



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

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

**Dydd Mawrth, 6 Rhagfyr 2011**  
**Tuesday, 6 December 2011**

### **Cynnwys** **Contents**

Cyflwyniad, Ymddiheuriadau a Dirprwyon  
Introductions, Apologies and Substitutions

Darlun o Wasanaethau Cyhoeddus 2011—Y Prif Heriau sy'n Wynebu Gwasanaethau  
Cyhoeddus Cymru: Tystiolaeth gan Gymdeithas Llywodraeth Leol Cymru  
A Picture of Public Services 2011—The Key Financial Challenges Facing Welsh Public  
Services: Evidence from the Welsh Local Government Association

Sesiwn Friffio gan Archwilydd Cyffredinol Cymru ar Reoli Grantiau  
Briefing from the Auditor General for Wales on Grants Management

Cynnig Gweithdrefnol  
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'r pwyllgor yn bresennol****Committee members in attendance**

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Andrew R.T. Davies	Ceidwadwyr Cymreig (yn dirprwyo ar ran Darren Millar) Welsh Conservatives (substituting for Darren Millar)
Mike Hedges	Llafur Labour
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Leanne Wood	Plaid Cymru The Party of Wales

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

Mark Jeffs	Swyddfa Archwilio Cymru Wales Audit Office
Dr Chris Llewelyn	Cyfarwyddwr Dysgu Gydol Oes, Hamdden a Gwybodaeth, Cymdeithas Llywodraeth Leol Cymru Director of Lifelong Learning, Leisure and Information, Welsh Local Government Association
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Mike Usher	Cyfarwyddwr Grŵp—Archwilio Ariannol, Swyddfa Archwilio Cymru Group Director—Financial Audit, Wales Audit Office
Vanessa Young	Cyfarwyddwr Adnoddau, Cymdeithas Llywodraeth Leol Cymru Director of Resources, Welsh Local Government Association

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

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

*Dechreuodd y cyfarfod am 9.15 a.m.  
The meeting began at 9.15 a.m.*

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

[1] **Andrew R.T. Davies:** I declare the meeting open. The only apology is from Darren Millar. The committee will be pleased to hear that he is making good progress. It is hoped he

will be back with us at the start of the new year.

[2] **Mike Hedges:** Not this afternoon then?

[3] **Andrew R.T. Davies:** No, not this afternoon. With Aled's support, you have kindly allowed that we do not bring him down from north Wales. [*Laughter.*]

**Darlun o Wasanaethau Cyhoeddus 2011—Y Prif Heriau sy'n Wynebu  
Gwasanaethau Cyhoeddus Cymru: Tystiolaeth gan Gymdeithas Llywodraeth  
Leol Cymru  
A Picture of Public Services 2011—The Key Financial Challenges Facing  
Welsh Public Services: Evidence from the Welsh Local Government  
Association**

[4] **Andrew R.T. Davies:** We have representatives from the Welsh Local Government Association. I ask you both to introduce yourselves for the record. Please state the position you hold within the WLGA.

[5] **Ms Young:** I am Vanessa Phillips. Actually, for the record, as of yesterday, my name changed to Vanessa Young. I am the director of resources for the WLGA.

[6] **Dr Llewelyn:** I am Chris Llewelyn. I am the director of lifelong learning and the deputy chief executive of the WLGA.

[7] **Andrew R.T. Davies:** Thank you both for attending this morning. We would like to move straight to questions without further ado. I will start. Since you were before us last, the position of local government in financial terms seems to have improved—certainly on the basis of what you indicated in June 2010. What are the significant challenges in financial and planning terms that need to be overcome, given that you have a better financial settlement than you were perhaps planning for at that stage?

[8] **Ms Young:** Yes, back in June 2010 when we came to the committee, we were working on the assumptions that the Welsh Government had set at that time before the spending review announcement. We were working on an annual capital cut of 10 per cent and a cut of 3 per cent in revenue. In this financial year, authorities received an average reduction of -1.4 per cent. For 2012-13, they are forecasting a 0.24 per cent cash increase. So, yes, that is better than the assumptions we were making some time ago. However, that is not to say that local government is not facing significant challenges. When those planning assumptions were being made, the scale of the challenge was almost insurmountable. There are particularly acute service pressures in social services, in adult and children's services. There are also pressures across a range of local government services, particularly in the current economic climate as we have seen demand for services to vulnerable groups increasing.

[9] Up to now, I have been talking about revenue, but with regard to the capital allocation we have received, we have had significant reductions in capital, which are causing great concern to local authorities with regard to their ability to deliver, first, their transformation plans and, secondly, their ability to maintain existing assets to keep the quality to the level required. There are also significant implications for programmes such as twenty-first century schools. Very broadly, those are the areas of concern.

[10] **Andrew R.T. Davies:** Local authorities have significant reserves of, I think, £1.3 billion, of which £155 million is held in general reserves. How do you see local authorities earmarking those reserves for changing services and feeding into the change agenda?

[11] **Ms Young:** That is right. Those figures are from the report that the Wales Audit Office produced and relate to the previous financial year. However, it is important to stress that all of that, apart from the £155 million of general reserves, is earmarked or restricted for other purposes. So, we are talking about local authorities having discretion over the figure of £155 million. That figure represents less than 2 per cent of the total gross revenue expenditure of authorities, and it is there in order to ensure that councils have the funds necessary to meet any internal or external risks that they may face over the next planning period. The extent to which they are available to plug budget gaps or to support significant capital programmes is limited, because they need to ensure that there are enough reserves to deal with uncertainties such as winter weather, severe weather, and those sorts of issues. Although the accountancy body would not identify a definitive percentage of gross revenue expenditure that should be held, and neither would the auditors, there is a sort of custom and practice that a figure of up to 3 per cent might be deemed reasonable if you talked to treasurers within local government.

[12] **Andrew R.T. Davies:** So, 3 per cent is held for reserves.

[13] **Ms Young:** It is reasonable to assume that 3 per cent of gross revenue expenditure is what you would need to meet your internal and external risks. I should also point out that, over recent years, there has not been any criticism of authorities from auditors in terms of holding excessive balances or insufficient balances. That suggests that the figure that they have in the general reserves is about right.

[14] **Andrew R.T. Davies:** The Welsh Government has made available some £32 million to assist with council tax increases from March. A lot of authorities have chosen not to use that for holding back council tax levels. What has that money gone into?

[15] **Ms Young:** It is an interesting point; £32 million was included within the overall revenue settlement, but that just resulted in a lower cut to the overall grant than was expected. Councils have used that £32 million to protect front-line services, but at the same time have felt the need to increase council tax to help bridge the funding gap. It is important to recognise the amount of income that council tax generates for local government: a 1 per cent increase in council tax is equivalent to just £11 million or £12 million across the whole of Wales. Although it is an important source of income for authorities in bridging the budget gap, compared with the overall amount of money that funds local government—£7.6 billion—you can see that it is quite small.

[16] **Andrew R.T. Davies:** However, it is important symbolically, is it not? For a lot of council tax payers, that is the real increase that they see hitting their doormat, is it not?

[17] **Ms Young:** It is, and in this financial year we have seen the lowest increase in council tax since devolution, and perhaps even before that. Local authorities recognise the pressure on households, particularly at the moment, and have striven to keep council tax increases as low as possible. The other point to make is that, if you compare our situation in Wales with that of England in terms of the average that a band E council tax payer pays, it is still significantly less—about £300 per year less.

[18] **Gwyn R. Price:** The auditor general's report says that councils are protecting areas such as social services and education, and the biggest cuts are coming in leisure. Steve Thomas told this committee in 2010 that there is a slash-and-burn approach, and he was slightly worried about that. What evidence have you found of this slash-and-burn approach? Is it affecting councils, and how do they prioritise cuts now?

[19] **Ms Young:** I will say a few words about that, and Chris may want to come in on leisure services, and the arts and culture. What Steve was saying at that time was that there was a concern that, if we did not take a strategic approach to the cuts that we knew were

coming, that could be the end result—there would be a slashing of those discretionary services. It is inevitable that we have seen some reductions to those services, particularly when you see the priority that has been placed on education and social services, and the protection that has been afforded to education, especially over the current period. For example, in 2012-13, while the average increase to revenue funding is 0.24 per cent, the protection for education is 1.58 per cent. When you think about the proportion of the overall council budget that is spent on education, you can see the disproportionate impact that that protection has on discretionary services, such as the leisure, arts and culture services that you referred to.

[20] **Gwyn R. Price:** So, have you seen a reduction in leisure services?

[21] **Ms Young:** Yes, and there is a certain inevitability about that, because of what I have said and also because of the difference between statutory and discretionary services.

[22] **Dr Llewelyn:** That is the key point. Traditionally, authorities have tried to protect statutory services as much as possible. Culture, leisure and the arts, unfortunately, have been one of the first areas where authorities have looked to make savings. That said, as those sectors have traditionally felt vulnerable, a level of readiness has been created, so more thought has been put into how to protect those sectors. There is a range of collaborative projects in place and being developed in the south Wales Valleys. ArtsConnect has been looking at how facilities management and other aspects of provision can be done in a more collaborative way. There are other examples of authorities putting their leisure facilities into trusts, and merging trusts. It is inevitable that the non-statutory sectors bear the brunt, but, at the same time, there is some good work taking place. The Simpson review refers to some of the good work that is taking place in the leisure and culture sector. We are engaged in discussions with the Welsh Government to try to explore how further collaborative developments can sustain those services.

[23] **Gwyn R. Price:** People in the leisure sector tell me that they think that they are the weakest link and that it is ‘goodbye’ for them. So, I am worried about some of the impacts on that from councils.

[24] **Andrew R.T. Davies:** I have two supplementary questions. We will take Mike’s question first, and then Aled’s question.

[25] **Mike Hedges:** We are talking about defending education but, as you know, over the last 10 years, from 2001 to 2011, the percentage of money spent on education by local authorities fell from something like 43 per cent of the total revenue to something like 38 per cent. So, education has done relatively poorly in terms of its percentage of the local authority revenue expenditure over the last 10 years. Would you accept that local government has had very good settlements over a period of seven or eight years, up until the last two years?

[26] **Dr Llewelyn:** The spend on education probably reflects falling pupil numbers over that period, which has been a significant factor. With regard to the revenue settlements, the Welsh Local Government Association has been on record as accepting the point that you make.

[27] **Ms Young:** In comparison with other parts of the public sector, in relative terms, local government’s settlements have been less favourable than, perhaps, the health service, for example, over the past seven years, although that gap has been reduced over the last few settlements.

[28] **Aled Roberts:** I fynd yn ôl at **Aled Roberts:** Returning to leisure services, wasanaethau hamdden, a fyddech yn cytuno would you agree that the picture is quite

bod y darlun yn eithaf gwahanol ledled Cymru, gan ddibynnu ar faint mae gwahanol gynghorau wedi'i wario ar wasanaethau hamdden a'r celfyddydau yn hanesyddol? Yr wyf yn meddwl yn arbennig am Gyngor Sir Dinbych sydd, yn draddodiadol, wedi gwario symiau eithaf sylweddol ar ei wasanaethau hamdden, felly mae'r gyllideb honno efallai dan fwy o fgythiad na'r un gyllideb mewn cynghorau eraill.

9.30 a.m.

[29] **Dr Llewelyn:** Yn bendant, mae'r patrwm yn amrywio, fel ag y mae'r gwariant. Yn y gorffennol, mae Cymdeithas Llywodraeth Leol Cymru wedi gweithio ar y cyd â Chyngor Celfyddydau Cymru i edrych ar wariant awdurdodau. Mae'r sefyllfa wedi amrywio, ond yr ydym yn sôn am gyllidebau cymharol fach: hynny yw, er bod amrywiaeth, nid yw'r ffigurau'n rhai mawr. Hefyd, byddwn yn tybio bod yr amrywiaeth honno wedi lleihau yn y blynyddoedd diwethaf—yr ydych yn sôn am rai awdurdodau lle, yn draddodiadol, mae gwariant wedi bod yn gymharol uchel.

[30] Mae peth o'r ffactor hwn yn tarddu o ad-drefnu llywodraeth leol—mae elfennau hanesyddol. Byddwn yn tybio bod y sefyllfa yn y blynyddoedd diwethaf efallai wedi newid rhyw ychydig a bod gwariant yn agosach, o gymharu'r awdurdodau, nag y bu rhyw ddegawd yn ôl.

[31] **Mike Hedges:** Returning to capital, the Welsh Government's capital streams have reduced substantially, and it is clear that the local authorities' capital has reduced in exactly the same way. Looking at it, there are only two ways in which local government can raise additional capital: either through prudential borrowing, or from the sale of assets. Do you have any information on how councils will try to meet the shortfall in capital, perhaps by using prudential borrowing supported by the more favourable local government settlement in Wales?

[32] **Ms Young:** The figures for 2011-12 show that local authorities have increased their prudential borrowing—I am just looking for the exact figure. However, if you look forward, beyond that, there is recognition that local authorities have only a limited ability to carry on increasing prudential borrowing, because that ties up revenue income for a long time to come. So, while there has been a step change in the past couple of years, to try to increase prudential borrowing, it is likely that we are seeing or have seen the peak of that in this financial year. There is an expectation, because, as the revenue budgets are squeezed as well, and service demands and expectations continue, the amount of headroom that they have to increase their borrowing reduces.

[33] In terms of capital receipts, in 2010-11, there was an increase in capital receipts over

different across Wales, depending on the amount that different councils have spent on leisure and arts services historically? I am thinking specifically about Denbighshire County Council, which has, traditionally, spent quite significant amounts on its leisure services, so that budget is perhaps under greater threat than the same budget in other councils.

**Dr Llewelyn:** The pattern definitely varies, as does the expenditure. In the past, the Welsh Local Government Association has worked in partnership with the Arts Council of Wales in looking at authorities' expenditure. The situation has varied, but we are talking about relatively small budgets: that is, despite the variation, the figures are not large. Also, I would think that that variation has decreased in recent years—you are talking about some authorities where, traditionally, spending has been relatively high.

Part of this factor stems from local government reorganisation—there are historic elements. I would say that the situation in recent years has perhaps changed a little and that expenditure is comparatively closer between authorities than it was a decade or so ago.

the figures for 2009-10, and that reflects a slight improvement in the market from a couple of years previously and a concerted effort on the part of councils to try to plug the capital gap that they had. However, in 2011-12, the forecast for capital receipts is reduced. I think that you can see from those actions that local authorities are looking at all the different sources of capital available to them, but there are constraints.

[34] We recently gave evidence to the Finance Committee on the pressures on local government budgets, and we talked to the Members about our discussions with the Welsh Government about additional revenue funding to create that headroom in local government budgets to allow them to invest in prudential borrowing to fund some of their capital investment needs. Those discussions are ongoing and positive.

[35] **Mike Hedges:** I wish you luck with them.

[36] **Ms Young:** Thank you.

[37] **Aled Roberts:** A yw'r manylion **Aled Roberts:** Do you have the details on the gennyh am y cynnydd yn y swm sydd wedi increase in how much local government has ei fenthg gan lywodraeth leol rhwng y borrowed between last year and this year? llynedd ac eleni?

[38] **Ms Young:** Yes, I do. I have it scribbled down here somewhere. Unsupported borrowing was set to increase in this financial year by £40 million, in terms of the borrowing cost.

[39] **Aled Roberts:** In overall terms, what percentage is that increase?

[40] **Ms Young:** I think that that is a 19 per cent increase, but I can confirm those figures. I have taken those figures from the StatsWales website, so I will confirm if there is any change.

[41] **Mohammad Asghar:** My question relates to the collaborative pan-public-service response. The Auditor General for Wales's report identifies a gap in terms of collective leadership in making short-term cuts. In November 2010, the Welsh Government told us that it was down to individual public bodies to make choices about short-term cuts and that the question of collective leadership in those decisions was beyond the scope of the efficiency and innovation programme. However, as the auditor general says, such cuts may have consequences and costs for other public bodies. How are councils working with other public services to carry out impact assessments of cuts and to monitor and manage the consequences? Does the WLGA agree that more needs to be done to take a collective approach? Who do you see as being responsible for developing such an approach?

[42] **Ms Young:** There was a lot in that question. I will try to break it down a bit, and maybe Chris would also like to come in. In terms of collective leadership, through the creation of the efficiency and innovation board and, leading on from that, the public services leadership group, there has been a recognition of the need for organisations within the public sector to come together to understand the scale of the challenge and the impact that it will have on citizens and the services provided across the range. There are a number of examples where public sector organisations are working together as a consequence to mitigate those impacts. For example, this happens in some of the projects that involve the NHS and local authorities looking at things such as the team around the child, and also in things such as the frailty project in Gwent between the local authority and the local health board, which looks at the needs of the elderly. So, there are examples of collective leadership in terms of trying to make sure that we mitigate or limit the impact that the current budget has on citizens and core services.

[43] As a result of the work of the public services leadership group and previously the efficiency and innovation board, there are work streams around improving processes, such as lean systems thinking. There is collective leadership on those to the extent that the new organisation development work stream is looking at identifying where those things have had the greatest impact, and pulling that together into some kind of product that will enable all organisations to replicate and use that information to drive savings in their areas.

[44] There are those measures on the one hand, but there also needs to be recognition that individual authorities and their citizens have individual needs and requirements, and they have different historical positions, in terms of the level of expenditure on different service areas. They will need to take local decisions about the changes that need to happen in terms of their services and budgets. So, while you can have a strategic view at a national level about the types of things that you need to do, the decision about the way in which those are applied needs to be taken locally.

[45] **Dr Llewelyn:** There is an interesting debate in that regard, because within the public sector you have competing pressures and a culture and tradition of competing for resources. Authorities have traditionally been put in a position where they have to compete for public resources. Different sectors such as health and education have to compete for a finite level of resource. We discussed earlier the pressure on the non-statutory sectors within local government, such as culture, leisure and the arts. So, to shift from a culture and tradition where we have that kind of competition within a pluralist system to one where we have to look at the collective benefits of the investment and the resources going into the system, is inevitably going to be difficult and identifying the leadership role will be difficult. As Vanessa said, there is an increasing level of collaboration and an understanding of the collective benefits of collaboration. However, at the same time, there is the issue of local accountability. When it comes to the delivery of public services, there is a general acceptance that decisions about how services are delivered, organised, financed and managed need to be taken as near to the point of delivery as possible, and that the individuals using those services need to have a say in how they are provided. There is a tension between decision making and allocating resources at a local level and a more prescriptive, collectivist approach at a strategic or national level. We realise that the best way of using resources effectively is by planning at a strategic and high level, but we also recognise that that comes into conflict with making decisions about how services are deployed at a local level. It is not an easy transition and, inevitably, there will be tensions.

[46] **Ms Young:** In terms of collaboration between the different parts of the public sector, at a local level, there are local service boards in place. They identify priorities for that locality where there is a shared agenda, and they then try to identify an appropriate response to them. At the regional level, we are increasingly seeing the WLGA's regional partnership boards engaging with other parts of the public sector, such as police authorities and the NHS. In north Wales in particular, the regional partnership has been expanded and is now the regional leadership board, with representatives from the health sector and the police on the board as formal partners.

[47] **Dr Llewelyn:** Another good example of that is the south Wales regional learning partnership, where local authorities are working in collaboration with the further education and higher education sectors, the careers company and workplace providers. Traditionally, those sectors have been competing with each other for resources and provision. Yet, in a short space of time, they are moving from a relatively competitive model to a collaborative model. It does take some time, particularly to shift the prevailing culture.

[48] **Jenny Rathbone:** The UK Government has been much criticised for not carrying out equality impact assessments on its cuts programme. It would be useful to know whether all 22



local authorities carry out systematic impact assessments on vulnerable groups such as the frail elderly, disadvantaged children and disabled people. They are not the ones who shout loudest when it comes to going to council meetings and lobbying.

[49] **Ms Young:** Yes, local authorities do, and they take that responsibility seriously. It raises some interesting questions in a couple of areas, such as the Supporting People programme, where there may be a reduction in the overall grant and/or proposals around redistributing that funding—traditionally, it was provided on the basis of where the projects were developed. There is consensus that that does not necessarily now reflect where the greatest need is. If you apply equality impact assessments to such programmes, because there is not necessarily sufficient funding to meet all needs, there will be negative impacts on some authorities in terms of any change to that level of funding. They do take seriously the tension between decisions that are taken locally, and the equality impact of those decisions, and the decisions that are taken at a national level, which have a local impact, and where the responsibility for that assessment lies.

9.45 a.m.

[50] **Jenny Rathbone:** Okay, but do all local authorities carry them out?

[51] **Ms Young:** Yes.

[52] **Aled Roberts:** I want to tease out a bit more information about this leadership issue, given that you have mentioned the conflict between strategic and national agendas and the local agenda. However, what you have not referred to is what was alluded to in the question, which was the regional agenda. I am not convinced, from the evidence that we have heard, that the efficiency and innovation board actually assumed any leadership role. It perhaps discussed strategic approaches, but I am not convinced that it gave any leadership direction as far as the cuts agenda and the reshaping of services are concerned. I would be interested to know what the public services leadership group is doing, because there was a lot of sale and packaging of the previous EIB—about which I am not convinced—and there seems to be a lot of packaging around this new group, and I am still not convinced. I will give an example of why that is.

[53] Yesterday, with most of the other north Wales Assembly Members, I went to a morning-long presentation by the NHS in north Wales regarding the reshaping of services. You allude to local decision making, but you have not alluded to the fact that the NHS will be part of a regional decision-making process, which will affect six authorities. Those six authorities have very different spend patterns with regard to some of the social care services that they provide and very different models of provision. Yet, I am not convinced that there is any leadership given at a national level as to how tensions between the regional agenda of the NHS and the more local agenda of local governments will be sorted out.

[54] **Ms Young:** The agenda and the work programme of the public services leadership group is now fairly specific, so it does not deal with those broader strategic issues about the relationships between managing the NHS at regional level and managing local authorities at a local level. If you looked at the original EIB, you would have seen that there were six or seven work streams, and the public services leadership group seeks to prioritise the delivery actions that were developed during that first phase into a set of activities that will be delivered over the next period. So, we do not necessarily think that the leadership group, certainly in terms of its work programme that is currently devised, will deal with those strategic issues that you raise in relation to health.

[55] There is also the reformed partnership council, which is part of this new governance structure. We had a partnership council meeting yesterday and there was a presentation about

the proposed reforms, one of which is about including the health service on the partnership council from next year. There was also a proposal to have a reform review group between the partnership council and the public sector leadership group, which would be able to take issues from the partnership council, which will be a political forum, through to the public sector leadership group. So, that is an opportunity to take that political leadership, and to identify the strategic issues that are important to that group, through to the officer group of the public services leadership group. So, there are lots of groups.

[56] **Andrew R.T. Davies:** Julie wants to come in here, and then we will move off this question, but, if we have time, we can come back to it. The clock might beat us before we get to the end of the session.

[57] **Julie Morgan:** Good morning. You said that it was very important for the public to have a say with regard to services, and we have already had the issue raised about how vulnerable people can have a say. Could you give us examples of where the public has directed the way that services have developed?

[58] **Ms Young:** There are some examples in the report particularly looking at new service delivery models and seeking to engage citizens in designing those programmes. I am thinking about the Kafka Brigade examples in particular, which focused on talking to the users of services and identifying their experiences and their needs and then designing the service around those. My background is in finance and is more focused on where citizens have been engaged in being able to give views or opinions on budgets and the allocation of resources. There are examples of such participatory budgeting across Wales—not across all 22 authorities, but there have been examples of such engagement.

[59] **Julie Morgan:** Is that participatory approach widespread?

[60] **Ms Young:** I would not be able to say categorically without looking into that in a bit more detail, but there are examples of that.

[61] **Andrew R.T. Davies:** Could you provide us with additional information on that?

[62] **Dr Llewelyn:** It is one of the areas on which we could provide additional information. For education services, there is a considerable amount of public engagement and consultation in terms of the way in which services are provided. A lot of that is because of the statutory processes that are in place and the consultation that has to happen. The same thing prevails in other service areas as well. So, there is a considerable amount of engagement, consultation and so on. That is partly because authorities have to do it, but also because of the point that I mentioned earlier, namely that there is recognition that services are best and most effectively provided when users have a say in how they are managed, organised and provided. However, this is something on which we could provide a follow-up note in order to provide a more universal picture.

[63] **Andrew R.T. Davies:** We will take that as an action point. Julie, would you ask question five please?

[64] **Julie Morgan:** I was going to ask about the local government job reductions. Have you updated the estimate of how many there will be?

[65] **Ms Young:** Yes, looking back at what we said in 2010, we forecasted 3,000 job losses over the course of the spending review period. The latest figures, which are taken from a survey of local authorities, show that we were in the right ball park. In 2010, we were saying that, if the revenue settlements were to be as bad as we were expecting, we were expecting those figures to get worse. However, the settlement was not as bad as any of us had

expected in terms of the minus 3 per cent, minus 3 per cent and minus 3 per cent on revenue. So, we have seen job losses over the last two years, 2010-11 and 2011-12, in terms of voluntary and compulsory redundancies of about 1,700.

[66] **Julie Morgan:** How many of those redundancies were compulsory?

[67] **Ms Young:** There were 266 in 2010-11 and the forecast for the current financial year is that there will be 170 by the end of the year.

[68] **Julie Morgan:** There was a memorandum of understanding with the unions. Has that helped the process?

[69] **Ms Young:** Yes, it has definitely helped the process, because we have seen a reduction overall in the number of redundancies in this financial year compared with the previous year. That is a consequence of the actions that councils have taken within the MOU, which were actions that would enable them to avoid having to make redundancies: for example, changing mileage allowances, reducing other allowances that individuals receive, introducing a pay freeze and a recruitment freeze, and other such measures. However, it is also fair to say that the impact of the MOU has probably been greatest in this financial year because you can do those things only once. So, when we get to 2012-13, those councils that have taken those actions will need to be looking at other measures to try to keep their costs down.

[70] **Julie Morgan:** How would you describe staff morale?

[71] **Ms Young:** If you look at it in terms of the pay settlement, you will see that local government workers have faced a pay freeze for the last couple of years. Things are difficult and that is beginning to have an effect. There is a recognition that if there is a pay freeze for 2012-13, realistically, it is probably the last year in which it will be possible to support the situation, in terms of morale and in terms of being able to keep people in their jobs before they start to look elsewhere for employment.

[72] **Julie Morgan:** That is a grim forecast.

[73] **Ms Young:** Yes, I think that it is, and it is inevitable. On top of that, if you look at the pension changes that are being proposed, you will see that, in effect, they will constitute another pay cut. If individuals are going to have to increase their contributions, it means that they will have less money in their pockets.

[74] **Leanne Wood:** I wish to follow up on the question that Jenny Rathbone asked earlier about equality impact assessments. Would these have been applied to decisions about job cuts and pay freezes? The reason that I am asking this question is that there is a perception out there that the cuts have not been applied equally—that the people at the top of the pay scale have not faced the same level of cuts to their terms and conditions as those further down the scale. What would you say about that perception?

[75] **Ms Young:** I do not think that I would be able to comment without seeing the details. It depends on where each authority is in terms of the different reviews that are being done. Some authorities may already have done job evaluation reviews, they may have already dealt with equal pay and they may have previously dealt with allowances and mileage rates. So, the situation for those councils would be entirely different from that of another that has not yet dealt with a job evaluation review, for example. It is therefore not possible to give an across-the-board answer. However, if that is a concern, I can provide a response after the committee meeting, in consultation with our employment team. We can see whether we think that this is an issue.

[76] **Leanne Wood:** That would be helpful, and it would also be helpful if you could let us know whether these equality impact assessments would apply to this area as well.

[77] **Dr Llewelyn:** I would like to come in on this. It is inevitable that there will be negative perceptions at a time when there is so much turbulence and uncertainty. These factors lead to insecurity, so I would expect there to be those kinds of perceptions. The challenge is to see the reality of the position, and how close the reality is to those perceptions.

[78] **Leanne Wood:** If the perceptions are wrong, you need to address them, do you not?

[79] **Dr Llewelyn:** Yes.

[80] **Andrew R.T. Davies:** We will move on to question 6, which will be asked by Jenny.

[81] **Jenny Rathbone:** This Government's watchword is to improve the delivery of services. I would therefore like to return to the relationship between the Welsh Government and local authorities in relation to how we are improving delivery. Specifically, I would like to return to the example given by Aled Roberts. There is a regional approach to the NHS in north Wales, but there are six different local authorities implementing very different levels of expenditure on social services. There is a similar situation in Cardiff and the Vale of Glamorgan. Could you tell us about the role of the WLGA in developing a more regional approach? The authorities that are spending more money are simply covering for those that are starving resources.

[82] **Ms Young:** Now is probably a good time to introduce the compact that the Welsh local government has been developing with the Welsh Government and that was signed yesterday at the partnership council. The compact is a response to a number of reviews—such as the Simpson review and the Viv Thomas review on education—and to the social services framework. It identifies a range of actions that the Welsh Government and local government will take to respond to challenges in a collaborative way, with a particular focus on collaboration at the sub-regional, regional and national level. Part of that is a response to the social services framework. Within that, there is the development of regional arrangements for the commissioning of social services. This will take place across the board, but will seek, particularly in areas such as adult care, children's services and looked-after children, to identify regional commissioning models to try to improve the service, but also to reduce the cost of those services in future.

10.00 a.m.

[83] The compact also includes the proposal that councils are working on to regionalise their school improvement services, and there is a commitment within it for that to be achieved by 2012, which again is part of the response to the Viv Thomas review. I do not know whether Chris wants to come in on that.

[84] **Dr Llewelyn:** The Welsh Local Government Association has had regional partnership boards in place for some time, and every year we produce a compendium of the collaborative projects that are in operation and the joint services that are provided. I suspect that there are probably more joint services. There is this perception that, because there are 22 authorities, every single service is provided 22 different times in 22 different ways. That is not the case and, in many instances, has not been the case for some time. There are some legacy arrangements since the last local government reorganisation. The compact embraces that tradition of joint working, but also sets specific targets for the joint provision of services in different service areas. Within education, some of those are in train already. For example, there is a commitment to have an all-Wales approach to student finance so that, instead of it

being done 22 different ways, there would be one computerised approach to student finance.

[85] As Vanessa mentioned, there is a commitment to have shared school improvement services in place by September 2012. There are commitments in there about delegation rates and a range of other education services. Similarly, with other significant service areas, there are commitments there as well, but the compact codifies, in a sense, a lot of the collaborative work that has been taking place over time. The education consortia were established some six years ago to deal with teachers' threshold pay because there was a recognition within the 22 authorities that there was a more effective and efficient way of dealing with some aspects of education provision. Therefore, a significant amount of collaboration is already taking place, but there are commitments there. Last year, authorities spent £43 million on school improvement, so it is quite a significant area of service, and, from September 2012, rather than having 22 services, there will be four. However, if you look through the compact, there are similar commitments in a range of other service areas.

[86] **Jenny Rathbone:** Going back to the specifics, we are all very good at writing new delivery plans and so on, but, on the specifics, where you have very uneven social services delivery across different authorities, what is the role of the WLGA with regard to that? How do local authorities view having a much more regional approach, and what is your role in all of this?

[87] **Ms Young:** In terms of how they view the regional approach, I am talking specifically about social services here, but it applies across the board. It is explicitly stated within the compact that collaboration is not an end in itself, which reiterates the point that is made in the WAO report as well, namely that it needs to demonstrate that it will lead to an improved service or a reduction in cost. So, the individual local authorities' response to acting regionally will be that, if it meets one or both of those two tests, then it is a good idea and that is what should be done. That firmly underpins every action within the compact. Although the compact says, 'This is what we will do in the future', some of these things have already started, and so the regional commissioning of social services, particularly in south-east Wales, has been in place for a couple of years and is realising savings or cost avoidance, if you like—managing the cost down as service demand is increasing. So, it may not actually be releasing cash, but it is stopping those costs rising as quickly year on year.

[88] **Dr Llewelyn:** I can give an example of practical support in relation to the shared school improvement service. The Welsh Local Government Association has been working with the four education consortia, providing co-ordinators to work with the directors, lead chief executives, executive members and lead members in those authorities to disaggregate, in a sense, the existing school improvement services. It has built up a new model of school improvement, using benchmark figures from other parts of the United Kingdom to build up what is, in effect, a shared school improvement service, and will provide continuing support until September 2012. There is, therefore, direct hands-on support from the WLGA; as well as providing the leadership role at a more strategic level, it provides operational support as well. Over the summer months, we co-ordinated and arranged a series of meetings for cabinet members, directors, chief executives, leaders and so on to ensure their full engagement in the process. This week, the Minister for Education and Skills is meeting two of the consortia to have their business models presented to him, so that he understands and can approve the way that this is being taken forward. So, there is direct operational involvement as well as a high-level strategic involvement.

[89] **Ms Young:** I have a final point to make on the WLGA's role. At officer level, we have developed a benchmarking tool that enables authorities to look across Wales to see a comparison of their financial performance, and unit costs in different areas, to help identify opportunities for exploring why costs are different and what measures have been taken by some authorities that could be replicated elsewhere.

[90] **Aled Roberts:** Yr oedd tystiolaeth Steve Thomas ym mis Mehefin y llynedd yn awgrymu ei bod yn eithaf hawdd cael cytundeb ymhlith yr arweinyddion, ond bod yn rhaid i'ch cymdeithas fynd ar ôl aelodau meinciau cefn yn ystod y flwyddyn i ddod er mwyn eu darbwyllo ynghylch cryfder cydweithio. A yw'r compact wedi cael ei dderbyn gan gynghorau unigol, neu a oes trafodaeth arno wedi bod yn y cynghorau unigol? A yw'r drafodaeth ar y compact wedi digwydd rhwng yr arweinyddion ar y cyngor partneriaeth ac aelodau o Lywodraeth Cymru?

**Aled Roberts:** Evidence given by Steve Thomas in June of last year suggested that it is quite easy to get agreement among the leaders, but that your association will have to go after backbench members over the coming year to convince them of the strengths of collaboration. Has the compact been accepted by individual councils, or has there been a discussion on it within the individual councils? Has the discussion on the compact taken place between the leaders on the partnership council and members of the Welsh Government?

[91] **Dr Llewelyn:** Tybiaf fod y sefyllfa'n amrywio ledled Cymru. Yn ffurfiol, y sefyllfa bresennol yw bod y compact wedi cael ei gytuno gan yr arweinyddion; mae'r 22 ohonynt wedi cyfarfod ac wedi cytuno arno. Arwyddwyd y compact ddoe gan y Gweinidog a Llywydd y gymdeithas. Fodd bynnag, mae elfen gyfansoddiadol i'r compact hwn. Fel arfer, gyda'r math hwn o bolisi, byddai'r gymdeithas yn gallu cytuno ar ran llywodraeth leol. Fodd bynnag, yn y cyswllt hwn, teimlwn fod y pethau sy'n cael eu cytuno mor bwysig, mae'n rhaid bod y cynghorau unigol yn cytuno ar y compact hefyd. Yn ystod y misoedd nesaf, er bod y gymdeithas wedi cytuno ac wedi arwyddo'r cytundeb, bydd yr awdurdodau unigol hefyd yn trafod ac yn cytuno arno.

**Dr Llewelyn:** I believe that the situation varies across Wales. Formally speaking, the current situation is that the compact has been agreed by the leaders; all 22 of them have met and have agreed on it. The compact was signed yesterday by the Minister and the Leader of the association. However, there is a constitutional element to the compact. Usually, with this kind of policy, the association would be able to agree on behalf of local government. However, in this instance, we believe that the things that are being agreed are so important that the individual councils must also agree the compact. Over the coming months, even though the association has agreed and has signed the agreement, the individual authorities will also discuss and agree it.

[92] **Aled Roberts:** Wrth iddynt gytuno ar y compact, ac wrth i'r cynghorau unigol dderbyn, o bosibl, fod comisiynu rhanbarthol yn digwydd o ran gwasanaethau cymdeithasol, pa hawl sydd gan naill ai Llywodraeth Cymru neu'r gymdeithas i fynnu bod cyngor yn derbyn y comisiynu rhanbarthol hwn os nad yw'n cytuno â'r ffordd sy'n cael ei ddilyn yn rhanbarthol?

**Aled Roberts:** As they agree on the compact, and as the individual councils accept, perhaps, that regional commissioning is taking place for social services, what right does either the Welsh Government or the association have to demand that a council accepts this regional commissioning if it does not agree with the route that is being taken on a regional basis?

[93] **Dr Llewelyn:** Ar hyn o bryd, y bwriad, a chymryd bod y mwyafrif o awdurdodau unigol yn cymeradwyo'r cytundeb, yw y byddem yn ystyried bod llywodraeth leol yn gyfan wedi cytuno iddo. O ran awdurdodau unigol, y gwirionedd yw nad yw rhai o'r manylion wedi cael eu datrys eto. Byddai'n rhaid cael rhagor o drafodaeth i ddatrys rhai o'r sefyllfaoedd yr ydych yn eu crybwyll.

**Dr Llewelyn:** At the moment, the intention, assuming that the majority of individual authorities approve the compact, is that we would consider that local government as a whole has agreed to it. In terms of individual authorities, the truth is that some of the details have not been resolved yet. There would need to be more discussion to resolve some of the situations that you refer to.

[94] **Aled Roberts:** To follow on—and this is not a criticism—there is frustration with regard to, as Jenny said, people signing compacts and things and seeing delivery on the ground. In moving on with the regional collaboration model, there are many references in the auditor general’s report to the fact that a lot of credence has been given to the regional model delivering efficiencies and so on. Do you have any concerns regarding governance arrangements, in that it would appear that there is not one governance model that has been sorted out, even so far as the regional education collaboratives are concerned? It is up to the collaboratives to decide on which governance model they follow. I am also concerned because, looking at the education collaborative, I know that in north Wales there were significant information technology implications for individual authorities, which, according to the Permanent Secretary, have been resolved through invest-to-save bids being made for that funding.

[95] On social services collaboration, I know there were discussions across north Wales on collaboration, going back two and a half years. The big issues were the differences between authorities with regard to commissioning models, in that some of the savings suggested were through avenues that were politically unacceptable to some authorities. How do you resolve those issues?

[96] **Dr Llewelyn:** The reality is that none of this is easy. Nobody has the solutions to all these problems. There is a big element of making it up as we go along about this. There is a ‘test it and see’ quality as well. The reason for a lot of that is because there are the tensions that we mentioned earlier between taking local circumstances and needs into account and adopting a more prescriptive, strategic national approach to issues. You mention the variation in the education consortia and the proposed school improvement services, and there is some variation in terms of the governance accountability and also the nature of the service that is being provided. In three of the four instances, the intention is to create a single central unit, whereas in the south west, the intention is to provide a slightly more dispersed, less centralised service. The reason for that is because the circumstances vary and also the traditions are different, in terms of provision and the relationship between the authorities and the schools and so on. There is a range of legitimate reasons for having that variation. That has significant consequences for the governance, accountability and the mechanisms that are put in place. It is reasonable that when these things are being developed—it is inevitable, certainly—that there will be anxiety and uncertainty because of the lack of clarity. Therefore, at all levels, from the interface between the service provider and the user to the strategic planning level, I think there will be a lack of certainty and an ambiguity as these things develop. What is clear is that momentum needs to be generated.

10.15 a.m.

[97] In a sense, it is like running the Grand National or running a marathon. At the outset, you have to focus on the next 100m or the next hurdle and try to overcome the next hurdle. To look at it in its entirety makes it seem insurmountable. The challenge is to try to overcome each hurdle or obstacle as it presents itself. At the moment, we are in that sort of territory. We see that in the way the school improvement services are being developed at the moment. As they develop, there will be a need for compromise, and it may be that some of the parties involved eventually accept something that, at the outset, they might not have seen as acceptable. However, once momentum is generated and the participants start to see the advantages of the endgame, progress will accelerate.

[98] **Ms Young:** To add to that, Chris’s other point is about whether people can see that there will be benefit in the end. It comes back to the point about these two tests. If individual authorities and individual members can see that there is a benefit, either in terms of increasing the quality or volume of the service or in terms of reducing cost, there will be willingness to

try to overcome some of these practical difficulties there may be around governance, funding models or whatever. With regard to the different areas, as we have said before, there is a range of collaborative activity going on in local government outwith the compact.

[99] The regional compendium we showed you last year is updated regularly and contains more than 70 projects at any time. Basically, the governance models for some of those activities will be different and will be dependent on the starting position of the authorities involved. It will depend on the tradition of the way things have been delivered in the past and what is and is not acceptable locally. However, the key things are to have clarity on the different governance models available and on what the implications of those are for staff, for finance and for legal issues, and then being able to fit the appropriate governance model to the activity you are trying to deliver. I think we will see a variety of governance models within that overall framework of which there are, broadly, about four different models with slight nuances. We are likely to see differences regionally and sub-regionally with regard to the type of model employed, but, at the end of the day, if those two tests of improving services or reducing costs are met, provided we can overcome those obstacles, those differences should not stand in our way of achieving better services and lower costs in future.

[100] **Mike Hedges:** You have talked about collaboration a great deal. Have you identified any local authority services that may not benefit from collaboration? The one area where we have had collaboration for a number of years is fire authorities. I do not think that anyone would think that the level of scrutiny carried out by local authorities of what the members of the fire authorities have done has been particularly good. Do you have any comments on that?

[101] **Ms Young:** Sorry, could you repeat the first part of the question? I got distracted by the bit about the fire authorities.

[102] **Mike Hedges:** Have you identified any services that would not benefit from collaboration? I would identify local planning decisions. I do not see any benefit from having a regional consortium dealing with whether or not Mrs Jones can have an extension, for example.

[103] **Ms Young:** There will certainly be a range of things with regard to the delivery of services—and planning is a good example—that need to happen locally. However, there will be certain aspects of planning that could be dealt with regionally. That is the issue. I think that that is what Simpson was trying to identify by asking what the most appropriate level for delivery and organisation is. However, there will be other examples where it may be that the cost is prohibitive. If you look at the business case for the shared services project that was developed in south-east Wales a few years ago, you will see that the costs of moving to a shared service were prohibitive, and that project was unable to go forward. The upfront investment and the long payback period meant that individual authorities did not feel that there was sufficient benefit to be gained from doing it.

[104] **Dr Llewelyn:** There is a tendency to think that improving the quality of services and reducing costs inevitably means moving things to a regional level. That is not necessarily the case. In the work on developing shared school improvement services, there is scope and potential to devolve further. Rather than moving services from local authority level up to regional level, there is potential to move things down to a more local level. It may be the case that schools working in clusters could develop their own approach to best practice. In terms of curriculum support and subject expertise, it may be beneficial to devolve down rather than looking to a more regional approach. This comes back to the thinking behind the Simpson work: which level is most appropriate for a particular service? Is that a completely local level, a 22-local-authority region level, or a national level? On school improvement, we are looking at the scope for providing things at a national level, but, at the same time, various aspects of school improvement can be done at a school level or at a cluster-of-schools level.



[105] **Andrew R.T. Davies:** We have two more questions. I see that you are happy that your question has been answered, Leanne. The clock might beat us, so we need to be brief. However, I do not want to curtail answers, because it is good to get them on the record. Oscar, you have the next question.

[106] **Mohammad Asghar:** The auditor general's report tells us that the new public services leadership group sits under the local government partnership council. What is the advantage of having the public service leadership work linked to the local government partnership council? Do you think that there is a downside risk that it focuses more narrowly on the local government agenda rather than on the former efficiency and innovation programme? The auditor general's report comments positively on the preparedness of the police and fire and rescue authorities, which form part of the local government family. What lessons do you think that other public services can learn from their experience?

[107] **Ms Young:** The partnership council met yesterday and the proposal for its reform includes the NHS, as well as the voluntary sector and trade unions with observer status. The partnership council already includes the police and fire and rescue authorities and town and community councils. Up until this point, the partnership council would have been too local-government focused, but the proposal to broaden it means that it will be more consistent with the work of the public services leadership group. A lot of the public services leadership group's work is public-service-wide, but it does focus in some areas on local government and its services.

[108] There is a proposal between the partnership council and the public services leadership group that a reform review group will be established. It will also be a political group, and will be a sub-committee of the partnership council with a particular focus on driving through the public services reform agenda.

[109] **Dr Llewelyn:** The partnership council provides an appropriate mechanism for formal reporting and accountability. The partnership council has significant scope and potential to develop its role more and in a fuller way than it has done in the past. It is part of the devolution settlement, and if you look at the academic work that has been done about the settlement in Wales and the work of commentators from other countries as well, you will see that the partnership council is envied in many quarters. If we are moving into a time when we need to see greater collaboration within the public sector between different tiers of government, greater efficiency in the way that we use resources and improvements in the way that we provide services, it is more than appropriate for the partnership council to be a significant part of that process and a vehicle for reporting and for holding different sectors to account.

[110] **Ms Young:** To go back to the second point that you made, which I think was about what other parts of the public sector can learn from local government, it seems to me that there are a couple of issues here. One is about the statutory requirement for local authorities to break even each year and to set a balanced budget. That financial discipline is instilled within all local authorities and requires them to plan over the medium term and to ensure that they are allocating resources in such a way as to protect citizens services as far as possible. The other issue relates to the point, which we have made a number of times, about recognising and understanding the needs of citizens at a local level in order to be able to tailor the response to them.

[111] **Jenny Rathbone:** There is a real danger that the not-so-bad local government settlement gives people a false dawn. We have a really difficult agenda ahead. We are keen to find out how effectively councils are using lean systems and thinking, and using new ways of working to reshape services to better meet people's needs, which is the bottom line. So, on a

scale of nought to 10, how well are local authorities doing on this?

[112] **Ms Young:** A lot of activity is going on across local authorities in terms of lean processing and business re-engineering. Over the last couple of years, we have seen that authorities have done bits of their services. For example, one authority might have done housing benefit and another will have done disability facilities grants. Where they have done those reviews, they have generated efficiency, either in terms of greater productivity by removing waste, or cash releasing, although that can be more problematic if you are trying to take out half a person from here and there. The shift now is towards saying, 'Let's take more of a whole-systems approach and look not just at those low-cost, high-volume type of activities, development and control and DFGs, and that sort of thing, but at more complex areas'. Neath Port Talbot, for example, is looking at children's services, and Conwy has been looking at adult services with the NHS to try to see where they can remove duplication and improve service efficiency. Part of the work of the public services leadership organisational development work stream, I understand, is to identify the best cases and then to produce something that can be shared with others, by saying, 'This is the way to do it; here is the best practice and this is where you will have the greatest impact, so these are the areas to look at'. It is consistently being applied in certain parts of authorities, pretty much across the board, but the difference now is to get to a point where councils are looking at it with a more whole-systems approach.

[113] **Dr Llewelyn:** The compact provides that opportunity and momentum as well. If you look at the commitments in there for social services and for education—education is about half of what local government does, and we have four education consortia in place, and there will be shared school improvement services in place by next September. This is the start of the journey. There is a commitment within each of those to continue to provide more services through the consortia after September 2012, so significant steps have been taken.

[114] **Andrew R.T. Davies:** There are no further questions. Thank you both for your attendance this morning. I appreciate that it was a little cold in here. [*Laughter.*] We will send you a transcript of the Record, and if you find any points that need clarification, please raise them with the clerk. Thank you once again for your attendance this morning.

10.30 a.m.

### **Sesiwn Frifffio gan Archwilydd Cyffredinol Cymru ar Reoli Grantiau Briefing from the Auditor General for Wales on Grants Management**

[115] **Andrew R.T. Davies:** I welcome the Auditor General for Wales and Mike Usher to the table. Would you like to address the report?

[116] **Mr Thomas:** I would like to say, from the outset, that the purpose of this report is not to examine the pros and cons of whether you should use grants. It is really about asking whether there have been improvements in the value for money to be secured in the way in which specific grants are managed, particularly in Wales. Grants are only one way in which you can achieve a policy objective so, in touching on that issue, the report keeps our thoughts on an open-minded approach. We need to consider the whole spectrum available of funding mechanisms to find the one that is best suited to servicing the objectives of any specific project.

[117] With that general qualification, what are the main messages? The fact is that grant funding is used more extensively as a delivery mechanism by public bodies in Wales than elsewhere in the UK; that particular point has been around for some time. The other, perhaps more worrying, point is that we do not know precisely how many such grant schemes the

Welsh Government currently operates, because the Welsh Government could not tell us. That perhaps suggests that management of grant funding could bear some improvement. However, in September this year, we managed to collect details of over 500 different schemes, which were collectively worth some £2 billion a year. Grants are, therefore, extremely important, but they also require a very high standard of management.

[118] My audit work to certify grant claims has to be proportionate and rigorous, in my opinion. What we find from our audit work is that, particularly in local government, administration of grants is not an encouraging picture. You see this in the graph that we provided. Over the last five years, it has been clear that many grant schemes are poorly managed, and there have been a number of high-profile cases that demonstrate this. Funders and recipients have not learned lessons and have often failed to tackle poor performance. I will ask Mike to give a little more detail on these cases in a moment.

[119] With so many grant schemes, we also know that administration costs must be looked at. Typically, they represent 10 per cent of funding, but the smaller the grant scheme, the higher the level of administration costs. Is that really the best way in which a particular policy should be delivered? We know that there is considerable variation in the quality of grant management across Wales by local authorities, from very good to very poor. So, there is clearly scope for real improvements. I will ask Mike to elaborate a little on that.

[120] On the positive side, we know that the Welsh Government and other funders are trying to improve their arrangements for managing grants so that they can achieve better value for money. I refer particularly to the Welsh Government's grant management project in the report. Generally, we have many schemes that are overly complex, and lessons that are not learned from past mistakes. Funders often fail to adequately consider the viability, capacity and capability of potential grant recipients, and because grant schemes are not properly monitored, early warning signals are not picked up when things start to go wrong. This committee has in the past considered some reports with a bearing on that particular problem.

[121] What needs to be done to improve the management? The report points to some very high-level recommendations, but I would like to highlight that, first of all, we need to streamline the portfolio of grants, develop complementary schemes, co-ordinate bidding timetables and provide more and better information to people seeking grants. In other words, we need to make it clear which grants are available, how they fit with one another, and whether those administering the grants—that is, the policy branches within the Welsh Government and elsewhere—are aware of other grant schemes with a bearing in roughly the same direction.

[122] In giving out grants, is the bidder's viability, and capacity and capability to manage them, considered at an early stage? Are people really able to handle the money? Do they understand what the project outcomes will be? Is the emphasis a bit too much on getting the money rather than on delivering the final results? If it is clear that grants are going wrong in terms of the expectations and the outcomes, particularly if they are overpaid and misused, what are funders doing to regain control and manage this in a clear manner? Those are some of the key points that have come out of the report, and I will ask Mike to give some more detail on them.

[123] **Mr Usher:** I would like to direct your attention to page 20 of the report to begin with. Over the last few years, we have produced reports on specific grant-funded projects that have been considered by this committee and its predecessors, and witnesses have been called and recommendations made, but all too often it seems to us that the lessons are not being learned by funders and recipients. We are seeing the same or similar mistakes being made.

[124] Case study 1 on page 20 is our 2009 review of Communities First, and case study 2 is on Cymad Cyf last year. Both of these illustrate what can go wrong when the capability and capacity of grant recipients to deliver outcomes is inadequately assessed at the outset by funders. Case study 3 on page 21, the Woodlands, is an example of a grant scheme with insufficiently clear and robust funding criteria. Over the page, case study 4 on the LG project in Newport is an example of, among other things, poor risk management on the part of the various grant-funding bodies involved, and, of course, case study 5, Plas Madoc, is an example of just how badly things can go wrong on a grant-funded project when controls are weak and monitoring is inadequate.

[125] Turning to the results of our grant certification work across local authorities in Wales, on pages 24 and 25 of the report there is a wealth of information for you, including some comparative data. Exhibit 7 on page 24 shows that the frequency of problems occurring with local government grant claims has risen steadily. One in six claims had a problem in 2005-06, but by 2009-10 our audit teams were finding issues with one in four. Exhibit 9 on the facing page shows the various reasons that sit behind these qualifications of grants and the audit adjustments. A quarter of claims were simply not prepared correctly. Other reasons include a lack of supporting evidence, unapproved and ineligible expenditure, and a lack of monitoring of third parties.

[126] At the top of that page, exhibit 8 shows a remarkable degree of variation in performance across the 22 local authorities, from very good to, frankly, pretty poor. We were quite surprised when we pulled this data together just how marked that degree of variation is. Clearly some authorities are well on top of things, but at others, there are some significant issues. We probably cannot expect a zero error rate, given the nature of this work, but it would be reasonable to question why an authority is incurring anything above an error limit of say 10 to 15 per cent. Why should that be happening in such a high number of local authorities right across Wales?

[127] Finally, on a brighter note, Huw mentioned the Welsh Government's grant management project. We were pleased with the degree of engagement that Welsh Government officials showed towards our study team in preparing this report. We think that the grants management project, as referred to on page 30, is definitely a step in the right direction. If it is implemented properly, it should be expected to lead to some significant improvements in the efficiency and effectiveness of grant management across the many and varied grant schemes that the Welsh Government operates—Huw referred to the fact that there are over 500 of them.

[128] In paragraph 1.26 of the report, on page 17, we make the point that we think that the approved business case for the project is somewhat unambitious in setting a savings projection of just £3 million a year. We think that, with a more robust plan for benefits realisation, there is scope for much greater efficiency savings to be delivered through the grant management project. On that note, we would be happy to take questions on any points that the committee would like clarified.

[129] **Andrew R.T. Davies:** We are going to discuss our forward work programme as an item of private business. So, at this stage, could Members please seek clarification or make observations, and then we can deal with the work programme in that section?

[130] **Mike Hedges:** At exhibit 7, you took the view that it had gone from one in six to one in four. A less critical person would say that it has gone from £5 million down to £2 million, and from 292 to 189. You picked the bad bits at the top, but you also show two improvements in the next two lines.

[131] **Mr Usher:** The issue there is that there are fewer individual grant claims coming through that system of certification, so the rate of error is rising. The actual number of claims, and the total value of the adjustments being made, is lower, but the rate of error continues to rise. That suggests poor control over the individual claims that are coming through. That is our main point of concern there.

[132] **Jenny Rathbone:** I thought that exhibit 8 was one of those critical bits of the report. I note that you named three Welsh authorities—Ceredigion, Vale of Glamorgan and Wrexham—as having got a handle on it. You named Carmarthenshire as a work in progress, and everywhere else seems not to be getting a grip on it. South-east Wales, in particular, shines out as an area where there is a huge problem. It is a useful report, and, in a way, it would have been good to have talked to the Welsh Local Government Association about what it is doing about it.

[133] As somebody who gives grants in a charitable capacity, we should not be giving grants unless we have the capacity to monitor them and to claw the money back if it is not being spent on the purpose for which it was given—end of.

[134] **Mr Usher:** I would certainly agree with that. The variation in the level of performance does concern us. We have had a look to see if there is a particular pattern here and, to be honest, we cannot really see one. There is nothing that is geographic to do with urban or rural authorities or anything in particular. Some of these authorities have a higher number of schemes to manage: some of the more deprived areas—the Heads of the Valleys and so on—have a larger number of schemes, but that does not necessarily mean that the error rates should go up; it should mean that they are devoting more resources to ensure that it is being properly managed.

[135] You make a very good point about monitoring and clawback. One of the points that we raise in the report is the concern that, where we qualify a grant claim because of issues with it, we send that qualification certificate in to the grant funder, often the Welsh Government, and we find that very little action is then taken. It says that it has not been a serious breach so it will not do anything, in which case one must ask why those terms and conditions are being imposed if it is not serious about it. Where it could take clawback action, it may simply choose not to and just carry on as before. That lack of follow up and follow through, again, is of considerable concern to us.

[136] **Andrew R.T. Davies:** I have two Members who wish to make points; I ask that they be brief.

[137] **Julie Morgan:** Speaking from the point of view of an applicant for grants—I have applied for a lot of grants, in my previous work and on behalf of small voluntary bodies—the complexities and the difficulties are great. One of the really detrimental things is late decision making, which often means that you have to spend a year's funding in the last three months, or something like that. I do not know whether you have come across that sort of issue.

[138] The other, more general, issue is about the fact that Wales spends more on grants than other parts of the UK and how much we should look at using other methods.

10.45 p.m.

[139] **Mr Thomas:** That is a question that you might want to put to the Welsh Government. It seems to be a default position that when there is a question of moving from a policy initiative to its implementation, the answer is, 'We'll use grants'. There is a question about whether that has been best-thought-through and what kind of relationship exists to other grant schemes that may have a bearing on the same general policy area, because we come across

schemes that are targeting almost the same thing and are very close together. It needs to be asked how they could be better managed and whether there is a way in which the Welsh Government could work with other schemes.

[140] My previous role was as chair of the Big Lottery Fund and we were able to work together in terms of lottery schemes and Government schemes to try to simplify the task for the applicant, so that they had to make only one application instead of several. That requires a degree of planning on the part of those administering grants to make sure that they are sensibly thinking through the policy objectives that they ultimately wish to achieve, and that the outcomes are clear to the applicant so that they know what is expected of them.

[141] **Aled Roberts:** I have two brief questions. The Minister for education in particular has identified that a large number of the grants being sent out by his department need to be rationalised. I also note from Steve Thomas's evidence to the committee last year that the Isle of Anglesey refused a £5,000 grant because it calculated that it would cost £7,000 to manage it. Is there any evidence that other departments are rationalising grants, because although you talk about the new management being more effective, there is very little talk of streamlining by other departments?

[142] Secondly, two of the case studies involve Communities First. My experience with Plas Madoc was that even when issues were brought to the attention of the Welsh Government, absolutely nothing was done. There were glaring issues such as the purchase of a ride-on lawnmower when the Communities First project had no responsibility for cutting any lawns. It ended up at the co-ordinator's garage and was used to cut her lawns. She was convicted two weeks ago.

[143] **Andrew R.T. Davies:** I think that the point is well made, Aled. Would you like to comment?

[144] **Mr Usher:** On the first question on the rationalisation of grant schemes, we have referred in our report to what the Department for Education and Skills is doing. Other departments are doing similar things at different speeds. The Department for Business, Enterprise, Technology and Science has been looking to rationalise support for small business over the last few years, for instance. We have seen a reduction in the number of schemes, but we may now be beginning to go in another direction as a proliferation of new schemes has been announced; a few have been announced over the last couple of months, for example. Again, perhaps the default position is sometimes to head directly to a grant scheme from the policy.

[145] On the Plas Madoc point, there was a concern in that particular instance—and the committee covered this in some detail at the time—about the lack of initial response when concerns were raised. In the end, it was our work, jointly with the internal auditors of the Welsh Government, as opposed to the people running and managing the scheme, that got in to investigate what had happened. In the light of that, further work was done across other Communities First projects so that we could satisfy ourselves that that was a one-off example, and that was what we found.

[146] **Aled Roberts:** Are systems now in place to prevent the likelihood of that happening again, as allegations were made that were not followed up?

[147] **Mr Usher:** We make the point in the report that funders too often do not learn the lessons from the past. We are satisfied that the Plas Madoc experience was a salutary one for the Welsh Government in terms of its management of grants. There are signs at the top of the organisation that lessons have been learnt. Those lessons need to cascade down to project managers on the ground running individual schemes. So, the question is probably best put to

the Welsh Government in terms of how far it feels it has reached with this.

[148] **Andrew R.T. Davies:** Thank you. I am sorry that I cannot take any more questions because time will beat us, and I know that Members have other meetings to go on to. Thank you for speaking to the report, gentlemen.

10.49 a.m.

### **Cynnig Gweithdrefnol Procedural Motion**

[149] **Andrew R.T. Davies:** I ask that a Member moves a motion so that we can move into private session.

[150] **Leanne Wood:** I move that

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(ix).*

[151] **Andrew R.T. Davies:** Thank you. I see that the committee is in agreement.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.49 a.m.  
The public part of the meeting ended at 10.49 a.m.*