



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

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

**Dydd Mawrth, 31 Ionawr 2012  
Tuesday, 31 January 2012**

### **Cynnwys Contents**

Cyflwyniad, Ymddiheuriadau a Dirprwyon  
Introduction, Apologies and Substitutions

Cynnig Gweithdrefnol  
Procedural Motion

Ystyried Rhaglen Swyddfa Archwilio Cymru o Astudiaethau Gwerth am Arian  
Consideration of the Wales Audit Office's Programme of Value for Money Studies

Rheoli Grantiau yng Nghymru—Tystiolaeth gan Lywodraeth Cymru  
Grants Management in Wales—Evidence from the Welsh Government

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

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

**Aelodau'r pwyllgor yn bresennol**  
**Committee members in attendance**

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Leanne Wood	Plaid Cymru The Party of Wales

**Eraill yn bresennol**  
**Others in attendance**

Gillian Body	Swyddfa Archwilio Cymru Wales Audit Office
Michael Hearty	Cyfarwyddwr Cyffredinol, Cynllunio Strategol, Cyllid a Pherfformiad, Llywodraeth Cymru Director General for strategic planning for Finance and Performance, Welsh Government
Y Fonesig/Dame Gillian Morgan	Ysgrifennydd Parhaol Llywodraeth Cymru Permanent Secretary to the Welsh Government
Arwel Thomas	Pennaeth Llywodraethu Corfforaethol, Llywodraeth Cymru Head of Corporate Governance, Welsh Government
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

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

Dan Collier	Clerc Clerk
Linda Heard	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

*Dechreuodd y cyfarfod am 9.16 a.m.*  
*The meeting began at 9.16 a.m.*

## **Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions**

[1] **Darren Millar:** I welcome everyone to today's meeting. The National Assembly for Wales is a bilingual institution, and participants at this meeting are welcome to speak in Welsh or English, as they wish. Amplification and translation are available through the headsets. Listen to channel 0 for amplification and channel 1 for translation. I ask everyone to switch off their mobile phones and pagers, as these can interfere with broadcasting and other equipment. If the fire alarms go off, we should all follow the ushers out of the building and follow their instructions.

[2] I have not received any apologies for absence. Members will note that Tom, our new clerk, is not with us this morning, but he will be with us in the next couple of weeks.

9.17 a.m.

## **Cynnig Gweithdrefnol Procedural Motion**

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

*the committee resolves to exclude the public for the next two items in accordance with Standing Order No. 17.42(vi).*

[4] I see that the committee is in agreement.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 9.17 a.m.  
The public part of the meeting ended at 9.17 a.m.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 9.50 a.m.  
The committee reconvened in public at 9.50 a.m.*

## **Ystyried Rhaglen Swyddfa Archwilio Cymru o Astudiaethau Gwerth am Arian Consideration of the Wales Audit Office's Programme of Value for Money Studies**

[5] **Darren Millar:** With us, we have Huw Thomas and Gillian Body. Do you want to talk us through the paper that you provided for us, auditor general?

[6] **Mr H. Thomas:** Basically, it is in line with the fact that I need to keep you informed of the future programme of work that I will undertake, and also reflects on some of the points that you made last time and in previous meetings about areas that you feel I should look at. The best way that I can start is to draw your attention to figure 1 on page 5 of the paper. It sets out, in a nice graphical form, the work in progress that originates in various areas of the Wales Audit Office's activity, but work from those various areas could be available for consideration by the committee in the course of the next financial year. I am happy to take questions today about the detail of the various projects that are listed here, but basically it shows the range of activity that the Wales Audit Office is undertaking.

[7] Reports relating to our local financial and performance audits—that is, on individual public bodies, particularly in local government and the NHS—are all available on our website

in addition to these. For example, we are at present publishing our annual improvement reports for local councils, national parks and the fire and rescue authorities. Yesterday, as I am sure may not have escaped your attention, we published our special inspection report on Pembrokeshire County Council. So, all of these things are going on as well as the material that will be available to you.

[8] We are following up various works that have previously been the subject of reports to PAC. These relate particularly to Forestry Commission Wales—this is relevant, given that we will look at grants management later—which had some issues relating to its grants management that were the subject of evidence sessions with the previous PAC. We have previously done work on child and adolescent mental health services, which again we feel needs to be followed up.

[9] We will be involved with other audit bodies across the UK in work that will be led by the National Audit Office looking at healthcare systems and performance, comparing Wales, Scotland, Northern Ireland and England. That is a joint body of work that I am sure that PACs in various legislatures will follow up. That is work that we will do in conjunction with others.

[10] We are also, as you will see, going to bring to you some of the overarching studies of local government work that we are doing on public engagement and responding to financial considerations. This maintains the distinction between our individual local reports, which PAC does not get involved with, and the appropriate general issues in terms of the management of public finance.

[11] You will notice that there is one report to do with the sale of the former River Lodge hotel in Llangollen. That seems to be a very specific report, but it is a response to issues that have been brought to my attention by Assembly Members over recent months and also follows a request from the Permanent Secretary for me to examine how the Welsh Government dealt with this particular matter. I envisage, as with the work that we did on the Forestry Commission in the last session of the Assembly, that this will be a matter at which you will want to look and, possibly, take evidence.

[12] Taking these various commitments into account, I then look at my work streams in terms of value for money studies—the amount of resource that I can put in to that. Taking account of the work in progress and the two previously planned studies that have yet to start, there are five new studies listed here. The five relate to the Welsh Government arrangements for working with the third sector. Financial planning and management in higher education has attracted quite a bit of attention in the Assembly and is something that it is appropriate for us to look at. I will also undertake—ideally, in conjunction with Estyn—work on supply teachers and how they are used. I want to look at the way in which the public sector is planning its workforce and workforce reduction. This is a concern that PAC has raised with the Permanent Secretary in the past in relation to how voluntary severance schemes were dealt with. However, there is an issue regarding how the public sector is planning its workforce for the future. There is also a study regarding grants to farmers, particularly in terms of European money and other grants that are available to them.

[13] The last time that I was here, Members suggested a range of activities for me to look at, and I have summarised these in paragraph 13. They relate to the possible impact of benefit changes, tourism promotion, public procurement—I recognise that that has cropped up again this morning—sustainability, community pharmacy, and so on. We ought to look at the work that we will be reporting to you on the national fraud initiative, to see whether we can tease out the relationships between benefit changes and levels of fraud. There is work on young people who are not in education, employment or training, and financial planning and management in higher education, which would give us the opportunity to explore a range of issues relating to post-16 education. As I indicated last time, medicines management will give

us the opportunity to look at issues relating to community pharmacy. I do not see any difficulty with that.

[14] The issue of senior management pay in the public sector was suggested last time. We can try to take account of that in looking at the workforce and planning issues. However, in relation to tourism, because the Welsh Government has initiated its own externally led review, there seems to be no purpose in my taking a detailed look at this stage, until we are clear which way the Welsh Government wants to go.

[15] So, we have tried, in a sense, to reflect on your list. Procurement is an issue that is also being looked at, as you know, by a task and finish group of the Assembly; it is looking at European procurement rules. It would be useful if that work was concluded and we took further stock of whether we can look at procurement more widely in Wales. We will look at how the public sector procures the services of consultants and various contracts. That is already within our sights as a particular study.

[16] That represents, if you like, a shopping list of future work. I now draw your attention to the reports that you are due to get between now and June, namely the work on public participation in waste recycling and NHS finances. I am going to ask Gillian to expand on those, so that you have a clear idea of what will happen, because both of those should be out by the end of February. Then, there will be the local government study on public engagement.

10.00 a.m.

[17] We will be reporting on how European structural funds have been used in Wales, Informing Healthcare, the benefits realisation for the NHS consultants contract—that is overdue, but it will be reported upon in that period—the study on the sale of the former River Lodge hotel in Llangollen, and the results of the national fraud initiative, which will enable you to decide whether you want to do more work on benefits within Wales.

[18] **Darren Millar:** Before I ask Gill to come in to give us more information on the imminent reports, as it were, I have a question for you, auditor general, and I want to let other people come in as well. In paragraph 6 of your report, you say that you are planning to write to the committee in respect of some follow-up work that you have been doing on maternity services, which is a matter of significant public interest at the moment. When do you expect to be writing to the committee regarding that piece of follow-up work?

[19] **Mr H. Thomas:** That is work that we have covered in terms of local audits at the various local health boards. I think that we will be writing imminently.

[20] **Ms Body:** Yes. I have a meeting next week to see what has come out of the local work, and then we will be putting that together in a letter to you. You will have that in the next month or two, I would have thought.

[21] **Darren Millar:** Members will be interested in that. In terms of the local audit work that you are doing in the NHS, you have referred in paragraph 7 of the report to a number of issues that you are looking at. You do not always specifically draw our attention to those at Public Accounts Committee meetings, or write to us specifically about issues relating to those. Could you provide the clerk with a list of links to those reports, so that Members who have an interest in those areas can access the information easily, if they have any issues arising from them?

[22] **Mr H. Thomas:** Indeed. I have set them out like that for that precise reason. I want you to be aware that it is not just the value for money reports that I formally present to you; there is a range of other activity that I am happy to discuss with the committee individually or

collectively.

[23] **Ms Body:** We have a couple of reports that we are looking to publish in the next month or so—hopefully towards the end of February. The first one is on public participation in waste recycling, which primarily looks at how the Welsh Government and its local government partners, through policies and the way in which services are delivered, look to encourage the public to recycle more. Waste recycling is an important part of the Welsh Government's plans for citizens to live within Wales's available resources. The Welsh Government has consequently set challenging targets for local authorities to increase recycling levels. Currently, around 44% of domestic waste is recycled, but the Welsh Government is looking for local authorities to increase that to around 70% by 2024-25. That is a demanding target. There are also possible financial consequences for local authorities if they do not meet European Union targets to divert waste from landfill. There are fines and penalties attached to that.

[24] Recycling relies on voluntary participation by the public. The challenge for the public sector is to change the behaviour of citizens in Wales. Our report looks at how recycling fits in with the Welsh Government's national framework for sustainability, the challenges and barriers that local authorities face in delivering that strategy, the progress that local authorities are making to change the way in which services are delivered to the public to encourage greater levels of participation in recycling, and the management information that is available and used by local authorities to help them target initiatives and monitor their performance. That report is imminent—we are looking at a publication date of 16 February—in a couple of weeks' time.

[25] The other report that is fairly imminent is one on NHS finances. You will remember that we did a report, 'A Picture of Public Services 2011', which set out the significant financial and operational challenges faced by the NHS. This report drills down into the financial position of the NHS in more detail. It is primarily a pan-Wales report rather than a report on the financial management regimes of individual NHS bodies. It provides information on how, historically, the NHS has managed within its available budgets in recent years. It looks at the scale of the immediate challenges it faces with regard to funding gaps, its known cost pressures alongside the resources it has available, and how it is grappling with those and looking to bridge the funding gaps. Then, it looks forward at the financial implications of longer term plans for the reform of health services. So, it is a look at where we have been and the track record of the NHS in dealing with the sort of financial pressures it faces, drilling down to assess the scale of the challenges it faces going forwards. I think that it will provide very helpful supplementary information to that which we set out in 'A Picture of Public Services 2011'.

[26] **Darren Millar:** Thank you for that. I know that some people have questions. I will turn to Leanne first.

[27] **Leanne Wood:** Thanks very much for that. You mentioned the procurement task and finish group, which is in the process of completing its work. I am a member of that group and I am hoping that, after we have responded to the changes the EU is putting forward, we will be able to do another piece of work looking at how we can expand the amount of public procurement that happens on a local basis. So, what you have said about looking at consultants is good news, because that is going to form part of that work, albeit one small part.

[28] Turning to page 9 and the very end of point 13, I was disappointed to see that it is difficult to consider matters relating to pay rates for senior executives purely in the Wales context. I can accept that it is a devolution issue. This is not part of our devolution settlement. However, what is considered to be unfair is that lower paid workers in local authorities and

public bodies have had their contracts rewritten, whereas the perception at least is that the contracts of people higher up the pay scale remain untouched and, in some cases, people are still receiving bonuses and pay increases. Whether that is true I do not know, but that is certainly the perception and people feel very aggrieved because it is unfair.

[29] Finally, looking at benefits issues, you mentioned looking at these issues in relation to the levels of fraud. My personal feeling is that there is already too much emphasis on this and not enough emphasis on the other end, which is the tax-dodging side of things. I am not particularly keen for you to look at this again. I would be more concerned to find out what the impact would be on our public services as a result of more people finding themselves on benefits because of the increase in unemployment rates, rather than another report that will be used as a stick to beat people who are already claiming benefits and living a life of poverty.

[30] **Mr H. Thomas:** I will respond to those three points. With regard to procurement, there are two things. First, I would be very happy to continue to support the work of the task and finish group with my officials, so that it is not just the PAC that we support, but other committees. Secondly, as part of that, I will look at whether we can do other work on procurement. However, in a sense, it will depend on what the task and finish group itself recommends.

[31] I recognise the points you make about the devolution context for senior executives' pay and the issue of benefits. If you like, those are areas that it is difficult for me to look at in the context of Wales only. I am trying to suggest in the report that I will do my best within the framework available to me, but that I recognise that some of these subject areas operate on a UK level.

[32] **Aled Roberts:** Mae'r Gweinidog Llywodraeth Leol a Chymunedau wedi sôn fwy nag unwaith am y ffaith bod ei swyddogion ar hyn o bryd yn gweithio ar gytundeb newydd ar gyfer rheilffordd Cymru a'r gororau. Yr ydych yn sôn yn eich adroddiad am wneud y gwaith hwnnw rhwng 2013 a 2014. A yw eich amserlen yn cydfynd â'r ffaith bod y Gweinidog yn mynd i ystyried pa newidiadau y mae ef eisiau eu gwneud i'r cytundeb ar gyfer 2017?

**Aled Roberts:** The Minister for Local Government and Communities has spoken more than once about the fact that his officials at present are working on a new franchise for the Wales and borders railway. Your report talks about undertaking that work between 2013 and 2014. Does your timetable allow for the fact that the Minister is going to consider what changes he wants to make to the franchise for 2017?

[33] **Mr H. Thomas:** Yr ydym yn ymwybodol o'r amserlen y mae'r Llywodraeth yn bwriadu ei mabwysiadu. Yr hyn yr ydym wedi ceisio ei wneud yw adlewyrchu'r pwynt lle y medrwn ni edrych arno ar ôl i rai penderfyniadau gael eu gwneud. Os yw'r Llywodraeth yn mynd i adolygu rhywbeth, dylem ganiatáu iddi wneud hynny, cyn dod i mewn gydag astudiaeth. Felly, mae'r cyfan yn ymwneud â'r amser gorau i wneud hynny. Os oes angen dod â hyn ymlaen, yn sicr, byddwn yn gwneud hynny.

**Mr H. Thomas:** We are aware of the timetable that the Government intends to adopt. What we have tried to do is reflect the point at which we can look at it after some decisions have been taken. If the Government is going to review something, we should allow it to do that before coming in with a study. Therefore, it is all to do with the best time to do that. If we need to bring this forward, we will certainly do that.

[34] **Aled Roberts:** A oes unrhyw wybodaeth ar gael ar hyn o bryd? Deallaf mai cytundeb Cymru a'r gororau yw hwn, ond

**Aled Roberts:** Is there any information available at present? I understand that it is a Wales and borders franchise, but there are

mae dau gytundeb sy'n dilyn patrwm dim twf, sef un Cymru a Northern Rail, rwy'n meddwl. A oes unrhyw wybodaeth gennych ynglŷn â pham aeth Llywodraeth Cymru ar ôl y math hwnnw o gytundeb yn y lle cyntaf?

two franchises that are following a no-growth pattern, namely Wales and Northern Rail, I believe. Do you have any information as to why the Welsh Government chose that type of agreement in the first place?

[35] **Mr H. Thomas:** Gallaf ysgrifennu atoch er mwyn ymateb i'r cwestiwn hwnnw.

**Mr H. Thomas:** I can write to you with a reply to that question.

[36] **Jenny Rathbone:** I have two specific questions and then one general point. On the specifics, with regard to public participation in waste recycling, have you linked in with the carrier bag research done by Cardiff University, which was presented at a lunchtime session here? It was very interesting to see how a miserable 5p charge has substantially changed people's behaviour. It is proper academic research; if you do not know about it, I suggest that you might want to incorporate it into your final report.

[37] **Ms Body:** We have done extensive literature research and we are aware of that. I do not recall that it features very prominently in the report, which is very much about encouraging the public to recycle more of what they put out, so that items are put not in black bags, but in recycling containers, whether they are plastic bags or—

[38] **Jenny Rathbone:** It is an interesting example of how a minor fiscal policy can have a substantial influence on people's behaviour.

[39] Operating theatres are interesting, but we would obviously need to be mindful of whether or not the Health and Social Care Committee was going to look at that. However, it is certainly something that I would be interested to read about. Presumably, that is not something that has been published yet; is that right?

[40] **Ms Body:** Operating theatres are the subject of one of our local health projects. The output of that is a local report to the individual health board, which would be on our website. The issue the Chair was making is that we do not always bring our local work to this committee. Where we think there are issues of wider relevance and more significant messages, we will put those into a national report and bring it before this committee. That work, in any case, is a follow-up to earlier work that was brought before the Public Accounts Committee. We try to harmonise what we do at a national level, which comes to this committee, and which informs our programme of local work, and then, the other way, we bring our local work back up to the national stage as well.

[41] **Jenny Rathbone:** Okay. My substantive point is that I am very interested in your local government study on public engagement, but am very keen to understand how much the Simpson compact is an overarching reference point when we are looking at the way in which we reshape services to better meet people's needs with less money. So, I want to know whether your work on public sector workforce planning and managing workforce reduction relates to Simpson and the very useful parameters of direction of travel that it gives us, particularly with regard to workforce engagement. You will be looking at public engagement in the report that you will publish before June. Workforce engagement in terms of making better use of money to better meet people's needs is also very important.

10.15 a.m.

[42] **Mr H. Thomas:** Part of the work that we do also includes members of my staff acting as observers at various levels of activity within the Welsh Government, particularly when it is to do with issues of collaboration and local government. I sit as an observer on the public sector leadership group, as we did with the efficiency and innovation board. So, we

have sight of what is happening at various levels, and that is reflected when we do our studies.

[43] **Ms Body:** In terms of looking at workforce reduction, the thrust of that is our public bodies approaching it in a strategic way, and whether they are ensuring that they maintain what they are trying to achieve and engaging the workforce to make cuts in the right places, rather than taking a slash-and-burn approach to cut expenditure immediately. So, it is about doing it in a sustainable way that maintains their ability to deliver their primary objectives.

[44] **Darren Millar:** If there are no further questions, I thank you for drawing attention to your forward work programme, auditor general, and for taking on board the issues that have been raised by individual committee members and where they might fit into your forward work programme. We appreciate that, and we look forward to receiving your reports in due course.

[45] **Mr H. Thomas:** I also wish to draw committee members' attention to the fact that we have named the people who are carrying out some of the forward studies. That is to make it easier for Members who wish to ask questions or to find out a bit more about those particular studies; they are welcome to contact officers directly.

[46] **Darren Millar:** That is great; thank you very much for that offer. We will take a short break before moving on to item 6 on our agenda at 10.30 a.m.

*Gohiriwyd y cyfarfod rhwng 10.17 a.m. a 10.29 a.m.  
The meeting adjourned between 10.17 a.m. and 10.29 a.m.*

### **Rheoli Grantiau yng Nghymru—Tystiolaeth gan Lywodraeth Cymru Grants Management in Wales—Evidence from the Welsh Government**

[47] **Darren Millar:** We will take evidence on this item from the Welsh Government. I am pleased to welcome Dame Gill Morgan, the Permanent Secretary, to the table, as well as Michael Hearty, the director general of strategic planning, finance and performance, and Arwel Thomas, the head of corporate governance and assurance. The committee received a briefing from the auditor general at one of its previous meetings about this particular report, which has been published. It is a timely report given the recent developments that people will have read about in the news relating to serious allegations regarding the All Wales Ethnic Minority Association, an organisation which receives significant public funds in Wales, including resources from the Welsh Government.

[48] Members of the committee would be interested, Dame Gillian, if you could give us an update on where the Welsh Government is with its ongoing investigations into the allegations about AWEMA.

[49] **Dame Gillian Morgan:** I apologise for being late—as you know, it is Cabinet on a Tuesday morning, so I was delayed.

[50] AWEMA is a body that we fund directly or through the Welsh European Funding Office. Other funders such as the Big Lottery Fund also make allocations of resources to that organisation. Highly significant concerns were raised with us, in part through a report that had been done by the trustees on the governance. It is not our job to govern the organisation—that is what the trustees of the charity have to do, as they have legal responsibilities that include aspects such as filing accounts.

[51] Our initial information makes us extremely concerned, and we have therefore taken two actions. We believe that the concerns raised are so substantial that there is a question that

the police need to answer—whether there needs to be a prosecution in terms of the behaviour that went on. We are in discussion with the police about that. The second important thing is that there are some issues and questions for the charity, in terms of its reporting and the things that it needs to do for the Charity Commission, therefore we are in discussion with the Charity Commission about what it intends to do about the governance of the organisation that would give us cause for concern. That is the investigation side.

[52] There is a second set of issues regarding what we are doing. The first thing to say is that we have suspended payment, so money will no longer go to that organisation until we are convinced that the governance is robust—the Charity Commission’s advice is important in that regard—and that there is no legal case to answer. We are aware that AWEMA is an intermediate body, therefore there are organisations further down that are potentially affected if AWEMA is not functioning. We will take a case-by-case decision on the best things to do for those organisations, because although AWEMA may not be strong enough to continue in its role at the moment, until we have had these other assurances or not, we need to make sure that other organisations do not suffer. Work is in hand to do that.

[53] **Darren Millar:** I am pleased to hear that. The committee had an update earlier from the auditor general about the role that his office has played in setting the terms of reference for the investigation that the Welsh Government is undertaking with the Big Lottery Fund and WEFO. I am pleased that you are aware of the difficulties, as a result of the allegations, being faced by those organisations that were partner agencies in the delivery of certain projects around Wales. What should organisations do practically if they are facing difficulties as a direct result of these allegations and the cessation of money? Should they contact the Welsh Government directly?

[54] **Dame Gillian Morgan:** It would be fine to contact the Welsh Government directly. There are two ways in which to contact. One way is through the equalities team, which is probably the bit of the organisation that most of them would know, because they would have other contact with the team. The other way is through WEFO. Either way, we can make a case-by-case decision.

[55] **Darren Millar:** I have two other questions before we move on to the report issue. What are the timescales by which we expect to complete the investigation? What lessons is the Welsh Government learning as a result of this new investigation, which is the third investigation into AWEMA over the past decade?

[56] **Dame Gillian Morgan:** Our investigation is now contingent on the decision to be taken by the police and the Charity Commission, because, in this, the Charity Commission is the regulator and the police need to satisfy us that there is no likelihood of prosecution. We need to ensure that the material that is needed for our investigation does not confuse matters or make it more difficult to reach a conclusion about whether prosecution is an appropriate action. That is for the police and the prosecution service.

[57] With regard to the lessons learned, although it is always difficult because our initial energy goes on the external body, the big issue for us is exactly the one that you have raised and which feeds into this, which is about what we have done as an organisation to ensure that, through all the processes, we have reached appropriate decisions. That is the audit that Arwel will take up after we have committed some of the external things. We need to ensure that, at every stage, we ask the right questions and learn from things.

[58] If you look at the grants programme, it is clear that, sometimes—and this is a big historical thing—we have not necessarily been sufficiently robust in ensuring that organisations have all the standards we would expect. On this issue, we know that we have checked and have been looking annually at things such as whether it has submitted its

accounts, whether the accounts are okay and are clear, and so on. We know that the processes over recent years have been fine, but we have to go back much longer than that to answer questions and to get some answers about our long-term management of an organisation that, if you look at the history, we should have graded as a high-risk organisation. We cannot manage every organisation that we give grants to. The issue for us is how we are proportionate and how we identify the ones about which we should have greater concerns, so that we have differential things. At the end of the day, if it is a charity, we need to have some respect and reliance on the Charity Commission, as the regulator, to tell us about charities if there is a problem. I do not think that we have all of those things right yet.

[59] We can put in everything that we want, but one of the cautions surrounding the grant report is that what tends to happen when we have these sorts of issue is that we make another stage and another set of complications, and the whole thing becomes more bureaucratic—it is a bureaucratic response to failure. We may need to unpick and be clear about what we can do. However, if an organisation that we give a grant to decides to commit a fraud, like any other organisation, it is very difficult for the regulator or the Welsh Government to detect that. All we have to do is assure ourselves that we have all the appropriate things so that when an organisation seems to be at risk, we are doing all the right things. It will not prevent this type of episode from happening again, but it will diminish the probability of it. However, no-one can prevent issues such as Plas Madoc; it is impossible from a distance to manage so many organisations.

[60] **Darren Millar:** We will touch on some of these issues as we look at the grants report in more detail. Aled has a specific question on AWEMA, but I ask him to be brief so that we can return to the report.

[61] **Aled Roberts:** Mae gennyf gwestiwn ynglŷn â gwasanaethau yn y gogledd. Mae AWEMA yn gyfrifol am ddarparu gwasanaethau uniongyrchol mewn rhai rhanbarthau, gan gynnwys y pedair sir yn y gogledd-orllewin. Os na fydd y corff yn derbyn arian, mae'n debyg na fydd y staff yn yr ardaloedd hynny yn cael eu talu, ond yn fwy na hynny, bydd trigolion yn yr ardaloedd hynny na fyddant yn derbyn y gwasanaeth. Beth fydd yn cael ei wneud ynglŷn â'r gwasanaethau hynny?

**Aled Roberts:** I have a question about services in north Wales. AWEMA is responsible for providing direct services in some regions, including the four counties in north-west Wales. If the organisation is not in receipt of funding, then the staff in those areas will not be paid, but more than that, there will be residents in those areas who will not receive the service. What will be done about those services?

[62] **Dame Gillian Morgan:** I cannot give a specific answer on that now because our team is looking at the implications of the failure of AWEMA, but our intention is not to let services fail if we can make the appropriate intervention. I would have to come back to you in writing as we go on and as that analysis is completed. AWEMA does have some money in the bank, so there are questions about the governance and the responsibility of the trustees in distributing that resource. They are not without money—they are just not having additional grant from us.

[63] **Darren Millar:** I am sure that we will return to AWEMA at a later date in more detail, and we look forward to the publication of your internal report. Whatever you can share with this committee would be helpful.

[64] We will move on to the main subject matter today, which is the 'Grants Management in Wales 2011' report by the Wales Audit Office. One of the big issues identified in the report is that, here in Wales, we tend to use grants more than any other part of the United Kingdom. Why is that? Why have we in Wales pursued that route rather than other routes involving

more freedom for organisations that we award money to?

[65] **Dame Gillian Morgan:** May I make a couple of general remarks? The first—and I say this slightly tongue in cheek—is that every time we come to this committee we say that we welcome the auditor general’s reports, and we genuinely do. However, we particularly welcome this one. Of all the reports that we have had, this seems to me to be one of the most important. We particularly welcome it because, over the past four years, when we have read Wales Audit Office reports, we have been increasingly concerned about risk, value for money and the administration of grants. That led to us in 2009 beginning to scope the work of the grants project, which was finally signed off and implemented in 2010. I am really glad that when you look at the recommendations of the auditor general’s report and map them against the grants management project, which of course was set up well before the report, they are very synchronous. So, it really reinforces the work that we have been doing internally to improve our standards, and I particularly like that in an auditor general report. This is an important report to us, because it is something that we are trying to work on.

[66] Why do we use more grants? The answer to that is simple. Welsh Ministers are very clear about some of the things that we want to achieve, and they see grants as an important policy tool that allows them to say what they want achieved and know pretty directly whether the grant has achieved those things.

[67] There is a downside, because many of the things that we want to achieve are then codified as processes and activities—that is what the grants often fund. So, Ministers are in a process, through the new accord signed off on 5 December between the Minister for Local Government and Communities and local government organisations, whereby we are committed to looking robustly at the number of grants with local government, and whether we can reduce those, because there is a recognition that, as we move to the programme for government that is much more explicit about the outcomes rather than the processes, then maybe grants will no longer be as strong a policy tool. However, back in 2009, we looked at every grant that we gave and specifically asked Ministers, ‘Is that a grant that you want to continue to give, or is it something you feel that no longer provides value for money or gets the outcomes that you want?’. Ministers have been very affected by conversations they have had with politicians elsewhere in the United Kingdom. It is clear that, if you talk to colleagues in Scotland, where they were very early in dehypothecating everything, one of the concerns they have, which they express in formal meetings, is that they have lost a grip on some of the outcomes they might have wanted to achieve where they were delivering them previously through grants.

[68] So, there is a balance as to how many grants you should have. We probably have too many; Scotland may believe that it has too few. Over the next couple of years, we are likely to see more convergence, but our Ministers regard it as an important tool that they wish to keep in their armamentarium.

[69] **Darren Millar:** You mentioned Scotland, and the difference is quite remarkable—I think that they have just £13 million of grants that are hypothecated, compared with our £2 billion, which obviously means a massive difference in approach. However, I accept that Ministers will want to achieve their policy objectives and that grants are a useful way of achieving them.

10.45 a.m.

[70] In terms of the ongoing reviews of grants, how do you determine which ones you are trying to deliver on an unhypothecated basis, or which things are you trying to fund on an unhypothecated basis? How do you decide which ones drop off the list?

[71] **Dame Gillian Morgan:** Do you want to pick that up, Michael, because it feeds into the grants project?

[72] **Mr Hearty:** Yes. There are no set criteria whereby you can look down a list and see that it ticks a particular box. The grants management project works with individual portfolios to review every single grant that they have. That tells you a lot about the profile of grants that we have in place at a particular point in time, and it gives some indications about what advice we should be giving to the individual portfolios about things that could be consolidated together, and that is starting to work its way through. There are a couple of examples cited in the report with regard to Supporting People and the education framework, where we have looked at the overall profile and have thought that consolidation may be a better way forward.

[73] One of the things we have also done, or plan to do, with the grants management project is to develop a pilot project with a series of local authorities, so that we can understand, from what they are trying to achieve with their local government protocol and the make-up of our overall grant profile, how we can have better consolidation.

[74] There was an interesting point in the Wales Audit Office's report about the administration costs of making grant payments, which I am sure that you will want to come on to discuss. If there are lots of small grants, the administration cost will be high as a general proportion of the total cost, so there are surely some discussions we can have about pooling those sorts of things. So, we do not have set criteria; it is done on a case-by-case basis, looking at how we can get the balance right between effectiveness and value for money, and it is about taking a common-sense approach.

[75] **Dame Gillian Morgan:** I started with some fairly doctrinaire and simple views. The simple view is that grants under £1 million are probably not worth having, because such a high proportion would go on administration. However, when we went through them, in some cases it was almost the opposite of that. Sometimes, it is the small grants that are very good at delivering the tangible outcomes that Ministers want. Therefore, we had to move away from something that just talked about scale and whether it was worth the administration. There are some questions for us, in that we still administer grants throughout the organisation. So, through the lean methodology and various things such as that, there are opportunities for us to cut administration, while still having these small, targeted grants that are seen to deliver a very good return in terms of what they do.

[76] **Darren Millar:** We will touch on the administration costs a little later. Aled, is your question related to this particular issue?

[77] **Aled Roberts:** Yes. There is reference to the administration costs of all of these grants. What evidence do you have, for example in relation to education, if the Minister is the one who wants to retain control of direction on the basis that he or she wants those outcomes, that our using grants to a much greater extent than is the case in England and Scotland has led to improved outcomes in Wales? Is not the reverse true?

[78] **Dame Gillian Morgan:** What a grant allows you to do, which this is why many of the Ministers are very keen on grants—they all take a slightly different perspective—is to make a specific commitment and to track it. So, we know, if we have a grant for something, that is that where the money goes, and we can track it. There was a question as to whether that achieves societal outcomes. Many of the things that Ministers are interested in can be quite small, but may make a real, tangible difference to citizens—often it is not the big sums of money that really work hard, but the small sums. In Scotland, where hypothecation is not used, you lose track of all of those things. So, there is a real trade off, because if you do not give a grant for something, you cannot see where it has gone and the difference that it has

made. Scotland is not able to measure outcomes in that way. So, there is a value judgment that Ministers take different positions on over time.

[79] We have not done this with the new Ministers, because they are looking at it individually, but, in 2009, we talked about every single grant that we had and asked all the Ministers and departments to look at them and to say whether they believed that those grants were translating into tangible outcomes. So, the grants that we have kept are the ones about which people believed there were really important reasons to have them, not necessarily ad infinitum, but for a period of time. For example, there are a lot of small grants in Sustainable Futures around climate change, training and all sorts of stuff. Those were very small for many organisations, yet our policy officials believed that they were very important in terms of impact, and, if we were to put them into a non-hypothecated grant, we would lose many of those changes. So, people made a case-by-case assessment. However, the grants management project is bringing a much more systematic approach to that, and people are thinking about those things again, and about them as part of the programme for government.

[80] **Mr Hearty:** The Permanent Secretary highlights, really importantly, that there are some genuinely sensible reasons as to why you would use specific grants. Where the outcome is not clear and there is an exploratory approach, you want the ability to ring-fence and say, 'That is what I am giving the money for, and I want to start to measure outcomes around that'. The other two areas are around where take-up is particularly difficult to predict, so you want to be able to ensure that you target the money at where it will be taken up, and, secondly, around where the funding profile is also difficult to predict, and so you want some certainty and information before you decide on the profile so that you know that you will get the outcomes. The question that you raised lies right at the heart of the WAO's report. There is an industry and there is a cost associated with specific grants, so how do you prove that you are getting the outcomes? What the report reflects is that we are not very good at doing that. The programme for government will help us with that, because, for the first time, the Government has set a clear direction of travel that says, 'These are the outcomes that we want to achieve' and the organisation can corral around that and have a clearer sense of the outcomes. That generates better decision making and thinking about whatever funding route you want to use, whether it is grants, procurement or whatever. The question is a really valid one. It is something that we are learning and we need to get better at how we connect the money that goes out of the door with the outcomes that we are trying to achieve.

[81] **Dame Gillian Morgan:** The other thing that is important to remember when you compare us with Scotland is that Scotland is configured completely differently from us. So, many of the things that we do in-house, for example, providing grants to business and things such as that, are outsourced in Scotland. I have not seen information about what happens in the agencies and their use of grants, but I know that they are very active in business grants and things such as that. That all looks like a Government overhead here, because we do not have agencies to do those sorts of things. So, I have not seen what happens in the agencies in Scotland and I do not know whether the WAO has looked at it. We are a mix of the Scottish Government plus all those agencies, such as development agencies, and you would have to put all of those together to take a view as to whether Scotland has truly dehypothecated. It has as far as giving money to local government is concerned; it is far further on with that. However, because it uses these intermediates, I do not have an answer about what it does when it comes to business grants and things such as that.

[82] **Darren Millar:** I am sure that the committee will take some evidence around the Scottish model at one of its future meetings, but we need to move on. I am conscious that we have only six minutes left on the clock, and we have asked very few questions so far on this issue.

[83] **Mohammad Asghar:** PricewaterhouseCoopers, the largest firm of accountants in the

world, produced an alarming report in 2010 about the cost of administering the education system in Wales. In its words:

[84] ‘the exact number of grants currently in existence is not clear’.

[85] That is not good enough. Why has it been so difficult to determine the total number of specific grant-funded schemes that the Welsh Government currently operates? What are you doing to ensure that you have a full understanding of the number and range of Welsh Government grant schemes and of their objectives?

[86] **Dame Gillian Morgan:** Do you want to pick this up, Mike, because it ties in very much with the grants management project?

[87] **Mr Hearty:** There are two aspects to this: the first is the volume and the second is the cost. It is important not to look at either in isolation. We are trying to achieve six things with the grants management project, which I will cover very briefly. The first is to make sure that we get better value for money. That is, if we choose a grant as a funding stream, that we get value for money from that. The second is to ensure that we can maximise the impact of the funding in order to ensure that we get the return on the investment that we are looking for. The third is to ensure that we have consistency, good control and good governance for the end-to-end process—from the original thought that suggests that something might be a grant scheme through to evaluating whether we have what we need from that particular funding stream. The fourth relates to providing expertise to the organisation to do that thinking. The final two start to play into the question. The fifth relates to having better data and information so that you can make some informed choices, whether based on cost or outcomes. The final point is about the system in which those data are held. People get carried away thinking that it is all about an IT system, but it is hardly anything to do with an IT system, apart from the fact that they are very helpful in allowing you to gather information together to make some informed choices.

[88] So, on the point about the volume, we would expect to see the introduction of an IT system. The fact that we have reviewed every grant that the Welsh Government is paying means that we know the exact position of the Welsh Government. That is not the full position, because other people in the Welsh public sector also make grant payments. However, I do not think that it is the role of central Government to keep a watch on the entire industry, for want of a better phrase.

[89] The costs are interesting. I know that the WAO’s report talks about the information being quite flaky in relation to questions such as whether it is 10% and whether it should be 5%. Having the data will give us better information to be able to assess, on a case-by-case basis, what the costs should be behind a grant. Where we find expensive grants, that is when you start to think about consolidation and ways of making better judgments about the grant profile that we have at the moment, but, equally, about how to make the right decision for the next grant scheme that you put in place.

[90] So, for me, it is about trying to get that information together in order to make those decisions about cost. If someone told me that they had evidence demonstrating that it is 10%, then I would say that that is too high and it needs to be closer to 5%. However, as is reflected by the auditor general in the report, from the little evidence there is, the feeling is that it is around 10%. The makeup of grants in the Welsh Government is quite interesting. We have quite a large number of very small grants, so you would expect the percentage overhead to be quite high but the actual cost to be quite low because it is a small percentage of a small number. So, for me, it is about how to get value for money and effectiveness from the grant scheme that is being paid. If we can then identify that that process is expensive, then the issue is about what we can do about that process and how we can drive down those costs. That is

what the grants management project is about.

[91] **Darren Millar:** Okay. We will have to discuss that on another day, I am afraid, because the clock has beaten us. It is just about to approach 11 a.m. As I expected, because of your unavailability, Dame Gillian, we will have to reschedule, which is a huge disappointment to the committee; it is a huge disappointment to us in wanting to further our forward work programme and complete pieces of work. However, unfortunately, we will have to bring this session to an end and request your attendance at a future meeting to discuss this issue in particular.

[92] **Dame Gillian Morgan:** Yes, of course.

[93] **Darren Millar:** Diolch yn fawr iawn **Darren Millar:** I thank everyone very much. i bawb.

*Daeth y cyfarfod i ben am 10.59 a.m.  
The meeting ended at 10.59 a.m.*