



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

**Y Pwyllgor Cyllid  
The Finance Committee**

**Dydd Iau, 15 Gorffennaf 2010  
Thursday, 15 July 2010**

**Cynnwys**  
**Contents**

- 4 Ymddiheuriadau a Dirprwyon  
Apologies and Substitutions
- 4 Niferoedd a Chostau Staff Llywodraeth Cynulliad Cymru—Tystiolaeth gan yr  
Ysgrifennydd Parhaol  
Welsh Assembly Government Staff Numbers and Costs—Evidence from the  
Permanent Secretary
- 21 Adroddiad y Comisiwn Annibynnol ar Ariannu a Chyllid i Gymru—Brîff gan Gerry  
Holtham  
Report of the Independent Commission on Funding and Finance for Wales—Briefing  
from Gerry Holtham
- 30 Adolygiad o'r Gost o Weinyddu'r System Addysg yng Nghymru—Tystiolaeth gan y  
Gweinidog dros Blant, Addysg a Dysgu Gydol Oes  
Review of the Cost of Administering the Education System in Wales—Evidence from  
the Minister for Children, Education and Lifelong Learning
- 37 Cynnig Trefniadol  
Procedural Motion

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi 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 pwyllgor yn bresennol**  
**Committee members in attendance**

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Chris Franks	Plaid Cymru The Party of Wales
Andrew Davies	Llafur Labour
Brian Gibbons	Llafur Labour
Irene James	Llafur Labour
Ann Jones	Llafur Labour
Helen Mary Jones	Plaid Cymru (yn dirprwyo ar ran Janet Ryder) The Party of Wales (substitute for Janet Ryder)
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

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

Leighton Andrews	Aelod Cynulliad, Llafur (Y Gweinidog dros Blant, Addysg a Dysgu Gydol Oes) Assembly Member, Labour (The Minister for Children, Education and Lifelong Learning)
Caren Fullerton	Dirprwy Gyfarwyddwr, Adnoddau Dynol Newid Busnes, Llywodraeth Cynulliad Cymru Deputy Director, Human Resources Business Change, Welsh Assembly Government
Y Fonesig/Dame Morgan	Gillian Yr Ysgrifennydd Parhaol, Llywodraeth Cynulliad Cymru Permanent Secretary, Welsh Assembly Government
Gerry Holtham	Cadeirydd, Comisiwn Holtham Chair, Holtham Commission
Carla Lyne	Adran dros Blant, Addysg a Dysgu Gydol Oes, Llywodraeth Cynulliad Cymru Department for Children, Education, Lifelong Learning and Skills, Welsh Assembly Government
Lynne Hamilton	Adran dros Blant, Addysg a Dysgu Gydol Oes, Llywodraeth Cynulliad Cymru Department for Children, Education, Lifelong Learning and Skills, Welsh Assembly Government

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

John Grimes	Clerc Clerk
Catherine Hunt	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 8.59 a.m.  
The meeting began at 8.59 a.m.*

### **Ymddiheuriadau a Dirprwyon Apologies and Substitutions**

[1] **Angela Burns:** Good morning. I welcome you all to the Finance Committee meeting on Thursday 15 July. Before I welcome our witnesses, I will just run through some basic housekeeping rules. I remind you that you are welcome to speak in Welsh or English. There are headsets available through which you can hear simultaneous translation. Please switch off mobile phones, BlackBerrys and all those other gadgets because they interfere with the broadcasting equipment. If the fire alarms go off, the ushers will tell everyone what to do and, if necessary, direct us to the fire exits. We have received apologies from Janet Ryder. I welcome Helen Mary Jones who is substituting for Janet. We have also received apologies from Lorraine Barrett, who is unable to be here due to a clash with another committee.

9.00 a.m.

### **Niferoedd a Chostau Staff Llywodraeth Cynulliad Cymru—Tystiolaeth gan yr Ysgrifennydd Parhaol Welsh Assembly Government Staff Numbers and Costs—Evidence from the Permanent Secretary**

[2] **Angela Burns:** The first item under discussion today is further evidence that we have received from the Permanent Secretary on staffing levels and general costs. I welcome the Permanent Secretary and ask her to introduce herself and her colleague for the record.

[3] **Dame Gillian Morgan:** I am Dame Gill Morgan. I am the Permanent Secretary of the Welsh Assembly Government. With me today is Caren Fullerton, who is co-ordinating a lot of our change programme on the human resources side.

[4] **Angela Burns:** This is the second evidence session that the Permanent Secretary has been kind enough to attend. Therefore, I welcome you and thank you for that. Thank you also for the further evidence that you have provided following on from our last meeting. We have a number of questions, but before we start, do you wish to make any general observational comments?

[5] **Dame Gillian Morgan:** No, apart from one point: the last time that I was here, I might have left the impression that our current human resources system is not a very good system. Actually, we have a very good HR system, and we have a very good finance system, but what we do not have is linkage between the two. I think that I left the impression that the HR system is a poor system; that is not the case. It is the linkage that we do not have.

[6] **Angela Burns:** That is fine. Thank you for that clarification. I appreciate it. If Members are happy, I will start by drawing everyone's attention to your recent letter to the Finance Committee in which you commented that, when powers and responsibilities are transferred to the Welsh Assembly Government from Westminster, there has been a shortfall in funding to fulfil these responsibilities. You mentioned the Fire and Rescue Services Act 2004 as a very good example. How does the Welsh Assembly Government plan in future to ensure that we have proportionate funding, and that that proportionate funding will be transferred?

[7] **Dame Gillian Morgan:** The answer to that question is that the decisions to transfer functions are taken by Ministers, who will need to decide whether the importance of having

the function outweighs the benefits of getting full cost recovery. For example, over recent years there has been a conversation about planning regulations, and Ministers made a positive decision that, for the benefit of Wales, it was better to have the function here, and accepted that there would be no transfer of funds.

[8] The big debate for us—and this is an unresolved debate—is about what should be a fair and proportionate share of resources when functions are transferred. Most transfers are made under the Barnett formula, which may be appropriate for a programme but is not very appropriate for administrative costs. One example that we are currently discussing is the devolution of animal health budgets. The suggestion is that they should be devolved on a Barnett share, which would give us under 5 per cent of the resources. However, if you look at the number of animals that we have—and animal health should be related to the number of animals—you will see that we have roughly 25 per cent of the UK animals. Our starting point is that we should get 25 per cent of the animal health resources, and not a Barnett share. So, for each issue, there is that sort of discussion and dialogue.

[9] **Brian Gibbons:** It was my understanding that the system is much more ad hoc than that, and that almost a separate exercise has to be undertaken with every transfer. Has a memorandum of understanding or concordat been formally drawn up to cover how these sorts of things are addressed? I am not aware of one. Part of the reason why it is so ad hoc is that there is no coherent statement along those lines.

[10] **Dame Gillian Morgan:** The nearest that we have is the statement of funding policy, which is between us and the UK Government and involves the Treasury. We are in the process of revising that statement of funding policy. While it is intended to be a negotiated position, it is actually a UK position that Wales then follows. Today, there is a quadrilateral meeting of Ministers with responsibility for finance, where one of the items on the agenda is to discuss what is a fair statement of funding policy. We are now in the position that there has been recognition, through the latest Joint Ministerial Committee and the work that has taken place leading up to that, that there can be disputes between the countries and that, while there is not an arbitration mechanism, there is an escalation mechanism, which tries to resolve disputes, first through officials and then through Ministers. That is new to the system of how we work together.

[11] **Chris Franks:** If I understand your last answer, in the past, the Treasury was in effect judge and jury and, at the end of the day, whatever it said, it got—to our huge cost. You are now saying that there is improvement, or that an improvement is potentially on the way. I would be interested to hear which it is.

[12] **Dame Gillian Morgan:** It is ‘potentially’. There is recognition, through the Joint Ministerial Committee, that the judge and jury situation is not something that feels fair. There is recognition that the statement of funding policy should be something that is agreed rather than imposed—I think that we have got that far. There is something that talks about an escalation mechanism that involves officials in trying to find a solution, but at the end of the day, we have yet to agree any form of arbitration or challenge because, right at the end of the process, the Treasury remains as judge and jury.

[13] **Chris Franks:** If we invite a UK Minister to visit us, we might start with that point.

[14] **Andrew Davies:** For the record, that was one of the recommendations in the first report of the Holtham commission.

[15] **Chris Franks:** None of which have been implemented, of course.

[16] You made a good point about the 25 per cent share of animal health budgets; would

the UK Government say, ‘Ah yes, but you are forgetting other cases in which there is hardly any impact on Wales yet you still get a share of the funding’?

[17] **Dame Gillian Morgan:** There is no formal part of Barnett that recognises the administrative costs in Wales. Administrative costs are not part of the process, which is why there is a degree of ad hocism. Our view is that, if we were to move to something more formal for administrative costs, Barnett would not be appropriate. Take any administrative unit; whether you serve one person or 1,000, there is a certain number of things that you need as a minimum just to exist, whether it is one transaction or 1,000. So, we believe that the discussion needs to be more sophisticated than that.

[18] On the issue of animal health, which is a big issue for us, we are at odds with the UK Government, and the Minister is working actively to try to find a resolution.

[19] **Angela Burns:** If we get greater legislative powers as a result of the referendum, do you believe that we would have sufficient staff in place?

[20] **Dame Gillian Morgan:** For many of the areas, because of the policy side, which we already deal with, we have many of the skills. There are two areas in which we could potentially be limited. One is in the ultra-specialist category, when you need something that is so specialist that only half a dozen people in the country have that knowledge. We would not want to employ people, but we would have to work out how to get that level of expertise.

[21] The second area is that around legislation and lawyers, particularly Parliamentary Counsel and those with drafting skills. Those are the two areas where we already reckon that we are short, and we are currently looking at how we can improve those two things.

[22] **Andrew Davies:** I thank the Permanent Secretary for giving evidence. On that last point, this committee has been very worried about how the Assembly Government has been dealing with Measures. For example, you may have read the report of this committee on the Proposed Waste (Wales) Measure. It was one of the strongest reports that I have seen. This committee feels that it is unable to scrutinise legislation because there is insufficient detail. The Ministers’ usual response, irrespective of what is being scrutinised—I just used the proposed waste Measure as an example—means that we are unable to scrutinise the cost implications, because most of them are caught up in subsequent regulations, or standards in the case of the Proposed Welsh Language (Wales) Measure. Also, there is an inability to carry out a regulatory impact assessment. I think that there are fundamental issues about process and value, and how Government assesses cost implications. I do not necessarily expect an answer, but it is something that has to be addressed seriously by civil servants, as well as by Ministers.

9.10 a.m.

[23] **Dame Gillian Morgan:** You are absolutely right. I have separated the other two out because they are skills that we do not have, whereas they are in the category of skills that we are beginning to develop. We do not have them yet, but we have programmes to try to get that capacity in-house.

[24] **Peter Black:** On future mergers, the UK National Audit Office recently issued a report on central UK Government reorganisations. It identifies that central Government bodies are often weak at identifying and systematically securing the benefits they hope to gain from reorganisation, and trying to work those out in advance. When a merger is being planned in Wales, does the Welsh Government set out the measurable benefits that are to be unlocked by the merger, thus allowing value for money to be identified, and at what stage does that happen?

[25] **Dame Gillian Morgan:** Historically, the attempt to recognise benefits was largely at a financial level. So, when the Wales Tourist Board and the Wales Development Agency came into the Government, we were committed to delivering a financial return of £12 million. If you look at more recent work, the latest people that we have brought into Government have been from the data unit that previously worked with the Welsh Local Government Association looking at local government performance. I have seen a business case for that which includes the benefits that we would expect to get from having people in-house, because you cannot assess a business case without an estimate of the benefit. The other group of staff that have been brought in-house are fisheries staff. Again, I have seen a document that talks about the benefits of that.

[26] On whether we are robust enough yet, I do not believe that we are. Part of the process of managing for less, which is how we are looking at releasing the maximum number of efficiencies within the organisation, is about tying in evaluation from the start. It includes very clear and articulate targets of what we expect to achieve so that we can monitor performance on a quarterly basis, not just at a whole organisation level, but also at a sub-organisation level.

[27] **Peter Black:** In previous evidence to the committee, you referred to the WDA merger and the fact that it took a number of years for staff satisfaction scores to be raised to the appropriate level. Does this suggest that staff satisfaction and efficiency may be initially reduced through mergers? Is your latest attempt successful in tackling that issue?

[28] **Dame Gillian Morgan:** The Health Committee of the House of Commons looked at changes to the health service in England. It concluded that, with any substantial merger, three years go by in which performance goes down, rather than improving. The literature from industry talks about a three-year payback before you begin to see the real effectiveness of organisations working together. That is where we are, and the economic renewal programme and the rethinking is part of the process of beginning to get the gain from bringing in the WDA. However, you cannot get it immediately because you are trying to deal with cultural changes, behavioural changes and things such as pensions and terms and conditions of service. The scale of that should not be underestimated, and we have given evidence to the UK Government about the things that it needs to think about before bringing organisations into central Government. There are many benefits in terms of policy direction, but there are many disbenefits in terms of operational delivery.

[29] **Angela Burns:** I would like to push you slightly on that, because I read that in your paper and was very interested in it. I would be very grateful if we could see the evidence that you gave to the UK Government on this. While I accept that it may be three years before you get to optimum payback, I was concerned to read between the lines that there was a relatively significant fall-off, which you would not accept in the private sector if you were merging two businesses. What is it about the public sector that would make that so different, because ultimately the people are still the same people? I would be very interested in understanding why that would be so different, because we are not talking about huge numbers of staff.

[30] **Dame Gillian Morgan:** There are very few mergers in the private sector. If you look at what happens when you bring private sector organisations together, it tends to be a takeover and there tends to be a fairly draconian view about moving people out of the organisation very rapidly at senior level. When you do that within the public sector—because of a lot of things that are partly to do with pensions and compensation, and also political commitment—it tends to be genuinely a merger. Genuine mergers take a long time to produce the cultural change, because you cannot clear out a group of people; you must work at integrating, which takes a long time.

- [31] **Angela Burns:** Chris, did you want to come in on this point?
- [32] **Chris Franks:** No, I want to come in on an earlier point.
- [33] **Angela Burns:** I will come back to you then, Chris, because Andrew's point is on this.
- [34] **Andrew Davies:** I will obviously declare an interest, because I was the Minister when the Welsh Development Agency and the Wales Tourist Board were brought into the Government. Permanent Secretary, you say that cultural change takes time; in 2007, the ministerial advisory group, chaired by Richard Parry-Jones, senior vice-president of Ford, published its first report, which recommended a sectoral approach to business support. At around the same time, a report by a working party, headed by Simon Gibson, talked about the commercialisation of knowledge. Why has neither of those reports been implemented?
- [35] **Dame Gillian Morgan:** The ministerial advisory group gives advice to the Minister, so I cannot tell you, when that advice was given in 2007 or what actions were then passed and expected of the civil service.
- [36] **Andrew Davies:** Chair, when the Permanent Secretary appeared before us last time, I clearly asked about the difference in role between Ministers on the one hand and officials on the other. The Permanent Secretary accepted that Ministers set out policy, implementation and the delivery, and that operational matters are matters for senior officials. What the Deputy First Minister announced in the economic renewal programme is essentially what the ministerial advisory group was recommending in 2007. It is incredible that it has taken three years for senior management to wake up to this. The Minister had to make the decision. The clear direction of travel had been established by the Assembly Government, but senior management clearly did not implement it. That is why I asked why it has taken three years for it to be implemented.
- [37] **Angela Burns:** Thank you for that comment. I do not want to dwell on it, because that is much more about policy.
- [38] **Andrew Davies:** The Permanent Secretary said that the merger of the WDA was about cultural change, and talked about people leaving the organisation. What I am talking about is restructuring the department, which has clearly not been done. What the Deputy First Minister announced last week was clearly about that, and so I am asking why it has taken three years for that to happen.
- [39] **Angela Burns:** Do you wish to come back on that, Permanent Secretary?
- [40] **Dame Gillian Morgan:** The changes in structure have been agreed between the Deputy First Minister and the department and are now being driven through. I cannot answer why it has taken three years for those things to be driven through.
- [41] **Brian Gibbons:** There is a very mixed record with regard to private-sector mergers and so forth, and it will be a false benchmark to judge public-sector mergers against private-sector mergers, because the private sector probably has not a lot to write home about in maximising the full benefits of mergers.
- [42] **Angela Burns:** Peter, do you have any comments to make?
- [43] **Peter Black:** No, I have finished.
- [44] **Angela Burns:** Chris, did you have a supplementary question?



[45] **Chris Franks:** Yes. It is about something that was mentioned quite a bit earlier. You indicated that there is a business case for various mergers—I do not know whether you use that phrase. Do you have a post-merger report that you could supply to us, for instance to tell us how much money you wanted to save, and, after the three-year shakedown, how much money was actually saved. May I also have some clarity on this three-year period? Is that from the day of merger, or does that take into account the lead-up when people are potentially scrabbling for jobs in the new system? So, is it more than three years or does the three-year period straddle the date of the merger?

[46] **Dame Gillian Morgan:** I am quoting a figure from the Health Committee in the House of Commons, which talked about it being the point of merger. That is, in the downtime, once you put the organisation together. However, if a merger is very long in the planning, where you are not clear about the senior leadership, and therefore there is a decline in performance because, as you say, everyone is worried about their jobs and their mortgages, I suspect that it will probably be longer, and I suspect that you are absolutely right that the clock will start from the time that the merger is announced. However, the select committee looked at the point of implementation.

9.20 a.m.

[47] **Chris Franks:** I am grateful for that. That really stretches it for a few more years, and I think that we might want to reflect on that at another time.

[48] **Angela Burns:** That is a point well made. Thank you, Chris.

[49] **Nick Ramsay:** I would like to ask a question about the central postings pool, which you spoke about before, and the procedures used for filling posts when staff in the pool are available and skills are matched to the post. I think that you said that 437 displaced staff have been covered by the pool arrangements since April 2008 and that there are currently 23 staff in the pool who are being actively supported to identify new substantive roles. Is there a limit to how long you would see an individual being in the pool? If so, what options are considered when the limit is reached?

[50] **Dame Gillian Morgan:** The average time in the pool is three months. We have a number of people who have been in slightly longer. With many of those, it is because they are ultra-specialists. They have a particular set of skills for jobs that do not come up very often. Under those circumstances, we would consider a range of opportunities. First, we would consider whether retraining is a suitable thing to do. However, if you are an ultra-specialist, that is possibly something that you do not want to do. We would consider secondment to other organisations where people can get the benefit of their expertise. For a number of people, there are opportunities for early retirement or voluntary severance. So, we consider a whole range of things if people are proving hard to place. We have tightened up. In the early days, we let people consider a whole series of opportunities. There were a number of people who liked to pick and choose and who would wait around until exactly the right job came up. Now, we are being much more assertive in saying that there is a compact when you come in the pool and you will take jobs—perhaps the second or third job that comes up—rather than waiting for something that is perfect.

[51] As we move into having to use the pool more dynamically and having more people going through the pool—and you will be aware that we announced a flexible severance scheme yesterday—part of the compact will be taking jobs early and not waiting, because we will not be able to manage that with a larger number of people in the pool than has been the case in the past. I find it rewarding that there is an awful lot of interest in how we have used the pool. It has been seen as a way to avoid significant severance costs, and we have therefore

not paid the level of severance costs being paid by Whitehall departments. A number of Whitehall departments are in touch trying to find out how we run the pool, and it has been commended by UK Ministers as a way of handling movements within the civil service without either wasting people from the system or paying very large severance amounts when there is still useful work for individuals to do. So, I think that you are seeing more civil service departments modelling themselves on what we have already done.

[52] **Nick Ramsay:** To go back to the original question, is there a limit? You said that three months is the average time that a person would spend in the pool.

[53] **Ms Fullerton:** Everyone in the pool is engaged in working on various projects, but some people have not found the role that they find themselves comfortable in as a permanent posting.

[54] **Nick Ramsay:** What is the longest that someone would spend in the pool?

[55] **Ms Fullerton:** I think the longest anyone has spent in it is just over a year, but we can check the exact number of months and get back to you on that.

[56] **Dame Gillian Morgan:** They are working throughout that time. There is no gardening leave.

[57] **Nick Ramsay:** I did not use that expression.

[58] **Dame Gillian Morgan:** No, but I read it in the newspaper so it must be true. [*Laughter.*]

[59] **Angela Burns:** You and one of our Ministers yesterday. [*Laughter.*]

[60] **Brian Gibbons:** In view of what you have said, I am a bit surprised that you say in your letter that a cost-benefit analysis has not been done of how the pool operates. I think that you said that in your letter. In view of what you are saying, and particularly given the difficulties we are likely to face with regard to downsizing and so on—if that happens because of the pressure from Westminster and so on—I am surprised that you have not analysed whether the approach we are taking represents good value for money. There is a lot of merit in the approach that you are taking, but if it were underpinned by a good evaluation or a cost-benefit analysis, people would not be able to take a cheap shot at it, and you would be able to show that there is a robust case linked to it. So, are you working on a workforce strategy for the next two or three years, and developing all of these tools in the context of that strategy and the challenges that we are likely to face?

[61] **Dame Gillian Morgan:** We have done an evaluation, although it is not a proper evaluation, as it has just taken the headline costs. For example, we know that, in 2008-09, 303 people went through the pool and were placed in permanent jobs.

[62] **Brian Gibbons:** Given the nature of the next few years, would you not agree that, although you have done a rough-and-ready job on this, now is surely the time to test whether it makes good sense in relation to how we manage our most valuable resource, namely our staff? That would be the best thing to do, rather than having an ad-hoc process. We need to evaluate it and show that it makes good business sense. If it does make good business sense, we should assimilate it into good practice for the difficult few years ahead.

[63] **Dame Gillian Morgan:** We can demonstrate that very easily. We know that running the pool for that year cost £1.4 million, and that, to make that number of people redundant—if compulsory redundancy is the alternative—we would have paid out £15.9 million, and

£89,000 would have been spent on advertising. So, just from the headline figures, it is self-evident that avoiding compulsory or other types of severance is a real benefit to us. We know the costs that we have avoided for each year. We do not have a cost-benefit analysis, but we do have a cost avoidance model, which is very clear.

[64] **Ms Fullerton:** There are other, more qualitative, benefits. I am responsible for a large investment project, which is looking at replacing the HR system. My team of internal staff includes a significant number of people who have been through the pool. They have required a little bit of help to learn some new skills, which has not involved a huge investment at all. They bring knowledge of other parts of the organisation to that project. A HR system needs to reflect the needs of the whole organisation, and it would not be doing that if we had just moved our internal HR people into those roles. That is one example. There are other examples of people who have moved across the organisation through this mechanism who have delivered new insights into particular pieces of work. That is invaluable to us as an organisation.

[65] **Brian Gibbons:** I am quite sympathetic to it; my point is just that you have put in a good methodology, but you are underselling it. That makes it easier for a lazy journalist to take a cheap shot at what does seem to be a good system. If we could underpin it with more effective evaluation, those cheap shots could be batted back quite easily.

[66] **Angela Burns:** Chris, you had a quick supplementary question on this.

[67] **Chris Franks:** Yes. My question was on the maximum length of stay in this pool, although that does not give a helpful reflection of the totality, as that is the extreme—everyone else might have been in the pool for two weeks. Can you give us a flavour, either now or in writing, for what the graph is like—that is, how quickly people leave? Would I be right in thinking that, after the first three months, the great majority of these people have already gone? You answered the question that was asked, but that does not help the committee to understand the scale of the challenges and the scale of your responses.

[68] **Dame Gillian Morgan:** That is fair.

[69] **Chris Franks:** Have I been too helpful? [*Laughter.*]

[70] **Angela Burns:** Yes—steady on, Chris. We will write to you formally, Permanent Secretary, to ask you to provide that.

[71] Andrew, you have a quick supplementary question.

[72] **Andrew Davies:** My question is on a wider issue, namely measuring effectiveness and performance. I asked you clearly and carefully the last time that you appeared before us, Permanent Secretary, on 29 April, how you would define value. I have read your reply on several occasions, and I am still no clearer in that respect. If there is no clear definition of what constitutes value for the organisation, how do you judge performance?

9.30 a.m.

[73] **Dame Gillian Morgan:** With regard to the value of individuals—because I think that we have a very clear process now—routine performance measures are set every year that are subject to mid-year review. Every individual in the senior civil service—and we are now rolling that out throughout the organisation—is categorised against a nine-box grid. The grid ranges from the high performers who are delivering everything that they have been asked to deliver and have the capacity to develop further, down, in the bottom corner, to people who are not delivering and who do not have the capacity to develop. The way that we manage

people in each of those boxes varies. With the high performers, we are looking to ensure that we are actively managing their career into posts where they can contribute; we put them in the most difficult and challenging jobs for the organisation. We actively performance manage the people in the bottom box because they are not delivering part of the compact. With the people in the other boxes, we work out how best to manage them, because there are many people who are very effective in what they do for the organisation who neither want nor have the capacity to develop and do more complex jobs. So, we want every member of staff to be put into a category in the nine-box grid. That is how we identify who is delivering the most against criteria set at the beginning of the year. So, it is a constant measurement of performance.

[74] **Andrew Davies:** Thank you, Permanent Secretary, but you are basically repeating what you told us last time. That is the process. What I asked was how you define value, and I am being given an HR process. This is very illustrative of the problem with the civil service, namely that it is process-obsessed. It is not about performance outcomes and delivery. Last time you came before the committee you said that the role of senior management is to assess performance delivery and effectiveness. Therefore, when did you first become aware of the lack of success, shall we say, of the technium programme?

[75] **Dame Gillian Morgan:** The lack of success with the technium programme was an issue that you raised with me. It sits, and sat, in the portfolio of a different Minister. I raised the issue with the Minister. However, at the end of the day, we follow the Ministers who run and manage that portfolio. There was an audit of the technium programme, and as part of my process system I followed up every action set out in the audit to see that it was dealt with. We continue to follow up on the actions agreed by management and the audit team. We have a lot of input to those sorts of things, but, ultimately, it is the Minister in charge of the portfolio who has to make that decision.

[76] **Andrew Davies:** Chair, this is a £100 million programme. The audit report that the Permanent Secretary refers to identified the failure of the programme to deliver on its objectives and stated that there is a record of management failure going back to 2001. This is my point: there is the technium programme, there is the Glenn Massey review of International Business Wales, there is the Ian Hargreaves review of the creative industries; there is a litany of failures of the senior management in one department. I asked a question very specifically about the merger. The merger was announced on Bastille Day—14 July—2005. That is five years ago. There was a ministerial advisory group report and other reports published in 2007, and I am asking why it has taken three years to act on those recommendations? The Ian Hargreaves review said that the creative industries strategy was very good, but that the implementation was poor; the Glenn Massey review of International Business Wales was pretty damning about the failure of senior management; I refer again to the report on the technium programme. I come back to my point. The Permanent Secretary said very clearly that her role was to oversee the delivery of performance, and I am saying that there is a failure of senior management in one department. This is not a small department; this department is one fifth of the total Assembly Government civil service. I asked a question about this of the Permanent Secretary and she said that she was not aware of that. So I am asking: why were these very significant failures not identified at a senior level, either by her or by the director general of that department?

[77] **Dame Gillian Morgan:** None of those reports used the word ‘mismanagement’. That is really important. The purpose of audit reports is to identify management weaknesses that can be remedied. The audit report on the techniums was carried out after you had first raised the issue with me. Therefore, what I have done is to follow up on the audit report. The audit has been implemented and most of the actions have been put in place. The Minister’s response to it is the economic renewal programme, which has taken on board the recommendations of the Glenn Massey report on the review of techniums, and advice from

the ministerial advisory group.

[78] **Andrew Davies:** I wish to correct something. The audit report talks about obvious management failures dating back to the beginning of 2001. It is very clear. The Deputy First Minister, in his announcement on the economic renewal programme, talked about a review of the technium programme. That was last week or the week before. So, this has taken a long time. As I said in the Chamber, I applaud the Deputy First Minister and Minister for the Economy and Transport, who has clearly had to get a grip on that department. However, ministerial decision making is making up for the obvious failures of senior management.

[79] **Angela Burns:** Thank you for that comment.

[80] **Chris Franks:** I must say that I find this line of questioning very interesting. I will be honest and say that I am not sure what to make of it. Andrew has obviously done a lot of research and has thought about this, but I am bemused, to a certain extent, that a former Minister is now saying these things. As a committee, we need to reflect on where Andrew is coming from.

[81] **Angela Burns:** Thank you for that comment.

[82] **Andrew Davies:** The point that I am making, Chris, is that we can talk about costs, redundancy pools and all sorts of things, but at a time of constrained public finances, the effectiveness of expenditure and of the organisation has to be paramount.

[83] **Peter Black:** Andrew has gone through a whole list of projects and issues where he says that there have been managerial failures. We are in no position to examine those matters in detail. However, I have a question on the process of Ministers issuing directions to the civil service on how they would like to see projects develop. How clear are these directions, and what authority do they hold, in terms of how the civil service should deliver the projects, and in terms of how the civil service should be structured to deliver the objectives?

[84] **Dame Gillian Morgan:** Ministers have no role in the structure, but they have every role in deciding what needs to be done, and by when. I would monitor that through my performance management of senior officials, in terms of what they are doing. I would also monitor performance against any recommendations through corporate governance committees. We have a corporate governance committee—which includes non-executive directors—for every DG area and we have an overall corporate governance committee. Those mechanisms have been established over the last two years, and they are now very strong and robust. The WAO would confirm that we now have a set of corporate governance arrangements that are as good as any.

[85] **Peter Black:** Obviously, you cannot comment on the— [*Inaudible.*]

[86] **Dame Gillian Morgan:** At that point, we had many loci of activity. That was one of the factors behind the changes that I brought in. There was a significant number of small corporate governance committees, but they were not substantive or senior enough to bring the type of focus needed. Before I arrived, we were criticised in the management letter, so we fundamentally changed our corporate governance structure, we changed the number of business units and we changed the focus in terms of the number of senior managers. Every one of those changes allows for more managerial grip than we have seen in the past.

[87] **Peter Black:** You are saying that you inherited a situation in which there was not enough managerial robustness, at every stage, to deliver on clear objectives and timescales.

9.40 a.m.

[88] **Dame Gillian Morgan:** I would not want to be pejorative. However, coming from a management background in a different organisation, I would say that their procedures were not robust enough. Those procedures were completely in line with what happens in Whitehall departments, but my view is different from that of the majority of permanent secretaries, because I have a different type of background.

[89] **Peter Black:** I do not want you to go into specific detail, but did your review identify any instances where ministerial instructions on objectives and timescales were not being met because of the structures that you inherited?

[90] **Dame Gillian Morgan:** I do not think that I can blame the last part on the structures. However, in my time, one Minister has raised an issue with me where ministerial instructions were not being followed in their department. That is the important relationship; I have to work with the Ministers who manage the department. There has been one case where an issue has been raised with me, and we took action.

[91] **Angela Burns:** We will have a very brief supplementary question from Andrew.

[92] **Andrew Davies:** My question is on performance. Last time, we took evidence on what is called a bonus scheme, but, clearly, is variable pay. In view of what I think is quite a systemic senior management failure in one department, how many of those senior managers receive variable pay? Kirsty Williams asked a question on this, and she was told that about £2.3 million had been spent on the bonus scheme over the last three years. How many senior managers in the Department for Economy and Transport received variable pay?

[93] **Dame Gillian Morgan:** I would have to come back to you on that.

[94] **Angela Burns:** That is to be expected. That is fine.

[95] **Helen Mary Jones:** Briefly, what assessment do you make of who receives variable pay, and what are the gender implications of it? Usually, these kinds of schemes end up favouring male employees over their female counterparts. I do not expect a detailed answer today, but it might be worth the committee's while to have some information about the percentage of male and female employees who are on variable pay.

[96] **Angela Burns:** That is a very good point.

[97] **Dame Gillian Morgan:** Indeed. We have brought in a system whereby the decisions on variable pay—which only affect the senior civil service—are taken by a remuneration committee with two non-executive members. Decisions are taken on the advice of civil servants, but by non-executives. On every occasion, they monitor gender balance, disability and the ethnic origins of each candidate; we are under our targets for black and minority ethnic communities and disability within the senior civil service. We have monitored what happens with women, and continue to do so. Thus far, in the time that I have been there, there has been no significant difference one way or the other; they are slightly different, but there is no systematic bias.

[98] **Helen Mary Jones:** I would like to see that in writing.

[99] **Angela Burns:** We will write to you on that issue.

[100] **Dame Gillian Morgan:** I suggest that I ask the chair of the remuneration committee, who brings this independent assurance, to respond to the committee, so that you hear from the source.

[101] **Chris Franks:** Moving on, we are all aware that there has been a huge growth in duties for the Assembly, which is reflected in the growth in staff numbers. As Minister for Business and Budget, Jane Hutt has suggested that we need to plan for cuts of 3 per cent in revenue and 10 per cent in capital, but the UK Government suggests that there could be cuts of up to 40 per cent. Can you tell us what range of potential cuts you are considering, in light of the UK Government's figure?

[102] **Dame Gillian Morgan:** We have to be very careful, because the UK Government's figure refers to real terms reductions. We are planning a 3 per cent cash reduction per year. Therefore, if you were to look at it in real terms, we would be planning for a reduction of 6 per cent, assuming an inflation rate of around 3 per cent. Therefore, we are very much within the middle of the range that is being looked at in Whitehall, because we are talking about real cash reductions of 3 per cent. Whitehall's 40 per cent figure is a combination of real cash reductions plus inflation. Our estimates are based on what we know about the likely distribution of budgets, and on our estimate, therefore, of what the Barnett consequential of the likely distribution will be.

[103] **Chris Franks:** It seems that you can almost pick whatever figure you want—3 per cent, 40 per cent—one is cash, one is with inflation, and one is without inflation.

[104] **Dame Gillian Morgan:** Indeed.

[105] **Chris Franks:** It is a struggle for me to understand how you will come to a conclusion.

[106] **Dame Gillian Morgan:** This is the real difficulty of the Barnett formula. The only time that we get any information about how much money we really have is at the date of the comprehensive spending review. We have to second-guess and make our best judgment on what is likely to come out in all of the individual discussions with Whitehall departments. Our figure of minus 3 per cent per year is conservative, because that is the best place to be, but it is based on our assessment of things such as the IFS, the briefings that come out of the Treasury, and on what political protections we know apply. We have to make that set of judgments, whereas a Whitehall department would be much clearer about what is involved.

[107] We are in the position for the first time that, at the Joint Ministerial Committee, the Prime Minister has given an undertaking that he will ensure that the devolved administrations are involved in the comprehensive spending review. The problem with that, with the Barnett formula, is that it is hard to find a mechanism, because it is dependent on adding up all of the individual policy decisions within every Whitehall department, applying a figure to the proportion of that department that is or is not devolved, and cranking the handle. All that we can do is be as informed as we possibly can be about all of the different figures. The figures of 3 per cent per year on revenue and 10 per cent per year on capital are the best that we can do. We are pretty certain that we have hit it absolutely spot on the nose with the figure of 10 per cent, but the 3 per cent figure could be hit by a decision to truly go to 40 per cent. It could also be hit if there was a change in the protection of the health or education budgets, as they are such large parts of our block. Therefore, that is where the 3 per cent comes from; it is an amalgam of all of those different views.

[108] **Chris Franks:** Gosh.

[109] **Dame Gillian Morgan:** It is an art rather than a science, I am afraid.

[110] **Angela Burns:** Are you all right with that Chris?

[111] **Chris Franks:** Yes, I am all right with that, but the follow-up question is: given these huge uncertainties and these huge cuts and what you have just said, will the pool be sustainable?

[112] **Dame Gillian Morgan:** We have three degrees of flexibility around the pool. We have natural turnover, whereby we turn over between 150 and 200 people per year. As you know, as it has been the subject of correspondence, we have moved a number of posts to being short-term posts. Also, yesterday, we introduced a flexible severance scheme and an early retirement scheme. When you put together the whole of the voluntary things that we are doing, it will create a number of vacancies. Therefore, I am certain as I can be at this moment in time that we have all of the mechanisms in hand to deal with a significant downsizing in the organisation, even if we are not at the stage of being able to give specific numbers as to what we will look like at the end of the day, or the specific skills, because we will be a different organisation at the end. The type of organisation that we are will depend very much on ministerial decisions, which will be taken in light of the exact figures coming out of the comprehensive spending review.

[113] I am pretty confident that we have done our planning. We have been working on this now for some nine months, in beginning to think about how we would handle this. We feel that we are not in a good place, because it is a pretty uncomfortable and unpleasant place to be, but we are doing as well as we possibly can against that backcloth.

[114] **Chris Franks:** One category that I either missed or you did not mention was temporary staff. What is the policy there? Presumably, to put it crudely, it is easier to dispense with their services. What is the policy?

[115] **Dame Gillian Morgan:** As vacancies have come through we have moved a number of them to be temporary on the grounds that if we have, for example, team support junior staff and there is a temporary place elsewhere in the organisation, our loyalty, as long as we deliver the business, is to make sure that our substantive staff get those posts. That is why we have deliberately moved to temporary staff. It is not as simple as that, however, because there are some categories of temporary staff who we use in a creative way. For example, some bits of our business are highly seasonal, so we have a number of casual staff who always come in at the same time every year, because we have a big lump of work. So, rather than employ people full time, we bring in casual staff. However, overall, our temporary staff give us the capacity to move permanent staff into what are currently temporary jobs.

9.50 a.m.

[116] **Helen Mary Jones:** In relation to my earlier point, are you making a gender-based assessment about which posts are being moved from temporary to permanent and about the people who are filling the temporary posts? As you know, low-paid women workers are more likely to be vulnerable to those sorts of changes, certainly in private companies historically. So, is that being assessed? If someone leaves a post and it is made temporary, is it assessed who was holding that post before and who then comes in as a temporary worker, with all the lack of protection and everything else that goes with it?

[117] **Dame Gillian Morgan:** Yes, we assess with regard to our substantive posts. There are two categories for our temporary staff—there are people who are on contract and there are people who come to us through DWP; we no longer use an agency. So, we assess what we are doing there in order to manage the type of change that we have to have, and make sure that our substantive staff get posts. The majority of our junior staff are women, so, by keeping that flexibility, we are creating more opportunities for the women in our workforce. It is a four-dimensional game of chess.



[118] **Angela Burns:** Our time today is very tight, and there are two issues that I want to talk about. I want to get to redundancy, and I think that Ann is going to ask questions about that, and I want to talk about the median pay. So, I ask everyone to be snappy in their questions.

[119] **Andrew Davies:** I have an important question on redundancy and another question as well.

[120] **Brian Gibbons:** To extrapolate from your figures, we are looking at a £500 million reduction year on year for the next two or three years, and the number of people available is obviously going to be reduced. So, how are you aligning strategically people's skills with the strategic responses that will be required by the Assembly Government to live within that £500 million reduction year on year?

[121] **Ms Fullerton:** A number of things are currently taking place. We are trying to increase the capability of business areas to do formal workforce planning; they have always done it but we are increasing the level of information that we provide to them to enable them to look at how many people they have and how much they cost, and also at what their skills base is and what skills they will need in future. So, we are developing workforce planning in that area, but we must also recognise that there are a number of generic skills that are needed in a number of different departments, such as the sorts of skills that are needed to support new projects, including project management skills, information technology skills, and the sorts of skills that are needed to support some of the more technical aspects of developing legislation in policy areas. That requires quite specific skills. So, we are developing a way of allocating people from a central resource to departments to deal with particular short-term needs. A simple example of that may be a project to deliver a particularly big event, for example. Rather than have a group of people in the department taken off their day jobs, we are looking at having a central pool of people who we could apply to those kinds of activities. So, we are being more agile and responsive to short-term needs in departments by having some of these skills available centrally. Sorry to revert to my own experience again, but for my new IT project I have been able to pull in some very good technical expertise from that group of people to support me as we develop that project. So, it will improve the speed with which we can respond to things and it also improves the quality of some of the more technical expertise that is available to departments.

[122] **Dame Gillian Morgan:** The figure of £500 million is across the whole Welsh Assembly Government expenditure. So, under the efficiency and innovation board, which the Minister for Business and Budget manages, there is a work stream that is looking at what can we do to take away the technical barriers between moving people between the public service in local government, central Government and the health service. That is led by either Jo Farrar or Alison Ward; I will have to confirm that to you.

[123] **Ms Fullerton:** It is led by Jo Farrar.

[124] **Dame Gillian Morgan:** That is looking at whether we can change pensions, and what we need to do because, at the moment, some of the rules militate against us getting the best use of the whole of the public sector workforce. So, that is an active external strand of work that we play a part in. However, our budget is much smaller than £500 million.

[125] **Brian Gibbons:** That is an important point, if I understood what you said correctly. Are we effectively trying to create—and I think that this has a lot of merit in it—a single public service workforce pool across the whole Assembly Government so that, in trying to align our capacity to respond to the crisis and challenge, we will align the best people across the public service in Wales regardless of their current employment status?

[126] **Dame Gillian Morgan:** There are two strands: one is the public service in Wales and the other is that there are 36,000 civil servants in Wales, of whom we are only 6,000. So, there is a second strand of work, which relates to what we can do with other civil service departments because we need both public sector skills and civil service skills. So, the two run in parallel.

[127] **Brian Gibbons:** You also need strategic leaders and that has a lot to commend it if you can deliver against that.

[128] **Angela Burns:** Ann, you have a question on redundancy.

[129] **Ann Jones:** The Chartered Institute of Personnel and Development estimated that the average cost of redundancy was £16,375. Your paper gives an average redundancy cost of £50,000. How do you account for the apparent difference?

[130] **Dame Gillian Morgan:** Simply, any movements out of the organisation have to abide by the civil service compensation scheme. The CIPD figure covers every organisation. The majority of organisations pay statutory redundancy and do not have to conform to civil service terms. You will be well aware that the UK coalition Government is concerned about the level of terms and is placing a Bill today that will change the terms for civil servants, and that will obviously bring down the average cost.

[131] We have been careful with this—we do not pay, and have never paid, the level of redundancy that people talk about in London of six times someone's salary. We would not do that. Our average payback is more like 18 months' salary rather than the full six years' salary, which is what you would see in newspaper headlines.

[132] **Angela Burns:** Andrew, you wanted to ask a question.

[133] **Andrew Davies:** Yes, on redundancy, but I also have another question on restructuring.

[134] **Angela Burns:** Could you do redundancy first?

[135] **Andrew Davies:** Yes. I just wanted to give you notice of another question that I had. Permanent Secretary, what considerations have been given to introducing a voluntary redundancy scheme?

[136] **Dame Gillian Morgan:** It was launched yesterday.

[137] **Andrew Davies:** By the Assembly Government?

[138] **Dame Gillian Morgan:** Yes.

[139] **Angela Burns:** I assume that we will be able to pick up details of that.

[140] **Dame Gillian Morgan:** Yes, it is a very simple scheme. We want to encourage anyone who is genuinely interested in that and we aim to move as many people as possible because, for every individual, we have to have up to two times their salary in a pot because that comes at a cost, even if we are talking about voluntary severance. We want to move people out of the organisation by the middle of September so that we are absolutely clear where we are going into next year.

[141] **Angela Burns:** On the £15.9 million that it would have cost if you had made the people in the pool redundant, would you be able to give us a short briefing paper, on a no-

names basis obviously, explaining how that would be made up? For example, is that for the 437 people?

[142] **Ms Fullerton:** That was for one year and it was 300 or so.

[143] **Angela Burns:** We would like to know in one year, how many people there were, what their grades were and what their redundancy pay would have been. That would be very helpful.

[144] **Dame Gillian Morgan:** We can do that.

[145] **Angela Burns:** Thank you. I know that you have a question to ask, Andrew, but I want to go quickly to Brian.

[146] **Brian Gibbons:** I am happy for Andrew to ask his question.

[147] **Andrew Davies:** One major change that you introduced was a new level of management, namely the seven directors general, all of whom are on six-figure salaries. In the Public Accounts Committee, you said that that had led to eight directors' posts being removed. You said that the savings were around £505,000. What are the net reductions in posts and people as a result?

10.00 a.m.

[148] **Dame Gillian Morgan:** That figure was eight at the time, but you must remember that we have put a number of posts back into the structure, such as that of chief scientific adviser. The paper that I sent last time talked about how the current number of senior civil servants has gone down from 149 to 142. So, the net reduction, including the posts that we have put back—because we are not a static organisation, but a developing organisation—including the investment, has been from 149 to 142. There are seven fewer senior civil servant posts than there were at the point when we introduced the DG structure.

[149] **Andrew Davies:** This is something that we need to come back to in the autumn, Chair, regarding the effectiveness of civil servants. The figure of £505,000 was exactly the same figure that was quoted when I was a Minister. In the private sector, if you had a completely new level of management, you would expect a significant reduction of management across the organisation. We need to return to this net reduction.

[150] May I ask a specific question—and there is a reason for asking it; can you confirm that John Palmer has been appointed as director of public services and that Desmond Clifford has been appointed as principal private secretary to the First Minister?

[151] **Dame Gillian Morgan:** 'Yes' is the answer to the last two questions. However, if I may correct you, there was no totally new tier of management. We had four directors general before the changes, and we ended up with seven directors general. We were not introducing a tier that did not exist before; we were giving equal weight to the people in the management team, not totally changing our structure. We have always had directors general. If you compare us with the Whitehall departments, we have the eighth largest spend and we are very proportionate. For example, the Department for Business, Innovation and Skills, which spends less than us, has 14 directors general. So, we have quite a low number of senior managers and lean structures.

[152] **Andrew Davies:** I will not have a spat with the Permanent Secretary about the title, but their titles were not directors general. There was a director for the economy and transport, but we can come back to that. However, it is, effectively, a new level. I have some difficulty,

because when I was a Minister, I was told that two posts were efficiency savings, and one was director of public services, the appointment of which I opposed, because it was one of the efficiency savings claimed at the time and the principal private secretary to the First Minister post was also claimed. It seems that they have now been backfilled. So, I do not understand how the same figure of £505,000 that I was quoted as a Minister is still the figure that is publicly claimed.

[153] **Angela Burns:** We will take that comment on board and see whether we can do some research on it.

[154] **Peter Black:** You are talking about seven fewer posts. Presumably they went into the pool.

[155] **Dame Gillian Morgan:** No, they went.

[156] **Peter Black:** Were they made redundant?

[157] **Dame Gillian Morgan:** No, they went into other vacant posts where someone had left the organisation or they took retirement or did a whole range of things. To make a correction, 'director general' is the title for a tier and there were four people at that tier and above within the organisation, so it is not a new tier of management. The Department for Children, Education, Lifelong Learning and Skills post, the health post and the Department for the Economy and Transport post and the post that belonged to Jon Shortridge's deputy, which was at a higher level than director general, have continued at that level. They were not upgraded or promoted. On the backfilling in the First Minister's department, we took out a director post there and the principal private secretary role is no longer a director post. We have totally changed and restructured the department, as you would expect us to do as a dynamic organisation.

[158] **Angela Burns:** I am grateful for your replies, Permanent Secretary. We still have a number of questions, but we have run out of time, so I would like to write to you and recap the various points that Helen Mary and Ann raised about the gender balance, pay and redundancy. Brian also had some very good questions on the pay medians that I would like to explore with you, and there was a question on the use of consultants within the Welsh Assembly Government and how they are being managed. Also, your paper reports a target of a 50 per cent decrease in the use of consultancy, and I am interested in what it is you will stop doing in order to achieve that. It is a heck of a change, and I would like to explore that dynamic further with you in correspondence.

[159] **Chris Franks:** Chair, may I add something to that? I am not disagreeing with a word of what you have said, but there are important potential supplementary questions that cannot be asked in correspondence, and I would like us at another time to reflect on whether Members are satisfied with the written format. I understand your concerns about time, but it might not be the best option. It might be the only option that we can take at the moment, but perhaps this is something that we could review.

[160] **Angela Burns:** Yes, we could revisit this in September at the start of the new term. I absolutely accept that—thank you, Chris. I thank the witnesses for coming to see us this morning.

[161] **Dame Gillian Morgan:** Thank you very much.

[162] **Angela Burns:** I propose a three-minute comfort break, because I know that everyone started very early this morning, and we will then welcome the next witness.

*Gohiriwyd y cyfarfod rhwng 10.06 a.m. a 10.11 a.m.  
The meeting adjourned between 10.06 a.m. and 10.11 a.m.*

**Adroddiad y Comisiwn Annibynnol ar Ariannu a Chyllid i Gymru—Briff gan  
Gerry Holtham  
Report of the Independent Commission on Funding and Finance for Wales—  
Briefing from Gerry Holtham**

[163] **Angela Burns:** I would like to welcome Gerry Holtham to the meeting. I would first like to apologise to you for the fact that our session with the Permanent Secretary overran—I do appreciate your time. It is lovely to welcome you back.

[164] The Independent Commission on Funding and Finance for Wales recently produced its second report—I believe it was published on 6 July. I know that it sounds like a crazy thing to have to do, but could you formally introduce yourself for the record? You may also make some opening statements.

[165] Before you do that, however, I would just say that we have all read your report with great interest. As Chris Franks has already pointed out, we have an enormous number of questions to ask you, and a very small amount of time in which to ask them. If it is acceptable to you, I propose that we perhaps focus on one or two key areas and then see whether we can prevail on you to return in September, perhaps, for a fuller and frank discussion on some of the other aspects of your report that are more philosophical and strategic, as well as the detail that we might have a look at today, such as the actual funding mechanism itself. What I would really like to hear from you, perhaps in your preamble, are the elements that you found most intellectually challenging in thinking about the next step forward for Wales.

[166] **Mr Holtham:** Thank you very much, Chair. I am Gerald Holtham, the chair of the Independent Commission on Funding and Finance for Wales—or the recent commission, I suppose, as it is about to be dissolved. I do not need to make a long preamble. If you have read the report, I would be very happy to answer your questions.

[167] I suppose that the report falls into two parts, covered by the fairness and accountability title. We did more work in looking at the block grant formula and produced an example of what such a simple formula might look like. We felt it necessary to show that this is not impossible or excessively complicated. We think that having a formula that is justifiable is an important precondition for any tax devolution, and not just here, but in Scotland as well. If you do not have a formula that is robust, any exercise of devolved fiscal powers calls that formula into question. If you cut taxes, somebody will say, ‘They’re cutting taxes because they’re getting too much money’, which, I am afraid, in my opinion, would be accurate in the case of Scotland.

[168] **Angela Burns:** That is why we like you and, north of the border, they regard you with suspicion. [*Laughter.*]

[169] **Mr Holtham:** The fact is, if you have a formula, even if it is a little painful up front, it at least frees your hands, and you become free to exercise fiscal powers because the formula is public and rational. That means that people cannot question it simply because you alter any taxes that are at your disposal. We put some emphasis on getting the formula right, and we did some work to show how it might be done. That was the fairness part of it.

[170] On the accountability part of it, we found this argument difficult to resist. We know that there is perhaps not the consensus in Wales that there is in Scotland on this issue, but the trouble is, if the principle applies in Scotland, it applies everywhere, in that the democratic

body that is spending public money should be responsible for raising at least some of it, otherwise you get issues of responsibility at the margin in expenditure, and it is difficult to be fully accountable to the public. If the public does not like something and you have one Government raising the money and another Government spending it, the public does not know who to blame. So, it is important from an accountability point of view to have some degree of fiscal devolution. We found the principle to be easy, but the practice much more difficult, because of the integration of the Welsh and English economies; it was difficult to find something sensible that was not disruptive. I hope that we did the best that we could to come through that with our specific recommendations.

[171] **Angela Burns:** I would like the committee to concentrate on the formula, because I agree that we need a robust formula that withstands scrutiny, and then the second half of the equation about tax-varying powers and so on really is the next stage. Members, I would like for you to try to pick and choose your way through this. Helen Mary, you may start because you have a raft of questions on the formula itself.

[172] **Helen Mary Jones:** The commission's report estimates that Wales should receive, according to a needs-based formula, about £115 per person for every £100 per person spent on comparable services in England and that this equates to a £300 million to £400 million funding gap per year.

[173] **Mr Holtham:** Roughly.

[174] **Helen Mary Jones:** Your report proposes a formula including a factor to close this funding gap over a number of years. How long do you estimate that it would take to close the gap, and would this account for the underfunding in previous years?

[175] **Mr Holtham:** No, it would not account for the underfunding in previous years. We did not put in such a retrospective element—it would simply say what the gap is now. It would make the increments going forward correct, as it were, and the adjustment formula would simply take the level up. We did it like that to try to make as little change as possible to the current operating procedures in the Treasury—we wanted to spare it too much pain and too much change. The procedure may not be absolutely optimal, but it as close as we can get to just adapting the current situation. So, there is no retrospective adjustment.

[176] On how long it would take, the Welsh adjustment of a few hundred million pounds could be done very quickly. The problem is whether you would have a uniform adjustment procedure for all of the countries of the UK, because the Scottish adjustment would take a long time—10 years minimum. If you are going to extract £3 billion or £4 billion out of Scotland at a time of fiscal stringency, you cannot even start for three or four years and it will take 10 years on top of that. So, it depends on how uniform the Government insists the adjustment should be. I think that the UK Government would be reasonably within its rights to say that it is not going to give Wales the £300 million or £400 million until it has extracted at least that much from Scotland.

[177] **Angela Burns:** So, we might be waiting for 10 or 15 years?

[178] **Mr Holtham:** Yes, I think that it is going to be difficult, but this is a negotiating matter—there is no science behind it; it is just a question of what you can get.

[179] **Angela Burns:** Brian, do you have a quick supplementary question on that?

[180] **Brian Gibbons:** No, I will just wait to see what Helen Mary's questions are.

[181] **Helen Mary Jones:** I will go to the question about Scotland and back to the other

one, as we have touched on Scotland. The comparable figure for Scotland, compared with the £115 per person estimate in Wales, is estimated at £105 per person, although you recognise the differences in the devolution settlement and say that it is indicative—you are not trying to claim that that is a very accurate figure. During the review, did you have any discussions with the Scottish Government in relation to that figure, and, if so, how did it respond? I am not entirely sure that it was your job to have discussions with the Scottish Government, but I am sure that you took that into account as a commission.

[182] **Mr Holtham:** We met the Scottish Government, but we did not get very far with this sort of discussion because it did not want to enter into a discussion about the Barnett formula. As you know, its attitude is that it wants to have what it calls ‘devo-max’—it wants to have complete control of Scottish taxes in Scotland, and if it gets that it does not have to argue about a formula. So, that is its position. It warned us against messing with the Barnett formula. It was almost a case of its saying, ‘Don’t mess with the Barnett formula’. Given that that was its attitude, we did not get very far in discussing the detail.

10.20 a.m.

[183] **Helen Mary Jones:** I do not think that we are very surprised by that.

[184] **Angela Burns:** Chris, do you have a supplementary question on this?

[185] **Chris Franks:** I do not think that any of us would be surprised by that. However, I am surprised by the fact that the UK Government is prepared to hide behind that objection. Surely, if the UK Government decides that the formula should be needs-based, that is how it will be. Is that not a fact?

[186] **Mr Holtham:** Constitutionally, yes, it can change the formula. The formula does not even have a legislative basis, so the Government could change it with a stroke of a pen, if it wanted to.

[187] **Chris Franks:** What I am thinking of is that, at the stroke of a pen, £200 million is to be transferred to the Scottish budget. The mineral fund—and forgive me if that is the wrong name—has been stored in London for many years, because, previously, if that money had been allocated to Scotland, it would have been taken off its block grant. At the stroke of a pen, the UK Government decided that that would not happen and that it could have its extra £200 million. Is that reasonable?

[188] **Mr Holtham:** Is it reasonable?

[189] **Angela Burns:** You do not have to answer such open-ended questions if you do not wish to.

[190] **Mr Holtham:** Members can form their own judgment on that. I do not think that I can add anything to what you have said.

[191] **Helen Mary Jones:** I will go back to a question that I jumped over earlier because reference had already been made to Scotland, if I may. The report states that if variations in taxable capacity and some other costs are included, the estimate rises to £117 per person. In your opinion, which is closer, the figure of £115 or £117?

[192] **Mr Holtham:** There is a case to be made for adjusting the estimate for the taxable capacity. We deliberately did not do that in the first report because there is no right or wrong answer in that respect, and there is no consensus on how to do it. We did not want to be accused of special pleading; we preferred to say that we would make a conservative estimate.

If we equalised the council tax potential on the basis of house prices, the figure for Wales would go from £115 to £116. That would be a perfectly reasonable thing to argue. You get to £117 if you make a specific allowance for the additional costs of providing bilingual education. When that is put to the Secretary of State, for example, or other people in England, they insist that that is a choice and say that, if Wales wants to do it, that is fine, but it will not pay for it. It is a political matter, but you could reasonably argue for the estimate of £116 on the basis of the tax adjustment.

[193] **Angela Burns:** Andrew has a supplementary question, and we shall then turn to Brian.

[194] **Andrew Davies:** I want to place on record my thanks to Gerry and the commission, because they have moved the debate on significantly. There have been many disputes about the Barnett formula regarding its transparency, or lack of it. As a former Minister, I know exactly what that meant. The very fact that, for example, the work has been based on the Treasury's regional allocations or the formulae by which it allocates funding for education and the health service has put the debate on a much sounder footing. What is more, the very fact that the Treasury has not been able to unpick the argument says a great deal—it probably says it all.

[195] On the final report, there are two areas relating to tax-varying powers. What evidence is there internationally about jurisdictions being given tax-varying powers? What has been their experience? Clearly, you are talking about fiscal responsibility, so how have they exercised that power in relation to the levels of taxation? Have they gone up, down, or stayed largely the same?

[196] **Mr Holtham:** This is a wild generalisation, although I do not want to use the word 'wild'; it is a strong generalisation because the experience has been diverse, but, on balance, taxes are likely to go down when you devolve them because of tax competition. If you have a number of different tax authorities, they see advantages in having slightly lower taxes than each other. That factor tends to depress tax levels, but, as I say, international experience is very diverse and depends on the different situations. That is a generalisation, but if you have to make a generalisation, that is the way that it tends to go.

[197] **Brian Gibbons:** I certainly want to reiterate what Andrew said about the two commission reports. They have been a tour de force in the sense of their rigour and the light that they have thrown on this, strengthening the argument for fair funding for Wales. This has been an important step forward for fairness. I want to address a couple of points about the formula and the shortfall. As I understand the argument for the way that the Barnett formula works, there is a bit of a paradox in the sense that, the more we get, the bigger the shortfall effectively. That is the effect of the convergence—

[198] **Mr Holtham:** The better you are doing absolutely the worse you are doing relatively.

[199] **Brian Gibbons:** Yes, that is right, so the rhetoric about massive shortfalls and so on is a consequence of very generous increases in public expenditure over the years. Following on from that, because there have been dramatic increases in public expenditure throughout the 2000s—and I do not know whether you have the evidence base to be able to answer this question—presumably, at some stage, the 'shortfall' emerged. Do you think that, structurally, going right back to when Joel Barnett devised the formula, there was a shortfall? Or did the significant increase in public expenditure, particularly in the 2000s, engender the shortfall? Have you been able to get any empirical evidence on that?

[200] **Mr Holtham:** We can say something about the starting point, and we can say something about the present situation, but there is very little that we can say about the period



in between. We simply did not have the resources to work out what the right amount would have been in every year since 1979. We know that, in 1979, the Treasury carried out a needs-based exercise that has subsequently been released to the public, although it was not available at the time and was not used for the Barnett formula. In 1979, Wales started off getting 106 per cent of the UK average. According to the Treasury's own needs-based analysis, it should have got 109 per cent. So, we started off 3 per cent shy, and we are about 2 per cent or 3 per cent shy now. Having said that, as you say, there has been a big squeeze over the past 10 years with this very rapid growth in public expenditure. So, back in 1999, we were on something like 120 per cent. Was that shy—too much or too little? We do not know. However, if we are only 2 per cent or 3 per cent shy now and we have come down by 8 percentage points it seems quite possible that there was not any particular gap in 1999. However, that is an inference. We do not know that for sure, and we have not been able to do the exercise to see what the appropriate payout would have been. So, we know that we are shy now and that we were shy right at the start, but we do not know about the years in the middle.

[201] **Brian Gibbons:** That is important in the sense that this may become an issue, if we were ever to get to the stage of trying to backfill what we are owed. It may be only an academic issue if we are going to start from today and there is going to be no paying back or topping up depending on whether we were overfunded or underfunded in the past.

[202] **Mr Holtham:** It was not a trivial exercise to get all the data, adapt them and apply them to the slightly different Welsh variables to get the number for the current situation. It would be a very large task to do that for 20 years, for example.

10.30 a.m.

[203] **Brian Gibbons:** I accept that. It would probably be almost impossible to do it empirically. What you are saying sounds right, intuitively. You are confirming what I would intuitively have thought was the situation—without the data, but trying to extrapolate from what we have to where we are. Following that logic, factors such as inflation—as you said in the first report—affect convergence. Equally, in the summary of this report, you say that direct reductions in public expenditure are presumably going to drive divergence in the formula over the next few years. The Permanent Secretary told us that we might lose 3 per cent in revenue and 10 per cent in capital over the next three or four years. What effect will that have on the divergence? Would you say that, even though 3 per cent is a lot in absolute terms, it will be pretty marginal in terms of creating divergence?

[204] **Mr Holtham:** Yes, it would be. Towards the end of the report, in chapter 9, there is a graph showing what the consequences of different assumptions would be. One of the assumptions that we put in was a nominal decline in the grant, after inflation, of 1 per cent or so over three years. That does not even get you from the current level to 114 per cent. The divergence that we are likely to get is unlikely to push Wales back to an appropriate level. The cut would have to be larger than expected.

[205] Health accounts for about a third of the Barnett formula, and it is supposedly ring-fenced. Inflation is currently running at about 3 per cent. So, the chances of getting very large nominal cuts, even though there are very substantial real cuts in other areas of the budget, do not look that great. As far as we can see, a decline of 1 per cent or 2 per cent in the nominal grant for a handful of years is not going to get you to where you want to be.

[206] **Brian Gibbons:** I would like to ask one more question. Peter Townsend did some very interesting work on a needs-based health formula during the first few years of the Assembly. I do not know whether you have had an opportunity to look at it. He spent a lot of time trying to develop a direct-need formula in Wales for the health service. One point that he made in one of his reports is that there will clearly be statistical variability on any estimate

made through a formula. He stated that a variation of about 8 per cent around the mean would not be unexpected in any formula that you would devise, due to the random variations that take place. This was always one of the reasons why, until quite recently, I was very apprehensive about mucking around with Barnett: because of these statistical variations, you could end up on the wrong side of the mean. Have you given this any thought, or do you even think that this is a valid point?

[207] Peter Townsend also questioned whether it would be possible to create a UK-wide needs-based formula. In terms of the factors that drive need and disadvantage in some parts of the United Kingdom, the situation is completely inverted in other parts of the United Kingdom. For example, mobility is a problem that drives costs in inner cities; however, in disadvantaged Valleys communities, the immobility of the population is a characteristic of deprivation. You have highlighted ethnic minorities as being different. There are low numbers of ethnic minorities in Wales and high numbers in England, driving need. Are there statistical risks in the certainty that you can attribute to the formula? Secondly, is it possible—with the six or seven variables that you have used in your report—to come up with a needs-based formula that is resilient across all of the United Kingdom?

[208] **Mr Holtham:** Taking those points in turn; the formulae are not, in practice, stochastic; they are fixed. In that sense, we do not have to deal with any statistical properties. On the other hand, it is true that the value judgements implied by the weight that is put on different factors in the formulae are matters of political dispute and discussion; one can imagine wide ranges being put on those weights. Our formulae depart from those that exist, but as we say in our report, those formulae are no more than a starting point; if people, when they see the consequences, want to start debating whether the weight on this or that is appropriate, it is open for them to do so. There is considerable uncertainty, but it is of a political and a value nature rather than of a statistical nature.

[209] **Brian Gibbons:** May I ask a supplementary question, Chair?

[210] **Angela Burns:** Very briefly, if possible, Brian. [*Laughter.*]

[211] **Brian Gibbons:** Data from any year, or a similar period of time, provides only a snapshot; that one year's data are a sample of a rolling process. That does not only apply to the weighting; the figure from any particular year is valid only for that year. There has to be an element of random selection for a figure to be valid over a period of time, which will, consequently, create its own margins of error.

[212] **Mr Holtham:** I see what you are saying. We used census data, and the variables are, for the most part, slow-moving. Things like demographics do not jump around from year to year; there may be a sampling error from one year to another, but there is not a huge variation in the variables. Unfortunately, it is also true to say that proportions of the population in poverty—relatively speaking—are also fairly slow-moving. One of the design criteria for the formula was to pick variables that do not jump around, whose measurement is generally accepted. As I was saying, there are major political issues to be resolved, but we tried to specify things so that there were no big statistical problems.

[213] In terms of the robustness of the formulae across the UK, it is true that the needs of different places are different, but that is accounted for by the variables in the formulae that are important in driving those different needs. I am not persuaded that there are any great missing variables that need to be put in; the Scots have been arguing that there is a missing variable, but the only one that they can come up with is being Scottish. [*Laughter.*]

[214] **Helen Mary Jones:** I am a quarter Scottish, so does that mean that I get called a variable?

[215] **Andrew Davies:** You do not score very highly.

[216] **Angela Burns:** I am married to a Scot, and he is very variable.

[217] **Mr Holtham:** The sparsity variable is one where the Scots might have a kick, because the formula considers the proportion of people living outside settlements with a population of 10,000 or more. A Scot might say that it is also about how far away people live from those centres, and one may want to multiply the distance by the number of people; you could refine the sparsity variable, which might give the Scots a bit more money, but they are not going to go from 105 per cent to 120 per cent. The beauty of the needs-based variables, which you might put greater weight on to lessen the Scottish disparity, is that they are all going to give Wales more money as well. Scotland is unhealthy and sparse, but so are we.

[218] **Chris Franks:** You have shown that our percentage has dropped from 120 per cent to 112 per cent—something like that—but that is only on devolved expenditure, is it not?

[219] **Mr Holtham:** Yes, it is.

[220] **Chris Franks:** There is a whole range of what is often called ‘unidentified expenditure’, like that on the Olympics, defence, the Food Standards Agency and the Financial Services Authority. Have you done any work on that type of expenditure that does not come as a proportion to Wales?

10.40 a.m.

[221] We also heard earlier today from the Permanent Secretary that the Barnett formula does not pay any regard to Government administrative costs. The example that she gave was that Wales has 25 per cent of the animals in the UK, but does not have any recognition of that additional cost.

[222] **Helen Mary Jones:** In the animal health budget.

[223] **Chris Franks:** Yes, in the animal health budget.

[224] **Mr Holtham:** The short answer to your question is ‘no’. We have not done any extensive work on expenditures outside the departmental expenditure limits. We were charged with looking at the Barnett formula. That other stuff is not subject to the Barnett formula; therefore, we have not looked at it. The public expenditure statistical analysis data are available, and show you the proportion that Wales gets. Therefore, it is possible to do some rough and ready comparison with population and so forth, but we have not gone into that.

[225] **Ann Jones:** The current UK Government has stated that it recognises the concerns presented in your interim report, but it goes on to say that its priority is deficit reduction. Recently, a member of the Monetary Policy Committee stated publicly in the press that the replacement of the Barnett formula with a needs-based formula should not be costly and, in fact, may be consistent with the policy of deficit reduction. How do you respond to that UK Government statement, and do you agree that the replacement of the Barnett formula would be consistent with the policy?

[226] **Mr Holtham:** The member of the Monetary Policy Committee is David Miles, who sits on the commission. The article to which you refer is a joint article between him and me. Therefore, you can assume that I agree with that entirely. *[Laughter.]* This, after all, is an exercise on the relative allocation of money. All that this is telling you is how to divide it up.

The Government can do whatever it likes with the overall total; this states that Scotland should have a bit less, that Wales should get a bit more, and Ireland possibly is not very far away from where it is supposed to be. That can be true for a big or small grant. As far as we can see, the Government statement is nonsensical. This has no bearing on deficit reduction one way or the other. If you insisted on keeping the English allocations the same, using our formula would actually save around £3 billion.

[227] **Ann Jones:** You have recommended having an independent arm's-length body to oversee the operation of a formula and to calculate the annual budgets for the devolved administrations. What form do you envisage this body taking, and do you envisage this body being responsible for the resolution of any potential disputes as a result of the funding mechanism? If so, would that mean the removal of the role of the Joint Ministerial Council?

[228] **Mr Holtham:** No, I do not think that it would be a dispute resolution mechanism. It always struck us that dispute resolution is essentially a political issue. I do not see that a quasi-judicial approach is likely to work. It is a political matter. We did think that you should at least start on a level playing field and then let the political disputes ensue, rather than have them coming in unacknowledged at the beginning. Therefore, the body that would look at Treasury dispensations and calculate an initial cut of what each area should get should be a technical body. It may well be that the Office for Budget Responsibility that the Government has set up, if its independence from the Treasury is established, could be that body.

[229] **Ann Jones:** You have mentioned that now, so I suppose that that is set up. Would there be any additional costs to the public purse if there is an independent arm's-length body separate from the Office for Budget Responsibility?

[230] **Mr Holtham:** The cost of carrying out the exercise that we recommend is trivial. I think that I can fairly use that word. The way that it is done in the Treasury, I think, is on an Excel spreadsheet. Given the way in which we have organised the needs-based formula, if it uses something as simple as that, it is also not much more than an Excel spreadsheet. It is just a matter of having a body that is a bit independent to look at the numbers coming in, put it through the spreadsheet and say, 'Okay, this is what comes out'.

[231] **Angela Burns:** There is a supplementary question from Nick, and then I will call on Andrew.

[232] **Nick Ramsay:** I want to follow on from Ann Jones's first question about replacing the Barnett formula and deficit reduction. A disagreement has developed—surprise, surprise—in the Chamber in discussions about this report recently, with regard to what you say about the Barnett floor as a medium-term solution. My reading of what you have said about that is that a Barnett floor really applies when expenditure is growing, to ensure that we do not lose out relative to the UK. So, in other words, it comes into play more then, rather than it being something that would be seen by a Westminster Government as protecting us in Wales from deficit reduction when we are in recession. Therefore, the Barnett floor is not a counter-recessionary measure. What did you mean by the Barnett floor when you wrote this, because, as I said, there have been differences of opinion in the Assembly over it?

[233] **Mr Holtham:** We tried to foresee all possible contingencies and we did not quite succeed. In the way that we drafted it in the first report, the floor would apply, as you said, when there was a rise in nominal expenditure, and would not apply when there was a decline. A situation that we did not analyse was one where some elements of public expenditure were going up and others were going down. The way that it was put in the first report, in chapter 6, suggested that the floor factor—114 per cent in that case—following the way that it works in the Treasury at the moment, would be applied department by department. Normally, that is not any different from just applying it at the total level, and, because that is so, we did not

really focus on that bit of drafting. However, you do get a slightly different answer if you apply the 114 per cent at the departmental level than if you apply it at the aggregate level. At the moment, because health is positive, if you applied the 114 per cent there, you would get a bit more money from the health piece, and you do not then apply the 114 per cent on everything else because those budgets are going down. We were clear that you should be asymmetric. So, there is a slight difference—it is quite trivial in terms of money—from applying it at the departmental level and at the aggregate level.

[234] The philosophy of the floor is really, as you say, about protecting you against convergence. It can also have the effect, in this particular circumstance, of getting a little more money, where you get these different projections for different departments—some positive and some negative—if you apply the factor departmentally, which is the way that it has been interpreted and is consistent with what was drafted. To be honest, it is a negotiating stance, and if the UK Government were to stand up and say, ‘You can have this floor, but only if you apply it at the aggregate level’, I guess we would bite its arm off. It is open to interpretation; it is just a negotiating position, I suppose.

[235] **Andrew Davies:** One of the most important points about the commission’s first report was that it was about greater transparency. Following on from Ann Jones’s question, having this formula applied by an independent body, once it is agreed, is crucial. I think that you recommend that the work could be given to the Office for National Statistics.

[236] **Mr Holtham:** Yes. That is a suggestion.

[237] **Andrew Davies:** The very short and so far unhappy experience of the Office for Budget Responsibility, which is actually based in the Treasury building, and the way in which that work has been done, reinforces the importance that the implementation of this, were it to be implemented, it is done by an independent body that is not open to political or other persuasion. How important is that from your point of view?

[238] **Mr Holtham:** Independence is important. I cannot say whether or not the OBR will turn out to be insufficiently independent; maybe it will, but I think that independence as a principle is important.

10.50 a.m.

[239] **Andrew Davies:** The point is that it could be given to an existing body, such as the Office for National Statistics; it does not have to be a new organisation. Given that you said that it is, effectively, a statistical exercise, it could be done relatively quickly.

[240] **Mr Holtham:** Indeed. We were quite clear that this is not the sort of thing that requires a CBO or any large new organisation; it is something that can be done by a unit in an existing organisation, because it is fairly undemanding.

[241] **Brian Gibbons:** From the work that you have done on this, and thinking about the work of the arm’s-length project, how transparent is the process of identifying the consequentialists or how would you—[*Laughter.*] The former Minister for finance, Andrew Davies, laughs knowingly, but, clearly the process of identifying the consequentialists is at the heart of the practical implications of that. The great strength of your first report was that you did a lot of new empirical work trying to identify some of that expenditure in Wales. Based on that, if you were to advise the arm’s-length body to monitor the consequentialists, what would be the key things that it would need to consider?

[242] **Mr Holtham:** That would be its central role, in effect, because the Government expenditure in total is what it is. So, there is nothing much to argue about except the

application of consequentials to particular items of expenditure. That is the very thing that it would look at.

[243] **Brian Gibbons:** Based on your work to date, how transparent is that process?

[244] **Mr Holtham:** At the moment, it is not at all transparent; it is extremely opaque and that is the argument for the independent body. It would have clear criteria and factors that reflected consequentiality and those would be in the public domain and if the Treasury said, 'No that is not right; on this occasion, it is inappropriate', the independent body could assert that fact and argue for it and it would then become a political issue in the public domain of whether or not to override that. However, just starting off in a transparent way is important.

[245] **Angela Burns:** Thank you very much for coming today. I know that committee members would like to talk to you about other models of fiscal autonomy and tax devolution and assignment, but we have had a good and robust discussion on understanding the issues around the block grant and the formula that is applied to it. If I may prevail upon your patience, we may ask if we can return to you in the next session to talk further about those other areas, because the Finance Committee would like to make a comment on this prior to next year's or this coming year's budget. Thank you again for coming and I am sorry that we were slightly delayed in starting; we have exhausted your patience for an hour and I much appreciate it.

[246] **Mr Holtham:** Not at all, Chair; the hour has simply flown by.

[247] **Angela Burns:** You charmer. [*Laughter.*] Thank you.

10.53 a.m.

**Adolygiad o'r Gost o Weinyddu'r System Addysg yng Nghymru—Tystiolaeth  
gan y Gweinidog dros Blant, Addysg a Dysgu Gydol Oes  
Review of the Cost of Administering the Education System in Wales—Evidence  
from the Minister for Children, Education and Lifelong Learning**

[248] **Angela Burns:** I welcome our next witness, the Minister for Children, Education and Lifelong Learning, Leighton Andrews. First, I apologise for the delay. The Minister is under very tight time constraints and must leave at 11.45 a.m., therefore, I would like the committee to break the habit that has been forming and to ask short and snappy questions. Minister, could you introduce yourself and your officials for the record? If you would like to make an opening statement, please do so.

[249] **The Minister for Children, Education and Lifelong Learning (Leighton Andrews):** I am pleased to be here today with Lynne Hamilton, who heads our business section, which deals with all student support, among many other issues, and Carla Lyne from the same division, who has been overseeing the PricewaterhouseCoopers review of the costs of administering the education system.

[250] I published the report from the first phase of the review of education costs on 18 May. The report identifies the cost of administering education across Wales, the number of people working on administering the education system, and the opportunities to move resources from administration to the delivery of front-line services throughout the education sector.

[251] Following publication, we paused to review where we were to give stakeholders a chance to read and fully consider the report. That has confirmed that there is a high degree of consensus over the report's findings. We are now focused on implementation. We have

established a programme framework to manage that implementation, and I am chairing the programme board for that. Within that, we have established a number of working groups that have the role of identifying practical solutions for the implementation of the hypotheses in the report, including the timescales and targets for shifting funding from support to service functions. We had our first programme board meeting last week, and the work of the groups will commence shortly.

[252] Feedback from stakeholders has confirmed that a great deal of work is already in progress to deliver efficiencies in support functions, and I want that work to continue. I will, however, look to add pace and direction where needed through the implementation stage of the review. In addition, over the summer, I intend to issue a challenge to the heads of institutions and sector representative bodies, asking them to work individually and collectively on how they intend to respond to the report. That will include assessing what the report's hypotheses mean for organisation and sectoral collaboration at geographic level and also identifying specific actions. The initial assessments from our working groups and the feedback from the challenge that we are issuing will be used to develop a complete delivery plan with clear timescales and financial deliverables. I want to emphasise that the success of the review will require all the organisations involved in the delivery of education to play their part in the change, working together to refine and implement a shared vision.

[253] **Angela Burns:** Thank you for that statement. We will ask you a series of questions, drawing on the knowledge that we have gained so far from our inquiry into the funding of post-16, further and higher education. However, we as a Finance Committee recognise that, since you have taken post, Minister, some rapid and detailed changes and business process reengineering have been undertaken. Therefore, some of the questions that we may ask you may tax your patience slightly in that you may have already moved on slightly in your thinking, compared with what we have seen to date.

[254] **Leighton Andrews:** May I be clear that I am here today to answer questions on the review of the cost of administering the education system?

[255] **Angela Burns:** Yes. Andrew, do you have a quick supplementary question?

[256] **Andrew Davies:** I thank the Minister for this work. It is extremely important, because there has been an obsession in the public sector about how much is spent, but not on the value of that expenditure and how effective it is. So, first of all, this is a very welcome move by the Assembly Government. In taking this forward, will you be looking at publishing the costs of various levels of education, whether it is local education authorities, further education colleges or universities, perhaps on an annual basis? Secondly, will you look at whether this should be used as a benchmark by which the performance of organisations will be assessed?

[257] **Leighton Andrews:** I am certainly not planning to do it annually. What we are doing is starting a process that I hope will lead to rapid delivery. We have a comprehensive assessment by PWC. It has looked at the different work streams in education, sector by sector. It has come to its assessment having looked at the business processes in detail, drawing on the experience that it has elsewhere in public services.

11.00 a.m.

[258] It has had to look anew at some areas, such as higher education. It has given clear figures on the amount of money that is spent on front-line delivery and support services. In general terms, that is 68 per cent on front-line delivery and 32 per cent on support services. However, it varies, as you know: in the higher education sector, only 48 per cent goes on front-line delivery, with 52 per cent on support services. So, across the education sector, there

are significant opportunities to move resources to the front line. Indeed, if just a 2 per cent shift were achieved, that would amount to some £83 million being moved to the front line. From my point of view, what we need to do now is look through our own processes at how we can make that shift happen.

[259] The point that you make about benchmarking is an important one. I would expect organisations within the education system to look at the conclusions that PWC has reached—and bear in mind that it spoke with more than 100 stakeholders in preparing this work so, in a sense, some benchmarking has already been carried out—to see how they fare against that assessment of the cost of support and front-line delivery.

[260] **Angela Burns:** Peter is next, who will talk about part 1 of the review of education funding by PricewaterhouseCoopers.

[261] **Peter Black:** Part 1 of the review recommends and supports that the HE sector should be standardised, simplified and shared by reconfiguring support services. It goes on to suggest that that has not been a theme of current collaboration and merger work, and has not been realised to date. Why has that approach not been included in collaboration and merger work within the sector so far?

[262] **Leighton Andrews:** A huge amount of work has been done on this. The Public Accounts Committee, when it was called the Audit Committee, did a comprehensive review of the work carried out in relation to reconfiguration, merger and collaboration within the sector. It published its report about a year ago—indeed, I have drawn on some of the commentary in the report in recent lectures that I have delivered on the sector. We have seen some mergers, although I would argue that they have been relatively limited, and HEFCW would accept that; hence the drive to a new approach that it announced in the corporate plan last week. Sometimes, these challenges are ducked during periods of rising expenditure and income. The challenge is faced only when the finances are more difficult. It would be more sensible to do it when the money is available, but maybe it is a general psychological process in all organisations, including the private sector, let me say, that you start to tackle these challenges when the crisis hits.

[263] **Peter Black:** I will preface my next question by saying that I am a member of the college council of Swansea University, although the question does not relate to that. How do you plan to approach the planned reduction in the number of higher education institutions in Wales?

[264] **Leighton Andrews:** I am tempted to ask you, Peter, how you were appointed to the college council of Swansea University, because it might be interesting evidence for our review of higher education governance in Wales.

[265] **Peter Black:** I am a representative of the City and County of Swansea Council.

[266] **Leighton Andrews:** Okay. That is better than some of the answers that I have had from members of Swansea University council in recent times.

[267] **Chris Franks:** I think that you are the first Minister to ask a question of a committee member. Most impressive.

[268] **Leighton Andrews:** Shall I turn to you, then, Chris? [*Laughter.*]

[269] It is really now for HEFCW to take that forward. It established the target in its corporate plan of 75 per cent of higher education institutions being above the UK median by 2013. It obviously will start to drive that work forward. It has already consulted on regional



planning in Wales, which will have a degree of influence, and conversations are actively taking place, particularly in the south-west, although I am aware that there have also been conversations between other institutions. I had a meeting last week with Higher Education Wales at which one of the vice-chancellors said that there had been more discussion on merger and collaboration in the previous six weeks than there had been in the previous six years.

[270] **Peter Black:** Are HEFCW's instructions to look at back-office systems as well as upfront mergers a part of that?

[271] **Leighton Andrews:** It needs to look at the whole thing. In a sense, the recent statement by HEFCW in respect of the size of institutions will drive people across the piece to look carefully at all aspects of collaboration, but we would have expected them to be doing that in any case.

[272] **Peter Black:** Your statement also mentions a new method of funding research from 2011-12 to equip Welsh higher education institutions better to compete for research funds. Could you give us an outline of your proposed new funding methodology and explain how it will better enable that competition?

[273] **Leighton Andrews:** That is HEFCW's methodology. As you know, we do not fund higher education institutions directly. There are legal restrictions on our doing that under the Further and Higher Education Act 1992.

[274] There is general recognition that we need to do better in the research council income that comes to Wales. We want to see greater collaboration between academics. We have seen that happening in some areas, such as cognitive neuroscience and, increasingly, in history and many others, but it needs to be driven forward. In the past 24 hours, Lesley Griffiths has published her review of research and development in Wales, which contains observations about the relationships with the research councils that we need to take forward. I think that HEFCW will need to look at the work that has gone on in that review of research and development.

[275] **Peter Black:** Will you be giving any hints in your remit letter as to what they should be looking at?

[276] **Leighton Andrews:** My remit letter this year was quite dirigiste, and I expect that next year's remit letter will be also.

[277] **Nick Ramsay:** Moving on to post-16 and further education, the review suggests that there could be greater integration of LEA services, local authority and FE non-education support functions according to geography. Do you agree with the recommendation's observation that many organisations are simply not large enough to justify having standalone support teams, and that non-education support functions could be better integrated according to geography?

[278] **Leighton Andrews:** Yes.

[279] **Nick Ramsay:** Have you had any communication with the sector about this, or have you simply taken from the review what has been said and come to that decision yourself?

[280] **Leighton Andrews:** PricewaterhouseCoopers carried out a thorough study in which it came through with its own analysis based on the business processes within the sector. It had dialogue with many people in the sector. I cannot recall anybody having written to me to disagree with the conclusions of the PricewaterhouseCoopers review, as it happens. There

have been some marginal challenges to certain of the assumptions in relation to the higher education balance between support and the front line, but that was at the margins, I would say. So, I am assuming that there is widespread consensus, as there is nothing to suggest otherwise.

[281] Our officials have been discussing that with others. I spoke at the ColegauCymru conference. We will continue to take this forward in discussions with the FE sector. One of the working groups that will take our work forward will be looking at the relations between FE and HE in the context of our existing 'For Our Future' strategy. So, that is already geared up to go forward.

[282] **Angela Burns:** Brian, you have a supplementary question, and then Alun has one.

[283] **Brian Gibbons:** I presume that the outcome that you are working to is money diverted from back office to front office, and you have given the figure of nearly £83 million. It was a little disappointing to read on page 7 of the PricewaterhouseCoopers report that it is not possible at this stage to delegate targets or budgets for the levels of saving that would be generated by the list of innovations and improvements outlined on pages 5 and 6, one of which Nick has just touched on.

11.10 a.m.

[284] Having had a chance to consider this report, are you in a position to establish a benchmark for the potential savings that can be redirected from back office to front office in view of the uncertainty that PricewaterhouseCoopers has outlined? Do you feel yourself to be in a more confident position to get a view of the maximisation potential of this list of important changes? In delivering against these potential savings, are you considering developing an action plan or a timeline by which you will evaluate the savings that are being achieved? Are you drawing up trigger steps so that if you do not see progress, further action will be taken? To use Nick's example, if we do not see that backroom integration taking place within x number of years and delivering y number of savings, will you as a Minister take more direct action to make it happen?

[285] **Leighton Andrews:** As you know, Brian, I am very much in favour of direct action.

[286] **Brian Gibbons:** So, will you be sending out a clear signal to people that this is not an indefinitely long piece of string and that they are going to have to deliver the savings up front, notwithstanding the uncertainty that PricewaterhouseCoopers indicates, and that there is a finite timeline for people to demonstrate their capacity to do so, or action will be taken?

[287] **Leighton Andrews:** I am very pleased with the PricewaterhouseCoopers report, and I am not surprised that it has not said that there is a single figure that you can achieve in terms of efficiency savings. In many ways, it is more constructive that it has identified a range of impacts of 10 per cent to 20 per cent from simplifying governance, and so on. Our assessment of the range, on the basis of what it said, has a lower figure of around £100 million and an upper figure of £192 million, if we were able to follow through within the percentages that it calculated. The reason why I am pleased with that is because people sometimes think very simplistically about how you achieve savings. In practice, it is quite difficult to do, and it needs to be driven through the system. That is the nature of the report, and therefore that is the nature of the work streams that we are taking forward under the hypotheses that PWC has identified. So, there must be a serious look across the whole system at every opportunity that can be taken to find savings.

[288] For example, in my department, as we occasion all the processes that require activity within the field of education, we are therefore also the people who occasion the burdens that

may fall on institutions. So, the starting point for my department—which may not be syntactically correct—is what can we do less of. We have started to have that very active discussion within the department in terms of the information demands that we place on different organisations, whether they are further education institutions, local authorities or others, and the inspection demands from Estyn. Estyn, of course, has simplified its inspection framework from this year onwards. We are looking at every element of the process that we put into the system to see what we can make simpler. That is very important, and that is the driver. We expect institutions to step up to the mark to say how they are going to address the issues that are thrown up by PWC. In some sectors, we have had to drive that at pace, and higher education is a good example of that, where we believe that there has been foot dragging over the last decade. We are now moving much faster.

[289] **Brian Gibbons:** I can anticipate your answer to my next question, but I will put it on the record. On page 43 it says that:

[290] ‘Local authority stakeholders have indicated that in theory they agree with the rationale for this opportunity. There are reservations related to a change in the level of service they may receive as a result of integration. There is however a perception...that fully bespoke and locally provided services outweigh any efficiency or quality benefit.’

[291] You can hear that being said almost as you read it. What weight do you put on that point of view? It will apply in very distinct circumstances, but as a general statement, what weight would you put on that?

[292] **Leighton Andrews:** It may apply in certain circumstances, but, broadly speaking, it is tosh.

[293] **Angela Burns:** Andrew has the next question.

[294] **Andrew Davies:** The Minister’s reply to the last question but one was very important, because he said that achieving efficiency savings is complex and that many factors are involved. There is a simplistic attitude in the public sector of efficiency savings equating to reorganising the back office, and the PWC report was important in that respect. The other point is that the Minister has made it clear that his department is part of the system that needs to be reformed. The trouble is that, too often, Government says to providers, be they local government or others, ‘Get your act together,’ but there is a clear acknowledgement that the Assembly Government is part of that system and must play a part in the solution.

[295] To come back to my specific question, which is on higher education, I very much welcome all the statements that you have made recently in this area, and having taken evidence from Higher Education Wales and the Higher Education Funding Council for Wales, I agree with your assessment that there has been a lack of progress. Clearly, the Wales Audit Office, in looking at the reconfiguration fund, was pretty damning on how effective that was. So, on the performance of the higher education sector, for example—and I am not sure whether you will take a dirigiste attitude or approach on this one—will you be setting clear performance indicators for the sector, including indicators for efficiency savings? What will you do if the sector or individual higher education institutions do not respond to the clear direction from you and the Government?

[296] **Leighton Andrews:** I think that the message for higher education is ‘adapt or die’, to be blunt. That is clear from what HEFCW has said in the last two weeks. We have set some clear targets, through HEFCW, and have said to it in our remit letter that we want to see it deliver on the ‘For Our Future’ agenda with regard to widening access, for example. So, HEFCW, in its corporate plan, has put down clear performance indicators in respect of boosting the numbers of people going into higher education from Communities First wards,

and lifting the percentage of those going into higher education from the Heads of the Valleys to the average, for example. It is for HEFCW to determine the precise indicators, based on the broad strategy that we outline and what we put into its remit letter on an annual basis.

[297] **Andrew Davies:** I very much welcome that, but the corollary of that is the question of what will happen if institutions or the sector fail to deliver on those key performance indicators. Whether the levers you use are sticks or carrots, what can you do if they do not perform?

[298] **Leighton Andrews:** I think that people tend to respond to financial penalties.

[299] **Angela Burns:** Irene has the next question.

[300] **Irene James:** Minister, you have stated that you will report the findings of the Welsh Assembly Government's efficiency and innovation board. Have you done so? What feedback have you received from the board?

[301] **Leighton Andrews:** We presented the review to the board about a month ago. It was well received, and we received good feedback. Perhaps it is worth saying at this point that we have been contacted by the Scottish Government as a result of our PWC review, as it is interested in the work that we have done. We have been keen to share that work with the Scottish Government, as it is looking at these developments. I have also given an outline of the work to the Secretary of State for Education and the Minister for higher education in London.

[302] **Angela Burns:** Thank you for that, Minister. I just want make a statement on the record about the fact that there was some light-hearted joshing about our Scottish friends in our previous session on the Holtham commission, but the devolved administrations do work closely together and learn from one another. We, as the Finance Committee, have taken evidence from Scotland on a large number of issues on which it has blazed a trail, and it is nice to hear, Minister, that, in this instance, it is coming to us because we are the trailblazers. I just wanted to make that clear.

[303] Irene, did you have a further question?

[304] **Irene James:** Yes. Has stage 2 of the review begun? If it has, how is it progressing?

11.20 a.m.

[305] **Leighton Andrews:** Essentially, stage 2 started last week with the first meeting of our programme board to agree the working groups, the detail and what we are seeking from them. We are not restricting those discussions to our department—the director general responsible for public service delivery has been involved in those discussions, for example. We will be looking for some external challenge in the way that we carry forward that work with the working groups.

[306] I would not want to give the impression that there is not already work going on in that sector either. To give you one good example, local authorities in north Wales are looking at how they can create a more efficient school improvement service. This goes back to the question that Dr Gibbons raised a few minutes ago about the trade-off mentioned on page 43 between local delivery and more effective services. As I have said before, probably to this committee as well, I would not have invented 22 local education authorities, and I think that there are issues of scale that people around this table would recognise. One of the big issues has been whether the smaller local authorities are able to provide a school improvement service with the requisite expertise. The issue of keeping everything local is fine in rhetoric,

but, in practice, in terms of scale, experience, expertise and real support, I just do not think that that is realistic. That is being recognised in north Wales, where there is some very active work going on to try to address that issue across six local authorities. As ever, I happen to think that they should be doing it faster than they are, but it is a genuine and very constructive move.

[307] **Angela Burns:** Do committee members have any further questions for the Minister on the independent review of education funding? It is specifically what we wanted to talk about, because this has come out following our conversations with HE and FE and other witnesses on education. I must say that it is an interesting report. I think that PWC has produced an exceptionally comprehensive review. Minister, do you wish to say anything in conclusion?

[308] **Leighton Andrews:** I am encouraged by the committee's response, and I hope that it will see the report in the way that I do, as helping to lead the debate on these issues. I think that, given that the report was completed in seven weeks, PWC did an exceptional job in uncovering the evidence that it did and in making the proposals that it made. I have been anxious to see that we have a consensus across Wales that what is in the report makes sense and that that is the direction in which we wish to travel. I think that consensus exists, but I welcome very much the committee's interest in that, and I hope that you will also help us to shape that consensus across Wales.

[309] **Angela Burns:** Thank you very much for your time today. I also thank your colleagues who have come with you. I am relieved to see that, for once, we have managed to finish on time to allow you away for your next meeting. I appreciate it.

[310] **Leighton Andrews:** Thank you very much; I am off to Carmarthenshire.

11.23 a.m.

### **Cynnig Trefniadol Procedural Motion**

[311] **Angela Burns:** We need to go into private session to conclude our discussions on the report on the Proposed Welsh Language (Wales) Measure and our submission to the current review of Standing Orders. I move that

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).*

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

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.24 a.m.  
The public part of the meeting ended at 11.24 a.m.*