



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

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

Dydd Mawrth, 10 Mawrth 2015
Tuesday, 10 March 2015

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi 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**

Jocelyn Davies

Plaid Cymru
The Party of Wales

William Graham	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Sandy Mewies	Llafur Labour
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

Syr/Sir Derek Jones	Permanent Secretary, Welsh Government Ysgrifennydd Parhaol, Llywodraeth Cymru
Gawain Evans	Deputy Director, Financial Controls, Welsh Government Dirprwy Gyfarwyddwr Rheolaethau Ariannol, Llywodraeth Cymru
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
David Richards	Director of Governance, Welsh Government Cyfarwyddwr Llywodraethu, Llywodraeth Cymru
Peter Ryland	Deputy Director, Programme Performance and Finance, WEFO Dirprwy Gyfarwyddwr, Perfformiad Rhaglenni a Chyllid, Swyddfa Cyllid Ewropeaidd Cymru
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

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

Michael Kay	Clerc Clerk
Tanwen Summers	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 09:06.
The meeting began at 09:06.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Darren Millar:** Good morning, everybody, and welcome to today's meeting of the Public Accounts Committee. Just the usual housekeeping notices: the National Assembly for Wales is a bilingual institution, and we should all feel free to contribute to today's proceedings through either English or Welsh as we see fit, and, of course, there are headsets available for translation and sound amplification for anyone who needs it. If I could encourage everybody to switch off their mobile phones or put them on to 'silent' mode, they won't then interfere with the broadcasting equipment. I just remind everybody that, because

it's a formal public meeting, the microphones will be operated automatically. In the event of a fire alarm, we should follow the directions of the ushers. We haven't received any apologies for today. We've got a full house, so we'll move straight on to item 2 on our agenda.

09:07

Papurau i'w Nodi Papers to Note

[2] **Darren Millar:** We've got a number of papers to note. We've got the minutes of our meeting held on 3 March. I'll take it that those are noted. We've had a letter from the Minister for Education and Skills, providing us with an update on action taken following the committee's report of May 2014 on covering teachers' absence. There are a number of dates alluded to in the letter in terms of progress that has been made, or progress that's still to come. Are Members content for me to write back to the Minister just requesting a clear timetable by which things will be implemented? Okay, we'll do that.

[3] We've had a letter from the Permanent Secretary, providing us with an update on the Welsh Government's location strategy. I'll take it that that is noted. It particularly refers to the Y Bont parts of the regional offices, and the interface with the public. We've also had a letter from the convenor of the Scottish Parliament's Public Accounts Committee that's suggesting that we make a visit to attend their committee on 10 June. It's a Wednesday, so obviously there'll need to be some agreement for pairing for Members, but are Members content with us trying to progress that with the committee in Scotland?

[4] **Jocelyn Davies:** I haven't got my diary with me right now, but in principle, yes.

[5] **Darren Millar:** Okay. We'll contact individual offices to check diary commitments. It would probably mean leaving on a Tuesday afternoon or evening, depending on the transport arrangements, and then coming back later on the Wednesday afternoon or early evening on the Wednesday. So, I'll take it that that's noted and we'll see what we can progress.

09:09

Adroddiad Blynyddol Llywodraeth Cymru ar Reoli Grantiau 2014: Sesiwn Dystiolaeth 1 Welsh Government Annual Report on Grants Management 2014: Evidence Session 1

[6] **Darren Millar:** Okay, item 3 is the Welsh Government's annual report on grants management. I'm very pleased to be able to welcome Sir Derek Jones, Permanent Secretary of the Welsh Government—welcome, Sir Derek; David Richards, director of governance at the Welsh Government—welcome, David; Gawain Evans, deputy director of financial controls at the Welsh Government; and Peter Ryland, deputy director of programme performance and finance at the Welsh European Funding Office. Welcome to you, Peter.

[7] Obviously, this is the second annual report that has been undertaken and produced by the Welsh Government, following on from the committee's work on grants management, and, indeed, a number of reports that have been published by the Wales Audit Office. We've had some correspondence between the Public Accounts Committee and, indeed, between the Welsh Government, and WEFO over the past 12 months. Can I ask you to perhaps make a few opening remarks, Sir Derek, and then we will go into questions with Members?

[8] **Sir Derek Jones:** Thank you, Chair. Bore da, bawb. Morning, everybody. I know you'll want to concentrate on questions, but I'll take a brief moment, because grants management in the Welsh Government is a very, very large and complex business, so hundreds of millions of pounds of expenditure and thousands of transactions, and I have a pretty daunting personal accountability for all of that. What I don't have is a monopoly on good ideas or best practice, and, as I've said before, I know I can't expect to enjoy this scrutiny, but I do value it. I value the positive approach that the committee and the audit office have taken on this. I think it's fair to say that, as a result of that collaborative effort, matters are much improved, Chair, from when I first sat in front of you a couple of years ago as a new principal accounting officer in the aftermath of the All Wales Ethnic Minority Association affair. Now, there is less risk, greater transparency as a result of the publication of the annual report, and, I think, good practice developing in my organisation.

[9] So, that's the good bit. But I think, having said all of that, there are still some really quite important areas where further progress is needed. That's what I'm looking for, and difficult cases, Chair, aren't going to go away. We've seen recently from the Cyrenians Cymru case that there's a constant need, really, for care and vigilance. I think we've made some further progress since I last sat before you a year or so ago, and that's described in the annual report. The final point, I think, is just there will be a continuous need just to keep on trying to get the balance right. That is to have procedures that are secure and sound enough to protect the public's money, but which are not so onerous or bureaucratic that they undermine the efficiency of our clients, or indeed our own. I'm sure that in all those areas the committee will have plenty of questions for us this morning.

[10] **Darren Millar:** You mentioned, Sir Derek, the AWEMA situation, and obviously, we corresponded on that in the autumn of last year following the acquittal of Mr Malik by the courts. Can I ask you in terms of the sums recovered from the winding up of AWEMA as an organisation? Our report noted a sum of in excess of £0.5 million that was owed by AWEMA to the Welsh Government; that's the figure that the auditor general had provided the Public Accounts Committee with. How much was actually recovered in the end?

[11] **Sir Derek Jones:** Very little. The liquidator paid out 10p in the pound, I think it was. The final debt to the Welsh Government was a bit less than that. I think it was £300,000. But the majority of that has had to be written off, so a substantial loss to the public purse.

[12] **Darren Millar:** Do you think that sufficient work was done to recover the outstanding amounts from AWEMA by the Welsh Government? Could more have been gleaned?

[13] **Sir Derek Jones:** I think so. David wants to intervene now, but I think so. That's not to say we haven't learned a few lessons about this, one of which, I think, is to work a bit harder next time to shorten the period of administration. All of the time that a liquidation or an administration is going on, professional fees are being paid from what remains of the company's assets—or the charity's assets in this case, and shortening that period of time would protect some of the money. But, David, you might want to say more. I think we covered this when I wrote to you in October last year, Chair. We covered some of these lessons learned, and that was one of them, although, at the time, I don't think we knew exactly what the figure would be. I think your own report speculated pretty accurately that there wasn't going to be much recovered from that.

[14] **Darren Millar:** Mr Richards.

[15] **Mr Richards:** Thank you. What we did, as soon as AWEMA became an issue, was to set up a working group from different parts of the department with WEFO and some of our lawyers, and I chaired it. We met sometimes more than weekly on occasions to monitor the

progress, and also, since we didn't have specialist legal advice within the organisation for dealing with administration, we brought in a lawyer who did have the professional advice, to advise us on the way through. The figure of about £0.5 million was our top initial estimate of what we might be owed, and the professional advice we got at the time was to put in initially what would be probably our biggest estimate of what we might get down, knowing that we could reduce it further, which we did as we refined the estimates. That group met regularly through the months to see this process through, for very little result in the end. We didn't get very much out of it, but it wasn't for the want of trying and nursing it through. But, as Derek says, one of the lessons that I took out of that is that the shorter we can make the administration process, the better.

09:15

[16] **Darren Millar:** And in terms of the lack of expertise now, do you have the capacity within Welsh Government to be able to cover this sort of issue should it ever arise again? Of course, we all hope it won't. But should one of the organisations, whether it be a third sector organisation or the independent sector, go into administration, do you have the skills to be able to recover as much as possible for the public purse?

[17] **Sir Derek Jones:** I'll come back to it again: yes, although, I don't think that means that we would always aim to keep in-house every particular skillset we might want. I think our main skillset in those circumstances is being an intelligent customer to bring in the relevant expertise that we may need rather than expect to have it in-house all the time. That is one of the lessons learnt from AWEMA.

[18] **Darren Millar:** Okay.

[19] **Sir Derek Jones:** Can I mention—? There is a bit of context, I think, to this. It is a substantial loss to the public purse, as I said, but one of the tragedies about the AWEMA affair was that it was an organisation with good intentions and a good mission in life and that did actually do a lot of good work. I don't know, Peter, whether you've got a rough estimate of the amount of European funding that AWEMA disposed of successfully, as it were, but that was quite a lot too, and it is a great shame that it came to the point that it did.

[20] **Mr Ryland:** The overall project spent over £7 million of European funding, so, in the context of that, it's a relatively modest amount, although, it's obviously still very substantial. Where we did make a lot of progress, from that £545,000 figure that we started with, was in working with the liquidators. We put a lot of effort into that because, obviously, when the liquidators come in, they don't have the skills to know how European projects tick, how the claims need to be put together and so on. So, we spent a lot of time with them to support them in putting together as much evidence as possible to be able to demonstrate an audit trail for eligible defrayed expenditure for claims that AWEMA could put in, but hadn't, so that, while the overall dividend wasn't very substantial, we were able to reduce the amount that was actually owed to us in the first place from that £545,000 figure down to £313,000, which was effectively money that we could then claim from the Commission. So, that was a fairly substantial reduction.

[21] **Darren Millar:** You've alluded to other organisations that you've had to suspend funding from. So, the Minority Ethnic Women's Network was one that hit the headlines last June. The Welsh Government pulled the plug on funding there, following a police probe into the organisation. Can you tell us where things are at in terms of that organisation? That's now in liquidation, as I understand it. How much are you owed? How much are we expecting to get back?

[22] **Sir Derek Jones:** I don't have an answer to that. Maybe my colleagues can help me,

but I think that if you'd asked me whether there are any examples of those lessons learned being applied in practice, that is, a more decisive intervention, when there's a signal that things are wrong, then that case is probably one that I would have mentioned. It's not the only one, although I think probably I won't talk about the others right now.

[23] **Mr Ryland:** I won't say a lot, if you don't mind, because there are still police proceedings going on around that one, but I can say that we're not going to be losing money on that.

[24] **Darren Millar:** We're not going to be losing money on that.

[25] **Mr Ryland:** No.

[26] **Darren Millar:** Perhaps you could send a note to the committee just on any other potential losses that are outstanding as a result of organisations that are in liquidation. Jenny Rathbone wants to come in on this and then I'm going to come to Jocelyn Davies.

[27] **Jenny Rathbone:** I chair the European programme monitoring committee, but I just wanted to ask Sir Derek: you mentioned the Cyrenians and I'm aware that it doesn't involve the European money, but how do you think you applied the lessons learned from AWEMA in relation to Cyrenians or other organisations?

[28] **Sir Derek Jones:** I think there probably is some European money involved in the Cyrenians—

[29] **Jenny Rathbone:** I'm told not.

[30] **Sir Derek Jones:** I can say relatively little about this case because there is a police investigation going on, but I have done what you would've expected me to do in this case, which is ask the question: have we intervened decisively and at the right time in this case? I'm pretty satisfied that we have. I expect, at some point, the committee will want to look in more detail at that case, but I can't really go very much further than that this morning.

[31] **Jenny Rathbone:** Okay. I appreciate there's a police investigation, but it was the board of governors or the trustees who initiated an investigation. Did they, at the same time, contact you?

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

[33] **Darren Millar:** Okay. You'll drop us a note on some of the activity there, I'm sure, and tell us what's potentially outstanding. Jocelyn Davies.

[34] **Jocelyn Davies:** Yes, I wanted to ask you about due diligence. Do you know to what extent your due diligence system is being used by officials?

[35] **Sir Derek Jones:** Yes, and the answer is: not sufficiently yet, in my view. This is relatively new. I think I said in my introductory remarks there are a few important areas where I'm looking for further improvement. If you'd asked what they are, this would have been one of them. There is a really good system now, the due diligence pages on our intranet, which is available for grant managers to interrogate to see whether the organisation that they might be on the point of assisting has already got a relationship with some other part of the organisation and, of course, therefore, whether there is any difficulty or suspicions or whether it's an organisation that might be financially fragile, or something like that. So, it's really useful. In order to be useful, though, it has to be interrogated, and so, like so many other things, however good your systems are, they're operated by human beings, and if those

people aren't sufficiently aware of the need to do that, then it won't work adequately. So, it's a training and an awareness issue, and I think we're probably still actually in the early stages of that.

[36] **Jocelyn Davies:** So, WEFO has access to, and contributes to, and uses the due diligence pages.

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

[38] **Jocelyn Davies:** Yes. So, do you have examples? You don't have to tell us the examples, obviously, but do you have examples of where using that system has led to, perhaps, an organisation being declined?

[39] **Sir Derek Jones:** Yes, one or two we know of.

[40] **Jocelyn Davies:** So, what this is doing, then, is using the wider corporate intelligence of the whole organisation. So, you don't just want officials to interrogate it; you want officials to add to the overall knowledge that's available to others. So, you do have examples where an organisation has been declined because of information that's held on those.

[41] **Sir Derek Jones:** Just one or two.

[42] **Jocelyn Davies:** Just one or two—

[43] **Sir Derek Jones:** At the moment, but I think enough to suggest it's working. But it wouldn't always have to be a cliff-edge situation, where somebody would interrogate the due diligence pages and say, 'Right, nothing for that organisation', but it still could provide some useful information that would enrich the scrutiny—or it might be something positive. I think we can put our fingers on one or two of the more difficult cases, which are sort of reassuring in terms of the system, but I want to see it more comprehensively used in future.

[44] **Jocelyn Davies:** So, from what you tell me, then, it relies on officials to use it, rather than it generating automatic alerts or anything like that; it relies on an official deciding to check it. You mentioned earlier a number of cases where funding has been withdrawn or whatever. There is one thing about, okay, due diligence and so on, but, as you mentioned, these organisations are generally delivering good things for good purposes, otherwise we wouldn't have been doing—. So, you know, those projects might be delivering services to very vulnerable people. How much account do you take of what's being provided when you decide to cease funding?

[45] **Sir Derek Jones:** Gosh, that's a difficult question.

[46] **Jocelyn Davies:** Does it feature at all?

[47] **Sir Derek Jones:** Yes. I'm finding it difficult, because I think it's a case of every case having to be judged on its individual merits, and the reason these are often quite difficult judgments and, I think, the reason why sometimes the wrong judgment is made—or, in the AWEMA case, probably wrong judgments were made—is out of a desire to protect what's seen as a valuable operation, and particularly if, say, it's a relatively small organisation, perhaps working in the voluntary sector, it might be largely or wholly dependent on the stream of funding that we're talking about. So, the decision is difficult in terms of, 'Well, if we intervene now, there may be practical damage to the programme or reputational damage to the organisation, or the loss of a stream of business', but also, in some cases, it could precipitate the demise of the organisation completely. So, that is a big and sometimes difficult decision, and you have to take account of what the organisation is trying to achieve. But, if

you get those judgment calls wrong, you end up sitting in front of the Public Accounts Committee explaining a large loss of public funds. So, it is taken into account.

[48] **Jocelyn Davies:** But it is taken into consideration. Okay, thanks, Chair.

[49] **Darren Millar:** Thank you. Julie Morgan.

[50] **Julie Morgan:** Thank you, Chair. I wanted to ask you about your relationship with the third sector and the principles that guide the funding of the third sector, because I know you've got a scheme of practice with some due principles. What do you think is the most important guiding principle in terms of funding the third sector?

[51] **Sir Derek Jones:** I'm not sure the third sector would agree, but I think, from my point of view, it's the promptness of payments. These organisations are often, as I was just saying to Jocelyn Davies, quite dependent on the stream of Government funding. It isn't always right to call it 'bureaucracy' because sometimes it's very necessary administration, but you understand what I mean if I say the level of bureaucracy that's proportionate to the risk being undertaken or to the amount of money at stake. I think that, where the third sector has complained to me directly about these issues, it's been on those two points. I don't know that that is officially the position of the third sector in terms of which are the most important of the principles, but at least we've got them. They keep our feet to the fire pretty effectively on the extent to which we live up to the principles.

[52] **Julie Morgan:** I understand that you have a commitment that, three months before funding expires, you will give information about whether they're going to get funding again or not. Now, how often are you able to do that, and could you tell us how many times you're not able to do it—or haven't done it?

[53] **Sir Derek Jones:** No, I can't, I'm afraid. I don't know if any of my colleagues know the answer to that question.

[54] **Mr Richards:** I think that, as far as timely decisions are concerned, which is one of the principles, we identified about six possible instances where, in the work that we did to review our compliance with the code, we actually haven't been as quick as we should have been in getting decisions out. So, we've addressed that with the grant recipients.

[55] **Julie Morgan:** And that would be six decisions out of how many?

[56] **Mr Richards:** Oh, thousands.

[57] **Julie Morgan:** Thousands. So, a relatively small number.

[58] **Mr Richards:** Yes, those were the ones we identified. I'm certainly not saying that those are the only ones where we are not complying.

[59] **Julie Morgan:** So, there could be others.

[60] **Mr Richards:** I'm sorry?

[61] **Julie Morgan:** There could be others besides the six.

[62] **Mr Richards:** Yes, there could be others. Before the code came into practice, we reminded all the grant managers twice of the fact that the code was coming down. We had a countdown clock on our intranet site so that everybody in the organisation knew that these principles were coming in. So, we did a lot of work to improve the visibility of it, and then we

did some monitoring of personal compliance with it.

[63] **Julie Morgan:** In terms of having a more open dialogue, which I think is your aim, and people raising issues at an early stage, what has been the response of the third sector? Have you had many complaints from the third sector about the way any of the grants have been administered?

[64] **Sir Derek Jones:** We have had some complaints over the years. I'm not so sure about recently because I think we're improving, and the commitment to give notice in advance of the termination of a contract is something that we don't let ourselves off with other than in the most exceptional cases. I can't give you a number for the number of complaints that we've had from the third sector. As I say, I'd be fairly confident that it's reducing because I think we're getting better.

[65] **Julie Morgan:** So, basically, you think that there are few complaints and few occasions when you don't give the three months' notice, but you don't actually have that evidence.

[66] **Sir Derek Jones:** Would you like me to try and see if I could get it for you and write to the committee?

[67] **Julie Morgan:** I think it would be useful because I don't think, otherwise, there is any sort of—. You haven't got the concrete information that you need, really.

[68] **Sir Derek Jones:** I'm hesitating because I'm not sure of the extent to which we would systematically collect this kind of information, so the response might be more anecdotal than you would ideally like, but we'll certainly try.

[69] **Julie Morgan:** Yes, well, if you could look at that—. The other issue I just wanted to bring up was that I note your example of the mental health grant in your report. It was very interesting that you had mental health users to review the process and to be involved in the process. Is that normal in your grant process?

[70] **Sir Derek Jones:** When it's done well, I think the recipients, the users, the client group that is involved should always be consulted. Again, I'm pretty confident these days that that would happen—

[71] **Julie Morgan:** No, it's much to be commended, so I was—

[72] **Sir Derek Jones:** In that particular case with the mental health scheme, you could kind of see it not happening, couldn't you? So, it probably is a good example of good practice, but not an isolated one.

09:30

[73] **Julie Morgan:** Thank you.

[74] **Sir Derek Jones:** Sorry; on the third sector, we probably get more complaints now simply about the availability, or the non-availability, of funding, because times are quite hard. So, Ministers are having to find economies right across their portfolios, and that includes some of the areas that the third sector has got a great interest in.

[75] **Darren Millar:** Jocelyn wants to come in, and then Jenny.

[76] **Jocelyn Davies:** It was just really on the assumption that the number of complaints is

a good indication, because some people would say, if you're receiving few complaints, it might be that your complaints procedure isn't very good and that people have given up all hope of it working for them. So, it's not evidence of things improving because the number of complaints are going down. No complaints at all is very bad news indeed.

[77] **Sir Derek Jones:** I agree. I stand corrected.

[78] **Jocelyn Davies:** I was hoping we could have a little argument there. [*Laughter.*]

[79] **Darren Millar:** Jenny, you wanted to come in too.

[80] **Jenny Rathbone:** Yes, just going back to the 17 principles. Where does best fit with the objective sought fit in your decision-making as to whether to make a contract available with the third sector as opposed to doing it in-house?

[81] **Sir Derek Jones:** David, I think Jenny Rathbone was looking at you. [*Laughter.*]

[82] **Mr Richards:** I don't think I could give a very convincing answer to that one off the cuff, but I think that it's less about applying a general principle, as you'd look at each grant by its objective—what we're trying to achieve here—and who is best placed to actually deliver the services. Whether that's something that we could do in-house, whether it's something that we want to deliver through an umbrella body, like the WCVA, or whether it's something that best goes out to the third sector, it's very much a question of what you're trying to achieve. Of course, with the process, it's very easy to get so involved in the process that we forget this is all about making people's lives better. So, it's who's the best delivery partner to do that, and then, what's the best way of actually getting that funding to them through the partners, and then getting the feedback loop so that—. You know, ideally, when it's working well, you look back and say, 'Well, did that work? Do we need to change it; do we need to do it in a different way?'

[83] **Jenny Rathbone:** Okay. What I'm trying to establish is whether or not there's a systematic analysis. When a Government Minister decides they want to do a new initiative, at what point, and how, do you decide whether you're going to do it within the public sector, or whether it would be better placed externally?

[84] **Mr Richards:** We have a policy framework so that when we want to bring in a new piece of business we have a kind of set template that we would expect to go through for this to look at the business case. That will include best means of delivery. We're trying not to operate it like a checklist but, effectively, it is a checklist, which would include what's the best delivery mode. That's fairly rigorous. Whether we explicitly and overtly would measure each one against the principles for the third sector, the honest answer is 'I'm not sure'. I could go and check.

[85] **Jenny Rathbone:** Okay. Because, obviously, the key thing we really want to know is whether the outcomes are better under what circumstances.

[86] **Mr Richards:** Yes, absolutely.

[87] **Darren Millar:** Can I ask? We've talked a lot about compliance with the code here today. You've suggested that, on a sample basis, a small number—six, I think, Mr Richards—didn't meet the timeliness element, which of course is the major element of concern for most small organisations, because jobs depend on the cash that comes through, but you don't tell us the size of the sample. How many cases did you actually look at to glean these six? What level of non-compliance was there on the audit sample that was taken? We need key pieces of information. I am a bit disappointed, actually, that they are not in the report.

[88] **Sir Derek Jones:** I don't think that we've got an answer, Chair. So, it would be better if we write to you. I mean, it's the sort of thing that could easily have been put in the report. If, at any point, the committee wants to state specifically a particular area that it would like to see covered in the report, I'm very happy to do that.

[89] **Darren Millar:** You've given us lots of assurances, but the evidence is thin, isn't it, in the report in terms of the compliance? I think, you know, the number of breaches, the sample, the size of the sample that you've undertaken, and the number of complaints are all indicators, which may be useful, I think, for any reader of the report to ascertain whether the Welsh Government is getting to grips with making sure that it's got this positive relationship when it comes to grants management in the third sector.

[90] **Sir Derek Jones:** I completely accept that, and the value of complaints.

[91] **Darren Millar:** Of course.

[92] **Sir Derek Jones:** I think that's a good complaint to learn something from.

[93] **Darren Millar:** I'm going to come to Mike Hedges now.

[94] **Mike Hedges:** Are there any specific and recent examples relating to the consolidation of grant programmes to reduce the overall number?

[95] **Sir Derek Jones:** Yes. It's been one of the longer-term strategic objectives to reduce the number of grant schemes, or what are sometimes called programmes or individual grant offers, and the headline figures suggest that we are making some progress. There were quite substantial reductions last year. This year's report shows another significant reduction of about 8 per cent. I'm a bit worried about some of the figures that are emerging indicatively for the current year, which are a bit puzzling, but we'll come on to that in due course. So, that's our trajectory, simply in order to reduce the costs of administration, and probably reduce the risk as well of having too many small schemes, and so to make life easier for some of our client groups, in particular local authorities. In my own mind, there are two good very recent examples of that. One is in the field of education, where about a dozen education grants to local authorities have been rolled up into a single scheme, which should greatly simplify administration at both ends of the grant. The other, on a similar scale, is in our natural resources directorate, where, again, I think it's about 11 individual grant schemes that are being moulded into one, which, again, should greatly simplify things for both sides.

[96] So, I think the overall numbers seem to be going in the right direction. I don't have a target. I don't think there's any absolute right number for the number of schemes, but I think the general consensus was that there too many, many were too small, and the administrative burden was therefore too high, and it looks as if we are making steady progress against that.

[97] **Mike Hedges:** I think that progress was needed. I think, sometimes, it appeared as if Welsh Government was attempting to micromanage local authorities and using grants as a means of doing so. The second question is: if you take the grants out and you then start putting them out via the local government general grant, as opposed to specific grants, isn't there a danger of unintended consequences, because when it goes out under the formula, some of those that were spending more money in a service area will end up having financial problems, and those that were underspending on it will have a windfall?

[98] **Sir Derek Jones:** Well, putting the money from a grant into the formula isn't the only option for having too many small grants: you can have a smaller number of larger grants, rather than put it into the formula. I mean, what you've said about the Welsh Government

micromanaging matters is, I know, frequently the view in local government, and I think these sorts of developments should help with that. But, I think Ministers will reserve the right to use grant schemes where they feel that's the best way to achieve the deliverable that they're after. But, in other cases, you know, it should be possible still to meet the objective whilst putting the money into the settlement, which is probably, overall, you know, the simplest form of administration.

[99] **Mike Hedges:** But, I think the point I was trying to make on the settlement is that the settlement puts it out via a formula and some of those that have spent a lot of money on a certain service, because they've got a lot of grants towards it—. I mean, I'll take you back to an old one: the mental health and mental handicap strategy, which the three Glamorgans and Gwent spent a lot of money on and the other four counties in Wales didn't. When it went into the formula, it was a windfall for the other four counties that hadn't spent on it and there were financial difficulties for the four that had. I'm just saying that there is that opportunity for unintended consequences and that's something going way back, so it's well before your time, but the principle is the same.

[100] **Darren Millar:** You accept the principle that there can be winners and losers when cash is put into the revenue support grant.

[101] **Sir Derek Jones:** I think I do, but I think that that risk would be part of the consideration as to whether or not to do that.

[102] **Mike Hedges:** The final question is something that you and I have agreed to differ on in the past: giving grants to grant funders so that, instead of directly funding people, you fund people who then act as an intermediary grant provider. Do you know how much of the grants go out via that method and have you given any thought to reducing that?

[103] **Sir Derek Jones:** I don't know a percentage figure for how much of the grants go out like that. It would be a lot, actually. If you take the European structural funds, for example, the recent drive has been to provide funding to bodies that may then themselves provide funding. So, if we look at the structural funds as a grant, then that is a grant to other organisations—sometimes the Welsh Government actually, or sometimes local government—which then may use that funding to develop a scheme that would grant aid for people in the third sector or businesses; it might be a business development or a business advice scheme. So, I think quite a lot of funding follows that kind of track, but I don't think there's anything wrong, in principle, with that, and I can't, here and now, quantify it for you.

[104] **Mike Hedges:** What I would say is that there is an additional cost, because every time you put an intermediate body in to deal with a grant, there are administrative costs involved in dealing with it.

[105] **Sir Derek Jones:** There's an overhead. I accept that, too. Although, the alternative overhead might be even worse, in that it would be a hugely centralised process if you didn't use those kinds of mechanisms.

[106] **Darren Millar:** Can I just ask you something? You've made reference to this 35 grant reduction. There's a table on page 14 of your report—our pack page 32. Could you provide some information on what those 35 grants were that were taken out by the Welsh Government in the period to which this report relates, please?

[107] **Sir Derek Jones:** Gosh, not off hand.

[108] **Darren Millar:** No, but if you can send that on to the committee, I think it would be useful.

[109] **Sir Derek Jones:** Yes, of course.

[110] **Darren Millar:** You also made reference to administrative costs there. You do talk about administrative costs in the report and I think one of the most remarkable sentences in here is that there was a small grant award of £58 by the Welsh Government—£45 in terms of the cost of administration. Are these small grants really worth it? I mean, that is an extraordinary cost; 77.5 per cent of the grant is administrative cost.

[111] **Sir Derek Jones:** Do I get any points for leaving that in the report, Chair?

[112] **Darren Millar:** Well, it is a little bit like a confessional, isn't it, this morning?

[113] **Sir Derek Jones:** I am not at all surprised that you have lighted upon it, because it's a very striking—and you could say on the face of it, ludicrous—piece of gearing. I think this was a grant to an individual person. I think it was in one of the 'skills and work'—helping young people who are workless into—. I don't know for sure, but it could even have been some transport or something like that. So, to give a small amount of money to an individual could be very valuable in that context. Somebody in my organisation had to deal with that. If you looked at their time, then you come up with that answer. So, this is a fairly rigorous way of looking at things. I am—

[114] **Darren Millar:** There's got to be a more efficient way of doing it.

[115] **Sir Derek Jones:** I am bound to worry for the future, if, at Government level, we continue to administer business at that level of granularity.

[116] **Darren Millar:** That is extraordinary. So, what are you doing to tackle that in the future? I mean, I don't know how it can cost £45 to reimburse somebody £58, even if it is for a travel expense. It just seems very, very wasteful.

[117] **Sir Derek Jones:** Yes. Well, can I avoid 'wasteful'? 'Worrying' in terms of whether we can carry on doing business in that way. But, if it's a good thing for that individual to receive that grant award, somebody, somewhere is going to have to administer it. So, I think for very small amounts of support, there will always be what might, on paper, look like a rather shocking percentage cost of administering it, but I don't think that cost can be made to disappear. It could be moved around and there are probably more economical ways—there always are—of trying to manage things, but—

[118] **Darren Millar:** You rightly mentioned the cost to the Welsh Government; what about the costs to these individuals of having to submit all the paperwork, the forms and everything else? Do you take that into account? Is that included in the 45 quid, or can we assume that there's another tenner on top in terms of the time that the individual's spent claiming things, by which time, you've got the administrative costs equalling 100 per cent or more of the actual grant cost itself?

[119] **Sir Derek Jones:** I'm not sure it's fair comment to assume that there's a huge burden of paperwork involved in these small transactions. We might find that they're actually done quite economically, Chair.

[120] **Darren Millar:** Have you got people at the right grade of pay doing it, if it's costing 45 quid to deal with the travel expense?

[121] **Sir Derek Jones:** I hope so.

[122] **Darren Millar:** It seems pretty extraordinary to me. Jenny Rathbone.

[123] **Jenny Rathbone:** Surely, this is a good example of what Mike Hedges was talking about, which is the consolidation of your grant making processes. How is it possible for somebody in central Government to know whether it's appropriate to make a small grant of that nature? Surely, that needs to be done by a grant given to colleges to enable their students to get to college, or—. There has to be some other way of doing this.

09:45

[124] **Sir Derek Jones:** Perhaps I'm trying to be too defensive of the current situation, because I think this information is in the report in order to demonstrate the wide variety of overheads that the Welsh Government is currently managing, as part of, you know, a fairly transparent analysis of what the issues are. As I said, I don't think I can be comfortable with the idea that, at Government level, there is this amount of granularity in the grant giving. As I said, part of our strategic objective is to have far fewer grant schemes, but not to lose the baby with the bathwater. So, some of this could be very valuable work that we want to keep happening, but to find more efficient and economical ways of doing it. So, I don't want to sit here and defend every issue as it currently appears in the status quo.

[125] **Darren Millar:** We'll give you some credit for disclosing it in the report in any case.

[126] **Sir Derek Jones:** My pen hovered over it. [*Laughter.*]

[127] **Darren Millar:** I'm sure it did. So did mine. Sandy Mewies.

[128] **Sandy Mewies:** Thank you. Good morning. Not surprisingly, the 2014 and the 2013 reports referred to the Grants Centre of Excellence and the work that has been done there, and, actually, one of the questions I was going to ask was whether the centre had a system of categorisation. I don't know if this would come under that sort of—. You know, how many grants, for example, go out where the balance between what they cost to give and what they actually exist is—. Would you have those figures? Is there any sort of collection of that statistic at all? Because I think if they're one-offs, it's—. You've got more chance of making them more economical if there's a larger number.

[129] **Sir Derek Jones:** I'll turn to David in a minute, who'll probably be able to say more than I can on this, but the context, and actually the reason there's some data, including that rather striking figure the Chair's just picked up, is that we've been trying to get the best grip we can on what the administrative overhead is for grant giving. The difficulty is that there are not only a range of different types of grants, which have different sorts of overheads—if you go to the rate support grant, for example, very, very large sums of money are disposed of with what looks like a very, very economical overhead; it's just the nature of the business. Also, although there are people who are involved primarily on a grant scheme, there are others who might be involved peripherally on a grant scheme, so the extent to which you can take in some of their overheads is imprecise. So, what we've done is done some sampling and tried to draw some conclusions from a reasonable range of samples at both extremes of the overhead equation. That, I think, has brought us to a conclusion that around about 5%, on average, is the administrative overhead for our grants, although within that simple figure there's a great variation. David, you might want to say something.

[130] **Mr Richards:** The Grant Centre of Excellence has a good handle on the numbers of different grant schemes and the costs. We don't collect the cost of administrating each grant scheme, simply because it was too much of an overhead burden to do it and very difficult to do. So, as Derek has said, what we did was look at a sample to try to get a figure on this. What we do know is that, if you want to reduce the costs of grants, there are three things that

you can do. You can standardise, and we've worked a lot on getting templates for standard letters. So, previously we had different grant schemes writing their own awards letters; we now have standardised. You can simplify and have procedures that are proportionate and the minimum that you need to achieve your objectives. And you can get economies of scale by administering, bringing the number of grant schemes into one. Those are the three principles that we're trying to reflect in going forward, and that's what's going to reduce the overhead costs.

[131] **Sandy Mewies:** In the 2013 report, there was talk about—. There were 10 expert personnel; that was going to reduce to five, with a reduction in cost over £187,000 as the team moved into this business-as-usual mode. There was no timetable for that reduction. What I was wondering was: has that actually happened? Has it had an impact in the sense of financial—? Has it impacted on the efficiency of the scheme? There's been a lot of talk recently about voluntary exit schemes from Welsh Government and the cost of them. If this has happened, is there any indication of what those costs are? My last question, actually, would be on—. There was a falling off in 2013, towards the end, of the number of enquiries that were dealt with. Has this continued or is the flow more or less even?

[132] **Sir Derek Jones:** I'll start. I think the staffing of the centre of excellence now is down to the level that was predicted at the time—

[133] **Sandy Mewies:** The five?

[134] **Sir Derek Jones:** If not a bit less, actually. I think it might be four.

[135] **Mr Richards:** Four. Four in the centre of excellence.

[136] **Sir Derek Jones:** Are they still doing a good job? Yes, and a lot of the work that is done now is much more established than it was at the time and a lot of the training and development, a lot of the new system improvements, have been put in place. So, I think they'd probably tell you they're just working harder and there's probably going to be some truth in that right across my organisation. You know, staff numbers are having to fall and this is no exception, but I think, and I hope, we'd be able to substantiate that in any way you want. The centre of excellence is still doing a really good job. On the number of complaints—of enquiries, rather—we have got data on that.

[137] **Mr Richards:** Yes, it's about the same. So, the centre of excellence has four people; the total team has 15, and the number of enquiries to the grants centre of excellence is, I think, just over 200 and it's about at the same level—

[138] **Sandy Mewies:** So, it's pretty steady.

[139] **Mr Richards:** Yes. Certainly, it hasn't tailed off. But I think the centre will feel that, like the rest of us, they are trying to work more efficiently and make the best of the resources we've got. That funding level is secured for the next financial year, so it is going to fall off, and then the funding is in place for the stream until the end of the next financial year. So, during the course of the next financial year, we will be reviewing what's worked, what hasn't and then making an investment decision about the future of this part of our work.

[140] **Sandy Mewies:** Okay, thank you.

[141] **Darren Millar:** Okay. William Graham.

[142] **William Graham:** Looking at the verifications of the Welsh European Funding Office, it suggests here that the error is less than 0.75 per cent, which seems pretty good.

Could you tell me whether, by comparison with other organisations, that's average, below average, or above average?

[143] **Sir Derek Jones:** That's really good, I think, by any standards. Peter will say more. We're not here to blow our own trumpet, but I think WEFO does have a good reputation in this field by comparison with paying agencies across Europe. Peter, do you have anything for—

[144] **Mr Ryland:** I can't tell you what the average error rate is across managing authorities for the whole of Europe. What I can tell you is—

[145] **William Graham:** Just British ones then.

[146] **Mr Ryland:** I understand that the error rate on the structural funds in Scotland was 12% this year.

[147] **William Graham:** Right. Gosh.

[148] **Mr Ryland:** So, we are clearly looking at a—

[149] **William Graham:** So, this is pretty good—that's what it sounds like. But having said that, it's €16.5 million of irregular expenditure—about £10 million. So, the imagination works overtime when you see that figure, but, presumably, it isn't just in somebody's bank account.

[150] **Mr Ryland:** No, it isn't. All 'irregular' means in this context is that it's been charged to the European Commission's budget when it ought not to have been. It doesn't mean that it's sort of been filched somewhere or some sort of skulduggery. It doesn't mean that at all. So, there are, as you know, some fairly complex eligibility rules and that sort of thing. So, as auditors work their way through the individual projects, they'll quite often sort of say, 'Ooh, I'm not sure that should have been attributed to a European project' and that sort of thing: 'Is that cost eligible or not?' 'Should it be in, should it be out?' It doesn't mean it's an unreasonable thing to have spent. It doesn't mean that it hasn't achieved good results. It's just a question of whether it's been attributed to the right place, really.

[151] **Sir Derek Jones:** Sorry, Chair, can I just add something?

[152] **Darren Millar:** Yes, of course.

[153] **Sir Derek Jones:** On the subject of skulduggery, it does exist and it exists in the European programmes as everywhere else in life. So, fraud is a risk. That's not the same as irregularity in this context, and even on fraud, actually, the Commission is working quite hard to secure improvements and we'll be part of that picture under a new scheme.

[154] **William Graham:** Thank you for that reassurance. In terms of the actual structural funding, where WEFO has drawn down various funds, and there is a note from the auditor general really, I think, of great concern there—they seem to have got it wrong. The euro has never been higher for the last seven years, so they must be now in danger of some funds not being available for projects.

[155] **Darren Millar:** I mean, can you just explain, when the exchange rate changes significantly, as it has done over the past 12 months, what impact that has on the cash available to WEFO—

[156] **Sir Derek Jones:** The euro is weakening, that's our problem.

[157] **Darren Millar:** Yes, that's precisely the problem.

[158] **Mr Ryland:** Well, yes; you've put your finger right on it. That is the issue. We agree our funding programmes with the Commission at the beginning of our seven-year programme in euros. Then—certainly in the current round—nearly all of our commitments to individual projects are made in sterling. So, our balancing trick is, on the one hand, not knowing for sure exactly how much our funding stream is worth, but, on the other hand, we don't exactly know how much money we need either in the sense that, if we've got 290 projects that we've approved, 220 of those are still running and we have yet to see exactly how much of their forecast will come to pass in terms of reality. Will they actually spend everything that they say they're going to? Will it all turn out to be compliant? Will they have delivered everything that they said they would deliver? So, there is a balancing trick. But, yes, obviously, if the euro becomes worth less, then there's less money in the pot and that is a risk for us.

[159] At the moment—. It just topped 1.39 yesterday, so that is getting pretty uncomfortable, I have to say. Does it mean that, ultimately, if it went 1.50 or 1.60, would we have to pull back from some projects? Well, ultimately it would be a budget cut, so, yes, we'd have to look at that. We do have contingency plans in that. We plan around a number of possibilities in this area. We talk to our colleagues, particularly in the Welsh Government, about how we might manage that. We do have a number of sort of levers that we can use, particularly because, as part of our work to manage their transition from one round into the next, we look at the kind of projects that are coming through in the next round. If there is activity that is eligible to be funded under both rounds, then, for instance, we could look at using money out of the next round to fund it, which ultimately is still a problem in the sense that there is less money to go around than there was, but it does at least mean that we can stay within our budget for the current round.

[160] **William Graham:** So, when would you know that, because of the potential short-funding, certain projects shouldn't receive any further because there'd be a waste of expenditure?

[161] **Mr Ryland:** It's around about now, I guess, you know, because we're already well into 2015. The cut-off is at the end of this year. If it hasn't been spent by the end of this calendar year, then it's not eligible. But there's no one straight answer to that; there is no one date. We need to keep as much of this as flexible as possible for as long as possible. So, for instance, in that example of where there's activity that is fundable under one programme or another, I'd like to be able to keep that option open for as long as I can. It may yet turn out—. I mean, who knows what will happen to sterling, for instance, after the general election; it may turn out that things are not quite as black as they look today. I don't know exactly what date the cut-off would be for some time yet. So, there's quite a lot of juggling to keep going. But, in terms of, 'Do I need to act now to keep that flexibility?', yes, and that's what we are doing.

[162] **Darren Millar:** Sir Derek, do you want to come in?

[163] **Sir Derek Jones:** Yes, thank you, Chair. Since I last sat here, the European Commission has removed the interruption on our payments, so I've needed something else to worry about on the European front: this is it. I've been peppering Peter over recent months with requests for advice and assurance that we are watching this very carefully and that we have a clear view as to what sorts of adjustments we would have to make and when, just because the eurozone situation appears to be exceptionally difficult to predict at the moment. Uncertainty is risk, and we have one here. It's not completely unmanageable, but we could certainly do without it.

[164] **Darren Millar:** So, if the exchange rate stays as it is through the end of the financial year is that going to cost us anything in terms of the ability to deliver against some of the commitments?

[165] **Mr Ryland:** No.

[166] **Darren Millar:** You can manage it to a certain degree.

[167] **Mr Ryland:** You have to turn this around. If we didn't have a problem at this stage, then we'd have a different problem: you'd probably be quite annoyed at us about that as well, because it would imply that we hadn't made enough commitments to these projects to be worried about whether we're going to be overspent or not, and, actually, under-absorption—that's the Commission term—is quite a problem across the European Union and the Commission's having to take steps in quite a number of administrations to deal with it. Generally, to answer your question, Mr Graham, we do have a very good reputation. The Minister met with Walter Deffaa last week, the director general for ERDF, the regional policy, who used the word 'exemplary' in respect of Wales, so it is working. And one of the reasons is that we are making the most of those funds. If we didn't have those commitments, then we wouldn't be worried about whether the funding was going to be enough. But, we will use all of the funding that's available.

10:00

[168] **Darren Millar:** Okay. Thank you for that. Aled Roberts is next. Oh sorry, you wanted to come in, Jenny. Pardon me.

[169] **Jenny Rathbone:** I wanted to come in on this. Sir Derek, you put something in your paper about persuading the European Commission to allow you to spend money in the next seven-year programme on road schemes. There's been a plethora of reports from the EC about how roads don't deliver what is desired by the structural fund programmes. So, I just wondered if you could explain why you've done that.

[170] **Sir Derek Jones:** This is an issue that goes back a long way in my mind actually, probably to the very first of the big structural fund programme—

[171] **Darren Millar:** Just very briefly, because it's slightly off track in terms of the management of grants. It's more about priorities, isn't it?

[172] **Sir Derek Jones:** Okay. I think the Commission felt it had had its fingers burned on a number of road schemes elsewhere in Europe and became very prejudiced against them. We in Wales have felt that infrastructure was potentially a very good use of European structural funds and have sometimes struggled to get programmes agreed that had infrastructure programmes in them. Things have improved somewhat.

[173] **Mr Ryland:** Yes, that's essentially it. The Commission feels really that roads are primarily a responsibility for the member state, particularly for better-off member states, which it considers the UK to be, even though there are parts of the UK that are not quite as well-off. So, their starting position was that they didn't want roads in the next programme at all. We were able to persuade them that we should have some capacity to develop roads, on the grounds that we were looking at the western edges of the A55 and A40, which would support other elements of the programme. So, for instance, the A55 would support some of the energy expectations that we have in Anglesey. They serve TEN-T ports as part of the TEN-T network, and I think we've got demonstrable proof of bottlenecks that have now found their way into the national transport plan. So, with a good deal of persuasion, and links to the rest of the programmes, they bought some of it, but from a position that they didn't

really want to be involved.

[174] **Darren Millar:** Okay. Thank you for that. Aled Roberts.

[175] **Aled Roberts:** Rwyf eisiau symud at y cwestiwn o hyfforddiant mewnol ac allanol. Roedd adroddiad blynyddol 2013 yn eithaf manwl ynglŷn â chyfaint yr hyfforddiant y tu mewn i Lywodraeth Cymru. A ydy hi'n bosib i chi roi ryw fath o ddiweddariad i ni achos nid yw'r manylder yn gymaint yn yr adroddiad blynyddol yma o ran ffigurau?

Aled Roberts: I want to move on to the question of internal and external training. The 2013 annual report was quite detailed about the volume of training within the Welsh Government. Is it possible for you to give us some kind of update because the detail is not as great in this annual report in terms of the figures?

[176] **Sir Derek Jones:** Mae'n ddrwg gen i; mae'n rhaid i mi ateb yn Saesneg—

Sir Derek Jones: I'm sorry; I will have to answer to English—

[177] **Aled Roberts:** Mae'n iawn.

Aled Roberts: It's fine.

[178] **Sir Derek Jones:** —unless a colleague is ahead of me having looked this up. There are a number of different types of internal training. It's really important and it's another of the areas where I think we need to press on and improve, and probably it will never stop. I think this is going to be a continuous process, but there's been a surge in the need for training and awareness for the sorts of reasons I gave when I was answering Jocelyn Davies about the use of the due diligence pages, but other areas too. There's a category of my colleagues who are referred to as relevant senior officers for grants purposes; 330 relevant senior officers have successfully completed their training, which began in December 2012, and that's approximately 100 per cent of that cadre of officials. There's a training scheme grant for grants managers, which does what it says on the tin. As at the middle of last month, a total of 590 people had access to that training; it's in several modules and they're working their way through. There's training on the e-grant system, which is crucial now, and unless you've completed this training, you won't be allowed access to the grants payment. So, that's a large number of people—1,257 have successfully undertaken this training. It began in March 2013 and that's the figure as of the middle of last month.

[179] There's other training as well, which is delivered in a more of a classroom sort of context. This is covering things like application forms, appraisals, monitoring, and there have been 708 attendees at those sessions. So, it's quite a big industry, actually, and so, to make sure that everybody who's involved in it at the right level has the right training is quite a big operation, but I think we've probably broken the back of that now. It's a matter of keeping it going, refining it and making sure that, as people move jobs, which they all too frequently do, we systematically pick up those who become involved in grant giving and make sure they're properly trained.

[180] **Aled Roberts:** Mae'r adroddiad hefyd yn nodi bod hyfforddiant gwrth-dwyll yn flaenoriaeth i chi. A oedd yna rywbeth yn eich asesiad o risg yn awgrymu pam y dylai hynny fod yn flaenoriaeth? Hefyd, mae'r adroddiad yn sôn bod yn rhaid i'r pennaeth gwrth-dwyll o fewn y Llywodraeth wneud trefniadau ynglŷn â WEFO, yn benodol. Felly, a ydy hynny wedi'i drefnu, ac a oes rhyw fath o gynllun ynglŷn â staff WEFO o ran gwrth-dwyll?

Aled Roberts: The report also notes that anti-fraud training is a priority for you. Was there something in the risk assessment that suggested why that should be made a priority? Also, the report talks about the need for the chief of anti-fraud within the Welsh Government to make arrangements in terms of WEFO, specifically. So, is that something that has been set in train, and is there any kind of scheme in place in relation to WEFO staff on anti-fraud issues?

[181] **Sir Derek Jones:** Yes. I'll pass to Peter on WEFO anti-fraud. As I mentioned briefly, there is a new European scheme being brought forward called, ARACHNE—the very erudite people in the European Commission have gone to Ovid for the name of that programme, but I think it's because it produces a web-like analysis of potential fraud risks. Peter can say more about that. This is difficult, in a way, because I don't want to overstate either the fraud risk or the extent to which fraud takes place, but it does and there is skulduggery out there and there are people who will try to defraud the Government and its schemes; it doesn't happen very often. I think that what we're doing is raising the level of awareness of the risk, about which I think our collective view was that it was probably too low.

[182] People were, I think—perhaps it's the nature of my trade—inclined to think the best rather than fear the worst in terms of their relationships with individual clients. We need to be a bit better than that, so there is fraud awareness training. Systems can help a lot, so if you have built-in systems where you might have, sort of, dual key responsibilities, for example, rather than one person, you can reduce fraud. We have an experienced former senior police officer who leads our anti-fraud business, and training and development is available for those who need it. But, the number of cases is actually quite small.

[183] **Darren Millar:** Mr Ryland, do you want to add anything?

[184] **Mr Ryland:** Yes. We've certainly benefited from that training from the head of counter-fraud, and we've delivered it into parts of the organisation that wouldn't necessarily be in the front line, if you like, but actually do have opportunities—so, some of the payments officers and the project managers and that sort of thing, across the board.

[185] ARACHNE is a tool that we're quite excited about and, actually, as we speak, the Commission is in Merthyr with some of my colleagues running through the demonstration of that, and then they'll spend a bit more time this afternoon running through some of the technical aspects of it. There will be an interface between that tool and our own system so that it draws on the information that all of the managing authorities across the European Union have in terms of people who are benefiting from European funding. It also has a database that picks up information from Companies House and its equivalent organisations across the world, so, this database covers 100 million companies worldwide. It picks up on publically available information on the internet about some of the individuals concerned, and its power is being able to draw that together into, as the name suggests, a sort of web-like diagram, which shows all the connections. So, we're quite excited about that, actually, although it's early days.

[186] **Sir Derek Jones:** This might have application outside the structural funds area, as well. So, I think, when Peter and colleagues have got a clear picture of this and its utility, we might be able—unless somebody's got the intellectual property rights—to adapt it for wider use in the organisation or in the public service in Wales more generally.

[187] **Aled Roberts:** Ac o ran hyfforddiant mewnol, roedd adroddiad terfynol y pwyllgor yma'n awgrymu y dylech chi wneud mwy o ran adborth ynglŷn ag ansawdd yr hyfforddiant a beth oedd staff yn meddwl am yr ansawdd. Nid oes manylion yn yr adroddiad blynyddol yma ynglŷn ag a oes gennych chi strwythur rŵan i dderbyn adborth gan staff. A ydy hynny yn cymryd lle, ac a oes yna unrhyw negeseuon wedi eu derbyn gan y Llywodraeth?

Aled Roberts: And in terms of internal training, the final report of this committee suggested that you should carry out more in terms of feedback on the quality of the training and what staff thought about the quality. There are no details in this annual report as to whether you have a structure in place now, to receive feedback from staff. Does that take place, and have there been any messages received by the Government?

[188] **Sir Derek Jones:** Yes, there's feedback certainly from the training that takes place in a more of a classroom environment; perhaps 'classroom' isn't the right word, but you know what I mean—face-to-face training with a tutor—and we get feedback from that. I mentioned the 708 attendees earlier who'd been through that. All attendees are asked to complete a feedback form, and that's been very positive; only one has said that the training wasn't useful or very useful.

[189] **Aled Roberts:** Mae gen i jest un cwestiwn olaf ynglŷn â hyfforddiant allanol. Roedd yna lawer o drafod yn y pwyllgor yma ynglŷn ag anghysondeb ymysg awdurdodau lleol, a sut oedden nhw yn ymateb o ran ymwneud â grantiau. Mae'r adroddiad yn sôn am hyfforddiant sydd wedi ei drefnu gan y Llywodraeth efo CIPFA, rwy'n meddwl, o ran awdurdodau lleol. A oes yna unrhyw amharodrwydd ar ran rhai cynghorau i ymwneud â'r hyfforddiant yna, ac a oes gennych chi unrhyw bryderon ynglŷn â'r ffaith bod yna'n dal i fod anghysonderau yn y ffordd y mae cynghorau yn ymwneud â rheoli grantiau?

Aled Roberts: I have just one final question about external training. There was a great deal of discussion in this committee about the inconsistency amongst local authorities and how they responded in terms of dealing with grants. The report talks about training that has been arranged by the Government with CIPFA, I believe, for local authorities. Is there any unwillingness on the part of some councils to undertake that training, and do you have any concerns about the fact that there is still inconsistency in the way that councils engage with grant management?

[190] **Sir Derek Jones:** I think this probably originates from the tables showing the number of qualifications that the auditors had identified in local authorities. This would have been the auditor general's team, I think, identifying what looked at first blush like a very, very worrying set of figures. I think on further inquiry, they are not so worrying. I think the way the system was working, if there was any sort of problem with the scheme at all, it clocked up as 'at risk', as it were, —the whole of the value of that scheme—whereas, in fact, as I got to understand this better I realised that it was, in the vast majority of cases, only a small issue, not affecting the whole of the value of the grant scheme. But, there were a lot of cases, and I think we've had two conclusions about that: one is to try and get better training and awareness across local government and Welsh Government, working with the audit office and with CIPFA; and also to try to make the audit a little more refined in terms of identifying what the real risks are, so rather than finding lots and lots of small errors, we would rather focus in on where we think we've got some particular risks. And I think that's all going okay. But, you've asked whether there is any resistance from individual authorities. I'm not aware of any, or are my colleagues?

[191] **Aled Roberts:** Rydym wedi derbyn tystiolaeth lle mae yna, o fewn byrddau iechyd er enghraifft, ryw fath o strwythur cenedlaethol yn cael ei roi mewn lle, ac eto, pan fyddwn yn derbyn tystiolaeth, mae yna rai byrddau iechyd sydd ddim wedi mynychu unrhyw un o'r cyfarfodydd. Felly, y cwestiwn ydy: a ydy pob un o'r cynghorau yn ymateb i unrhyw strwythur cenedlaethol sydd wedi cael ei roi mewn lle?

Aled Roberts: We have received evidence where there is, within health boards for example, some sort of national structure put in place, and yet, when we receive evidence, there are some health boards that haven't attended any of those meetings. So, the question is: is every one of these councils responding to any national structure that's been put in place?

[192] **Sir Derek Jones:** Rather than struggle on, can I offer to check and write to the committee? I think and hope the answer will be 'no' and that all authorities are collaborating in this, but I can't put my hand on my heart and say that I know that that's the case this morning.

[193] **Darren Millar:** Perhaps you can also write to us, with reference to the NHS, on your assertion that just £22 million-worth of grant funding in this financial year to which the report relates was hypothecated, particularly given the Welsh Government's mental health commitment, which is asserted on a regular basis in the Chamber. And I know that spending on mental health is in excess of £0.5 billion, so I'd be grateful if you could send us more information on just how that is tracked by the Welsh Government.

[194] **Sir Derek Jones:** I'm happy to do that, because that figure also caught my eye, given the overall scale of NHS funding. I'm not at all surprised that the vast majority of it is unhypothecated, but I was a bit surprised at the figure for hypothecated at £22 million, but I haven't had a chance to pursue that myself, so—

[195] **Darren Millar:** Individual capital projects exceed that, don't they, for example?

[196] **Sir Derek Jones:** As you know, we're trying to improve the extent to which we can interrogate the finance system to meet some of the questions that the committee's been asking for a long time. A couple of years back, we simply couldn't, or not reliably and accurately. We're improving that now so that we'll be able to answer these sorts of questions by interrogating the system, but we're in transition. If that figure is wrong, it may be because the system isn't quite working adequately yet, but we'll certainly check, Chair, and let you know.

[197] **Darren Millar:** Okay, thank you. Jocelyn Davies.

10:15

[198] **Jocelyn Davies:** There might be a difference between ring-fencing and hypothecation in definition; we might just find that. You said that, as far as training was concerned, you felt that you'd broken the back of that when you gave us the figures, but earlier on when I was asking you about due diligence, you felt that the due diligence pages weren't being accessed frequently—'not frequently enough', I think, is what you said. If you feel that the training is being delivered well, and you've covered most people, can you explain that or have I missed something? Are the two things not related?

[199] **Sir Derek Jones:** I think that is precisely the situation. I think that we've developed the training courses now and they're being run and they're being valued and none of that was happening before, so that's good, and I think that that task is essentially complete and now it's a matter of operating it, but one of the things that it doesn't seem to be achieving, or at least I'm not satisfied that I've got the evidence that it's achieving, is the consistency of use of the due diligence pages. So, that'll be fed back into the way the training is delivered.

[200] **Darren Millar:** I'm afraid the clock has almost beaten us. I have just one final question. The committee was quite exercised during the session last year on the IT infrastructure because a clear commitment had been made to acquire a new piece of IT infrastructure in order to manage grants, but your evidence then went on—and the same is the case in the grants report—to say that you were instead going to adapt the existing IT infrastructure in order to deliver the same results, effectively, and it was on a cost basis that you made that decision. But, there's no reference to the cost of the improvements, in your report, to the existing infrastructure so that we can compare both.

[201] **Sir Derek Jones:** I've got a couple of figures in my head, Chair. It wasn't simply cost; it was cost and risk because there weren't any, or possibly no more than one, example of the system that we were looking at actually being used. That didn't strike us as sufficiently good and reliable evidence and Government—I don't need to tell you—is just littered with failed IT projects that have been too ambitious at the start and have tried to be implemented too quickly, and organic is often better and that's what we opted for. So, there's a mixture of cost

and risk. The system that we've been looking at, which would have delivered more automaticity in terms of whether due diligence was done, in that you could, in principle, have the sort of system where it would be impossible to make a grant unless you had—. That was about a £5 million proposition. In the event, we spent about £250,000, using an in-house team to adapt an existing system, which is giving us greatly improved functionality at a fraction of the cost. It's not absolutely everything and I don't think we're going to let this go, so we'll continue to look at what the next stage of development might be.

[202] **Darren Millar:** Okay; excellent. Are there any more questions? That brings us to the end of our session. We'll look forward to receiving the additional information that you've promised the committee. Once that's been received, we'll consider this matter further and, obviously, there'll be some outcome to our work. Thank you very much indeed, Sir Derek, David Richards, Gawain Evans and Peter Ryland. Did you want to say something? I can see words burning on your lips.

[203] **Sir Derek Jones:** Just to add that if the clerk would, at any point, like to let us know any particular things for the next annual report that the committee would like to see covered, then obviously we'll do our very best to do that.

[204] **Darren Millar:** We'll do that and thank you very much indeed for your attendance this morning. We'll move on to item 4.

10:18

**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**

Cynnig:

y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod ac eitemau 1 a 2 o'r cyfarfod ar 17 Mawrth, yn unol â Rheol Sefydlog 17.42(vi).

Motion:

the committee resolves to exclude the public from the remainder of the meeting and items 1 and 2 of the meeting on 17 March, in accordance with Standing Order 17.42(vi).

*Cynigiwyd y cynnig.
Motion moved.*

[205] **Darren Millar:** I'll move the motion under Standing Order 17.42 to resolve to exclude the public for the remainder of our business and, indeed, for items 1 and 2 of our meeting on 17 March. Does any Member object? There are no objections, so we'll go into private session.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:18.
The public part of the meeting ended at 10:18.*