



Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Y Pwyllgor Cyfrifon Cyhoeddus
The Public Accounts Committee

Dydd Iau, 8 Gorffennaf 2010
Thursday, 8 July 2010

Cynnwys
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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'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymreig (yn dirprwyo ar ran Jenny Randerson) Welsh Liberal Democrats (substitute for Jenny Randerson)
Jeff Cuthbert	Llafur Labour
Irene James	Llafur Labour
Bethan Jenkins	Plaid Cymru The Party of Wales
Ann Jones	Llafur (yn dirprwyo ar ran Alun Davies) Labour (substitute for Alun Davies)
Sandy Mewies	Llafur Labour
Jonathan Morgan	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Chair of the Committee)
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Gillian Body	Archwilydd Cyffredinol Cymru Auditor General for Wales
Bernard Galton	Cyfarwyddwr Cyffredinol, Pobl, Lleoedd a Gwasanaethau Corfforaethol Director General People, Places and Corporate Services
Y Fonesig/Dame Gillian Morgan	Ysgrifennydd Parhaol i Lywodraeth Cynulliad Cymru Permanent Secretary to the Welsh Assembly Government
Andy Phillips	Arbenigwr Perfformiad, Swyddfa Archwilio Cymru Performance Specialist, Wales Audit Office

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

Alun Davidson	Clerc Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Andrew Minnis	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 8.44 a.m.
The meeting began at 8.44 a.m.

Ymddiheuriadau a Dirprwyon
Introduction and Apologies

[1] **Jonathan Morgan:** Good morning. I welcome Members to the Public Accounts Committee. This is our final meeting of this Assembly term. I remind everyone that you are

welcome to speak in English or Welsh, as we are a bilingual organisation. Headsets are available with translation on channel 1 and amplification on channel 0. I remind Members to switch off mobile phones, BlackBerrys and pagers, and if the fire alarm sounds, please follow the advice of the ushers.

[2] I have received apologies from Lorraine Barrett and a standing apology for the remainder of the term—in effect, for this meeting—from Alun Davies. I thank Ann Jones, who has been substituting for Alun. I am grateful to Ann for joining us for the previous few meetings as well. I also welcome Peter Black, who is replacing Jenny Randerson as the Liberal Democrat member of the committee. I place on record my thanks to Jenny for her effort and her interest in the work of the committee, and for her contributions. It is a great pleasure to welcome Peter as our new Member.

8.45 a.m.

**Risgiau o Erydu Arfordirol a Llifogydd Llanw yng Nghymru: Cyngor gan
Archwilydd Cyffredinol Cymru
Coastal Erosion and Tidal Flooding Risks in Wales: Advice from the Auditor
General for Wales**

[3] **Jonathan Morgan:** We now move on to the first substantive item on the agenda, which concerns the advice of the Auditor General for Wales regarding the response of the Assembly Government to the committee's report on coastal erosion and tidal flooding risks in Wales. I welcome the auditor general and Andy Phillips from the Wales Audit Office. Andy is well known to us as he provided a huge amount of advice to the committee during our work. It is a great pleasure to see you both here this morning. Auditor general, perhaps we will have a briefing from you first, and then I will ask Members if there are any questions that they want to raise.

[4] **Ms Body:** The Assembly Government has provided a generally positive response to the committee's report and to the recommendations. It has accepted in full six of the seven committee recommendations. There is one that has been partially accepted. I have to say that we had to read it quite carefully to work out what elements of it had not been accepted. This recommendation relates to the committee's concerns about communication and engagement with citizens and communities in respect of the risks of tidal flooding. The issue seems to be about who is the best messenger for these communications, and the Assembly Government has emphasised the need for engagement to be at a local level, led by organisations such as the Environment Agency and local authorities. I have to say that I do not think that this is inconsistent at all with the committee's recommendation. The Assembly Government has said that it is developing a communication strategy as well as a community engagement framework, which should help to meet the committee's concerns about the consistency of messages to citizens and communities and ensure alignment of messages at a national and local level. I think that the Assembly Government has accepted the spirit of the recommendation, and the issue is how the recommendation is implemented.

[5] One of the committee's recommendations was a response to our audit recommendations. Again, the Assembly Government fully accepted all but one of them, with one other being partially accepted. You have to read it quite carefully to work out what the objection is and why the Government has not fully accepted the recommendation. The issue seems to be about control of inappropriate development in areas at risk of flooding. Reading the Assembly Government's response, it seems to say that its view is that the technical advice note 15, or TAN 15, is working well. Our own view is that, while the technical advice note is sound, there have been issues with its applicability, and with compliance with the advice note. Some additional guidance would therefore be helpful.

[6] It is clear from the Assembly Government's response that there is a lot of work underpinning the development of the new national strategy, and the response provides some assurance to the committee that your concerns will be addressed going forward. The suggestion at the end of my letter is that the committee might want to return to the subject in late 2011, once the national strategy has been published, to consider whether the committee's concerns have been addressed by the Assembly Government's actions.

[7] **Jonathan Morgan:** Looking at the response from the Assembly Government, I find it quite baffling—and you have already touched on this—in that it has partially accepted a recommendation around communication. The communication, or lack of it in some cases, was quite a criticism from those local groups that came in to give evidence. The Government's response is written in a nice way, to indicate that work is being done, and I am sure that it is, but the Government says that

[8] 'this communication strategy will be complemented by a community engagement framework, prepared by the Welsh Assembly Government that will enable risk management authorities to engage at community level to discuss local risks and solutions'.

8.50 a.m.

[9] I am not entirely sure, on reading the Government response and comparing it to our recommendation, why it has only partially accepted it. In essence, the Government's response underlines the reason why this committee made that recommendation in the first place, so I find it rather baffling. However, I am pleased that it has accepted the recommendations and that there have not been any particular concerns.

[10] **Bethan Jenkins:** I know that it is probably quite a small point, but quite a few of our recommendations were based on the New Approaches programme and the fact that we were unclear about its direction. We mention it quite a lot in our recommendations, but there are not many references to it in the Government's responses. The Government was suggesting that it would become part of other schemes and strategies, so, from the responses, I am still not clear where it sits. I do not know whether other Members find that to be the case, but considering that, initially, it was such a flagship programme, the responses seem to float around the issue a bit.

[11] **Jonathan Morgan:** Pardon the pun. [*Laughter.*] I suppose that the issue—this came out in the evidence—was that, although the New Approaches programme was referred to in the work of the auditor general and in evidence, there was a clear indication that things were moving quite rapidly. I suspect that the Assembly Government has had to try to reflect the fact that, given the Pitt review among other things, things have changed. I found it difficult in evidence to get a definitive idea of the strategic direction, but I suspect that that was partly why. Are there any other views on the advice of the auditor general? I think that it would be wise for the Public Accounts Committee to return to this late next year. Obviously, we do not know what the make-up of the committee will be yet, because there are Assembly elections early next year, but this could be included in the legacy report for the end of this Assembly, advising the next committee to return to this. Clearly, it is something that requires monitoring. What sort of work will the Wales Audit Office do now on the basis of the Assembly Government's having published its recommendations? Is there any ongoing work between now and, say, 12 months from now?

[12] **Ms Body:** We routinely monitor what the Assembly Government is doing. We could certainly provide some additional advice to the committee in advance of it returning to the subject. We are more than happy to do that.

[13] **Jonathan Morgan:** Thank you. That concludes that item of business. Thank you for that advice. We will advise our successor committee to return to this next year. If we can locate our witnesses, we will move on to the next item of business.

[14] We were expecting the Permanent Secretary and other witnesses to be here for an evidence session at 9 a.m.. It is 8.54 a.m. and witnesses tend to arrive slightly earlier than required. However, in view of the fact that our three witnesses are not here, we will adjourn until 9 a.m.. I apologise for that. Witnesses normally arrive in plenty of time. Thank you.

*Gohiriwyd y cyfarfod rhwng 8.54 a.m. a 8.57 a.m.
The meeting adjourned between 8.54 a.m. and 8.57 a.m.*

**Ymateb i'r Her o Gyllido'r Sector Cyhoeddus yng Nghymru: Sesiwn Dystiolaeth
y Swyddog Cyfrifyddu
Meeting the Challenge in Welsh Public Sector Finance: Accounting Officer
Evidence Session**

[15] **Jonathan Morgan:** Good morning and welcome back. We move to our inquiry into the Auditor General for Wales's report, 'A Picture of Public Services'. The inquiry is also drawing on other reports published by the auditor general.

[16] In this session, we will be taking evidence from the Permanent Secretary, focusing in particular on how the challenge facing the Welsh public sector is likely to directly affect the Welsh Assembly Government and its sponsored bodies, and how the Assembly Government is responding to that particular challenge. I ask our witnesses to identify themselves for the record.

[17] **Dame Gillian Morgan:** I am Dame Gill Morgan; I am the Permanent Secretary of the Welsh Assembly Government.

[18] **Mr Galton:** I am Bernard Galton and I am the director general of People, Places and Corporate Services.

[19] **Jonathan Morgan:** Thank you; it is a pleasure to welcome you both to the committee this morning. You have been briefed on the background of this inquiry. We are looking at three quite distinct areas. We have been taking evidence on the challenge facing local government and, a fortnight ago, we took evidence from the director general of Health and Social Services and Chief Executive NHS Wales on the challenge facing the health service. The Welsh Assembly Government is the third part of that package. So, if you are comfortable, we will proceed with questions.

[20] The first question is to you, Permanent Secretary. The 'A Picture of Public Services' report said that there would be a significant reduction in overall spending, estimating that the Welsh block grant will reduce by £0.5 billion a year for three years, but that the impact would vary across different parts of the public sector. What is the current outlook in terms of future capital and revenue budgets for the operations of the Welsh Assembly Government and its sponsored bodies, and what level of savings do you expect to make on these budgets?

[21] **Dame Gillian Morgan:** This is a much more complicated question than it seems, because we are very dependent on the negotiations that go on in Whitehall to determine what our block grant is. So, if you ask us today whether we have any planning assumptions from the Treasury about what we should work on, the answer is: they are very limited. We have a global sum of money that has been identified as coming out of public expenditure and we, therefore, have to take the global sum that has been announced in the budget and do our own

estimates of the likely impact of that on the Barnett share. That means that we have to make a whole set of assumptions about what we think will happen in bilateral negotiations between the Treasury and individual Whitehall departments. We have to make our assessment of the outcome of that and then make our own estimate of what the impact would be on Wales.

9.00 a.m.

[22] Over the past 18 months, we have been trying to make our planning assumptions as secure as possible, and we have had to work by listening to what has been said publicly by the Treasury, what has been said by other commentators and then making our assessment of what the worst-case scenario would be. We have therefore been planning for the past 18 months based on the worst-case scenario for Wales. The reason for that is that it is always easier if, by some fortuitous chance, the amount of reduction is less, to put things back in than it is to suddenly identify new sets of things that you might want to change. We are, therefore, in a situation in which the Ministers are looking at a series of planning assumptions that will form the basis of what they will ask individual Ministers to do in their main expenditure group. However, I am not in a position to be able to say what planning assumptions Ministers are working on, because this is policy work that is under discussion as we speak. There will also be an announcement next week about what Ministers intend to do about the £187 million of reductions that will be our share of the first set of savings of £6 billion. Again, that is subject to detailed planning work that is going on in each main expenditure group.

[23] We are confident, and I am confident as the accounting officer, that our planning has been at the prudent and conservative end. That is a good place to be at the moment, because we will not know, until we see the comprehensive spending review in October, what the true impact will be. I know that bilateral discussions are going on at the moment with each of the Whitehall departments. There are all sorts of discussions happening, for example, between the Department for Work and Pensions and the Treasury, and there are discussions around energy and so on. They could all have an impact on what we get in our bloc, and we are not currently party to those discussions.

[24] One point about not being party to those discussions is that, at the last meeting of the joint ministerial committee, chaired by the Prime Minister and with the Deputy Prime Minister in attendance, a commitment was given that we would be more actively involved this time in the bilateral reviews before the CSR. We are trying to identify a mechanism by which that can happen. As our money comes at the end of a formulaic process—you turn a handle—it is hard to see how we can intervene along that journey, but we are keen to do so, because it affects our block and, equally importantly, because decisions taken in Whitehall could fundamentally affect Wales. For example, issues that are of fundamental importance to us, such as the electrification of the Swansea line, will be determined by the Treasury and the Department for Transport with little involvement from the Welsh Assembly Government, unless we find a mechanism by which to get into the discussions taking place. So, we are trying to talk to the Treasury at the moment about how it honours the commitment given by the Prime Minister about engaging us so that we can influence not just what comes out in the block, but what comes out in individual policy strands.

[25] **Jonathan Morgan:** You have talked about the £187 million share of the £6 billion and about planning assumptions being limited, but with a worst-case scenario. Bearing in mind those limited planning assumptions and that a whole range of factors needs to be taken into account, are you able to quantify what that worst-case scenario is and what the range of scenarios could be? I imagine that you are probably working on the basis of a number of different assumptions with different outcomes.

[26] **Dame Gillian Morgan:** The planning assumptions on which we have been working, which have been discussed by Ministers, going back to the autumn, have been on a -3 per cent

cash per year basis. In real terms—this gets confusing, because people sometimes talk about cash and they sometimes talk about real terms—that means minus cash plus whatever the level of inflation is. So, if you assume that inflation is at 3 per cent and we are talking about -3 per cent in cash, the pressure on outside services could be as much as -6 per cent, if you add the two together. So, we are planning on the basis of true cash reductions.

[27] **Jonathan Morgan:** That would explain why Paul Williams told us two weeks ago that he was working on an assumption of a revenue reduction of around 3 per cent, plus a capital spend reduction of 10 per cent.

[28] **Dame Gillian Morgan:** Indeed. We are pretty certain about the capital; it is the revenue spend that has so many changes.

[29] **Jeff Cuthbert:** I indicated a little early, because I wanted to talk about the comprehensive spending review and its impact, but you have dealt with that and you have said that you are trying to press so that you can fully be a party to the discussions, so I will just tag on a bit at the end. A great problem with significantly reduced public expenditure, particularly on the capital side, is that the number of those in the private sector looking to provide services for the public sector, particularly building things, could be significant. Even at this relatively early stage, are you getting representations of grave concern from, say, the construction industry?

[30] **Dame Gillian Morgan:** This has been the cause of one of my moments of bewilderment over the past six months, in that there has been such a debate about the pace of cutting public spending but very little anxiety expressed by companies that have big contracts with Government and the public sector about the impact of cuts, either at all or rapidly. I recently asked the CBI whether it had made any estimates of what impact the decline in public expenditure would have on the private sector, as I can find no figures to give an estimate of what that will be. So, at this stage, we are receiving general messages of anxiety about that slowing down of expenditure and we have pulled capital forward for exactly that reason, to ensure that one of the hardest hit sections of the private sector has had money coming in this year.

[31] No specific concern has been expressed, but then, we have been very public about the scale of the reductions to come over the next few years. What should be of major concern to Government, in Wales and in the UK, are the unintended consequences of cutting public expenditure.

[32] **Jonathan Morgan:** Before I bring Sandy Mewies in, one area that we are keen to explore is what that means for the Welsh Assembly Government as an organisation. Of course, there have been management changes, which you have outlined to us in previous evidence sessions. I am therefore quite keen to understand what work has been done to make the Assembly Government as an organisation more efficient instead of just thinking, 'Well, a 3 per cent and a 10 per cent reduction in revenue and capital means that the public sector overall has to respond', because, clearly, you have to take a lead.

[33] **Dame Gillian Morgan:** I could spend the rest of the meeting just telling you about the things that we have done. We started our assessment of what we needed to do internally a significant time before Whitehall did. The first thing that we did was to change our structure, because a big criticism of any organisation, particularly during a downturn, is that, unless you have senior managers who can join up the organisation, you tend to get a game—and I think that the WLGA alluded to that point, calling it 'game playing'. Our tier of directors general is charged with managing the cross-cutting bit of the organisation and with thinking not just about the spend in their area, but how, across the organisation, we get the best outcomes, so that we do not end up with the unintended consequence of everybody cutting something that

they think is at the margins but which, on examination, concerns a section of society that has been badly hit.

[34] To put the record straight, through those changes, we delivered savings of £505,000 by moving to a directorate-general structure. To allow me to have the more senior people in the cross-cutting posts, I took out eight director posts. Our audited figures show that that single change released £505,000, so that is a start.

[35] We see handling the recession as a three-stage process. The first thing to do is to make some quick wins, which means making some tactical changes to put money in the pot. The second thing you have to do is to look at operational efficiency, and the third thing is to begin to think about strategic transformation, because the answer to this is to do things fundamentally differently from how we have done them before. You need to win the time, however, to make that change. It takes a long time, because you are asking people to change the habits of a lifetime.

[36] The tactical things that we did included vacancy freezes, stopping new appointments, stopping overtime, and reducing the amount of travel. There was a whole set of issues like those, and we know that, through those changes, we have released about £5 million already between the beginning of January and the end of June. That is a pretty strong set of initiatives as the first thing.

9.10 a.m.

[37] In the more operational efficiency group, we have worked with our staff on a programme called Managing with Less, and I think that that is really important. Some staff have spent time here with ever-increasing sums of money, so if you had a problem, we had enough money to appoint more staff to throw people at it. That is not the world going forward; we have to think about how we use our resource. Managing with Less has been quite an innovative programme to which more than three quarters of our staff have contributed through workshops and various sessions by telling us where they think that we could make savings. That is terribly important, because the further away from the front line you are, the less you know about where the waste is. You know where the waste is when you see it day after day. Staff have come up with more than 800 different ideas for how we can save money in the organisation. Some of the savings are very small, but they are important nevertheless, because it is about the culture of thinking about saving money. Some are saving really quite large sums of money for very little change.

[38] For example, I was asked a question in one of those sessions about higher specification toner for photocopiers, which sounds very dull. The answer was that we had moved to a higher specification toner, but it went far further than it seemed, as you could use the photocopier many more times with the same amount of toner. However, to get the benefit, we had to reset every photocopier in the building, and we had not done that. We found that not only could we get the gain by resetting the photocopiers, but that we could also buy cheaper. That one question has saved us £250,000 per year, which is a sizeable chunk of money.

[39] That programme has identified 10 areas for work, which are being implemented throughout the organisation. They include things such as changes in travel and subsistence allowances and changes to how much video-conferencing we provide, because as a very dispersed organisation, we have to hold meetings, but we have the technology to do it. Ten themes of work have emerged from that programme.

[40] In parallel to that, we have invested in our own capacity and have developed our own internal management consultancy service, which is doing things such as lean processing and

system re-engineering. We have had 22 projects on lean, some of which have delivered substantial financial savings of hundreds of thousands of pounds, and we have reduced our dependence on staff, which is very important at the end of the day.

[41] We are now moving on to a much more strategic thing, which involves thinking about what sort of organisation we need to be in the future, what set of skills we need to deliver things, what are the things that only we can do, and what things should other people in the outside world do. Therefore, there is a programme looking at our staff and their preferences, such as people who may want to work part time, who may want to retire in a couple of years' time, or may want to go now, on voluntary terms. We are going through a process of trying to match what our staff want with the jobs that we are likely to have in the future. All through that, our primary commitment is to the people in full-time contracts with us, in substantive appointments.

[42] You will have seen on the front of today's *Western Mail* that we have built up the number of casual posts that we have over time to allow us, as we are trying to produce change and take our numbers through, to reduce the number of posts in a planned way. You will have seen that some casual and short-term appointments are not being renewed. That will allow us to place our substantive staff into those posts as time goes on, thereby allowing us to shed jobs without shedding as many people as some of the headline figures suggest. We feel that that is the moral and appropriate way to behave as an employer.

[43] The other strategic aspect is looking at different ways of doing things. I have already talked to you about joint appointments and shared posts between departments. The regeneration department now provides support to the housing department through a single integrated unit, which works for the Deputy Minister for Housing and Regeneration and the Deputy First Minister and Minister for the Economy and Transport, so it crosses all our internal boundaries. You will see far more of that: instead of setting up in the traditional way with a unit that sits here and does only what is in that unit, things will be far more cross cutting.

[44] There will be far more effort going on trying to look at the unifying themes such as child poverty, because we have a focus on child poverty across the organisation. Our task is to try to pull it together to see whether we can reduce some of the transaction costs by not having as many people working on each of those themes, and by co-ordinating the thinking about it. However, that is the long-term strategic transformational work.

[45] **Sandy Mewies:** If you do not mind, I will raise a couple of short points about what you have just said. Talking about the strategy that you are using to save money of putting short-term contract jobs in place, I presume that those people were aware when they took those posts that they would be short term?

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

[47] **Sandy Mewies:** That is No. 1. Secondly for me was the question that Jeff asked, namely whether any anxieties had been raised with you from the private sector about the effect that public sector cuts might have on contracts and so on. You said that there had not been. If anxieties had been raised with you, would you have been able to give a comprehensive answer? Is the private sector not asking because it does not expect you to have the answer, or what?

[48] **Dame Gillian Morgan:** It is not an answer that can be given at this stage. The time to give that answer is after the comprehensive spending review, because it is dependent on the decisions that Ministers take. So, for example, Ministers could make a decision, if they wished, to take revenue to put into capital to protect the construction service. We could

always move money that way, but it will depend on an assessment of all the priorities and governmental business between now and the CSR period.

[49] **Sandy Mewies:** You talked about releasing £5 million within the strategy, which was good news. When you say 'releasing' money, do you mean reallocating it somewhere else, or saving it?

[50] **Dame Gillian Morgan:** Our expenditure is coming down in real terms this year by £6 million, which is what we have reduced. However, we are actually reducing money even further. This gets very complicated, because we need a pot of money that we create. If people wish to leave the organisation on voluntary terms, or on retirement terms, it costs us money to move people out of the organisation. At the moment, we would not pay more than two years' salary under the current compensation scheme. You will have seen this week messages about people being paid as much as six years' pay. We would never invest that money. That would not pay for itself in a business case, but we need a sum of money that we can use to move people out of the organisation if they so wish. So, every bit of saving that we are making is being reallocated, but it is being reallocated to allow us to be flexible about managing people. That is where we need the sum of money over time. It is the most limiting factor in producing the changes: you have to have a sum of money to allow you to be flexible.

[51] **Sandy Mewies:** It is a point well worth making, namely that when people talk about redundancies, there is a built-in cost.

[52] **Dame Gillian Morgan:** It is very expensive.

[53] **Sandy Mewies:** My final point is that you talked about the commitment made by the Prime Minister of the coalition Government to allow some sort of intervention in and discussion on what happens next. Would you be able to keep us, as a committee, informed of what progress, if any, is being made on that? I certainly want to know if things will operate differently.

[54] **Dame Gillian Morgan:** Yes. It is very difficult. I have had preliminary conversations with the Treasury about how we design a mechanism, because it is not really about money but policy, and that is quite difficult. The Minister has a quadrilateral meeting with the other Ministers for finance next week, and this will be a part of the discussions between the four countries, to see how we can get involved, and how we lodge with the Treasury the issues that people may feel are marginal in their portfolios but are absolutely fundamental to Wales. So, that discussion is current, as of this minute, but we can keep you informed.

[55] **Janet Ryder:** I take you back to some of the original questions that the Chair raised. In response to the Chair, you talked about planning based on the worst-case scenario and possibly not being able to give definite plans at the moment, as they are still in the planning stage. However, you said that capital was on a slightly more certain footing. I presume then that you have already revisited plans and assumptions in the light of any expected reduction in capital funding over the coming years. Can you tell us which major Welsh Government capital projects are now in doubt?

[56] **Dame Gillian Morgan:** It has been revisited, and that will be a ministerial set of decisions. They will be making that announcement later in the year, so I cannot give you any more information than that.

9.20 a.m.

[57] **Janet Ryder:** Do we know how much later in the year?

[58] **Dame Gillian Morgan:** It will tie in with the comprehensive spending review. It will be laid in the budget. Those discussions are current.

[59] **Janet Ryder:** So, discussions on things like revenue are still ongoing?

[60] **Dame Gillian Morgan:** Yes, absolutely.

[61] **Janet Ryder:** In some of your answers, you have mentioned changing systems, which needs capital investment. Some organisations do not have the capital that they need to change the systems and the service models in order to save that money elsewhere in the system. Is that likely to be a problem for the Welsh Government or for its sponsored bodies in future?

[62] **Dame Gillian Morgan:** I will take the Welsh Government first. Given that we have been working on a set of assumptions for some time, by reducing what we do, we have created the capacity to invest in some of the technology that we need to do things better. I have talked about some of the technology that we are putting in that will make us better, more effective and leaner with regard to the numbers of people we use. I am sure that we will talk about one of those components later this morning. Therefore, as far as we are concerned, we have already created the headroom, by stopping doing things. Everyone has the capacity to do that.

[63] With regard to the wider public sector, we have created an invest-to-save fund, which allows organisations to bid and say, 'This is the change that we want to make and that is the investment that we need to help us to do that'. That investment can largely be capital and things like that, and the business case is assessed against that. Many of these things produce savings, and if they are going to produce savings, you could therefore argue that managers should be doing that anyway, and we would want to use this fund repeatedly, so that you help people to make the change and they then pay the loan back when they get the recovery from the savings that they have made. That scheme has been in place for just over a year. It was very slow to take off, but it is now beginning to do so. The Minister is currently reviewing that scheme and the success that we should have, so that we can create some capacity for people, against proven business plans, to get a short-term investment to allow them to produce the longer term change.

[64] The one thing that we have that can help outside organisations is people. We have a programme of secondments, so we send people from the Welsh Assembly Government who have particular sets of skills to local authorities. Local authorities put in bids based on what they need to produce change, a panel involving the Welsh Local Government Association assesses the bids, and if it is a genuine change programme that needs a set of skills or for people to be seconded from the Assembly Government, we then look to match those skills and send people to help organisations to make the change. What is needed are people with the skills and time to undertake the change, rather than capital. It is people's time that is so precious, when people feel that they are running on a treadmill. So, what you need is that extra person who helps you to step off the treadmill, rather than having everyone running as fast as they can. So, we are trying to facilitate that, through money in the invest-to-save fund, and also through people with the secondment fund.

[65] **Janet Ryder:** With regard to the invest-to-save fund, we have heard a lot about it having to force collaboration and the sharing of services and delivery. How much will the approval of bids be tied in to the necessity to share services and implement joint service delivery?

[66] **Dame Gillian Morgan:** It is a key component in the assessment criteria. One of the assessment criteria is about sharing. So, for example, a recent bid was received from the NHS

for something that it wants to implement. Bids have been put in for joint facilities between police and other emergency services in relation to control rooms. So, it is a key criterion, because if we are only investing in individual organisations, which is important, we will not drive this greater goal, which is that, at the end of the day, we should have as few transactional systems as we can to maintain the services, so that the money that we spend does not go into transactional activity, but into activity that has a direct influence on and benefit for the lives of citizens.

[67] **Janet Ryder:** How satisfied are you that Assembly Government sponsored bodies have made the assessment, as the Welsh Government seems to have done, of the need to change and created that pool of money to enable them to change?

[68] **Dame Gillian Morgan:** It is fair to say that they are in different positions. You will have seen the announcement recently from the Arts Council of Wales, which was its attempt to say what its priorities are and to create the opportunity to do things. I have had meetings recently with the chief executives. We run a finance network, so they are pretty clear as to what the funding requirements are on them. There is a meeting of chairmen within the next few weeks—I think that it is next week, actually—to talk about exactly these issues.

[69] **Mr Galton:** There is also a human resources network.

[70] **Dame Gillian Morgan:** Yes, there is a human resources network. One of the things that we are trying to talk about—and perhaps you would like to discuss it—is our cross-public sector work so that the goal in these changes does not mean that we end up paying redundancy from one organisation only to re-employ someone in another public organisation, which would be a real shame. I will let Bernard pick that up.

[71] I think that they are in different positions in their planning, but they are crystal clear about the scale of the change. They are all doing their planning as we speak.

[72] **Mr Galton:** There are some 300,000 public sector workers in Wales. Every organisation is going through very similar problems in terms of looking at budgets going forward. That 300,000 will include some 30,000 civil servants who are not part of the Welsh Assembly Government, but are part of the Department for Work and Pensions, Her Majesty's Revenue and Customs and other organisations. Part of my role, people and places, which not only involves the human resources elements but very much the whole estate, is also to look, at Wales and Whitehall, to see how we can work together to try to minimise the need for redundancy and to maximise opportunities for moving people around. It is actually very complex. We know from the experience that we had with the mergers of what were then the Assembly sponsored public bodies—the Welsh Development Agency, Education and Learning Wales and others—that one of the big barriers is pensions. If you move around in local government, you can move between one local government scheme and another. Moving from local government to central Government is more difficult, and if you are then looking at some of the other factors in the public sector, to get people to move voluntarily—obviously pension and accrued rights are very important—there may well need to be some primary legislation to change that. We have identified what might need to be done and written to London stating some of the changes that might need to be done, particularly in relation to modification orders, which is about entry into pension schemes.

[73] Notwithstanding the difficulties, we need to gather the data, as we are currently doing, noting where people work, where there are likely to be surpluses, and whether we can work on a location basis to see whether there are vacancies elsewhere into which we could move people. Even if we achieve only a small number, that small number could save quite considerable amounts of money. As part of the efficiency and innovation programme chaired by the Minister for Business and Budget, we have a work stream, which is all about

workforce development, looking at how we can work together, collaboration, sharing data, and sharing information. This is part of looking at whether secondments might help.

[74] I think that we are well advanced—certainly more advanced than the thinking in Whitehall—but it is very complex. We work closely with the Wales TUC and the public sector unions, and we have a social partnership approach, which also involves CBI Wales, to look at whether there are jobs in particular areas. For example, I know that Tesco is trying to recruit in Cardiff. We are looking at a number of different areas where we might be able to work together so that, we can at least signpost people to jobs if we cannot move them around within the public sector.

[75] Therefore, there is a lot of activity in that area. We work closely with all of the human resources leads across the public sector and, increasingly, the private sector.

[76] **Dame Gillian Morgan:** It is important that Bernard's role includes people and places. In Wales, with the dispersed population and dispersed offices, thinking about our location strategy and the numbers of offices is really important. There are vast amounts of public sector buildings and estate. We run a database on which the whole public sector is encouraged to enter all of its records so that if, for example, we think that we are unable to maintain a certain scale of business in a particular area as the changes happen and we know that there are other accommodation options, we could perhaps move there or people could move to us. People and places link together in a much more dynamic way than people appreciate. They have usually kept the two separate, but for us they are just the same thing because we have to manage people into the right jobs, but also in the right places, and that makes it three-dimensional or four-dimensional chess.

9.30 a.m.

[77] **Peter Black:** Before I go on to the efficiency and innovation board, I have a question on capital. You referred earlier to the fact that you have brought forward a lot of capital expenditure to deal with the recession and its impact. Clearly, that means that there will be less capital to spend in future years. Is that included in the 10 per cent reduction in capital, or is that in addition to it?

[78] **Dame Gillian Morgan:** It is included within it.

[79] **Peter Black:** Is it expected that the capital reduction from Westminster will allow you to contain that within that 10 per cent?

[80] **Dame Gillian Morgan:** Yes. We pulled stuff forward into this year, and the 10 per cent is the starting base for each of the subsequent years.

[81] **Peter Black:** What is your assessment of the progress made to date by the efficiency and innovation board in terms of providing a national framework for shaping and informing your response to the financial challenges?

[82] **Dame Gillian Morgan:** We had our second public services seminar last Friday and each of the project leads presented the work that they are doing and the scope of activity they are involved in. I was very impressed with the range of thinking. They are working on a model similar to the one we have talked about with tactical change, namely what are the quick wins, what are the operational efficiencies we can drive, and what are the longer-term things we need to do to think about how we deliver services. So, some of the work themes are about infrastructure around ICT and things like that, and, despite the Welsh Local Government Association's slightly fatuous comment, there is a very good reason for asking someone who is not an ICT expert to chair an ICT group. Digital radio was being discussed this morning

and the catastrophe that was occurring because it was being led by ICT experts—techie. They were interested in the dubs and dabs, unlike the business experts who got interested in the questions around why IT was wanted. It was a deliberate decision to have a public sector business person rather than an IT techie. I do not mean to be rude to IT techies, but I think they would accept that if they were honest.

[83] Therefore, each of the groups is doing some work, but the most exciting work is being done in the transformational group. That is where people are talking about delivering services in totally new ways; things like the Gwent Frailty Programme and work around complex families. That is some of the most exciting stuff that I have heard in my time in the public sector, which really gets to grips with and deals with these artificial boundaries for citizens and the way in which we organise our services. The transformational work is the first-rate stuff and it is being done on a whole-Wales basis, which is phenomenal. We are in a very good position in terms of the work that is going on, and we obviously mirror that within our organisation to make sure that each of those streams has a stream that feeds into them as well. We provide a leadership role on some of those, such as procurement for example and xchangewales. When I go to London, I feel quite comfortable about our state of development when I compare our situation with what is going on elsewhere.

[84] **Peter Black:** I am very impressed with the Gwent Frailty Programme for example, but when you get a good example of joint working that is not only delivering efficiencies, but improving the quality of people's lives, how do you spread that out across Wales and ensure that it is not just an isolated example?

[85] **Dame Gillian Morgan:** That is the \$1 million public sector question. I have been trying to answer that question for 20 years. One of the problems we have with many of these innovative projects is that they are very strongly led by individuals. It is the passion of the individual that drives through all the barriers. You cannot transfer the passion of the individual, so we have to look at the service and find the repeatable, immutable bits that we can move because they are not dependent on the passion of the individual; they are dependent on systems and processes. That is the type of work that people are deconstructing.

[86] On partnerships, for example, we know that there are about four or five things that successful partnerships always do. Those are the messages that we can roll out, rather than saying, 'This is exactly how it is done in Gwent', because what is done in Gwent is characteristic of the people who are there, the services and the citizens. So, if we can get to the underlying meta-principles that have resulted in success, we can concentrate on rolling them out. Looking at the Gwent frailty project, a number of similar projects are now emerging, all of which have a slightly different characteristic, but you could say that those underpinning principles are built into them. For example, one big underpinning principle of these sorts of things is making sure that the people who are leading them want to carry out that role. So often, public sector organisations give that role to people because they are in the hierarchy, rather than because they have a passion and a 'burn' to do these things. That is how we are trying to use the innovation board to spread that work about.

[87] What has been important about the board is that each of the themes is led by practitioners. So, the transformational theme is led by Andrew Goodall from an NHS body and it receives input from various people. It is not the case—and this is really important—that the Welsh Assembly Government leads each of these streams; we support them, but it is a question of practitioners talking about how we get the best for our citizens and delivering efficiencies while we are doing that, without losing sight of the fact that, unless we transform wonderfully, and if all we do is go back into our silos, we will end up with things that look like cuts rather than things that look like transformation.

[88] **Peter Black:** Leadership is really important.

[89] **Dame Gillian Morgan:** Absolutely.

[90] **Peter Black:** On schools, for example, we have seen that, where there is good leadership, there are good schools. What is also important is the engagement of the various Assembly-sponsored bodies and local government in particular. How engaged are those bodies in this process at a strategic and a local level?

[91] **Dame Gillian Morgan:** The AGSBs have a place on the overall steering group. That is a first; it is the first time that we have involved them there. Nick Capaldi from the Arts Council of Wales represents all the arm's-length organisations. So, they are tied in at the strategic level, and each individual theme, where appropriate, is tied in. It is a very diverse group: the organisations range from those that consist of three people to those that have many hundreds of people. Some of the issues that they cover are relevant to local change, and some are not. You have to take things on a theme-by-theme and project-by-project basis. Otherwise, you will end up with a requirement to involve all these people, and the worst thing that we could do to partnerships would be to say, 'You must have one of these and one of those' and so on, and they then sit around in a room and wonder why they are there. So, the dynamism has to come from the front line.

[92] What is pleasing to me in all this is that the people who are most excited and feel that they have the mechanisms to do this all say that the local service boards are a really important part of this set of relationships at a local level and that they allow them to go further than they would have been able to go a few years ago. I find that very pleasing.

[93] **Peter Black:** Local government is included in this.

[94] **Dame Gillian Morgan:** Yes, absolutely. Of the individual themes, seven are led by chief executives of local government or the Welsh Local Government Association.

[95] **Jonathan Morgan:** Bethan Jenkins has the next question.

[96] **Bethan Jenkins:** You have talked a lot about the savings that you will be making, but 'A Picture of Public Services' questioned the reliability of many of those efficiency savings. The WLGA told us that, if it had to make the cuts that it foresees under the current system, all the lights would go off in local authority areas. I know that it is quite extreme to say that, but it was saying that, if certain budgets were protected, local government would have to foot the bill to a substantial extent. Would central Government be willing or will it have to bear the brunt of the cuts as a result of the fact that grass-roots services will have to be protected? How will you go about doing that, if that is the analysis that is formed at the end of the day?

[97] **Dame Gillian Morgan:** These are political decisions about the choices that Ministers want to make and the priorities that they want to give to the expenditure of the money. Therefore, it is very hard to answer on the detail of that.

9.40 a.m.

[98] By the time they lay the budget, Ministers are going to have to have made a decision about which services, if any, they choose to protect and what the degree of protection will be. Taking a United Kingdom example, everyone talks about the NHS being protected, but if you look at what is happening in Whitehall, they are talking about protecting 75 per cent of the NHS budget, rather than 100 per cent, because not all of it is spent on front-line services. So, Ministers have to decide what their priorities for investment and protection are, and they then have to decide how to allocate the money.

[99] There are two ways in which you can allocate money: you can do it by providing open sums of money, for example, through the revenue support grant, allowing people to make their own decisions about using that money, or you can hypothecate the money, saying, ‘This bit of your service must be protected’. There is a real choice in that because the more you hypothecate and protect individual services, the more pressure you put on those routine services that do not have a label of protection on them. Those are the choices that Ministers will be thinking about between now and the time that they publish the budget.

[100] **Bethan Jenkins:** I have a small question to finish. Earlier, you touched on the WLGA’s comments about certain departments and officials playing games. It referred not only to officials in local government doing that; it referred to Welsh Government officials doing that to protect their own budgets. Are you doing enough at this stage, given the severity of the situation, to ensure that officials are being led by the Ministers in this regard, in terms of knowing where cuts and efficiency savings need to be made—possibly in areas that have never been considered before because officials have been protecting their budgets?

[101] **Dame Gillian Morgan:** There are two components to the answer. The bits that I can have more influence over are what we do with efficiency savings, departmental running costs and such issues. I am pretty certain that, if you asked the senior management of the organisation, they would be pretty clear that hanging on to your budget when someone else is suffering would not be acceptable behaviour and that you would be likely to get a very poor performance review if you behaved in that way. New times call for new action, and the new action that we are calling for is the sharing of things, allowing junior staff to take action when they see waste and for that to be shared between bits of the organisation in new and innovative ways. That is the expectation that we have and that is what we will be performance managing.

[102] With regard to the view of the outside world and how officials contribute to that—because, of course, these decisions are made by Ministers—it will depend on how Ministers decide to share any reductions. Obviously, you can protect some services, you can hit some services harder, and you can have some services from which you simply take away a certain sum of money. Therefore, in the outside world, officials will respond to the views of Ministers on what the priorities are—which things we have to do and which things we could safely give up. That discussion is ongoing as we speak.

[103] **Sandy Mewies:** The WLGA also said that it had felt that, in the past, the Welsh Government has been reluctant to make job cuts when, for example, organisations were merged. The NHS was one specific example given. That was refuted and we were told that those people are doing other work. The WLGA was concerned that, if this approach continues, Welsh Government jobs would be protected at the expense of front-line staff in local government. Do you have a view on that? Are we likely to see a reduction in the overall number of staff employed by the Welsh Government?

[104] **Dame Gillian Morgan:** We must be very careful. There is a sense of machismo around at the moment. People talk about people’s jobs and livelihoods as if the number of job losses is something to be trumped—‘I will have 3,000 redundancies; you will have 10,000 redundancies’. That is not the way to talk about this process. There are people at the end of this. Without doubt, the number of jobs in the public sector and in the Welsh Assembly Government will go down. That does not necessarily mean that the people who work for the Welsh Assembly Government will be made compulsorily redundant. We needed to separate out reducing jobs from getting rid of people. Taking an organisation such as ours as an example, between 150 and 200 people leave each year for reasons to do with retirement, moving and all sorts of things. That gives us a certain degree of flexibility when you have people in jobs and the jobs are no longer needed, to move those people into jobs that are needed for the future. We have a capacity of 200, and we have over 500 short-term contracts

that we have deliberately built in. If you look at that, you will see that we have a significant capacity to reallocate people within our workforce without making anyone compulsorily redundant. People may wish to go, and we may offer them a voluntary scheme, but the step between a voluntary scheme and compulsory redundancy has to be proven before you go down that route. That does not mean that the numbers do not come down. We have taken the numbers down since April 2009; they came down by 129.8 whole-time equivalents. Therefore, we are taking jobs out all the time, as we speak.

[105] Local government and the Welsh Local Government Association have to be very careful in separating out jobs, which we certainly have to reduce, from people. You may be able to protect people and save on redundancy. We must remember that if you are paying compulsory redundancy, you will, on average, have two years' pay to pay back. We could talk about the current compensation scheme, because there is a little hiatus, but assuming that the scheme is as it has run in the past, you could be paying up to two years' salary to take an individual out of the organisation, when there are jobs that might come up next week or next month.

[106] Therefore, within the Welsh Assembly Government, we have worked with a flexible deployment pool. We have this thing called 'the pool'. It gets written up in the *Western Mail* as people on gardening leave. It is not that. We use people whose jobs are made redundant; they move into the pool and they are matched with the jobs that come up. Of the 429 people that we have had through the pool, 400 are now in substantive jobs within the organisation. It is a very effective way of moving people through without paying redundancy costs. We do not want to be paying money for redundancy when we could be paying money to keep people in employment and saving jobs. The number of jobs will reduce, but that is not the same as making people redundant. We have to get away from the macho response of, 'I'm going to make 2,000 people redundant', because that is just not the best way to manage dynamically, given the obligation that we have to ensure that we treat all of our staff fairly.

[107] Therefore, we will have significant job reductions. I cannot give you an idea of the scale of those yet, but we are planning significant job reductions. However, when you look at what we have, you will see that we could take out 700 posts tomorrow, or at the end of the year, without making a single person redundant, because we have turnover and we have casual posts. We want to do this in a way that represents twenty-first century industrial management rather than taking the old-style attitude of 'let's just make people redundant', because that is not the answer.

[108] **Mr Galton:** Our central posting pool has been operating for three years, as the Permanent Secretary said. There are departments now in Whitehall that are looking at the success of that pool. To explain the process, the people do not physically go into a pool; they are nominated for a pool. We are given advance notice that certain posts will be going and we can therefore work with the individuals in those posts to move them into other posts. In the last few years—certainly in my time in post—we have not had anyone on gardening leave, and we do not have anyone on gardening leave at present. Sometimes, people may have to stay in or go into temporary posts or project work while we match them, but we have been very successful in doing that. Our plan is to expand that and, in effect, to work as an internal workforce agency, if you like, so that we look at how we can augment projects in the short term and at how we can help external people in the third sector, perhaps, if we know that someone will retire in six months' time. There are a number of different things that we can do in addition to matching people with jobs so that we are building on that success. Our flexibility of around 500 includes a number of secondees from other organisations. That is our flexible resource that we can look to make smaller at a time that helps us with our workforce planning.

9.50 a.m.

[109] **Sandy Mewies:** I think that the pool system is used very successfully in some of the big Whitehall departments, and has been for some time. I was very pleased to hear your comments about binning people just because they happen to be bureaucrats. People forget that these are people with mortgages, and that there are costs when they go out of work. One of the things that I wondered about is whether there are opportunities to reduce the pay bill and retain skills by reducing working hours, for example, because you have already talked about the cost of redundancy. Before I came to the Assembly, I went through several major council reorganisations. You must be careful when this sort of thing happens that you do not lose your skills base; for example, the policy makers who have built up experience. What are you doing to prevent that from happening?

[110] **Dame Gillian Morgan:** Part of this is about workforce planning and about deciding what type of organisation we want to be at the end of this process. That is very much tied up with ministerial decisions about what they want us to do, because we have a mix of policy functions and delivery functions in the organisation. We are quite unusual with regard to the balance of what we have. We are trying to ensure that, as part of this process, we invest in the people we have a commitment to, which I feel strongly about, and we are looking at personal preferences. So, we currently have a questionnaire asking people what they want to do with regard to shorter hours, future retirement, career breaks and a whole set of issues like that, so that we understand what people want to do and can therefore factor that into our equation.

[111] Parallel to that, we are asking people whether there are other things that they could do with training. One thing that we are trying hard not to do is to cut our training budget, because, usually, the first thing to be done is to cut the training budget, which means that you have no way of re-skilling staff and that you have to get rid of staff, because you have a mismatch. So, we are trying to protect our training budget so that we can invest in people who have the basic set of skills to do other work in the organisation and train them, so that we can manage this transitionally.

[112] One of the dangers in this sort of circumstance is that normal management techniques fall out; you are so driven by reducing headcount and things like that you forget that there are two things that every organisation has to do. The first thing is to manage performance, and even at a time of downsizing, you should never use things like redundancy to move out people who are not performing. You need to keep your high standards of performance management and if people are not performing, you should handle it through the normal routes. The second thing that you must do is to manage talent. We now have a talent management system that involves all of the directors general discussing, not just in the senior civil service, but across the organisation, who are the people we cannot afford to lose, who needs to be invested in and who has the capacity to do these jobs. We must also discuss succession planning, because we have a number of jobs that are so mission critical that we need to be growing our own capacity to fill them, given that a number of those jobs are filled by people who are nearer the end of their career than the beginning of their career.

[113] So, putting in place and keeping talent management and performance management, while you are handling what looks like a short-term problem, becomes critical in getting to where we want to be, with the right set of skills and with everyone feeling, even if they have left the organisation, that the whole process has been fair, respectful and all those other similar adjectives that you would want to hear if you were an employee of an organisation.

[114] **Ann Jones:** I have a brief supplementary question. I am encouraged to hear what Dame Gillian Morgan has said about training budgets, but I want to come back to the point that Mr Galton made about primary legislation for pension schemes, particularly with regard to secondees. You were talking about managing within the civil service, and yet we are talking about collaboration with outside organisations. So, how do secondments work and

why do you have to mess with people's pension schemes?

[115] **Mr Galton:** People on secondment will keep their own terms and conditions and their own pension scheme. That is fine if you are looking for a two or three-year appointment, and that may be the only way that we can move people around the public sector, retaining an anchor to where they came from. However, if there is, for example, a site closure, with no opportunity for individuals to go back to a parent organisation, but, within that locality, there is an opportunity to transfer to a different part of the public sector, and to be able to access their pension scheme without being in any way disadvantaged, there may need to be some primary legislation to open up what are called modification orders that allow people to bring their past service into new pension schemes. So it is in different examples where secondments might not work, where we need to transfer people across permanently. It is another barrier to movement because people worry about what will happen to their pension and about whether there will be somewhere for them to return to after they have gone on secondment. So, that is one way that we suggest could help the movement of people around the public sector, but it is by no means the only solution.

[116] **Dame Gillian Morgan:** I think that I have spoken about this here before, but strategically, the two things that we need in Government are, first, something about a Wales public sector, and that is what we are trying to create, and secondly, in parallel to that, we need excellence in civil service skills. So, this is down to both the Wales public sector and the civil service.

[117] **Bethan Jenkins:** You mentioned twenty-first century industrial relations, but we know that for some councils in Wales, for example Neath Port Talbot County Borough Council, the end game might be to make people redundant and then make them reapply for their jobs. How do you see the Welsh Government having a leadership role in trying to move away from those types of policies so that people are not made redundant or given compulsory redundancies and so that councils can learn from each other as opposed to going for these nuclear options, as I see them?

[118] **Dame Gillian Morgan:** Bernard was probably given the most difficult job because he has a number of things among his responsibilities for which I hold him accountable, but on which he has no real levers to pull, other than influence. So, part of Bernard's job description is creating excellence in Welsh employment and public sector management and so on.

[119] **Mr Galton:** We are working fast to try to build up human resources as a profession and as a community that understands good and bad practice. I led an HR conference in the latter part of last year and I spent a lot of my time and my team's time with the HR directors and the HR teams. It would have been great had we started this two or three years ago because when a crisis comes along, certain organisations will react in slightly different ways.

[120] I am talking to the HR community in that area to see if there are ways in which we can help to resolve this, by working with the Wales Trades Union Congress, and we had meetings last week. So, I am trying to use my influence to make some differences, but of course, they are autonomous organisations and they need to do certain things to meet their budget. However, I hope that over time, there will be a growing sense of the HR community working together to help each other through what might be quite difficult times. So, our role is very much about influence, relationship building and sharing best practice and I can see how we can provide such advice.

[121] **Dame Gillian Morgan:** We are doing exactly the same through the finance network that we have developed, which sees the strategic leadership role of the Welsh Assembly Government in the same way across all of the public sector. Even though we have no real mandate to do some of these things, we are nevertheless doing what we can.

[122] **Jeff Cuthbert:** Quite a few of us here could be sent on gardening leave next May—we do not know yet. In all fairness, Chair, much of the collaboration issue has already been addressed, but I agree that it is important to keep the training budget because it gives people hope and confidence in the future of their organisation, and the viability of any department is the most important thing and that has to be borne in mind. It is of course posts that are made redundant and not people.

[123] You have talked quite a bit about shared services. You mentioned earlier the child poverty strategy, for example, and specific items of savings such as photocopying. However, more generally in terms of sharing posts, do you think that there is greater scope for the ability to share senior posts within your organisation and indeed within sponsored bodies?

[124] **Dame Gillian Morgan:** I think that that is the route down which we are going in our organisation. So, we now have a number of directors who report to more than one Minister. I expect to see more of that as we have people with themed experience who will fit into two or three director general areas. So, we are moving towards having shared posts, which is unstoppable in terms of the type of transformation that we have to make to deliver the best for citizens.

10.00 a.m.

[125] On the sponsored bodies, we are having conversations with them now about whether they all need finance departments and why they all have separate audit contracts. Most of them are buying in internal audit services, so why not do it only once? Those are the conversations that are happening. After a relatively slow start, because people always need to look into the eye of the storm before some things become comfortable, the conversations are now being led by them rather than us saying, 'You must think about sharing things'. There are now e-mail exchanges saying, 'We need to get together. We need to do this. We have a pretty good one of these, and you have a pretty good one of those. Why don't we come together and do the deal?'. We are on a positive trajectory, as far as that is concerned.

[126] **Irene James:** One of the ways that public services can reduce their costs is to reduce fraud and mismanagement. Can you briefly outline what arrangements the Welsh Assembly Government and sponsored bodies have in place to prevent fraud and whether or not they would be strengthened, for example, by increased engagement with the national fraud initiative?

[127] **Dame Gillian Morgan:** The national fraud initiative is important and we have been voluntary contributors to that. However, I could not say with my hand on my heart that most of the areas where we are concerned with fraud are in that category. The big areas where we are concerned with fraud are to do with areas that we will talk about later in the morning, namely the organisations to which we give grants. Over the past year, and I was keen that we did this, we have invested in our internal capacity on fraud and we have appointed someone as our counter-fraud contact to develop links with other public organisations to begin to develop a network of people who are interested in this. It is not something that we do periodically when we do the data matching and so on, which still continues, because that gives us real and useful information that we can deal with at a point in time, but we are embedding into our thinking a much more robust attitude to fraud. I respond rapidly inside the organisation to any suggestion that there might be poor behaviour in our external organisations. At any one time, we would be looking at half a dozen things internally, most of which will turn out to be nothing, but it is important that we respond and that, from the top of the organisation, zero tolerance to some of these things is expected. That is what I expect.

[128] **Ann Jones:** On financial management, the auditor general's recent report on the

management of public funding of Cymad pointed to weaknesses in the ways in which public bodies, including the Government and the sponsored bodies, share information about financial management. The report refers to a new database that will help you to share information in the Welsh Assembly Government, but not necessarily with other public bodies. What are you doing to ensure that you can share that information across all of the public sector?

[129] **Dame Gillian Morgan:** First, we need to get our own house in order, because this scheme is being scoped at the moment. It is an essential component of what we do. We have too many points in our organisation in which people deal with individual organisations. I thought that you might be interested to know how many organisations or individuals we give money to over a year: it is 19,817. So, a large number of transactions are going out. Some are large, but some are tiny. So, we need to move our grant management system into a customer relationship management database where we will know, not just how much has been given by an individual department, but, at the push of a button, which organisations get large sums of money. At the moment, some big organisations get money from 15 different parts of our organisation. They are managed separately and there are large transaction costs. Every single transaction compounds the risk of fraud.

[130] We need to implement the recommendations and get that in place, and that is a complex job, because we will need to move a lot of the transaction services around the organisations, moving them from departments and making a decision about which things you are better keeping close to policy and which things you move. That is the really important bit of it.

[131] In terms of sharing with other organisations, this is not as simple as it sounds, because of data protection and issues like that. I can see no reason why we could not ask recipients of grants to give us permission to share information, but the problem with this is that you need to know who you need to share with. That becomes difficult, because we cannot put a database containing what, for many of these organisations, is commercially confidential data into the public domain. We have to have a way of showing people, or a way for them to check, and considerable thought needs to be given to that. You are talking about dealing with 19,817 organisations in a way that is proportionate. I do not have the answer for that at the moment. I think that it will take us some significant time to work out the best and most effective way of doing it. We only know who is involved when we go in to do an audit because there is a problem. If we can get our house in order, so that there is no way that that can happen here—that is, two bits of the organisation giving a grant to the same third party without knowing—then we will be 50 or 60 per cent of the way to sorting some of the problems. However, that is a big implementation task.

[132] **Nick Ramsay:** I will ask you a few questions on buildings and the capital budget, which you touched on earlier. The auditor general has estimated that there is around a £2 billion backlog in maintenance repairs on Government buildings. First, do you agree with that? Is that the scale of the building repair backlog? Secondly, as we enter financially difficult times, how will it be possible to keep up with maintenance?

[133] **Dame Gillian Morgan:** This is why we have a director of people and places. I will hand over to the places and buildings expert.

[134] **Mr Galton:** We need to be clear what we mean when we talk about Government buildings. There is the administrative estate, with all the offices that we have, and then there is the much bigger estate across the commercial estate, local government and the NHS. If you look right across the public sector, there will always be maintenance issues, and there will always be buildings that, ideally, we would like to be in better condition. I can answer specifically about the Assembly Government administrative estate. What we have done with that, certainly during my time in post, is to have a strategy group look carefully at all the

buildings that we have. Three years ago we had 93 buildings. We are now down to 63 offices, with some specialist buildings like the one on the showground, which are not offices. However, all of our offices are carefully noted on our property management information system, and we look very carefully at lease breaks and compliance with legislation. We ensure that we are compliant with the Disability Discrimination Act 1995, and that the buildings are accessible.

[135] We have done a significant amount of rationalisation. If you look at our offices in Haverfordwest, they were certainly not up to standard, but we were able to refurbish them. We moved the Children and Family Court Advisory and Support Service from non-compliant buildings to twenty-first century accommodation. So, we have a very proactive estates strategy. We published, two months ago, a report on the state of the estate, which was our annual report for 2009, and clearly shows all the maintenance that we have undertaken—including work on sustainability, because we look carefully at how we can improve the energy efficiency of our buildings. Also, we must not forget that we have delivered two brand new buildings in mid and north Wales over the last 12 months, which have been on time and on budget, and have come out with the highest sustainability standards that an office can have. That has enabled us to rationalise a number of other offices in mid and north Wales into the new, state-of-the-art accommodation. Our latest office at Llandudno Junction will become operational over the next two to three months. So, in terms of the wider sum of money that you mentioned, I think that that covers the broader public sector estate. Certainly, within the Welsh Assembly Government, we look every year at the maintenance capital spend, which goes to the board for approval in terms of signing off the work that we need to do. We operate on a maintenance budget of about £5 million each year, ensuring that that money is spent sensibly and well in terms of what the business needs.

10.10 a.m.

[136] **Nick Ramsay:** I have two specific supplementary questions, which I will ask together. First, what potential is there for the Assembly Government to work with other, not necessarily devolved, bodies on sharing buildings? Could economies be made there, or could that be a red herring? Sometimes, when you are trying to work in that sense, there would be hidden costs.

[137] Secondly, local government, in particular, has been looking at agile working quite extensively over the past few years. You have not really touched on it in what you have said today, but is there greater scope for agile working, with employees not necessarily having to be in these buildings, but possibly working from home or at other places?

[138] **Mr Galton:** I think that the answer to both of your questions is positive. There is a lot more that we can do to share accommodation. We have the efficiency and innovation programme, and one of its work streams is all about asset management. The management system that we have for our buildings is called e-PIMS, which is a free database designed by the Office of Government Commerce. We are encouraging the NHS, local government and beyond, in terms of the higher and further education sectors, to share that. Once we have a database that we can manage, we are able to see areas where we can share buildings. We are actively in discussions with a number of different bodies at the moment about where we might share accommodation—that is across Wales. I cannot go into more detail at the moment, because some of it is quite sensitive, as it might mean the closure of a building for one or other of the owners. However, those discussions are actively going on at the moment, and we need to pursue that.

[139] It goes back to what I said at the start. When we can ask people whether they know how many public sector organisations are in their locality, we can show them a map of the buildings and how they are being utilised, and that will make people think about how they

make their decisions, informed by a lot more information than was available in the past. So, there is a lot more that we need to do on that.

[140] On agile working, part of the Welsh Assembly Government questionnaire that the Permanent Secretary mentioned deals with home working, and that has to be a management decision. Many individuals might say, 'Yes, I'd love to work from home', but that would have to meet business needs and fit in. We have one ICT platform now; it was delivered at the end of last year, and it gives us much better scope to set people up as home workers with laptops and the sort of broadband links that they need in most of Wales. This is what we are going to be looking at across Wales.

[141] Let me give you an example. We are looking at setting up hot-desking facilities in places where we do not have a strong presence. For example, if we can work with Flintshire—in Mold or similar places—we can set up hot-desking facilities for those of our people who travel quite a bit, and they can share things like video conferencing and audio conferencing, which could be of great advantage to all concerned. There is a lot of work going on in that area.

[142] **Dame Gillian Morgan:** The other big saving is to do with the number of desks you provide for the people who work at an office. For some time, our new buildings have been based on not having a desks-to-people ratio of 1:1. They are based on a ratio of 1:8 or 1:7.

[143] **Mr Galton:** It is 8:10.

[144] **Dame Gillian Morgan:** Yes. So, at the office in Merthyr, for example, people do not have their own desks; they have their own little filing cabinet, which they move to the desk that they are going to use for that day. That is right at the edge of agile working.

[145] **Mr Galton:** My senior team and I are going over to exactly that arrangement in August when we move into part of the building.

[146] **Dame Gillian Morgan:** I will, too, when you find me a space.

[147] **Jonathan Morgan:** I thank you both for being with us this morning. We are very grateful to you for your evidence.

10.14 a.m.

Cynnig Trefniadol Procedural Motion

[148] **Jonathan Morgan:** 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).

[149] I see that the committee is in agreement. Please clear the gallery.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.14 a.m.
The public part of the meeting ended at 10.14 a.m.*