



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

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[The Public Accounts Committee](#)

3/4/2017

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Neil Hamilton Bywgraffiad Biography	UKIP Cymru UKIP Wales
Mike Hedges Bywgraffiad Biography	Llafur Labour
Neil McEvoy Bywgraffiad Biography	Plaid Cymru The Party of Wales
Rhianon Passmore Bywgraffiad Biography	Llafur Labour
Nick Ramsay Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Lee Waters Bywgraffiad Biography	Llafur Labour

Eraill yn bresennol
Others in attendance

Gawain Evans	Cyfarwyddwr Cyllid, Llywodraeth Cymru Director of Finance, Welsh Government
Shan Morgan	Ysgrifennydd Parhaol, Llywodraeth Cymru Permanent Secretary, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
David Richards	Cyfarwyddwr Llywodraethu, Llywodraeth Cymru Director of Governance, Welsh Government
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

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

Claire Griffiths	Dirprwy Clerc Deputy Clerk
Fay Bowen	Clerc Clerk
Katie Wyatt	Cynghorydd Cyfreithiol Legal Adviser

*Dechreuodd y cyfarfod am 14:00.
The meeting began at 14:00.*

**Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest**

[1] **Nick Ramsay:** Welcome to this afternoon's meeting of the Public Accounts Committee. Headsets are available for translation or sound amplification. Please ensure that electronic devices are on silent. In an emergency, follow directions from the ushers. No apologies have been received this afternoon. Mohammad Asghar will be joining us shortly. Do Members have any declarations of interest they wish to make for the record? No. Okay.

**Papurau i'w Nodi
Papers to Note**

[2] **Nick Ramsay:** Item 2—papers to note. First of all, the minutes from the meeting held on 27 March and 28 March. Are Members happy with the minutes as an accurate record? Great. They're agreed. We have a letter from the Welsh Government on the governance review of the National Library of Wales. Are Members happy to note that letter? The committee has previously agreed to scrutinise the National Library's annual report and accounts in the autumn term, when these points can be pursued directly with them.

14:01

Adroddiad Blynyddol Llywodraeth Cymru ar Reoli Grantiau 2015–16
Welsh Government Grants Management Report 2015–16

[3] **Nick Ramsay:** Turning to item 3, the Welsh Government grants management report, can I welcome our witnesses—and welcome, Oscar—to this afternoon’s meeting? Thanks for being with us. Would you like to give your name and position for our Record of Proceedings?

[4] **Ms Morgan:** Shan Morgan, the Permanent Secretary for the Welsh Government.

[5] **Mr Richards:** David Richards, the director of governance at the Welsh Government.

[6] **Mr Evans:** Gawain Evans, director of finance at the Welsh Government.

[7] **Nick Ramsay:** Great. Thanks for being with us. We have a number of questions for you, and I’ll kick off with the first few. Can I ask you, Permanent Secretary, how much importance will you be placing on getting grants management right and the key challenges in supporting and maintaining the appropriate culture and mindset across Welsh Government departments?

[8] **Ms Morgan:** Thank you very much, Chair. I think that, perhaps, gives me the opportunity to set out a few thoughts if—

[9] **Nick Ramsay:** Sorry, I did ask if you could make a short statement, so forgive me for launching into the question.

[10] **Ms Morgan:** Yes, but I think that gives me the opportunity anyway. So, if you bear with me I’ll explain how I’m approaching this very important subject. I started in the job eight weeks ago today. The time has gone incredibly quickly. I’m trying to build up my understanding of the organisation and its ways of working every day, working with colleagues, and I’m also continuing very much to shape my own priorities. But as you will have seen from the report, more than £2 billion of hypothecated funding was granted by the Welsh Government in 2016. So, obviously, the management of grants by the Welsh Government is going to be an absolutely essential area of focus for me as principal accounting officer for the Welsh Government. I will be focusing very hard on the regularity, propriety and value for money of our expenditure and the systems that we have to back that up and give me

assurance.

[11] Grant funding is obviously one of the Welsh Government's most important levers for delivering the objectives set out in the First Minister's programme for government, so we have to make it work. I've committed to taking part in training in grants management to both improve my own knowledge and to test out the training that we have available for our staff. I think it's really important. I've been told that there have been very significant improvements made. I want to test that out for myself. It's clear to me, overall, from everything that I've learned—and, in fact, from what Derek told me before he left—that the Welsh Government has put a substantial amount of work into the improvement of grants management in recent years. And I know that the work of this committee and the Wales Audit Office was very much a catalyst for that work, and that you have been very helpful and supportive through that process.

[12] I think there were five, perhaps, key achievements I'd like to single out. Sorry—four over the last five years, carried out by my predecessor. First—and I think this is a really important one—establishing the centre of excellence within the Welsh Government to bring much more consistency to our policy, training and systems. Second, the introduction of an enhanced information and communications technology platform called PayGrants. Third, significant improvement in face-to-face and online training, which I'm going to sample for myself. And fourth, the introduction in 2016 of a due diligence hub, and I'll probably keep coming back to that because I think that was also an extremely important development.

[13] I've met many of the staff involved and I've been really impressed by their expertise and commitment to the work. I've participated in my first audit and risk committee and, again, been impressed by the commitment of the members of that committee. But, equally, I've had a very close look and will continue to focus on some of the cases where our grant funding has, to be honest, gone wrong, and where we've been criticised. So, I have to say upfront I'm not at all complacent about this work and about our performance. It's clear, including from the Public Accounts Committee's own recent report of Kancoat, for example, as well as some successfully prosecuted fraud cases, that there are improvements in our practice that still have to be made and we're working on those. I will be working with my additional accounting officers whom you already know, and with the two directors in particular on either side of me to assure myself that that work is in hand and that we are continuing to improve our performance. Of those,

I've got four areas—a common theme today, No. 4. I consider my priorities over the next 12 months to be: counter-fraud, due diligence, administrative savings, and the timing of the grants management report. Chair, if you have time, I'm happy to give you just a couple of practical highlights of what I plan to do in each of those areas.

[14] On fraud detection, we're obviously never going to be able to eliminate it completely, despite our best intentions, but we've got to keep improving our record. So, I've asked the team to press ahead as quickly as possible with the introduction in the Welsh Government of the national fraud database. That will enable us to access data on confirmed cases of fraud, and I think it should be a significant step forward. I'm also going to ask an external body to review independently our processes and systems to detect fraud, and there I'm thinking of bringing in somebody with expertise from a large public sector body that awards significant grant funding. It seems to me a good idea to get challenge from outside. It's not that I've got any reason to be concerned about the systems, but I think it's always really important to keep reviewing and challenging.

[15] On due diligence, I want to make sure that we consolidate all the improvements that have been made. I think the biggest one is the introduction of the due diligence hub last year, which has the potential to improve very significantly the sharing of information across all our teams, and make sure that we learn from any mistakes that have been made in the past. We've already made it mandatory for all staff who are going to award a grant, and our next step is going to be to introduce minimum standards for due diligence to really embed that very firmly in the Welsh Government.

[16] Turning briefly to administrative cost savings, it's clearly right to look at what we can do there. We've already undertaken work to rationalise the number of grant schemes. That will continue and we will continue to look at the improvements in the centralisation of grants management process—

[17] **Nick Ramsay:** You mentioned Kancoat, and you spoke about the way that there's been an evolution and improvement in procedures over the last few years. Kancoat happened over a fair amount of time, and up until quite recently, and obviously we looked at it recently. Are you reassured that the changes that have been made, that the evolution of the processes over the last few years, would mean that a Kancoat situation wouldn't arise now, or wouldn't arise in the next few years? Are you absolutely confident that the necessary improvements have been made?

[18] **Ms Morgan:** What I'm confident in is that our systems have sped up. I think there's evidence more recently to show that where we encountered some problems in a particular scheme, we took action more quickly, and we've introduced action to make sure that we safeguard public money more quickly. So, I think the whole thing about Kancoat and, in fact, some of our other cases, were to do with speed of reaction. We've introduced a range of actions and initiatives to make sure that we are doing that, that we're taking action much more quickly and reducing, for example, the length of time for which grants are made. So, reducing down from quarterly to monthly, that kind of thing, to take action fast. [*Interruption.*]

[19] **Nick Ramsay:** That is why I bother with that spiel at the beginning—make sure it's on silent. [*Laughter.*] Sorry, go on.

[20] **Ms Morgan:** Okay. Now, let's see—. I was talking about the centralisation of the grant management process—we're just trying to get down to a sort of single services model; we think it makes sense and I will test that out fully before we move any further. That's something that's been highlighted in the report.

[21] And finally, on the timing of the report itself, I would like to suggest to the committee that we align its publication with the timing of the annual report and accounts. It would still, obviously, be a separate document, but it seems to me to make sense that we should give you that information more quickly and at a time when you could look at them alongside each other. So, those, very briefly, Chair, are—

[22] **Nick Ramsay:** That's very helpful. Could I just ask you about engagement with the UK Government and the other devolved administrations? You haven't touched on that. Is that something that you intend to lead on from the front, as the Permanent Secretary?

[23] **Ms Morgan:** Very definitely, and that's why—I think I mentioned very briefly in my introductory presentation the other week—that I make a standard weekly visit to London to attend the meetings chaired by Jeremy Heywood. So, I have the opportunity to discuss priority issues with my counterparts from all other Whitehall departments. I am also part of a core group meeting regularly with the head of the Department for Exiting the European Union. There was a meeting last week, at which I was able to put across very clearly Welsh Government priorities, the things that will really

matter to us, and also to set out the distinctions that there are between each of the three devolved administrations. We obviously work closely together. We share a number of similar issues and concerns, but I think it's fair to say that each of the three has some very distinctive issues that we want to pursue. So, part of my role, I think, is always to make the Welsh distinctions very clear to Whitehall.

[24] **Nick Ramsay:** Thank you. Lee Waters, did you have some questions?

[25] **Lee Waters:** Thank you, yes. I'd just like to take a step back a little and look at the issue of when grants are awarded and when they're not awarded. Clearly, there's been a move towards tendering and procurement and the idea of awarding grants has fallen a little bit out of fashion over recent years. In 2013 the Welsh Government wrote to all Welsh Government sponsored bodies drawing their attention to the Wales procurement policy statement, which required all contracts over £25,000 to be advertised. I wonder if you still think that's the appropriate threshold.

[26] **Ms Morgan:** That's not something that I have yet had a chance to consider, I'm afraid. At the moment, I've been focusing a bit more on the overall shape of the processes and the general assurances, but that's something I'm very willing to look at in detail and come back to you either at a future meeting, or in writing.

[27] **Lee Waters:** Okay. The reason I ask is in terms of its impact on the third sector. I'm less interested, for these questions, in the multimillion-pound grants you award. But there has been a drive in dealing with the third sector, after some well-publicised failures, to tighten up on the awarding of grants, and other organisations, it is felt, must tender for services rather than giving core support, which makes it very challenging for many third sector organisations.

[28] There's a case at the moment—and I don't expect you to comment on it in detail, but I offer it as an example—of the charity Arts & Business, which have been very successful in leveraging in large amounts of private sector funding for the arts world, which has had their grant of £70,000 from the Arts Council of Wales put under review, with the expectation that they bid for it, and it's their argument that that's not practical and it would cost too much money and therefore they're in danger of going out of business, which will have a harmful effect on lots of the things Welsh Government is asking the artistic sector to do. So, that's the driver behind my question. I just wonder,

there has been a real writ running through the Welsh Government that organisations shouldn't be getting grants and they have to tender, and the issue I'd like to explore your thinking of is whether there is sufficient flexibility in that to get the outcomes that we all desire.

[29] **Ms Morgan:** Well I think the first thing to say is that we certainly value the important contribution that the third sector makes. If you look at the awarding of hypothecated grants to the third sector in this report, it's showing that they are certainly being maintained—the figure of 248 in 2015–16, and that's an increase of 40 over the previous year. So, I think we certainly recognise the importance of the third sector and particularly in some of the areas that these grants are being designed for. It's certainly true to say that we are looking at transferring from hypothecated to unhypothecated grants where we can, because we feel that there are advantages to doing that in terms of the resource that we expend on them. But we're equally clear about the benefits of hypothecated grants, which is why we are continuing to spend £2 billion on them. So, I think that does represent a very significant investment. Just to be clear, those benefits are where those kinds of projects can deliver very specific purposes linked to ministerial priorities.

14:15

[30] So, I think we are looking for a balance of different types of measures. I think the unhypothecated grants to, essentially, the NHS and local authorities enable us to give them flexibility and to ensure that we are benefiting from their delivery expertise, their closeness to the local community—

[31] **Lee Waters:** I understand that. I'm not really interested in that end of the spectrum of the grant funding. I'm just worried in particular about the impact—and I appreciate you're still new to the role, so I'm trying to be gentle on this. But I do worry that the impact we're having, given all the other pressures the third sector are under—insisting on tendering in all cases and stripping discretion out of the system may well be having unintended consequences. I just wonder if there's enough discretion and granularity in the judgments being made to take a view that allows those third sector organisations the ability to survive in difficult times.

[32] **Ms Morgan:** You're very kindly referring to my newness in the job. I'm conscious I have a great deal to learn, so I'll invite my colleagues to

supplement my answer.

[33] **Mr Richards:** I don't know that case in particular, but in more general terms, for some areas, we're just governed by the law. There are some things that are clearly procurement, not a grant, so you have to go to an open procurement. There are some areas where we've chosen to go through, effectively, a competitive grant programme process. I think we would accept that, certainly, there are higher overheads on organisations that would bid for a grant. The other side of the coin, though, is, sometimes, we have third sector organisations that will come to us and say, 'Look, I could do that service for you. I could do it better and at a better cost, but I don't get the chance because you're just giving a grant.' So, I think we have to remember that there are other third sector organisations that sometimes feel that they should get a chance to bid for services, but they don't get it because we tend to give single grants.

[34] **Lee Waters:** Yes, I think that's fair. My question is: what discretion is there within the system to make intelligent judgments about that?

[35] **Mr Evans:** In terms of hypothecated grants, I wouldn't want Members to go away and think that all hypothecated grants must be tendered for now. There are a range of different types of hypothecated grants that we have, so there is a degree of flexibility. As David said, I can't comment on that particular case, but there is a degree of discretion, because there are a number of different types of hypothecated grants that we would award. Some would be application based, as you've described, but in other circumstances there are other categories that we can apply.

[36] **Lee Waters:** Thank you.

[37] **Nick Ramsay:** Neil Hamilton.

[38] **Neil Hamilton:** I would just like to follow that up, because I'm familiar with the case that Lee has mentioned, because we've taken evidence from the arts council on the culture and Welsh language committee. I don't want to focus on the specific instance, but I'm interested to know what sort of de minimis provision you have on the scale of contracts that you let out to tender and whether you feel that the current de minimis provision satisfies the value-for-money requirements of the auditor general and, indeed, common sense, for that matter. You may not be able to answer this yourself, but rely on—

[39] **Ms Morgan:** I think what it's doing is it's pointing me to an area where I very clearly need to know more about how we operate, and it's very useful to get both views that this is something we should be focusing on. But unless my colleagues can answer your very specific question, we would have to respond by letter, I think.

[40] **Nick Ramsay:** Mike Hedges.

[41] **Mike Hedges:** [*Inaudible.*]

[42] **Nick Ramsay:** Yes, just keeping you on your toes.

[43] **Mike Hedges:** I've got two questions, really. The first one is: we've talked about hypothecated and unhypothecated grants—we've talked a lot about them. I'm not going to ask you which ones you're going to give and which ones you're not, but could you tell us what criteria you think should be used for hypothecation? Also, we need to distinguish between that given to the third sector, that given to local government and that given to health. Obviously, the local government ones will not be competitive, because they'll be out for a specific purpose to a local authority, whereas some of the third sector ones will be. So, what criteria do you see being used?

[44] **Ms Morgan:** As you said, most of the unhypothecated grants go direct to the NHS and local authorities, and they will deliver those subject to their statutory responsibilities, obviously. But I think when we look at the benefits of hypothecated grants, which I think is the main question in your mind, really it's to have the flexibility for Ministers to be able to deliver very specific priorities. That kind of grant allows us to control the level of monitoring and spend throughout the life cycle of that grant, and really focus down on some specific outcomes, and making sure that they're meeting policy objectives.

[45] So, if I could give you two examples. These may not remain hypothecated grants, but at the moment they are. There's a programme called Flying Start, which is an early years programme for children in very specific disadvantaged areas. Why is that not unhypothecated? Why did that not go direct to local government? Because we want to make sure that it's focused in some very specific geographical areas that reflect the ministerial priorities for that programme. So, for that reason, it was set up using a hypothecated grant.

[46] Another one I could give would be a grant we give to support a substance misuse programme—that's drugs and alcohol—where, again, it's really about some very specific priorities and targets. We want to be able to target those most in need, and therefore to set the criteria specifically within the Welsh Government, and make that award. So, those are two examples that I thought were quite good, that show why we would want to use hypothecated funding in that case rather than unhypothecated funding.

[47] **Mike Hedges:** Can I just say one thing before I ask another question? Yes, on Flying Start, it goes to areas where the lower super output area comes within a certain level. It doesn't necessarily pick up all disadvantaged people, and some of the most advantaged people in Wales may well become part of it because you use averaging within lower super output areas, and that's based upon how the census data are going to be collected. So, the decisions of the ONS have an effect on whether someone gets Flying Start or not.

[48] But the question I've got is: I've got here that we were down to about 450 grants, with approximately 375 hypothecated. Can you tell me the split between local authorities, health and the third sector for those 375? You may want to do this in writing later on—but the split in terms of numbers and value.

[49] **Ms Morgan:** I'm very happy to follow it up in writing. I think there's a certain amount in the report on that. The report sets out where the hypothecated funding has gone between local authorities, the NHS and so forth. We'd be very happy to give you more detail on that, Mr Hedges.

[50] **Mike Hedges:** And the last question: something I don't like, but your predecessor did, is giving grants to grant givers. He seemed very keen on that. Having a third party involved in giving out grants, I believe, adds cost and also leads to problems, and has led to problems in the past. What's your view of generally giving out grants to other organisations who then just give out grants?

[51] **Ms Morgan:** I think it depends on the expertise that they have, and what the objectives of the particular project are. I read the previous PAC transcript, so I'm aware of the discussion that you had with my predecessor. I think it's quite difficult to generalise. Different arm's-length bodies can bring particular expertise. They can operate across Wales, perhaps in ways

that others can't, and we basically have to make a judgment, which includes value for money, about which organisation we think is best placed to deliver the objectives.

[52] **Mike Hedges:** I can think of one organisation that was created to give out grants, and though it was meant to be an all-Wales body, it seemed to be specifically centred and did almost everything it did in one geographical area. Will that ever happen again?

[53] **Ms Morgan:** I'm afraid I'm not aware of that case, but we will look very carefully at all the applications for grants.

[54] **Nick Ramsay:** Great. Rhianon Passmore with a supplementary question.

[55] **Rhianon Passmore:** Thank you. Forgive my sore throat. In regard to the narrative you gave at the beginning about the national fraud database and the independent review, I'm particularly interested, Chair, if I may, in terms of the minimum standards around due diligence. So, I don't know if you want to give a little bit more flesh on the bones about that now, or if it wants to be picked up later, Chair, in terms of other questioning. But it's something I'm very interested in.

[56] **Nick Ramsay:** Permanent Secretary, do you want to answer that now?

[57] **Ms Morgan:** Shall I say a little about the due diligence hub? That's been a very important development. What that means is that there is an online mandatory tool that has to be used therefore by all Welsh Government staff who are looking to make an award or a grant. And it checks the organisation that is proposed to receive the grant, and matches up to see whether there is other funding from the Welsh Government or elsewhere that has gone to them. That is, I think, something that has really improved the approach that we take internally. It's made people aware of the potential risks and, by making it completely mandatory, everybody has to go through that. Personally, that gives me a lot of assurance.

[58] I also in my introduction mentioned that I want to introduce in the Welsh Government the use of the national fraud database. That's obviously something that's used across many public and private sector organisations, including the police, the banks and others, and is designed to enable users to access data on confirmed cases of fraud. I think that will be immensely

valuable to us in our counter-fraud measures. For me, that will, I think, help make our systems much more robust.

[59] I also mentioned very briefly that I'm looking at getting an external independent review of the processes and the systems that we have in the Welsh Government to prevent and to detect fraud, and I'm thinking of getting somebody in from either another Whitehall department or from an NHS body, or elsewhere—a body that would have significant experience of tackling fraud. I would just underline that there is no reason to think that our current systems are lacking, although we can always improve them, and that's really what I want to do—to make sure that we're testing the system that we have by drawing on the best available advice.

[60] **Rhianon Passmore:** In regard to my specific area of interest, which is around the need, in my view, for a more 'minimum standards' and systemic way of working around due diligence in terms of protection for accounting officers and those that are in that very subjective position—we've talked briefly about Kancoat and other initiatives—well, not initiatives—other areas that have gone into different areas than they should have done. So, in terms of that 'minimum standard' way of thinking, it's something that I feel very strongly about. So, is there anything further that you can add to that in terms of where your line of thinking is around what that would look like?

[61] **Ms Morgan:** Yes, we are looking to introduce minimum standards for due diligence across the Welsh Government. That's a step on from making the due diligence hub mandatory. We're looking at how we do that. And I guess another point to make is that I am looking to encourage much more cross-team and cross-departmental working in the Welsh Government. I think it's what we're going to need to deliver the First Minister's programme for government, and it obviously also is very much in line with the five ways of working set out in the Well-being of Future Generations (Wales) Act 2015. So, this will be a priority for me. It's the next step on from work that I think has been very successful in putting in place the due diligence hub. That's a very long way of agreeing with you to say that the due diligence standards are coming next.

[62] **Rhianon Passmore:** Okay, thank you.

[63] **Nick Ramsay:** Lee Waters on this point.

[64] **Lee Waters:** Can I just very briefly follow up your last point there,

please, Permanent Secretary, about the joint working? One of the devils that has always tripped up this fine ambition is the operation of pooled budgets, and stopping people being very protective of the bit they think is theirs. I wonder how you plan to overcome that.

[65] **Ms Morgan:** Are you talking about staff resources or more widely?

[66] **Lee Waters:** Well, either.

[67] **Ms Morgan:** Just resources across the Welsh Government—

[68] **Lee Waters:** The practical reality of working across teams when you have to share budgets.

[69] **Ms Morgan:** Well, the First Minister is very clear that he wants to run a thoroughly joined-up Government. I think that we will have to move further in that direction in order to deliver the objectives in his programme for government.

14:30

[70] We're going through a process at the moment, as I touched on briefly in my introductory session, of turning those into four cross-cutting strategies. And that's the key point—that the objectives in the programme for government can only really be delivered effectively if we join up across different policy areas. That will have an impact on the budget. The Cabinet Secretary for Finance and Local Government is very keen to make sure that we align our budget better with the priorities in that programme for government, and, in fact, I have a meeting with him later this afternoon to talk about how we take that work forward.

[71] **Lee Waters:** Well, that's an excellent policy objective, but one of the difficulties is the civil service traditionally has been a hierarchical and siloed institution. So, how do you get them to play nice?

[72] **Ms Morgan:** Probably by playing not very nice. It is my job to really make sure that people work together much better. One of the first steps I've taken is to change the remit of the board of the Welsh Government, so that it will focus on delivery of the four strategies much more clearly. It will take them in turn. Now, that board obviously comprises a number of very senior non-executive directors, as well as the top officials of the Welsh Government.

So, getting everybody together to give very clear messages about joint working across the whole of the Welsh Government will be fundamental, and I will be working very closely with Mr Drakeford and his team to make sure that the budgets are lined up. You're right—it's not going to happen overnight. I couldn't possibly agree with your description of civil servants—

[73] **Nick Ramsay:** I think to say it's not going to happen overnight really is a brilliant understatement. I think one of the concerns of this committee over the last—certainly since I've been Chair, but beyond that, as well, is that the more the Welsh Government seems to attempt to align their budget priorities with their programme of government, the less it actually happens. So, if you can actually get that alignment at least moving in the right direction, I think we would all be very impressed.

[74] **Ms Morgan:** Well, that's my intention, and, as ever, I think having the PAC behind that, and challenging it, is very welcome.

[75] **Nick Ramsay:** Neil Hamilton, and questions on the Welsh European Funding Office.

[76] **Neil Hamilton:** I'd like to move on to European funds. I'll ask an easy question to start with, in view of the fact that you're new. We're halfway through, virtually, the funding period of 2014–2020, and I was wondering what your view is on the progress that WEFO is making with the current funding programmes. The auditor general, in his annual report on grants management, reported that 67 per cent, by value, of the funding programmes have already been committed, which compares with only 27 per cent, surprisingly, throughout the whole of the EU. I don't know to what date that figure applies—presumably, a few months ago. But I was wondering whether you could give us your current overview, assuming you've yet had time to have one.

[77] **Ms Morgan:** Well, in fact, I visited our Merthyr office and spent quite a lot of time talking to the WEFO staff there, as well as to the director of WEFO. It's important and there are a lot of unknowns, as I'm sure you don't need me to tell you. It's a period of real uncertainty about what will happen to current European funding. The First Minister has made very clear his own expectations for the future, and, in the meantime, we've got assurances provided by the Treasury for all structural and investment projects signed after the 2016 autumn statement, but before the UK leaves the EU.

[78] I was very impressed by the work that the WEFO team are doing. I gather that, to date, they've approved a total of 149 schemes, and that that equates to about 64 per cent of the potential overall EU funds available. The Commission officials in the Directorate-General for Regional and Urban Policy in Brussels have told us that the average level of commitments across the EU as a whole is less than half what we have achieved so far in Wales. So, that's very good news.

[79] I'm told also that a further 41 schemes are in the business planning stage, and well on the way to signing off. That would take us to about 75 per cent. So, we anticipate that we will be 100 per cent committed by the end of 2018, and that, we think, is very much in line with, if not ahead of, the position that we need to be in on commitments to make sure that we complete programmes by 2020 and get the best possible benefit for Wales from the funds that are still available to us.

[80] **Neil Hamilton:** Good. Well, that's very encouraging. As you've mentioned Brexit, I wonder if you can tell us whether there's any sign that the impending winding up of this organisation, which I presume is what will happen—or changing its name, anyway—in 2020 has had or is likely to have any effect on recruitment or whether the impending doom has inspired any sense of complacency on the part of those working within the institution.

[81] **Ms Morgan:** That was obviously one of the reasons why I went very early to the Merthyr office, where most of our WEFO staff are. I think the First Minister gave early and important reassurance to them when he underlined that all WEFO staff are, of course, standard employees of the Welsh Government, subject to the same terms and conditions. So, I think that immediate response helped reduce any fears.

[82] I found an organisation that felt confident and focused. They're very proud of their record so far in making those commitments. That's required a great deal of hard work. They've done it very successfully. We're obviously monitoring the situation, and I'm told that the level of leavers and joiners is really no different from normal. So, we're not seeing a sudden emptying out of the team at all. They were, very evidently to me, rising to the challenges that are ahead of them, and it was an office with a real feeling of energy.

[83] So, it was, from my perspective, a very good and a very reassuring visit. They're on the case. They're people who have a great deal of skills, and I hope that will also give them confidence, in addition to the First Minister's

assurance. They are people who I think would be widely deployable across the whole of the Welsh Government.

[84] **Neil Hamilton:** Presumably, after 2020, much of what WEFO does will need to be replicated with domestic programmes, in any event. So, there's no reason for people to think, in principle, that we're going to fall off a cliff edge then. So, I fully understand that.

[85] I'd like to move on to ask about where the Welsh Government sits in the league table comparing its error rate with the range of error rates reported for other programmes across the EU and where it would like to be. Again, the auditor general, just to put a bit of flesh on the bones here, has reported that the average error rate is less than 2 per cent, which compares with a massive 37 per cent elsewhere in the EU, apparently. So, again, that's rather an underarm ball to throw at you, in a way, but I wonder to what extent you think that we are at the irreducible minimum in terms of error, given the scale of the programmes in total, or whether you think that further progress can be made.

[86] **Ms Morgan:** We will always try and improve things further, if only not to let up on the progress that we've made. I have to say that, when I was coming here from Brussels, colleagues in the Commission assured me that the Welsh Government has an extremely high record in relation to the structural and cohesion funds. So, I was reassured from the start.

[87] The figure for the error rate in our report does actually relate to the 2015 annual control report. So, in our current report, it's quoting 1.9 per cent, but we've actually now had the error rate for the 2016 annual control report and that's come down to 0.39 per cent, which is a very welcome fall. Obviously, ideally, it would be zero, and we will keep on top of that error rate, but I'm very happy with that situation. I'm very glad that it has continued to remain very low, and I believe that it is significantly lower, as you were suggesting.

[88] **Neil Hamilton:** It is actually your own report, not the auditor general's report that I was referring to—an inadvertent error on my part there. But one of the things that is said in this report is that the error figure, to some extent, might be attributed to the change in methodology of the audit. Can you perhaps explain a little more about that and what it means?

[89] **Ms Morgan:** I'll give you my headline explanation, and then I may need

to pass to Gawain for a more detailed, expert explanation. You're talking about paragraph 2.37, I think, in our report.

[90] **Neil Hamilton:** Yes. Correct.

[91] **Ms Morgan:** Evidently, it's the European Commission that decides on the auditor's approach to extrapolating errors. We followed the methodology they gave us. It was then changed and, to be honest, without having continued both methodologies side-by-side, it wouldn't have been possible to determine what the difference might be between them. Our staffing resources don't really permit us to do that work. So, I can't explain how much the change in methodology has contributed to the final figure but, Gawain, do you want to say any more on the detail?

[92] **Mr Evans:** I think in terms of the detail, that's exactly as the Permanent Secretary says—without actually running the previous methodology, it's very difficult even to estimate against what difference it's actually made in terms of what the two figures would be. Obviously, with it being such a low error rate now, again, it would add to the complexity there, I think.

[93] **Neil Hamilton:** What is the change in the auditor's approach to extrapolating errors that, apparently, lies underneath this thing? What is the change of function or analysis that produces the different figure?

[94] **Mr Richards:** It's a different way of doing the statistical sampling because we'd reached the 1.9 error rate not by sampling everything and saying that it's 1.9, but you take what we hope is a representative sample of your projects, look into those, find an error rate from that and then extrapolate it. What the Commission did was change the way in which we were required to calculate the sample that we looked at. It referred to the way we treated some of the big projects and the way we classified them. We were a bit annoyed, really, because they were changing the rules on us at quite a lengthy—but they set the rules so we changed the statistical method.

[95] It means that your error rate can fluctuate a little bit because it's actually based on a statistical sample. But, broadly, it's accurate and certainly the Commission are. So, we would expect our error rate to fluctuate a little bit over the life of the programme. You'd expect it to come down gradually over the life of the programme because organisations get better at working with the programme. We get better at managing it. For us, the key number is getting under 2 per cent because that's the level of materiality for the

Commission.

[96] **Nick Ramsay:** Great, thanks. Turning to compliance with grants management and the health checks, I understand that the grant health checks were envisaged to be taking place at a rate of 20 per month. Are we around that ball game or what sort of rate is happening with the health checks?

[97] **Ms Morgan:** The health checks are not referred to in this report because we undertook those for a very specific purpose. They were like mini audits, really, and we decided that they were a good way of testing out our guidance and training. So, we carried those out, and they were valuable. They've been incorporated into our grants guidance and the training programmes that we provide. But I think there was a feeling that there was some duplication between those health checks and the full internal audit services that look at grant compliance. Therefore, we obviously turned to the internal audit services, but learned the lessons from the health checks that we conducted. So, they were very useful, but a temporary initiative. We've benefited from them. We've incorporated the lessons into our standard procedures, and now they're embedded in the internal audit work.

[98] **Nick Ramsay:** The Welsh Government hasn't commented on the coverage and results from the grants health checks in this year's annual report.

[99] **Ms Morgan:** That's right.

[100] **Nick Ramsay:** Are they generally seen then as an internal issue rather than something that would be for external consumption?

[101] **Mr Richards:** Yes, they're effectively a learning issue for us. What we found the health checks particularly useful for, and not from the internal auditor, is that we could see what the common errors and mistakes were that people at the desks were making. So, we drew on the health checks to construct our training programmes and feed that back. Then, we found after a while that we were just coming across the same issues each time we did a health check and we thought we'd probably actually got the value out of this approach that we needed to get. But, occasionally, still, we'll come across a new issue, and the team and I will go and look at that particular set of information. So, effectively, we'll do a health check when we feel that there's a new issue coming up that we need to learn from and then that feeds back

into the training programme across the board.

[102] **Nick Ramsay:** Gawain.

14:45

[103] **Mr Evans:** I'll just go on, if you don't mind. Certainly two of the areas that we did benefit from would be on award letters. We've changed the way that we train on award letters. Certainly, individual health checks threw up that there were questions about the completion of award letters and that's one area where we've improved, and the other would be on the PayGrants system. One of the things we picked up with the health checks was just the timely addition of records onto the PayGrants system and we've put that right as well.

[104] As David said, what the team do now—it's still in addition to what internal audit will undertake—is, if we get a query and we suspect that there might be something more behind that, then the team will make further inquiries, so it's more of a responsive-type approach rather than the health-check approach we used to take.

[105] **Nick Ramsay:** Do you think there'd be another case for having health checks at some point in the future at the same frequency as originally envisaged, or has that time gone?

[106] **Ms Morgan:** Well, we're not planning to, but to be honest, I'm very keen that we keep the whole system under review and if it looks as though we need to do that, we will certainly turn back to using health checks.

[107] **Nick Ramsay:** Good. Neil McEvoy.

[108] **Neil McEvoy:** I was just wondering how frequently the good governance group has met since February 2016.

[109] **Ms Morgan:** There I'm not absolutely certain. I haven't been to a meeting of it yet.

[110] **Mr Evans:** There were two meetings since the committee last met in 2016. That was in March and July, the last two meetings, and the next one is planned for 2 May this year.

[111] **Ms Morgan:** I should say that the good governance group is chaired by Gawain.

[112] **Neil McEvoy:** How would you rate the effectiveness of the good governance group? Open question.

[113] **Ms Morgan:** Well, I think it's showing its worth in terms of how we work with other organisations. So, just to give an example, on NSA Afan, which is a case that I'm sure you'll be interested in, although the group hasn't had a meeting on NSA Afan so far, their 2 May meeting is going to be conducting a lessons-learned exercise with that group. But throughout our investigations of NSA Afan, we've had very good co-operation with the other funders who've been affected, that is, the Wales Council for Voluntary Action and the Big Lottery Fund, and the key regulatory body, which is obviously the Charity Commission. They are all members of the good governance group, so I think what we are seeing is that that group has helped to improve communications at all levels, not just at senior and sort of formal levels, but very much at working levels as well, and that's what I would hope would continue. Gawain, do you want to say anything about how it works?

[114] **Mr Evans:** In terms of chairing the group, I've literally been asked to chair it in the last few months. As the Permanent Secretary said, it is a virtual group as well, in terms of we share information regardless of whether we meet or not. It's one of the things that I'm keen to get out of the first meeting, which is looking at the terms of reference, looking at the membership—have we got that right—and really, what are the goals of the group and what the other members would like to see, if anything, over and above what the group is there to undertake at the moment. That's really No. 1 on my agenda for the meeting in May.

[115] **Neil McEvoy:** Just from a different angle, outside of this building there's a lot of concern, really, about accountability, and this is for the Permanent Secretary, really. When things go wrong, as they have done on too many occasions, in my opinion, how will that be dealt with under your watch and will there be some serious accountability for people who—if you look at the Kancoat case—make some quite extraordinary decisions with public money?

[116] **Ms Morgan:** Well, I think—I don't want to—I don't think your question is really commenting about Kancoat—

[117] **Neil McEvoy:** In the future, really.

[118] **Ms Morgan:** I would put a different view about the investment decision that was made on Kancoat. But, where there is identified poor performance, which I think is what you're getting at in your question, then I will take that extremely seriously. I'm looking at the moment at how our performance management system works. That will be part of work that I'm doing to boost the skills and capability of the organisation, which I mentioned very briefly in my introductory session.

[119] **Neil McEvoy:** At the risk of digressing with this, a very quick answer: with what you said there, did you not think that the decisions taken over Kancoat were extraordinary?

[120] **Ms Morgan:** Well, Kancoat was obviously well before my time. I'm conscious that there was a Public Accounts Committee hearing specifically on that. We've had your report. We've accepted the recommendations that you made, and we will take those very seriously on board. I'm conscious also that when James Price appeared before the PAC, he said that the process of the investment panel assessing that bid had gone through several iterations, they decided to award the grant only after the third iteration, which had built in some additional mitigation measures, and that the investment panel decided to go ahead, recognising that start-ups are very risky.

[121] **Neil McEvoy:** I'll take that up with you in writing after today because that contradicts what I was told in other correspondence. So, okay, thanks.

[122] **Ms Morgan:** Okay. I'm very happy to write in response on that. But shall I turn back to performance management questions in general? I think it's always good to take stock of an organisation's performance management system. That's something that I'm going to do as part of an exercise to look at the capability of the organisation as a whole, and its capacity to deliver the programme for government.

[123] **Nick Ramsay:** Lee Waters.

[124] **Lee Waters:** I was just going to ask briefly about the grants centre of excellence that you've set up. It's dealt with a large number of queries and cases and I was just wondering if there's any pattern to the types of queries that have been made, any issues that have been consistently raised by grant managers.

[125] **Ms Morgan:** I've not been given any data on the kinds of queries that have come through. It's a body that is consulted during the early process of considering any application for a grant, and it provides central guidance, support, training and due diligence, all wrapped up. So I think the message that I've been given is that they have been successful in their overall aims and we are looking to build on those for the future.

[126] **Lee Waters:** I understand it's sitting in the finance department, is it?

[127] **Ms Morgan:** Yes.

[128] **Lee Waters:** Do you have anything to add to that?

[129] **Mr Evans:** I guess in terms of—. The number overall hasn't changed. I guess what I would say is that in terms of, in particular, the due diligence system over the last year, we've had a number of queries around the due diligence system, and the use of it particularly, because it was new to people. So we've obviously enhanced the training, and we've made sure that we've made that training available. I think it's over 900 people now—just to reaffirm that use. That's one area, if you had to pick on a particular area. But we get the full range of questions, obviously, throughout the year. I think the only other thing I would say is that, as we're getting better, the team feel the questions are actually getting slightly more complicated, if you can say that, and perhaps more cross-cutting. So, certainly, in the last year or so, we've had more dealings with, perhaps, the legal team, but other teams within Welsh Government where we've had to address more complex questions rather than the straightforward, 'How do I do this?' or 'What have I done wrong in the system?' Again, that would be area I think I'd perhaps focus on.

[130] **Lee Waters:** And the transition of this unit into your department; how well has that gone? Have there been any lessons learnt from that process?

[131] **Ms Morgan:** Well, it is comparatively recent, so we're still looking at the benefits. But the purpose of doing it was, really, as Gawain was saying, to build up a much closer relationship with the single payment team for the Welsh Government. That seemed to make sense, and bring it closer to the management of finance overall. So that seems logical. We hope that there will be benefits in removing single points of failure in systems support as well. We've now got a single ICT team who are supporting for finance, grants and HR, and they will operate on very similar platforms, using the same software

applications. So we're hoping that it gives us a lot more resilience in our system as well and, finally, probably more ability to flex resources between teams during critical periods. So, that's what we're hoping for from it, and we'll keep monitoring it to make sure that it does deliver.

[132] **Lee Waters:** And the ambition is to have, at some point, a single grants administration team for the whole Welsh Government. Did you have a timeline for that?

[133] **Ms Morgan:** We don't, because the work that my predecessor did was to centralise grants administration overall at group level. What we were talking about just there was the centre of excellence, but my predecessor developed a sort of shared-service approach to grants management through his Preparing for the Future programme, which I'm sure he talked to you about. They looked carefully at the benefits and risks of introducing a purely centralised system and decided to come at it through a sort of transition by centralising the grants administration at group level, and you'll know that there are four groups within the Welsh Government. So, we have shared services in those four groups, the idea being that they are kept close to the policy teams and expertise as opposed to being over-centralised. You're right that a single team is our goal in the medium term. I have no timeline towards that because we will assess fully how this transition has worked and what the lessons are that we can learn to from that to make improvements for the future, but I think the key question that will be in my mind when we assess that will be that there will have to be advantages to losing the proximity to the policy teams and policy expertise.

[134] **Lee Waters:** Okay. You mentioned at the beginning that you'd read the transcript of last year's hearing that Sir Derek Jones attended. One of the things that he committed to do was to reflect on what you've just said and look at the cost benefits of reducing the grants administration, and include that in this year's annual report. Obviously it predates your time, but I wonder if your colleagues can explain why that isn't in the annual report.

[135] **Ms Morgan:** I can only assume that Derek really focused his energies on the centralisation process. When I read the transcript, I agree, it sprang out at me that this was something that we have made a commitment to do and that we haven't done. I will repeat that commitment now and make sure that we follow it up. I'll write to you specifically on that and it's something that we will take forward for the future. Of course, it is quite difficult to address the kinds of savings that you make in administrative costs because

they are savings of percentages of people's time. But, nonetheless, it was a commitment that was made and we will follow it up.

[136] **Lee Waters:** But he did say that there was some analysis existing about the savings that had happened. So, is it possible to let us have that for the year that's gone?

[137] **Ms Morgan:** Yes.

[138] **Lee Waters:** Great, thank you.

[139] **Nick Ramsay:** Can I just ask you a couple of questions about NSA Afan and the prominent role that it had within the Communities First programme? How had the Welsh Government been monitoring the governance of NSA Afan? Have significant concerns been identified over the last few years, either by the Welsh Government or other funders, that you're aware of?

[140] **Mr Richards:** The answer to that is 'yes'. We had made a number of visits to NSA Afan over the years of the programme. Each of them had resulted in recommendations for improvements to processes and governance, which we were looking at increasingly closely as the time went on.

[141] **Nick Ramsay:** So, given that those have been identified, have the subsequent investigations into the NSA Afan case highlighted flaws in the Welsh Government's management processes that needed to be addressed, and have they been addressed?

[142] **Ms Morgan:** Can I say, I think at this hearing there is a limit to what we're going to be able to say about this particular case because you'll be aware that it's currently under investigation by the Welsh Government and by the police? We have a timeline of the monitoring visits that were carried out. I think it comes back to what I was saying earlier about improvements in the system. What's clear is that when we had the second whistleblowing incident in November 2016, we took very quick action to follow it up at once, and that led to the collection of evidence by our internal audit service to suspend and terminate funding, which is why it is now under investigation. You'll have seen the statement in January from the Welsh Government about the financial irregularities and that we are discussing this with the police. So, as I said, there's not a lot I can say, but I wonder if I could say a bit more about the lessons that we think we've learned from previous cases—

15:00

[143] **Nick Ramsay:** I'm aware that you can't go into too many specifics about the case, but, yes, if you can tell us about the broader lessons that have been learned, that would be helpful.

[144] **Ms Morgan:** Well, I think what we did was learn from the AWEMA case in the past, where there clearly were some flaws in what happened. That, for us, is the case that probably most closely parallels NSA Afan, and we applied those messages, including very clear messages from the PAC review of AWEMA, for which we were obviously grateful. I think that the first and overriding one was that we were criticised for failing to act on a timely basis in response to concerns that came out, whereas in the case of NSA Afan, we very quickly formed an investigation team and agreed a plan of action in response to those anonymous allegations. So, I'd say that we acted very swiftly, although cautiously, obviously. We were criticised on AWEMA for paying further grants to the organisation after areas of concern had been identified. In the case of NSA Afan, we reflected that: we acted very swiftly to protect our money, and we moved from quarterly to monthly payments of the Communities First grant.

[145] **Nick Ramsay:** On that point, Permanent Secretary, I appreciate that you turned the tap off—or Welsh Government turned the tap off—quicker than in the previous case with AWEMA. What about the money—the grant funding and the EU funding—that has been spent to date? Are there any plans to try and recover any of that?

[146] **Ms Morgan:** We are in the process of looking at that as part of the investigation, and I can't really say much more than that; we've not yet completed the work, in other words. But following on from the AWEMA experience, we overhauled our debt recovery processes, and I believe we should now be in a much stronger position to effect the recovery of costs that we've made.

[147] If I can make one final point, really, it's that on AWEMA we were criticised very strongly and rightly for not taking sufficient account of the impact of the failure and closure of AWEMA on the service users. In the case of NSA Afan, our policy officials got onto that very quickly and they worked closely with the local authority so that the Communities First services could be secured, and we transferred the staff funded by NSA Afan to Neath Port

Talbot County Borough Council very quickly. So, there was no interruption of Communities First services experienced by the end users as a result of investigating this project. And I think that's a very important lesson that we learned.

[148] **Nick Ramsay:** Mike Hedges, did you have a supplementary?

[149] **Mike Hedges:** My supplementary follows on from the last point you just made, Permanent Secretary. I believe that local authorities should have run all the Communities First in Wales, and we know that—tell me if I'm wrong—there have been no problems with Communities First that have been run by local authorities. There have been problems when it's been run by other organisations. Local authorities had the capacity to do it. In retrospect, do you think it was wrong not to give it out to local authorities throughout Wales, rather than giving it out on a piecemeal basis in some areas?

[150] **Nick Ramsay:** I appreciate you're not long in post, Permanent Secretary, so don't feel you have to—

[151] **Ms Morgan:** It's not actually very easy to comment on that, because there's an element of political choice about how to make that funding available, but basically it comes back to the point I made right at the beginning about why we use hypothecated funds, and we want to tie down very specific criteria and outcomes.

[152] **Mike Hedges:** I know in Swansea, for example, it was all run by the local authority in the end. There were a couple—one in Townhill and one in Clydach—that were run by separate organisations for the last reorganisation of Communities First. It's worked much better, I believe, when it's been run by a local authority, where it can also tap into other local authority expertise, and had local authorities' internal audit keeping an eye on things, as opposed to small organisations that didn't have the management capacity, and certainly didn't have the capacity of the organisation as a whole to run it effectively, in my opinion. You may think that's unfair and unjust. If you do, perhaps you or your colleagues could give me an example of somewhere where that is untrue.

[153] **Ms Morgan:** I don't have details to hand, I'm afraid, of the kind of range of projects that we would need to quote to be able to counter that. But, again, I'd be very happy to write with details of some of our projects, or, indeed, to suggest that you might see them. But, equally, as I said right at

the beginning, I'm very keen to learn in this job, so I will look at the—

[154] **Nick Ramsay:** I think Mike is touching on some broader issues about how we do seek to deliver these grant-funding programmes.

[155] **Mike Hedges:** There seems to be within either the Government, politically, or the Government civil service a lack of willingness to trust local authorities, which are probably the most trustworthy organisations you can give money to, and to want to give it to lots of other organisations that, in many cases, turn out to be much less trustworthy. That's the point I'm trying to make—

[156] **Nick Ramsay:** Anyway, if you can just agree to consider that, that will help us move on to the final set of questions.

[157] **Ms Morgan:** We will certainly consider that, and I would hope that the figures given in the report about the balance of hypothecated and unhypothecated funding, a great deal of which goes to local government, show how much trust and confidence we have in local government to deliver excellent outcomes.

[158] **Nick Ramsay:** Great. That's fine. We're into the last 10 minutes now. We've still got a few questions left for you, and on the broader issues of Communities First—Rhianon Passmore.

[159] **Rhianon Passmore:** Thank you, Chair. Paragraph 4.7 of the 2016 annual report discusses the criticality of pursuance of usual requirements around good governance of EU structural funding in the transition, and it's very well known that we need to be doing that. There's also a perception of risk, isn't there, in terms of good governance issues being downgraded and diluted during the transitional phase-out of Communities First? So, what arrangements is Welsh Government going to support or make in terms of a more orderly transition out of Communities First if there is a perception that this may be diluted?

[160] **Ms Morgan:** You'll have seen the oral statement from the Cabinet Secretary for Communities and Children. On 14 February, he set out the plans for phasing out Communities First in order to develop and then embed a new cross-Government approach. The idea is that the new approach is going to be built around early years, employment and empowerment, which will tackle the root causes of poverty. I think the way that the funding has

been allocated ought to make sure that we can have an orderly and fair transition for the individuals and organisations concerned. Phasing it out over a 12-month period means that there's time for proper exit arrangements to be put in place. We've developed some guidance material to give to the lead delivery bodies to help them work through that sort of process, and we have asked for outline transition reports to come to the Welsh Government to be assessed in coming weeks to make sure that we have confidence in the transition process. Each of those transition plans will, obviously, give details of the staffing arrangements, funding forecasts and community involvement.

[161] So, I think we have a process of both funding and support for the organisations that lends itself to making sure that the transition will be smooth. That's what we're aiming for. Of course, I can't guarantee that it will be utterly smooth for every single project. It's been a very large-scale programme and our intention is, certainly, to minimise disruption as we phase it out and to develop an appropriate new structure. I was very struck by a comment that the Cabinet Secretary made at the end of his statement. He said:

[162] 'change is never easy, but we cannot ignore the combination of new and deep-rooted challenges we face. We must have courage to find fresh ways to respond...That is...what I...and all of my Government colleagues are determined to do'.

[163] That really underpins the system, along with the fact that it is designed to be very much a process of phasing out and transition into a new programme.

[164] **Rhianon Passmore:** Thank you. With regard to the lessons that have been learned around former transitions from different transitional fundings, what have we learned from that experience in terms of applying it to Communities First? There is concern in terms of, for instance, redundancy and who picks up redundancy, and also, as has been touched upon, those who are actually currently relying on those programmes, and where they are working—and yes, the majority, we heard, in local authority areas are a lifeline for some communities. So, what lessons have we learned, as a Welsh Government, in terms of these periods of time?

[165] **Ms Morgan:** I think the main lesson we've learned is not to let people fall off a cliff, and that's the thinking behind this transition approach, plus

the additional capital funding that's being injected. So, I think that is the main thing that we've learned—that the programme, which has been extremely important, will be phased out and, at the same time, we're undertaking a very wide-ranging public consultation exercise to help us draw up the successor programme.

[166] **Rhianon Passmore:** And with regard to the specific point about redundancy, it would be useful if we could gain a bit more insight as to who is picking that up.

[167] **Ms Morgan:** I don't know what the terms are on redundancy specifically, but I will find out, because you're absolutely right, that's an extremely important point.

[168] **Nick Ramsay:** Mike Hedges.

[169] **Mike Hedges:** Two of the three legs of Communities First were health and education—health improvement and educational improvement. You didn't mention them in the list of things you said were going to be going forward. Will that mean that things like the smoking cessation schemes and things like the family learning will disappear?

[170] **Ms Morgan:** I don't know what will be going forward. It will depend very much on the consultations that are ongoing. I think the Cabinet Secretary has made very clear that the basis of the new programme will be built on early years, employment and empowerment—tackling the root causes of poverty, in other words. There was a feeling that Communities First, he said, no longer responds to or reflects Welsh Government priorities and the economic and legislative contexts. So, there is a process under way to look at what should be the successor programme, and that will involve all key stakeholders and actors.

[171] Internally, in the Welsh Government, we've built up something with the rather snappy title of 'building resilient communities programme board'. That's pulling together all the lessons that we can learn and it's going to be looking at how to build that new approach to provide guidance on the way forward. It will be a period of extensive consultation and development.

[172] **Nick Ramsay:** Has the Cabinet Secretary given any indication of how long he thinks that Communities First hasn't been quite hitting the target, because it's not that long ago that it was the all-singing, all-dancing answer

to all our poverty problems, if you listened to the Welsh Government? So, at what point did it no longer fit in with our economic and legislative priorities?

[173] **Ms Morgan:** I mean, I can only, really, refer to the statement made by the Cabinet Secretary on that, and I think a feeling that, although the programme has achieved and delivered a great deal for local communities and for individuals—I mentioned empowerment—it's perhaps a sense that these were programmes that needed to be looked at in terms of how they engage local stakeholders, as opposed to, sort of, doing things to them. So, it's that kind of approach that we're looking to foster now, and I think that fits very closely with the ambitions in the First Minister's programme for government and, of course, with the objectives of the well-being of future generations Act. So, I think it's been a gradual process and then an assessment looking at the poverty outcomes for which the programme was designed to—

[174] **Nick Ramsay:** Its replacement programme will be more designed for looking at causes or helping to alleviate—

[175] **Ms Morgan:** That's right.

[176] **Nick Ramsay:** Fair enough. Mohammad Asghar.

[177] **Mohammad Asghar:** Thank you very much, and, Permanent Secretary, thank you very much for the information you have given us, and I'm glad that you are still learning. There are certainly advantages to simplifying grant scheme management in Wales—I agree with that—but concerns were raised regarding education improvement grant for Gypsy and Travellers. Their funding was being ring-fenced, which it's not now.

15:15

[178] With that in mind, what measures is the Welsh Government undertaking to ensure that the simplified grant structures do not leave particular Welsh communities behind? There are a lot of other communities apart from Gypsies and Travellers, so what is your plan for them, please?

[179] **Ms Morgan:** Well, I think it comes back to the sort of message I was giving in relation to the Communities First programme: very extensive stakeholder involvement and working very closely with the communities themselves to generate the right kind of programmes that will meet their

needs. I guess the work that's going on in the Valleys is also an example of that extensive consultation, directly with stakeholders and communities. I think, personally, that is the best possible way to make sure that we respond to the issues that really matter to local people. So, the Valleys taskforce, I think, is an example. It's perhaps a test bed for how we will work on the four strategies.

[180] **Mohammad Asghar:** Thank you very much. And finally, the timing of future annual reports on grants management. The Welsh Government is still envisaging a stand-alone report concerning at least an equal amount of data—or details, rather.

[181] **Ms Morgan:** Yes, absolutely. It will be a stand-alone report of the sort that we have been producing for some time now, but it seemed to us to make a lot more sense to align the timing. It won't be in the same document, but to align the timing so that you can look at all of those data together. It seems to make a great deal of sense, and I hope it's something that you would appreciate.

[182] **Mohammad Asghar:** Thank you.

[183] **Nick Ramsay:** Good. We always appreciate readily available and understandable data, Cabinet Secretary—or Permanent Secretary, I should say. Thank you for being with us today and answering our questions so fully. I appreciate you're still pretty new in the job and perhaps getting your head around quite a wide range of issues. But thank you for that. Thank you, Shan Morgan, Gawain Evans and David Richards for being with us today.

[184] **Ms Morgan:** Thank you very much, Chair. It's clear to me that this is going to be a priority for me for the future. Preparing for this event has been really helpful. It's accelerated my already vertical learning curve and left me understanding that I have a great deal more to learn and that this is a fundamentally important area. So, I very much welcome the steer that you've all given me, one way or another, in areas that I need to focus on. Thank you.

[185] **Nick Ramsay:** Always happy to give a steer in one way or another. We will let you have the transcript of today for you to look at before it's finalised, just to check for any glaring inaccuracies. But, thank you.

15:17

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod**
**Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o'r cyfarfod ar exclude the public from the meeting
gyfer eitemau 5, 6, 7 ac 8 ac o for items 5, 6, 7 and 8 and the
gyfarfod y pwyllgor ar 8 Mai yn unol meeting on 8 May, in accordance
â Rheol Sefydlog 17.42(vi). with Standing Order 17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[186] **Nick Ramsay:** Okay. I propose, under Standing Order 17.42, that we move into private session for items 5, 6, 7 and 8 of today's meeting, and item 1 of the meeting on 8 May. Yes.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 15:18.

The public part of the meeting ended at 15:18.