to keep ringing up every organisation every month and saying, ‘Still got all your board, have you?’ So, it is not as systematic as I would like it to be, because you have to kind of rely on these things, but often, one way or another, these things get through. A good grant manager is keeping in touch with his organisation, and if anything happens like that, then you will pick it up. The gradual fluttering downwards can be a pattern sometimes in an organisation. It is certainly a warning system. I think that that is quite a testing question, actually, in that that is a pattern that you might not pick up. I think my hope would be that, if there was a succession of what you might call low-key departures that did not in themselves flag anything up it would become of concern to the officers in the organisation. That would probably be the most likely way that the grant management team would be approached here, with a concern by a director or finance officer or member of staff.

[268] **Julie Morgan:** What about help, particularly for the third sector? Many people in the third sector may not have had the opportunity to gain the skills that are necessary for managing an organisation or the board. Have you been able to increase or encourage more help for the third sector?

[269] **Sir Derek Jones:** I think that there is a much greater awareness now, partly because of this painful case, of the need to not just audit, as it were, but support improvements in governance in organisations whose governing bodies may find that their experience is going to be outstripped by the financial responsibilities that they are taking on. One of the big lessons from AWEMA, I think, is that that is our business. There was probably a tendency in the past to say, ‘Well, that’s their business, and we don’t get involved in that’, but I think that that is our business: to assess the capability of governing bodies where we have a lot at stake, and where we can, and where it is needed, to help them develop and make suggestions as to how they can improve.

[270] **Mr O’Brien:** From an European funding perspective, we provide technical assistance to the third sector to help develop capacity and support training in the management of European-funded projects.

[271] **Sir Derek Jones:** ‘Technical assistance’ is code for money in that case.

[272] **Darren Millar:** There is obviously the code of practice for the third sector, which has been revised. How is that bedding down? How are you monitoring compliance by the Welsh Government?

[273] **Sir Derek Jones:** The new code of practice for working with the third sector was published early this year; I think that I am right in saying that. It is one of the spot-check items, actually, Chair, in that, where it is appropriate, where there is a third sector grant, one of the spot-check items can be the use of an application of the code of practice, which is good for the body and good for us.

[274] **Darren Millar:** Can I just turn to the issue of the costs of administering grants? Obviously, we made a clear recommendation to try to reduce the cost to a certain percentage of the overall grants awarded. You have had some difficulty in being able to determine a baseline in terms of administrative costs, but you have taken some specific action in terms of awarding grants for longer periods and some other things. No doubt that the award of grants for longer periods has been something of a comfort to many of those organisations that are grant recipients, because it means that they do not have to try to determine whether their funding will be there on an annual basis. Do you want to tell us a little bit more about the

impact of that within the Welsh Government? Does it mean that it is more difficult to innovate, perhaps, and do things differently? Is there a risk attached to giving longer grant awards if something is not performing or delivering expectations?

11:15

[275] **Sir Derek Jones:** There are a few things there. You said, rather diplomatically, Chair, that we were having some difficulties establishing—we have told you that we cannot do it, which is disappointing for me, actually, because a lot of effort is going into simplifying and reducing administration costs, and I would like to have a benchmark for then and to be able to check improvements against it. That has proved impractical, and the extent to which we might try to do it would probably involve disproportionate administration and defeat the purpose. However, in thinking about this discussion today, I have decided that I am not really satisfied with leaving it there. I think that I would like, as Permanent Secretary, and I think that I owe it to the committee, to at least come up with some better and, wherever possible, costed examples of particular areas where we have made what we think is an improvement that will produce a reduction in administrative costs. If we can provide some worked examples for the committee and, indeed, for me, that might help provide some reassurance that this is working.

[276] On more-than-annual grant offer letters, I think, like everything else, there is a potential downside, but I think that it is good practice. It is becoming more common in a number of areas, even on a very large scale, with local health boards, for example, as well as smaller bodies. However, if we succeed, and I think that we are, in our approach of business improvement in the way that grants are administered, it should be possible to manage any three-year risk elements and still harvest the administrative savings.

[277] **Darren Millar:** There has obviously been short-term investment in additional administration in many respects with the creation of the grant centre for excellence, which was very much needed. The pattern of calls to the centre for grants excellence has been pretty significant, has it not, in recent years? I noted earlier on what you were saying, David Richards, in response to Alun Ffred Jones about the changes that are being adopted to that. Are you still confident that the capacity is going to be there to offer that support, the mentoring, the coaching and the holding to account of those individuals who need to be held to account within the new arrangements? There is far less cash available for that, is there not? The £13 billion-worth of grants is small beer, is it not—what you are throwing at the grant centre for excellence—given the significant return that you have on that investment in the—

[278] **Sir Derek Jones:** I do not know about David, but I am in no doubt that this is an investment. It is not just a cost, this is an investment that I expect to be repaid, by more secure grants administration, so reducing the risks of those sorts of losses, but there is a simplification element involved in the work of the centre of excellence as well, as we have just been discussing. I wish that I could quantify that a bit more accurately than we can, because then I would be fairly confident that, over time, that would balance off against the additional costs of the centre of excellence. However, David, you will want to comment further as well.

[279] **Mr Richards:** Thank you. We are not reducing the numbers, when we are trying to make some efficiency savings across a lot of our other central funding, so we are maintaining that level. You can always use more people to do these things, of course. However, it is a good critical mass to have an effect on this. Of course, the other thing is not just the numbers of people, but the people whom you have. So, truthfully, valuing the skills and experience of the people whom you have there is the really important thing for me.

[280] **Darren Millar:** One of the very clear recommendations that we made to you was about the need to develop an IT system. That is one of the areas that has perhaps not made the

progress that we as a committee would like. Do you want to tell us roughly where you are with that and what the timetable is for getting something implemented?

[281] **Sir Derek Jones:** We have changed our minds, Chair, in a nutshell.

[282] I think that it is probably the only recommendation that the committee has made that we have not yet implemented. That is in terms of the recommendations from the interim and final reports on grants management. There was initially a view that a big, new and rather expensive IT system was needed in order to finally make the improvements in administration that we wanted, but on further testing that proposition, the IT is unproven. It has not been used very much and has not been entirely successful in the areas where it has been used—not in our organisation, but elsewhere. Re-evaluation of our current e-grant system has, I am advised, shown that we could make considerable improvements to that system for a lot less money. In fact, we could do it in-house rather than with expensive consultants, and that experience from the work of the centre of excellence on things like spot checks suggests strongly that it is actually behaviours, rather than IT, that should be our priority. So, rather than spending £5 million on an unproven IT system that probably would not actually address the core issue, we decided to have an improvement programme for the existing IT system and focus the work of the grants management team on what the staff actually do rather than the IT.

[283] **Darren Millar:** The big concern that we had was about communication, was it not? There was a lack of communication between departments, and there was the fact that one department could be giving a grant here and another one giving one unwittingly in another department and there not being any discussion. We wanted a very clear customer relationship management system. That was, in fact, a critically important part of the recommendations that we actually made. So, it is not just about changing behaviours. We accept that that is very important as well, and we welcome the establishment of the grant centre for excellence. However, what are you doing to make sure that there is proper and adequate communication across all departments of the Welsh Government, and with organisations like the Big Lottery and others, which might be significant partners in projects, to make sure that that is there? If you do not have a customer relationship management system, what are you using?

[284] **Sir Derek Jones:** There is, as of now, a system. I think that I mentioned earlier the due diligence pages on the current IT system that everyone uses, which all grant managers have information about, and can put up their client information, as it were, so that everyone who is managing a grant scheme can go to the same place and find out whether someone that they are about to provide a grant to is already a grant recipient, and so on.

[285] **Darren Millar:** So, everyone has access to the same portal.

[286] **Sir Derek Jones:** Everyone has that.

[287] **Darren Millar:** There is no-one that can miss information. Are they prompted to access that portal? How does it work?

[288] **Sir Derek Jones:** It still has to be done, Chair, which is why behaviours are still fundamental. It still has to be done; but if it is done, that is the basis on which that communication that did not take place in the past can take place now. With outside bodies, there is a group. Somebody will remind me of its name—. It is the good governance group—thank you, David—which involves us, other grant-giving bodies, and the Charities Commission. I think that that should provide the kind of sharing of knowledge and information, which again did not take place in the past.

[289] Could I offer the committee an update on the IT issue?

[290] **Darren Millar:** I think that that would be very helpful because we were actually quite pleased to see that you were starting to make some progress in terms of the latest update that we had. So, I am disappointed that that commitment appears to have been dropped. I think that it is a critically important part of what we were recommending, given the failures to communicate, with the right hand not knowing what the left hand was doing, from one department to the next, in some of the previous reports that this committee has had the displeasure of having to read.

[291] **Sir Derek Jones:** David wants to come in in a moment, but I think that our job will be to persuade the committee that you should not be disappointed about non-implementation. This will actually be a more functional and more economical approach.

[292] **Mr Richards:** I think that that is right. What we have done is change the way in which we want to implement the committee's recommendations, not change whether we comply with them. So, turning to the e-grant system, you cannot pay a grant without going through the e-grant system. You cannot access the e-grant system unless you have done the necessary online training and, as Derek says, the front pages of that are all about due diligence and flagging up issues that have been raised.

[293] **Darren Millar:** Sorry, Sir Derek, but can you also confirm, on the liaison with the other organisations and the good governance group that you referred to, how frequently does that meet?

[294] **Sir Derek Jones:** I do not know.

[295] **Mr Richards:** It does not have a set timetable; it meets as and when required for its formal meetings. A lot of its dealings are done outside the meetings. So, one of the most valuable things are the terms of reference and the e-mail addresses of all of the members of the group—

[296] **Darren Millar:** That is a bit ad hoc though, is it not?

[297] **Mr Richards:** The group is there to share information about things that are going wrong. So, rather than wait for the next meeting with the group, we have an e-mail network that will allow us to alert people to issues around the next—

[298] **Darren Millar:** So, let me get this straight: there is no formal timetable for meetings and it is a bit of an ad hoc thing where, if people want to contact each other, they have each other's e-mail addresses. That does not sound as though it is robust in any way.

[299] **Sir Derek Jones:** I am not sure that that is a fair summary, Chair.

[300] **Darren Millar:** Okay, give me another explanation.

[301] **Sir Derek Jones:** As David was saying, it is flexible and agile—

[302] **Darren Millar:** So, when is its next meeting? How many times a year does it meet so that you can share information?

[303] **Sir Derek Jones:** I do not have an answer to that in front of me.

[304] **Darren Millar:** Okay, so it is a bit ad hoc—it does not sound to me as though it is very formal in terms of the way that the engagement is there.

[305] **Mr Richards:** I do not know when the next meeting is either.

[306] **Darren Millar:** That is disappointing.

[307] **Sir Derek Jones:** This is new, Chair, but it does have terms of reference and terms of engagement, which we can send to the committee.

[308] **Darren Millar:** The point that I am making is that there are two aspects to communication that we had significant concerns about. One was internal communications in the Welsh Government and the other was communications with other outside organisations. It appears to me as though there may be some merit in the alternative system that you might be using within, but I am a little more unconvinced about the information that you just shared about the external arrangements. Could you send us a note on both of those?

[309] **Sir Derek Jones:** I was going to say that, rather than getting defensive about it, the good governance group is new, it is a response to the committee's recommendations, and I want to feel that whatever we are doing to respond and implement the committee's recommendations, the committee thinks is a satisfactory response. So, you are testing us on this. I will take stock with the team, Chair, and we will write to you. We will either satisfy you on it or we will not, in which case you will have me back and we will continue to work towards improvement.

[310] **Darren Millar:** Thank you; Jenny, you want to come in.

[311] **Jenny Rathbone:** I just wanted to ask you about the standard of local government grant claims and the high and fluctuating numbers of where there are adjustments or qualifications. I suppose it requires some clarification as to whether people are bureaucratically putting stuff in the wrong column or whether there is something more significant, because the numbers are quite high.

[312] **Sir Derek Jones:** I think that the Chair wrote to me asking for some further information on this, following the submission of the annual report. I think that I wrote back a couple of months ago and that included some tables that I had not seen before, which I thought, frankly, were pretty scary at first glance. It was a pretty scary presentation of very high levels in terms of the percentage of local government grant schemes that had received a qualified opinion. On further investigation, it is a little less scary than the tables appear at first sight. It could be a relatively small problem and one particular grant offer would put the whole of that scheme, as it were, into the chart. Even so, the value—I think that I am right in saying that this is in the annex to my letter to you, Chair—of those qualified certificates was £13.7 million.

[313] **Darren Millar:** Yes, it was £13.7 million.

[314] **Sir Derek Jones:** That is not a situation that I thought could be left, so there is work in hand to review the whole of the certification system here. That work will be complete by the autumn, certainly in time for it to be reported on in the next annual report.

[315] **Jenny Rathbone:** You obviously have the powers to—

11:30

[316] **Sir Derek Jones:** It is very febrile—I think that that is perhaps the best word that I can come up with for it in terms of it not being a steady pattern year on year. One year, it would be one local authority that seemed to have a large number of problem areas, and another year, a different authority. So, it is not a clear picture at all, so it is more than slightly

concerning.

[317] **Jenny Rathbone:** I tend to track my own local authority and I am afraid that it seems to feature on the high end most of the time. You obviously have the powers to recover grant funding in certain circumstances. Have you ever used them?

[318] **Sir Derek Jones:** That would happen automatically in these cases. So, where there is a failure of audit, the amount would probably be netted off from what would otherwise be the flow of payments to the authority.

[319] **Jenny Rathbone:** So, you would turn the tap off at a point where you—

[320] **Sir Derek Jones:** You would recover, so that whatever the next payment was going to be, it would have a deduction for any elements that could not be properly certified. I hope that the accountant to my right is content with that description.

[321] **Mr Ryland:** I do not have a figure for the Welsh Government as a whole, but that would certainly be the way we would operate. It is unusual to have to get a cheque off somebody; we have recovered only £6 million in the whole of the current programme.

[322] **Sir Derek Jones:** We will work closely with the Wales Audit Office on this, so it is work in progress and we will report back to the committee, perhaps, as I say, in the context of the next annual report.

[323] **Darren Millar:** But, you are expecting to be able to complete the work on this by the autumn.

[324] **Sir Derek Jones:** The autumn, yes.

[325] **Darren Millar:** Obviously, the Welsh Local Government Association has a responsibility here as well, and leaders in local government.

[326] **Sir Derek Jones:** They do, and part of the response to this is training and development again. So, there is a training programme in hand with the Welsh Local Government Association, the Chartered Institute of Public Finance and Accountancy, the audit office and with our grants management team.

[327] **Jenny Rathbone:** So, local authorities are engaging in this process.

[328] **Sir Derek Jones:** Yes.

[329] **Jenny Rathbone:** Hopefully, this will sort out most of the problems. That is what we want, is it not?

[330] **Sir Derek Jones:** Again, it is a big, complex business, and no doubt, some problems would remain. However, this does not seem good enough to me and I am sure that we can do better.

[331] **Julie Morgan:** You identified in your review that some organisations should not have had grants at all; they should have been dealt with in another way. On the grants that you are dealing with now, are you sure that you are now giving grants to organisations correctly?

[332] **Sir Derek Jones:** Not entirely, in the sense that there might be a better way still in some cases. Going right back to the beginning, where the Chair was asking me about progress in reducing the number of grant schemes to simplify administration and reduce risk and cost,

part of that reduction is finding alternative ways. So, it might be mainstreaming funding rather than making it a hypothecated grant in the case of local authorities, or it might be the use of a procurement process rather than a grant-giving process, or it might be the provision of a loan rather than a grant as such. So, there are a number of alternative methods. It is horses for courses, I think, and each scheme needs to be assessed on its own merits and whether it would be better provided by grant or, in particular, I think, via procurement. That is not always an easy choice. There can be real benefits in procuring in terms of tight management of the outputs that are desired from what otherwise would be the grant—the ability to compete rather than assume that there is one body that should be grant aided to do this work. On the other hand, it can make life unpredictable, particularly for third sector bodies, if the Government competes everything through a procurement process. So, I think that that process of assessing whether a grant is the best way is going to continue and should always be a question. One of the responsibilities of the centre of excellence now is to advise, so if a particular policy area is considering an intervention, which might be a grant, it should seek advice from the centre of excellence as to whether a grant is indeed the best method. So, certainly, as time goes by, I hope that we will get better judged arrangements rather than just assumptions that a grant is it.

[333] Damien, WEFO has quite a lot of experience of this through the operation of the recent structural funds programmes, in that the European Commission has been pressing for a greater element of procurement rather than grant, and you have been considering some of your experiences on that. Would you like to comment?

[334] **Mr O'Brien:** Absolutely. We currently disperse about a third of our funding under procurement arrangements. The Commission is very keen to drive more value for money in the programmes, as we are. That is a very clear direction of travel, but it is not the only mechanism that we use. Derek referred earlier to the JEREMIE project, which is a form of financial engineering, which we are also keen to develop more within the programmes.

[335] However, there are circumstances under which grants are the most effective way of channelling funding. Some of our funding is directed towards schools, as part of efforts to improve the experience of young people and to engage young people more in learning. That is a better mechanism to use in those circumstances.

[336] We have found that, overall, the move towards procurement has opened up opportunities for the private sector and the third sector. It has simplified arrangements and streamlined audit requirements, and we feel that it has delivered better value for money.

[337] **Sir Derek Jones:** Along with a decent amount of local, 'in Wales', procurement, which is what you would always be looking for if you were procuring. You would always want to be sure that maximum local benefit was being derived. I will make one more observation, which is that the choice of whether it is a grant or some other mechanism is not purely a matter of bureaucratic judgment on efficient administration. Ultimately, on a big scheme, I think Ministers would expect to take a view, because they will be concerned about surety of implementation and delivery of the outcomes of an intervention. So, it is not just a matter of looking at it from an administrative cost point of view, but also from a delivery and accountability point of view at a ministerial level.

[338] **Darren Millar:** We have spent a lot of time talking about grants management from a Welsh Government perspective. We were pleased to see some of the progress that was reported on the management of European structural funds when the auditor general published his report earlier in the year. One of the concerns that was flagged up in the auditor general's report, though, was the suspension of payments that had been ongoing, albeit for what were relatively minor issues but with significant sums of money, potentially, involved. Can you tell us where you are up to with that, as WEFO, and how the cash flow is being managed in the

interim?

[339] **Sir Derek Jones:** This is David's lead. This is the interruption of payment because of a change of view on the part of the European Commission as to how claims should best be audited. So, having previously accepted the methodology that was in use here and in other countries, the Commission is now taking a different view. So, it has interrupted the payments until it is satisfied that the awarding bodies are using the new methodology. This is technical, but it needs to be dealt with. Wales is not alone in this; I think pretty well every part of the United Kingdom and other member states are in the same situation. We are having perfectly constructive discussions with the Commission, and David, this week or last, had the most recent of those discussions and can give the committee an update.

[340] **Mr Richards:** I had a meeting with the Commission last Friday at the Treasury in London, and I hope to have a meeting with it in Brussels next week. We are working our way through its concerns, which are to do with the statistical surveys on which we do our auditing. So, this is not a concern about the quality of products nor is it a concern about the quality of the audit; it is about how you select the sample that you are going to audit.

[341] It is complicated by the fact that the Commission is concerned not just about this year and the years going forward; it also wants to go back into retrospective years and see what would have happened had it applied the risk-based assessment that it feels that we should use. This is slightly irritating, because these are years on which it had already signed off and told us that it was content with; suddenly, they are being re-opened.

[342] As part of that, there is a subset of concern about the way that we categorise projects. The Commission is also taking a different view from the UK as a whole on how the procurement regulations should be applied in terms of interviews. However, on Friday it appeared to be backing off that. So, I had a constructive meeting with the Commission. There was no sense that it is trying to be deliberately difficult or obstructive; it wants to sort this out as much as we do. We will have another meeting—we are in touch with it this week—next week to make sure that we understand exactly what it is that it has to do and what we need to do to satisfy it. The plan is that we will then get a draft full response to the Commission by the end of the month. We will then go and have a meeting in Brussels once again to talk through that. Once it is satisfied that we feel that we are addressing everything, it will then want to come over to review things on the ground, to see the way we are doing things. Then, we will be done.

[343] **Sir Derek Jones:** Clients are not affected by this, Chair. It has interrupted flows of funds from Brussels to Cardiff, as it were, but not from us to our clients.

[344] **Darren Millar:** However, it is a significant interruption. What is the scale of the interruption so far, in terms of the impact on the cash flow? Is it manageable now?

[345] **Sir Derek Jones:** Yes. I cannot give you a number, but it is manageable; I do not have a worry about that. As to whether I am happy, no, I am not. However, the discussions are going constructively.

[346] **Darren Millar:** However, you do not foresee any significant impact. It is business as usual, everywhere—that is what you are saying—other than the interruption to the cash flow. If that cash-flow interruption continues for a long period of time, what are the potential consequences and what are the risks attached to that?

[347] **Sir Derek Jones:** I am not quite sure. I would need advice from my finance director about what a long period of time constituted. The most recent advice is that now, and for the foreseeable future, this is a manageable situation.

[348] **Darren Millar:** Okay. In terms of the discussions that you have had, has there been any talk of potential financial penalties around the compliance issues? What sort of discussions have you had on that front, David?

[349] **Mr Richards:** It is not sorted yet, Chair. It is not a discussion on financial penalties because we are doing the wrong thing. It is the case that it is possible that, if you apply a different statistical arrangement, and if you cut the sample that we have audited in a different way, sometimes you would get a different error rate. Sometimes, that can trigger a degree of disallowance, because the Commission would say, on this different error rate, that we have a greater proportion of schemes that are non-compliant, therefore it would need to disallow some of that expenditure. We are not there yet. We are still arguing spreadsheets.

[350] **Sir Derek Jones:** This is not a result of any weakness in our administration. To give credit to WEFO and colleagues in the system, Wales has a very low error rate, generally. It is a huge programme that is very complex, and there is a very low error rate of around 2%, or something like that. So, I am sure that we are fundamentally in a good position. Indeed, our administration wins awards. David, you said that it was frustrating, or a bit irritating; it certainly is. However, I believe that we can work our way through it with the Commission.

[351] **Darren Millar:** You have further meetings planned in the near future, so I ask that you keep the committee updated on progress on those matters. We certainly take a keen interest in them. Are there any further questions from Members? No. Therefore, we will draw the session to a close. We are very grateful for the opportunity to have an update on grants management, and we look forward to receiving the further information that you have given us assurances you will be able to provide. Thank you very much indeed.

[352] **Sir Derek Jones:** Thank you, Chair.

11:43

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[353] **Darren Millar:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(iv).

[354] Does any Member object? I can see that there are no objections. So, we will clear the public gallery.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:44.
The public part of the meeting ended at 11:44.*