



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

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

Dydd Mawrth, 24 Ebrill 2012
Tuesday, 24 April 2012

Cynnwys **Contents**

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting

Cynnydd ar Gyrraedd Safon Ansawdd Tai Cymru—Tystiolaeth gan Gymdeithas Llywodraeth
Leol Cymru a Sefydliad Tai Siartredig Cymru
Progress in Delivering the Welsh Housing Quality Standard—Evidence from the Welsh Local
Government Association and the Chartered Institute of Housing Cymru

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

Papurau i'w Nodi
Papers to Note

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
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Eluned Parrott	Democratiaid Rhyddfrydol Cymru (yn dirprwyo ar ran Aled Roberts) Welsh Liberal Democrats (substitute for Aled Roberts)
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Lindsay Whittle	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Paul Dimblebee	Swyddfa Archwilio Cymru Wales Audit Office
Keith Edwards	Cyfarwyddwr, Sefydliad Tai Siartredig Cymru Director, Chartered Institute of Housing Cymru
Sue Finch	Swyddog Polisi Tai, Cymdeithas Llywodraeth Leol Cymru Housing Policy Officer, Welsh Local Government Association
Michael Hearty	Cyfarwyddwr Cyffredinol, Cynllunio Strategol, Cyllid a Pherfformiad, Llywodraeth Cymru Director General for Strategic Planning for Finance and Performance, Welsh Government
Victoria Hiscocks	Rheolwr Polisi a Materion Cyhoeddus, Sefydliad Tai Siartredig Cymru Policy and Public Affairs Manager, Chartered Institute of Housing Cymru
Tony Jaques	Pennaeth Gwasanaethau Tai Cyhoeddus, Cyngor Bro Morgannwg Head of Public Housing Services, Vale of Glamorgan Council
Elin Jones	Rheolwr Tai ac Adfywio, Sefydliad Tai Siartredig Cymru Housing and Regeneration Manager, Chartered Institute of Housing Cymru
Y Fonesig/ Dame Gillian Morgan	Ysgrifennydd Parhaol Llywodraeth Cymru Permanent Secretary to the Welsh Government
Robin Staines	Pennaeth Gwasanaethau Tai, Cyngor Sir Gâr Head of Housing Services, Carmarthenshire County Council
Arwel Thomas	Pennaeth Llywodraethu Corfforaethol, Llywodraeth Cymru Head of Corporate Governance, Welsh Government
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

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

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

*Dechreuodd y cyfarfod am 9.02 a.m.
The meeting began at 9.02 a.m.*

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

[1] **Darren Millar:** Welcome to today's meeting of the Public Accounts Committee. I remind people that headsets are available for translation, and that they can also be used for amplification purposes. Everyone should ensure that their mobile phones, electronic devices and BlackBerrys are switched off, because they interfere with the sound and broadcasting equipment. I remind everyone that, in the event of an emergency, an alarm will sound and an usher will direct everyone to the nearest safe exit.

[2] I welcome Lindsay Whittle to his first meeting of the Public Accounts Committee. Lindsay will be replacing Leanne Wood as a permanent member of the committee. We thank Leanne for her work while she was a member of the committee.

[3] We also welcome Eluned Parrott, who is substituting for Aled Roberts. I have not received any other apologies.

9.03 a.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public
from the Meeting**

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

the committee resolves to exclude the public from the meeting for the next item in accordance with Standing Order No. 17.42(vi).

[5] I see that everyone is content with that.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 9.03 a.m.
The public part of the meeting ended at 9.03 a.m.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 9.10 a.m.
The committee reconvened in public at 9.10 a.m.*

**Cynnydd ar Gyrraedd Safon Ansawdd Tai Cymru—Tystiolaeth gan
Gymdeithas Llywodraeth Leol Cymru a Sefydliad Tai Siartredig Cymru
Progress in Delivering the Welsh Housing Quality Standard—Evidence from
the Welsh Local Government Association and the Chartered Institute of
Housing Cymru**

[6] **Darren Millar:** We take evidence today from the Welsh Local Government Association and the Chartered Institute of Housing Cymru on the Auditor General for Wales's report on progress in delivering the Welsh housing quality standard. Given that there are so many witnesses before us this morning, will you all introduce yourselves for the record?

[7] **Mr Staines:** I am Robin Staines, head of housing services for Carmarthenshire County Council. I am also chair of the all-Wales chief housing officer's panel.

[8] **Mr Jaques:** I am Tony Jaques, head of housing services for the Vale of Glamorgan Council.

[9] **Ms Finch:** My name is Sue Finch, WLGA housing policy officer.

[10] **Ms Hiscocks:** I am Victoria Hiscocks, policy and public affairs manager at the Chartered Institute of Housing Cymru.

[11] **Ms Jones:** I am Elin Jones, housing and regeneration manager at CIH Cymru. I am also responsible for the Welsh Government's Inform to Involve project.

[12] **Mr Edwards:** I am Keith Edwards, director of CIH Cymru.

[13] **Darren Millar:** Welcome to you all. We are very grateful that you have taken the time to come to meet with us today. Thank you for the papers that you have already provided, which have been circulated to committee members. We are going to go straight into questions. It is not necessary for you all to answer every single question, but if you have anything to add to what somebody else has said, please indicate so and I will ensure that you have the opportunity to chip in.

[14] Are you content with the overall rate of progress in trying to achieve the Welsh housing quality standard? I noticed that one of your papers talked about the possibility that the momentum that has built up in trying to achieve the 2012 goal, which has obviously not been achieved, may cause things to slip thereafter. Do you want to comment on that and make some opening remarks about where you think things stand?

[15] **Mr Edwards:** Absolutely, on both points, Chair. Obviously, 10 years after the standard was set, 60% compliance is, in one sense, not a good news story. However, within that, there has been tremendous progress, which you will hear about from one or two of our local authority colleagues shortly. In terms of keeping the momentum going, we see four things. One is that the Welsh Government needs to scrutinise, along with committees, progress from here on in, and not see 2012 as a watershed. We certainly think that there is room for independent scrutiny through the Wales Audit Office going forward. There is an issue about individual housing associations and local authorities ensuring that they have robust evidence to monitor progress, involving their tenants in that process as well. We also think that there is a role for independent scrutiny by tenants. We have been working with the Welsh Tenants' Federation Ltd on 'Focus on Delivery', which will, hopefully, give added impetus to ensuring that the standards are achieved and maintained.

[16] **Darren Millar:** Do you want to tell us a little bit more about 'Focus on Delivery'?

[17] **Mr Edwards:** As you will know, there are varying degrees of confidence with regard to the 40% of stock that has not reached the standard and on whether it will achieve the standard in a reasonable time. We think that the people who are likely to lose out if we do not achieve the standard are the tenants. We have warned on a number of occasions about the possibility of a two-track approach to WHQS, where some authorities could be achieving the standards while neighbouring authorities see their houses not only failing to reach the standard, because of a lack of investment, but actually deteriorating. Tenants have a key role, independently, in ensuring that the focus remains, and we have been working with the Welsh Tenants' Federation. It is early days, but we launched the initiative at our conference two months ago with the express aim of raising publicity in the initial stages and then doing some detailed work.

[18] **Darren Millar:** Does the WLGA want to add anything to that? What sort of priority is this having now within local authorities, given that the target date has shifted somewhat?

[19] **Ms Finch:** Given the constraints that authorities have been operating within, 60% compliance of all social housing stock by 2013 is a good achievement. One of the issues that has affected the rate at which authorities can make progress is the financing arrangements for council housing. First, council housing is historically underfunded, so that has resulted in a higher level of backlog than you would normally see in social housing.

9.15 a.m.

[20] Secondly, the amount of money available for investment is constrained, and the ability of local authorities as public bodies to borrow money on the private market is, obviously, limited. Given those constraints on the level of investment that authorities can access, we have made very good progress.

[21] **Darren Millar:** You are talking about the housing revenue account system, are you not?

[22] **Ms Finch:** Yes.

[23] **Darren Millar:** We may come back to that later during our questions.

[24] **Julie Morgan:** The environmental demands are a unique aspect of the quality standards. How easily are local authorities coping with the demand for creating a safe and attractive environment?

[25] **Mr Staines:** It is not only local authorities but all public landlords that have to deal with environmental standards. The key to that is how you engage residents and tenants in the development of those standards. Most authorities and associations have probably put that to the rear of the programme. We have been focusing on how we manage the stock, how we make the best possible use of the stock and how we deliver the repairs, modernisation, jobs and better health. That has given us the opportunity to work with tenants and communities so that they can think about the standards they want to see locally, and then we can react. It is very difficult to set an external standard, because not every community or area is going to want the same standard. What people want in urban areas is vastly different to what people want in the rural areas. The only way to deal with that is by engaging local people. Kitchens and bathrooms may be the same throughout the county, but the environmental standards are very different. The key is getting that engagement in place. However, I think that we have probably left that to towards the end of the programme. I do not think that it has been the real focus of delivering the Welsh housing quality standard as yet.

[26] **Mr Jaques:** In the Vale, that was one of the factors that led us to explore stock transfer—simply because the local authority has some very large problematic estates, and we could not see any way of raising enough money to try to make an improvement in those estates that would actually benefit tenants and local residents. To some extent, that is still the case in the Vale following the ‘no’ vote.

[27] **Julie Morgan:** Do you think that this standard should be assessed separately from the other standards?

[28] **Mr Staines:** I think that all parts of the management aspect of the standard—the building works, the improvement aspect and the environmental standards—should be set locally and by tenants and residents, because people have different expectations. WHQS is a good minimum, and we have to remember that it is a minimum for all the housing stock in Wales and not just the public housing stock. It is unfortunate that the focus has been on the public sector, because the bigger risks are in the private sector, not in public housing. For me, it is a good baseline to set centrally, but where I think the regulation comes in is with regard to how landlords are engaging tenants on developing their own particular take on the standards to reflect local needs and conditions.

[29] If I may just answer the point about progress, everybody in the housing profession would love to see progress being at 100%. We would love to see our tenants’ homes in the best possible condition, so that they can flourish. However, we must go back to how we got ourselves into this, which was through years and years of historic underinvestment in public housing in Wales. That underinvestment had to come to a point where we had to do something about it. Personally, I think that progress has been slow. We would have loved to have reached 100% across all public housing by now, but I do not think that we should take our eye off the achievements that we have made, the jobs that have come through this and the health benefits that have come through this. So, yes, it is slow, but we are firmly on the right track to deliver it now.

[30] **Darren Millar:** As we go through the questions, we will look in more detail at why some have failed to achieve and others have gone full steam ahead.

[31] **Mohammad Asghar:** My question to the panel relates to monitoring and reporting on WHQS compliance. Why do you think some landlords found it more difficult than others to provide the WHQS compliance data requested by the Welsh Government in 2010?

[32] **Mr Edwards:** From our perspective, there is a lack of a consistent approach to monitoring progress against the standard, and one of the things that the report rightly flags up is that we need to focus on a much more consistent approach to gathering the data so that we can compare individual authority areas.

[33] **Ms Jones:** To pick up on that point, it is very difficult to compare like with like because people are using different monitoring frameworks. Our evidence suggests that a robust monitoring framework would enable that consistency across the sector, so that we can compare like with like across local authorities and registered social landlords.

[34] **Darren Millar:** There is no external auditing of the standard at all. It is all self-assessment by the landlords, is it not?

[35] **Ms Jones:** It is, but I should say, with my other hat on, as vice-chair at the United Welsh Housing Association, that we have now included WHQS as part of our auditing framework so that we will have an external validation and, hopefully, an independent view of how we progress to meet WHQS.

[36] **Darren Millar:** Obviously, that is good practice, but not all landlords are doing that, are they?

[37] **Ms Jones:** No.

[38] **Darren Millar:** What proportion of landlords have some external verification? Do we know?

[39] **Mr Staines:** The focus is on whether the individual business plans stack up, rather than whether it is being delivered on the ground. That has been our experience with some of the work the Welsh Audit Office has done on our business plan. We provide all the figures to our members, and obviously all local government figures are published—they go through our scrutiny arrangements, we work with our tenants, and the figures go through full council, so we have to be sure that those figures are correct. The business plans are fine, but the problem is the on-the-ground delivery—making sure that the things that we have promised our tenants are being put in place.

[40] **Darren Millar:** But with respect, if you have a standard and you are self-assessing against it, and there is no external verification of that, how can the Welsh public, and how can tenants be confident that their house is meeting the standard simply because someone goes around saying, ‘You are meeting the standard because I said so’? A consistent benchmark is really important. I like the external verification that is obviously being done in your organisation, but clearly the majority of others do not appear to have any external verification at all. Are there any potential solutions other than that one that you think might be helpful?

[41] **Mr Edwards:** Ultimately, it leads back to the Welsh Government. In terms of any more requirements for robust and consistent frameworks for measuring, essentially that has to be driven by the Welsh Government.

[42] **Darren Millar:** Would that be through an inspectorate of some sort?

[43] **Mr Edwards:** You would then get into a game that was not resource-light.

[44] **Mike Hedges:** Something that I have never quite understood is why houses are not dropping out of the standard. Am I missing something? Houses that met it 10 years ago now have bathrooms, kitchens and so on that are 10 years older. Every time we get information it is cumulative—we had 50%, and now we have added another 10%, but we do not seem to see anything dropping off the end. Am I missing something?

[45] **Ms Finch:** That is an important point. The target date is 2012, but we do not actually have a vision of how we sustain that going forward, and how we monitor it.

[46] **Mike Hedges:** That is not the point. If a house had a 10-year-old bathroom or a 15-year-old bathroom in 2002, 10 years later it would have one that is 10 years older. How do you identify those that are dropping out of the standard because they have got older? It seems to me that it is cumulative.

[47] **Mr Edwards:** The important thing to remember is that all RSLs and local authorities have to have a 30-year business plan, and they should have an asset management strategy within that that allows for replacement over time. You are right in terms of the bathrooms; I think that the limit is 15 years, but if you look at the investment profile for stock transfers, for example, although they spend a lot of money in the first five years, they continue to spend money over the 30 years of the business plan.

[48] **Mr Staines:** Just to add to that, if the bathroom is 10 years old and it is in perfectly

good condition, why would we rip it out and put a new one in? If the tenant is happy with that, and we are happy with that as the landlord and the asset manager, we would not necessarily change it. The original standard talked about a roof being no more than 70 years old; we have roofs that are 100 years old. In terms of public money, why on earth would we replace them? There has to be a bit of creative thinking here. In asset management strategies you replace when needed, or preferably just before failure, rather than thinking that the date is the key. I do not necessarily believe in that.

[49] **Mr Jaques:** We have just developed an asset database that identifies the life expectancy of component parts, so that is logged in the database and will trigger an inspection at that due date.

[50] **Darren Millar:** That is helpful. We will move on now.

[51] **Lindsay Whittle:** This is a fascinating debate, and I could have talked to you for an hour on that last subject alone, because I was previously a housing professional. What is your assessment of how effectively landlords have engaged tenants in the planning and delivery of the Welsh housing quality standard? Incidentally, I am not a huge fan of the Welsh housing quality standard; I think that it is set too low, and I think that tenants should be able to expect a far better standard from their landlords. I do not, for example, see the point in putting brand new bathrooms, windows and kitchens in houses that are way past their sell-by date. There are 90-year-old council houses in my area that, quite frankly, deserve to be demolished and rebuilt to a far better standard. There is nothing more frustrating for tenants than redecorating their entire house, because they may have had a little windfall, and then along comes the landlord and says, 'We are putting in new windows, a new kitchen and a new bathroom'. That is very frustrating. Do you plan effectively with the tenants, and do you give tenants choice regarding the colours of kitchens and bathrooms?

[52] **Mr Staines:** On the last point, although I cannot speak for everyone, we publish our work programme seven years in advance, so tenants know seven years in advance when the works will take place. So, they knew whether they should go ahead and redecorate or perhaps wait until the works are done. That is about giving people choice. I think I can speak for almost all landlords across all sectors in saying that there is genuine choice involved in the type and colour of kitchens and bathrooms, and in relation to external works. Perhaps CIHC can provide a bit more detail on that. However, there is genuine choice.

[53] In terms of setting the standard, some landlords have worked with their tenants, so tenants have set the standard. They have been involved in the planning and the delivery from day one. That leads to the best projects, because they are tenants' homes, not ours. When they are engaged at the beginning, the process is smoother and the delivery is better. So, I agree that the WHQS is a minimum, but the additions to that have to reflect local priorities.

[54] **Mr Edwards:** By and large, the WHQS programme has been a big boost to tenant involvement and engagement. I would not want to generalise too much, because there are obviously exceptions, but if you take Robin's authority, the Carmarthenshire housing standard was formed in partnership between the authority and its tenants and is the result of a lot of intensive work. Many of the stock transfer organisations, like Bron Afon Community Housing and Cynon Taf Community Housing have set up quality and design fora, where tenants are integral to the work of setting the standards, selecting the contractors and monitoring contractors' performance. So, there is a sense in which tenant participation and tenant involvement has been boosted significantly by the WHQS programme. The other dimension perhaps takes it to another level. Four of the 11 stock transfer organisations are community mutual organisations, where tenants are, in effect, the shareholders of the new organisation and have a clear and ongoing role in managing the strategic direction and the day-to-day management of organisations.

[55] **Lindsay Whittle:** I thank Mr Staines for his previous comment in relation to the last question about not ripping out kitchens and bathrooms that are of a good standard. I have had the same experience, and it would have been an act of vandalism to rip out some of the kitchens that I have seen that have been put in by tenants. That was a good point to make.

[56] **Darren Millar:** I know that you would like to come in, Tony, to make a brief comment.

[57] **Mr Jaques:** Yes, I would just like to make a couple of points. We have tremendous mechanisms to enable tenants to be engaged, but we are clearly engaging only with those tenants who wish to be engaged. We send a lot of information to all of our tenants, but I do not know how effective that is. One area in which we are very successful is that, before we start work on a particular property, we meet the tenant six weeks in advance with the contractor and the kitchen designer, and we will discuss fully with the tenant their aspirations and what we can achieve. That is the best form of engagement in this type of process.

[58] **Jenny Rathbone:** We have heard lots of examples of good practice, but can we hear from the WLGA about what is happening in those authorities where we know you will not meet the housing standard? How much do tenants know about what their entitlement should be? How do they know that what they are being told by the local authority is correct?

[59] **Ms Finch:** Part of the balloting process in those authorities will be a discussion about what can be achieved through transfer as one option, and what can be achieved by retention as another. So, when tenants go to that ballot, they are making a decision based on the information that they are provided with, which is required to be a balanced position.

[60] **Jenny Rathbone:** I have heard anecdotally that that does not always happen.

9.30 a.m.

[61] **Mr Staines:** Most authorities are now in a position to meet the standard. They have to think very carefully about borrowing, because there is an issue regarding whether authorities wish to take on prudential borrowing in order to meet the standard. The debate is around the dates now, because there has been mention of 2019, 2020 and 2021, which is another eight or nine years. As a nation, are we prepared to accept that it will take that long for those tenants to have their homes brought up to a reasonable standard? So, most authorities have plans in place, but it will take a long time for them to get there, unless they go down the borrowing path or we give them more options in terms of how they can deliver it—whether that is a governance option, a financial option, or both. That is something that we would like to see being developed.

[62] **Darren Millar:** You wanted to come in quickly, Julie.

[63] **Julie Morgan:** To go back to the matter of the kitchens and bathrooms, what is the issue about redecoration after kitchens and bathrooms have been put in? Is it a requirement that that is done as part of the standard?

[64] **Mr Staines:** I think that the issue is that tenants take great pride in their homes; they may have fully redecorated their homes or made their own enhancements to them. It is then a question of whether we come in as the landlord and force them to have work done so that we can say that the house is 100% compliant. We in Carmarthenshire do not do that. If the tenant does not want the work to be done or does not want the work to be done immediately, we will push them back in the programme and let them decide when they want the work to be done. So, while there is desperation for 100% compliance, we have to look at what our tenants want

and ensure that we are not disrupting their lives.

[65] **Julie Morgan:** It is not so much the issue of whether the tenants want it or not, but if they do, do you then redecorate after the work has been done? A number of issues have been brought to my attention and I was not certain of the answer.

[66] **Mr Jaques:** The council has made the decision to redecorate kitchen and bathroom areas, but only those areas.

[67] **Julie Morgan:** So, this decision is made on an individual council basis.

[68] **Mr Jaques:** Yes.

[69] **Darren Millar:** Thank you for that.

[70] **Eluned Parrott:** Looking to the future of the WHQS, one of the things we are worried about is slippage in terms of the time frame, but moving forward in terms of how we iterate what the standards ought to be for the future, what changes do you think the Welsh Government ought to make? Are there any policy objectives that you would add to the standard? Are there any that you would perhaps take away from it?

[71] **Ms Finch:** It is important that we have some stability and certainty about the standard. We need to ensure that is not constantly changing over time. The area where there is consensus that there may need to be a discussion about changes is that of environmental efficiency and energy efficiency measures and that is probably the area where there has been most debate regarding whether that needs to be revised. However, it must be in the context of considering whether, because there are higher standards in some aspects of the work, it may be time to revisit the matter of whether the standards around, for example, kitchens and bathrooms have represented the best use of public money, because I think that we would all acknowledge that there have been many instances where, because the standard requires kitchens to meet certain standards, in many cases they are being ripped out when they could be adequate for a further period of time. So, it is about looking at it as a balanced whole rather than picking out individual elements that need to be changed.

[72] **Ms Hiscocks:** We would support that. The environmental standard is the one that our members, the people we deal with and tenants tend to raise as the issue that needs to be addressed in future, particularly in the context of rising fuel poverty and all the other issues that surround that. We recognise that we do not want to be changing things constantly; that is not great for business planning, and any changes to the standard need to be carefully thought out and their impact needs to be assessed. However, within that context, we think that we need to have a dialogue regarding where they go next in relation to the WHQS, because we need to be moving forward constantly. Whatever the debate on that and whatever we come up with, we think that it should be done inclusively with tenants, housing associations and other social landlords, and the Welsh Government. There needs to be an inclusive dialogue.

[73] **Darren Millar:** Elin, do you want to add something?

[74] **Ms Jones:** Yes, very quickly. We need to give careful consideration to what comes next because, as Vicky had said, there are existing business plans that we do not want to affect adversely. We held our national housing conference a few weeks ago, at which we hosted a WHQS session. Some of the feedback from our speakers raised the possibility of removing some elements of the WHQS for the future and replacing them with options relating to climate change, fuel efficiency and, of course, the inclusion of tenants in any agreements that may be put in place for the future.

[75] **Darren Millar:** Do you want to come in, Robin?

[76] **Mr Staines:** First, there needs to be clarity about whether the standard applies to the private sector as well as to the social housing sector. Secondly, there is a need for some more policy areas in relation to the options for delivery, as opposed to the two that have been available so far. Thirdly, I would like the standard to be measured on outcomes not inputs.

[77] **Darren Millar:** Thank you. That was nice and concise.

[78] **Eluned Parrott:** Following up on that slightly, we are essentially talking about the need for clarity to plan for the future, but also the need for a period of discussion and reflection with the community at the moment. What kind of mechanisms would you like to see the Welsh Government using to work with you, tenants and other stakeholders in terms of developing this new and clear statement for the future?

[79] **Mr Edwards:** The mechanisms, in a sense, already exist. There are a number of national fora around the national housing strategy, for example, where you can engage with the Tenant Participation Advisory Service, the Welsh Tenants' Federation and the landlord organisations to kick off that debate. However, what you probably need is a clear focus and timetable. In Scotland, if I understand it correctly, the Scottish housing standard has to be achieved by 2015. There is already a dialogue between Scotland and us and other organisations about what happens post 2015. So, getting that dialogue going is probably the responsibility of the Welsh Government, but the structures to do that probably already exist.

[80] **Eluned Parrott:** Do those structures include mechanisms for tenants?

[81] **Mr Edwards:** Certainly all the high-level strategic discussions on housing issues now involve the Welsh Tenants' Federation and the Tenant Participation Advisory Service.

[82] **Gwyn R. Price:** What needs to happen to support progress where tenants have voted against stock transfer, but where the local authorities do not have a viable business plan to achieve the WHQS?

[83] **Ms Finch:** Probably the most fundamental change that we should look to make is to resolve the question of how council housing is financed and how the housing revenue account operates in Wales. There has been recognition across the UK that the HRA is underfunded and that it has held back progress in relation to the improvement of council stock. In England, that has resulted in the system being dismantled from this April. We need to make speed on ensuring that we have the same progress in Wales so that we can ensure that tenants' rents are invested in the stock rather than being returned to the UK Treasury as they are at the moment.

[84] **Gwyn R. Price:** How has the WLGA engaged with the Welsh Government with regard to its discussions with Treasury about the housing revenue account subsidy system?

[85] **Ms Finch:** There is a working group that is involved in that review, but the WLGA is clear that we need to be part of the partnership that takes that discussion forward, because whatever is resolved with the Treasury in terms of borrowing caps and the settlement of the capitalisation of the annual payments of negative subsidy, that will impact intensely on the ability of authorities to invest in their stock. So, we need to be working in partnership to take those discussions forward. It is fair to say that we would like to see a closer partnership than we have had to date.

[86] **Mike Hedges:** On the housing revenue account subsidy system, which is probably the key to getting funding for local authorities, you said that you have been talking to the Welsh Government and the Treasury. It will have to be bought out; it will not be given

away—it has been bought out, I believe, in Scotland. Without giving away any figures, have you given any consideration to how much it would cost to buy out the system and to how you would see the buy-out being funded?

[87] **Ms Finch:** I will take that question in two parts. The Welsh Government has undertaken some financial modelling. The Welsh Government discussions with the Treasury have probably reached a point where there is an agreement that the methodology used in the settlement in England is an appropriate one to use more widely. So, some financial modelling has been undertaken by the Welsh Government that applies that methodology to the Welsh housing stock, because the two are rather different. Until we have sight of that financial modelling, it is difficult to reach a conclusion about what an appropriate buy-out figure would be, but we are talking about capitalising £73 million over 30 years and there are different ways in which you could come out with an equitable resolution on that.

[88] In terms of how that is then covered, it will be up to local government and the Welsh Government to come up with a council financing system for Wales that distributes that debt in a way that will allow the authorities to take forward their work around the WHQS and invest in new stock. Part of that equation will be the level of the cap on borrowing that the Treasury has imposed in England and which we need to ensure is as flexible as possible to allow authorities to borrow in order to invest and also, potentially, to build social housing again.

[89] **Darren Millar:** Tony, do you want to come in, and then Victoria?

[90] **Mr Jaques:** Yes, to refer to the earlier question, I was always disappointed that there was not another option in Wales. In England, they had the arm's-length management option, which was more liked politically by a number of authorities, and that may have been a solution in Wales that, if you follow the English model, would put in additional finance where the performance had improved to certain standards. I always thought that that was a very good way of moving forward.

[91] **Ms Hiscocks:** On the CIH's point of view on HRA reform, we have 100% supported and lobbied for the need to reform the HRA system. We did a lot of work in England on that process and have been heavily involved in working with authorities to get the deal in England. We are supportive of the WLGA's views about the urgent need to reach some sort of settlement that is a fair deal for Wales. We agree that we need to move forward on that as a matter of urgency. We need to recognise that, when we are talking to the Treasury, in the current economic environment, it will want a fiscally neutral settlement. It will not want it to cost it anything, so we need to be prepared for that when we talk about future planning. In Wales, we have the advantage that only 11 authorities are still in the system compared with England, where you are talking about hundreds of authorities. So, when you talk about any deal, negotiation or settlement with the Welsh Government, it will be small enough to get everyone in the room and come up with a system that will work for Wales. That is a big advantage that we have and we need to play to it.

[92] **Darren Millar:** You mentioned a borrowing cap—you will have to forgive me, I do not understand the housing revenue subsidy account in any great detail. As a committee, we are trying to fathom our way through how this subsidy system works. Would those borrowing powers be conferred upon local authorities or upon the Welsh Government? If they were to be conferred upon the Welsh Government, that would need to be part of the Silk commission's discussions, would it not? Please tell me.

[93] **Ms Finch:** The proposal is that a settlement is reached so that £x million or £100 million is a fair deal, so that you no longer pay the negative subsidy to the Treasury and that debt will then be distributed, in some way, across the 11 authorities.

[94] **Darren Millar:** So, it will be the authorities that have the debt and not the Welsh Government—

[95] **Ms Finch:** They will then prudentially borrow against their income streams or their assets, if they want to use wider assets in the authority, in order to support the work that needs to be done to their properties and, potentially, invest in new social housing.

[96] **Darren Millar:** That is helpful and adds clarity.

[97] **Ms Hiscocks:** Borrowing is a really important issue because, in England, if I understand it correctly, there has been an issue about the ability to borrow post-HRA buy-out. In Wales, it is one of those points that we want to be up for negotiation in terms of being equitable.

[98] **Darren Millar:** That is very helpful. Jenny, do you want to come in?

[99] **Jenny Rathbone:** Yes, I am grappling with the fundamentals here, because the average person on a Cardiff bus assumes that they pay their rent and, in exchange, the landlord—in this case, the local authority—funds the repairs to maintain the house in the way that a private owner would do. So, why does that not happen? Why is it that you, as the recipient of the rents of your council tenants, cannot use those rents to maintain your properties to a decent standard?

9.45 a.m.

[100] **Mr Staines:** We do, but there are set allowances and over and above those allowances, it is not a subsidy system, it is a repayment system. So, for our stock we are allowed a certain amount of money for the management and maintenance, insurance, mortgages, debt and everything else, but once you go above that, it goes back into a central pot—in this case, into Westminster—that then subsidises authorities that do not have enough money to meet those standards. So, it is a redistribution mechanism set at a national level. For every authority in Wales, while it is called a subsidy system, we pay the money back and, at the moment, that is around £70 million. So, Wales pays Westminster £70 million and that then gets redistributed to mainly large urban authorities in England. For us to get out of paying that £70 million, the Treasury is saying, ‘Well, if you stayed in the system for 30 years, you would owe us £70 million x 30 and that is £2 billion. We have 30-year business plans, so if you want to get out of that system, you are going to have to pay us £2 billion.’ So, we are going to have to work out a mechanism to fund that borrowing, on top of the borrowing to get our own properties up to standard. I think that is right, Sue.

[101] **Ms Finch:** There are a couple of things there that are important: we have not agreed on whether it is £2 billion or £200 million.

[102] **Jenny Rathbone:** Why is every tenant in Wales not rioting because of the scandalous situation we are in?

[103] **Ms Finch:** I think because it is so complicated.

[104] **Darren Millar:** It is complicated and, unfortunately, we do not have sufficient time to resolve it completely at today’s meeting. Tony, did you want to make a final comment on this because we are going to have to move on?

[105] **Mr Jaques:** I just wanted to put this in context. In the Vale of Glamorgan, this year, we will get a rental income of about £14 million and we will lose £5.4 million of it to the subsidy system. That speaks volumes.

[106] **Darren Millar:** Thank you for that; that is very helpful.

[107] **Mohammad Asghar:** What are the main factors that have driven tenants in some areas to reject stock transfer and what more, if anything, could have been done to overcome tenants' concerns?

[108] **Mr Jaques:** Perhaps I can answer that. [*Laughter.*] I have been through a stock transfer process twice. It was a successful transfer in England—I suppose that depends on what you would refer to as 'successful'. Tenants voted for transfer in an authority in England that I was with and, in Wales, they voted against it. The fundamental difference was, basically, the politics of the local authority concerned. In the English authority, there was political consensus that stock transfer was the best option for the tenants and, therefore, all members supported that view. We did not have that same level of support for the transfer process in the Vale of Glamorgan. I am not saying that members opposed and went out and caucused against stock transfer, but different messages are being sent. Certainly, my experience of the Vale of Glamorgan was that members were asked by tenants what they thought about stock transfer, and some would say that they did not support it. You have to ask yourself why they did not support it. I am not necessarily thinking that that was for the right reasons in some instances. The other experience was that if members were talking to staff, particularly front-line staff who deal with tenants—I am thinking about building services repair staff—the messages that would come from those staff would be different in some places than in others, depending on the views that had been expressed to them. Politics play a very big role in this.

[109] To conclude on this, the message is very complex. Again, in the Vale, we had a more complicated message because the basic reason for the Vale looking for transfer was about regeneration. Some of the estates are very poor and badly laid out; you can spend a lot of money on improving the properties, but the basic estates are still going to be very poor. So, the main drive for transfer in the Vale was about regeneration, which included demolition and rebuild on some estates and there were some clear anxieties about that as well. There were mixed messages, but politics are very important in this.

[110] **Mohammad Asghar:** Politics played a major part in it, but is there any special area in which lessons can be learned from the English experience, where the stock transfer process was successful, as you said?

[111] **Mr Jaques:** I think it is the element of choice in England. As I mentioned, the arm's-length management organisation gave a third option, which was more acceptable, politically, to some authorities. By giving that option, it meant that you were not, in a sense, flogging a dead horse, as seen in some examples in Wales.

[112] **Mr Edwards:** On the arm's-length management organisation issue, it is important to place on record that the reason why the Welsh Government rejected the ALMO option in Wales was because it rewards good authorities but the pool from which you can draw that extra funding is much smaller. So, the Welsh Government made the decision that it would not be fair to other authorities to top-slice money to give to ALMOs. Also, the issue does not look quite as clear now as it did three or four years ago. Many ALMOs are now unable to sustain their level of investment and some are returning to the local authority that they came from.

[113] On ballots about transfers, stock transfer is a hugely controversial issue and has been for 10 or 11 years. I chaired Peter Law's taskforce on social housing that fed in to the national housing strategy. Its first two requests of the Welsh Government were for it to go to the Treasury to seek borrowing powers so that local authorities could borrow, and to get additional direct investment into local authority housing. Over the years, many of us have

come to the conclusion that, for a lot of authorities, there was not much prospect of their achieving the Welsh housing quality standard through that route. Some authorities—typically an authority proposing ballots, particularly the early ballots—would be spending some five times what it could have afforded had it retained its stock. So, it has been a hugely controversial issue. However, there have been some positive lessons learned and some positive experiences in which tenants have voted enthusiastically for stock transfer. If you look at organisations such as RCT Homes and Bron Afon Community Housing, you will see that they are achieving not just their WHQS programme but also all the regeneration benefits that i2i, Inform to Involve, and others have been promoting, while also seeing a huge increase in the level of tenant engagement and involvement.

[114] **Darren Millar:** I am conscious of the time. We have seven minutes left, and there are three further areas that we want to probe, so I will have to cut that question short.

[115] **Mike Hedges:** I will be very brief. First, I am glad that you think that politicians are important enough that people will listen to us when someone else is promising them a free kitchen and a free bathroom. However, speaking solely about Swansea now, is it not the case that people have seen housing association housing, especially within an estate where steel houses have been taken down, have seen how they were run, and have felt that they are much better off in their council houses, even though they might be older than the modernised housing association houses that have been built among them?

[116] **Ms Finch:** There is no doubt that the external environment will have an impact. If there is a particular issue with a housing association operating in an area or the area next door, tenants travel and word of mouth will mean that they question whether it is wise to transfer to something over which they have no control. So, as well as the internal politics, there is a whole external environment to consider as well. In Swansea, an organisation called Defend Council Housing did a lot of campaigning, which had an impact on tenants' views.

[117] **Jenny Rathbone:** Leaving aside the ownership issues and the Exchequer discussions about the housing revenue account, how robust are the business plans of local authorities in their commitments to achieve the WHQS within the timescales being set now?

[118] **Ms Finch:** It is an interesting question, and it relates back to the HRA. In the business plans, local authorities are advised by the Welsh Government to use certain predictions based on the rate at which the allowances within the HRA system are likely to move in relation to inflation. So, quite a lot of the framework is set according to how council housing is currently financed. It would be different from the business plan of a registered social landlord, which would look at the actual factors that are likely to impact on the business. So, they are robust in the context of the framework that they operate within, but there is that question—

[119] **Jenny Rathbone:** So, they are not robust because of all these other uncertainties.

[120] **Mr Staines:** They are robust today, but a three-year business plan is about as much use as a three-year weather forecast. Things will change and develop and those assumptions will change and develop. We have to be certain that the figures and assumptions that we have today are robust, and I believe that they are, but they will change.

[121] **Mr Jaques:** Yes, there are risks, as with any business plan, as Robin has said. The reality check is that, at the moment, I have to borrow about £35 million to do the initial WHQS, which has to be paid for by prudential borrowing through rents. I have to contribute £3.34 million per year from revenue contributions to the capital programme. That puts risk into any business plan. My real concern at the moment is what happens with welfare reform and the impact that that will have on rent income. That is something that we are now having

to try to factor into the equation. So, there are risks within this.

[122] **Lindsay Whittle:** Although I said earlier that the Welsh housing quality standard needs to be improved, there is no doubt that it has been of great benefit to many areas of Wales. I know that there has been an impact on health in Carmarthenshire, that there has been recruitment and training in relation to housing throughout Wales and that the i2i projects have been very beneficial. I think that housing professionals and leading tenants have been the unsung heroes in a lot of this good work, and they deserve great praise from this Assembly. Why do you think that some landlords appear to have embraced the wider benefits agenda a little more than others?

[123] **Mr Edwards:** We talked earlier about progress with the WHQS. I think that there has been immense progress with regard to landlords' understanding that they can use the power of investment to create sustainable jobs and training opportunities. So, from any perspective, I think that it has been a huge success story. With regard to why it has been more successful in some areas more than others, I suppose that it is to do with the strategic commitment from an organisation. It is about drawing on the resources and support of such things as i2i, the extent to which people engage in that process, and, crucially, the extent to which they engage their tenants in that process as well. I would say it is an overwhelming success story.

[124] **Darren Millar:** Does the WLGA want to add anything?

[125] **Mr Staines:** I would say that there is too much focus on ownership. That is what the debate has been about at a national and local level; it is all about who owns the stock rather than the standard of the stock and the additional outcomes that you get from the investment.

[126] **Darren Millar:** Is there anything else to add?

[127] **Ms Jones:** I think that it also depends on the priority that the housing provider gives to the WHQS. There have been some arguments in the past that some housing associations might be focusing on development a bit more than they should, so that the WHQS would have fallen off the radar. In comparison with some of the stock transfers, the focus has been only on the WHQS, so it was probably a lot easier to reap the added benefits if that was your main priority.

[128] The Welsh Government launched a report in 2010, 'Tracking the benefits of construction investment'. The report stated that, on average, for every £1 spent on construction, £1.76 was recycled in the local economy. There was a WHQS example in that report that showed that £2.33 was reinvested in the local economy through the WHQS by using such things as supply chain development clauses, targeted equipment and training clauses and the Can Do Toolkit. So, if the priority is given, it is much easier for the organisation to reap those benefits.

[129] **Darren Millar:** On that happy note, we will bring this evidence session to a close. Thank you all for attending the meeting today. You will receive a copy of the transcript of the meeting. If there is anything that is inaccurate in there, please get in touch and we will make sure that it is corrected. Thank you very much indeed.

[130] Just to inform Members, we are still awaiting a formal response from the Treasury about coming to give evidence about the housing revenue account subsidy system. We hope that Treasury representatives will be our final witnesses in the Welsh housing quality standard inquiry. We will then be able to draft a report. So, we are still working on that; it is work in progress—we are nearly there, hopefully.

10.00 a.m.

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

[131] **Darren Millar:** I am delighted to be able to welcome Dame Gillian Morgan, the Permanent Secretary, to our meeting today, and Michael Hearty, the director general for strategic planning, finance and performance. Welcome to you, Michael, and to Arwel Thomas, the head of corporate governance and assurance. We are going to discuss this topic in relation to the report that was published by the auditor general. We previously had a brief evidence session with the Permanent Secretary, but, due to the time constraints of that meeting, we were unable to continue with the questioning, so we have a second opportunity to do that today. Obviously, there is a background context to this with the ongoing investigation into the All Wales Ethnic Minority Association, and I just wonder, Permanent Secretary, before we go into the other questions that Members have for you today, whether you can bring us up to date, as it were, with the situation with AWEMA, and give us an overview of the report that was recently published by the Welsh Government on the situation.

[132] **Dame Gillian Morgan:** Okay. On AWEMA, when I was here last time we were in the process of preparing a report, and that was led by Arwel. As you know, it was a joint investigation between ourselves and the Big Lottery Fund. That report basically concluded that AWEMA was not a suitable organisation to be in receipt of the grants that we had been making, so the first step that we took after receipt of the report was to suspend our funding to AWEMA. That has led to AWEMA and its trustees making a decision to liquidate. The second set of actions that we have been working on since then is to make sure—I think that a question was asked on this last time—that the individuals in receipt of services from AWEMA were not disadvantaged. In particular, there are three significant funds from the Welsh European Funding Office. We did a number of things there. First, we set up a helpline, so for individuals who are worried there is an 0300 number to call—I could give you the number. WEFO has been working closely with other potential sponsors to ensure that the programmes progress, because it is not that the programmes were not necessary; it is about the governance of the organisation. That is in hand at the moment—WEFO is talking with them and I think that it is very positive about future sponsorship.

[133] Thirdly, you will know that this was referred both to the police and to the Charity Commission for England and Wales. It was referred to the police because our report suggested that the standards were so far below what we would expect that there needed to be an investigation. We believed—of course, the police have to confirm this—that there were a number of issues where they might want to take criminal action. That is in hand, but you would have to ask them exactly where that is. We also made sure that the charity commission took this seriously, and it has an ongoing investigation. Again, we do not know where that investigation is, but, as the regulator, it is for the commission to determine whether any of the trustees and so on breached rules and regulations.

[134] The final thing that we are looking at is whether there is public money that should be recovered. That is a set of continuing conversations, because, in exercising our ability to recover, we have a duty to think both about public money and about other creditors. It would be quite inappropriate if we behaved in a way that disadvantaged the whole of the community, so we are thinking that through at the moment.

[135] **Darren Millar:** That is very helpful. Are there any initial lessons that you feel have been learned by the Welsh Government as a result of the report that was recently published?

[136] **Dame Gillian Morgan:** That is quite difficult for me to answer, because I think that the lessons will come out of the auditor general's report. I would be very surprised if the lessons that we have learned are not the lessons that the auditor general would highlight.

However, it would be inappropriate for me to second-guess what will come out.

[137] **Darren Millar:** We are very grateful for the update, and, obviously, this is a matter of continuing interest to the committee. We appreciate the commitment that you gave the committee when you appeared before us last time to give us regular updates, and we appreciate both the written updates and the oral update that you have given us today. There may be opportunities to touch on the situation relating to AWEMA as we continue with our questions, but we appreciate the constraints that you are under, given the ongoing investigation conducted by the Wales Audit Office.

[138] **Dame Gillian Morgan:** Indeed. If you want more detail on the report of our investigation, which is in the public domain and was lodged with you the day it was published, Arwel can answer questions about anything you want clarified. The issue of public interest that was raised at the time was why we had not interviewed the individual who had written an independent report. Our role was focusing very much on the use of public money, and we got to a point where it was quite clear that things were not acceptable, and so the question then was whether to interview people when we had already made the a priori decision that it was not acceptable. We took the decision at that point, as we already had enough information, and so adding the interview would not change our conclusion that it was unsafe to have public money invested there.

[139] **Darren Millar:** You were able to establish that very early on in the game, as it were.

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

[141] **Darren Millar:** Did you want to add anything, Arwel, before we move on?

[142] **Mr Thomas:** We undertook an examination of the files, followed by a two-day visit to AWEMA on 17 and 18 January. When we came back from that visit, it was clear to me that we did not need to undertake any further testing. The testing at AWEMA was very difficult because of the lack of records, financial accounts and so on. Also, we did not need to do any further interviews. In my professional judgment, we had sufficient evidence to come to a firm conclusion to advise the funding directors that AWEMA was not fit to receive public money. To have done any more testing or interviewing would, in my view, have been a waste of resource. It was clear from the work that we had already done.

[143] **Darren Millar:** We appreciate that there will be questions that, as yet, you do not have the ability to answer, such as why there was not earlier intervention, but the ongoing WAO investigation will give us the answers when the report is published. However, we will perhaps touch on some issues relating to AWEMA as we continue with our questions this morning.

[144] **Lindsay Whittle:** Good morning. This is the first time that I have attended this committee as a full member.

[145] **Dame Gillian Morgan:** Congratulations.

[146] **Lindsay Whittle:** Thanks very much; I hope that they will be merited. I am a little disturbed to read a few of the comments in the prelude to the report. One states that

[147] ‘While it is unclear how many grants are being made to or by Welsh public bodies, in September 2011 we knew of over 500 schemes collectively worth some £2 billion a year’.

[148] Another sentence states that the Welsh Government currently operates 480 separate existing grant schemes, which vary in size, value, complexity and so on.

[149] ‘There are indications that the range and complexity of grant schemes in Wales makes it difficult for applicants to navigate their way through the various conditions of funding.’

[150] This plethora of grants must be putting people off. There is no doubt about that. Could you tell the committee what you are doing to reduce the complexity of the Welsh Government’s grant schemes and the sheer variety of differing individual arrangements? This is part of recommendations 1 and 2 of the auditor’s report.

[151] **Dame Gillian Morgan:** Indeed. As I said last time, every auditor general report is welcomed, but some are even more welcome than the ordinary reports. For us, this is particularly welcome. Grants and the management of grants have been a continuing concern for us, and a continuing concern for me as principal accounting officer. That is why we set up the grants management project internally. That project covers a range of things. It looks at our systems and processes, at whether the number of grants can be streamlined and reduced. It looks at whether we can develop standard systems processes and applications for grants, so that we have a more systematic approach to it. It looks at whether grants are the appropriate mechanism to use. Are there things that we should be procuring and are there grants that should be repayable loans? All those other modalities have come into our custom and practice over the past few years, so we are trying, through the grants management project, to bring it together as a coherent whole.

[152] There is also the issue that grants are there to help us to deliver ministerial priorities. Grants management is the technocratic side—what we are trying to do as officials to make sure they work—but there is this other process to do with how politicians want to shape what they get for the services. As part of some of the ongoing developments in relationships, such as the compact with local government, the Minister is committed to looking at, reviewing and reducing the numbers of grants. The education department has already been fairly assertive in taking the number of grant lines down, and that is the continuing trend that you will see. So, it would be fair to say that, looking back over the past 10 years, not everything that we have done has been at the level that we would have expected, but we are taking fairly robust action through the projects to tackle that and to make a better way of managing a part of how we do business.

[153] **Lindsay Whittle:** How many grants have you removed since you started this project?

[154] **Mr Thomas:** The number of grants has been reduced slightly. We are still in the process because we are assessing with each department the number of grants that it has. The ability to reduce the number immediately is fairly restricted because some of the grants have a two or three-year life. However, it is a continuing process. We are down to about 460 grants at the moment from the 480 noted in the auditor general’s report.

[155] **Dame Gillian Morgan:** We can send you a note of this showing what has happened over time. We have had a couple of goes at this. We took quite a few out, then we plateaued, and now we have taken more out. So, let us send you a historical chart.

[156] **Jenny Rathbone:** I want to press you on this. The Wales Audit Office has written 18 reports on this since 2005. Why are you only now instituting the grants management project?

[157] **Dame Gillian Morgan:** The planning of the grants management project was started back in 2009, so it is not a response to this report. We have been working on it for quite some time. What probably stimulated the grants management project as much as anything was the report on the Millennium Stadium, which was the first report we received and the first time I came to this committee. So, we have responded as our knowledge has developed and, as I

said, the planning started in 2009.

[158] **Jenny Rathbone:** Very little progress has been made, as we have just heard from Arwel Thomas. The number of grants is still huge.

[159] **Dame Gillian Morgan:** Yes, but the grants project is not just about reducing the number of grants—

[160] **Jenny Rathbone:** I mean the number of schemes—

[161] **Dame Gillian Morgan:** That is very much a political decision, because, if Ministers want to prioritise something, they will take a legitimate decision to put the money in through grants. The grants management scheme is one of the strands, but what matters here as regards the principal accounting officer is not whether we have a large number of grants—that is an expression of political will—but whether we manage each of them effectively, whether we mitigate risk in each one of those, and whether we have systems to ensure that we are using grants appropriately in terms of legislation, regularity and all those sorts of things. So, I think that the number of grants, which I believe we should be reducing, is a second-order issue to the responsibility of the principal accounting officer, which is that, whether we have 100, 1,000 or 1 million grants, we manage each of them effectively.

[162] **Eluned Parrott:** Why is it unclear how many grants are currently being awarded to or by Welsh public bodies? Where would a public body or a member of the public go to find a repository of all the grants available to them?

[163] **Dame Gillian Morgan:** I cannot answer for all public bodies in Wales, because each organisation makes a decision on how best to deliver its priorities. Many of the grants in Wales are delivered by intermediate bodies or other bodies. We do not keep a repository of them, partly because grants change over time. If you were to ask today how many grants we have, I could tell you, but that might be a very different figure from what it would have been three or four months ago, because numbers will come down, there will be other priorities that mean that the decision will be taken after a policy assessment that the best way to allocate the money is through a grant. Therefore, it is a moveable feast. It is not the case that there is a number of grants that stays constant; it changes over time.

[164] **Eluned Parrott:** How are people supposed to be able to access those grants if they change so rapidly that even you are unable to tell us what grants are available?

[165] **Dame Gillian Morgan:** If you are talking about local government, it is about clarity in the relationship. If you are talking about the third sector, we give funding to the Wales Council for Voluntary Action to act as a source to help individuals to find what resources are available and also to help them to complete the applications and bid for the money available. So, we cannot do it, but we can find proxies that will assume that type of intermediary role for us.

10.15 a.m.

[166] **Eluned Parrott:** Do you think that that is effective and clear management?

[167] **Dame Gillian Morgan:** It is appropriate management because the challenge is how much the Welsh Government can do. We cannot manage all the individual grant recipients out there with the level of detail required. The number of grants is one thing, but the number of grant recipients is far higher because grants can be awarded to a large number of people. We would have to develop very expensive mechanisms to be able to work to that level of detail. We choose to do it through intermediaries because, for example, the WCVA

understands the agenda that faces the third sector far better than we would, sitting in central Government. So, we have always used proxy organisations. Similarly for business, we use proxy organisations to help people to navigate. Managing the complexity of grants is sometimes outside our control because of how the funding is allocated—European grants, for example. Therefore, it is much easier to use proxies who become experts than to try to do it within the civil service structure.

[168] **Eluned Parrott:** Did you consider AWEMA to be a proxy?

[169] **Dame Gillian Morgan:** I cannot answer that at this stage.

[170] **Mike Hedges:** In his report, the auditor general states that

[171] ‘only modest progress has been made in achieving the aims of the local government ‘Protocol’.’

[172] Are you still committed to the local government protocol? Secondly, what danger did you see in the revenue support grant’s being unhyponthecated, that is of putting more into the RSG and less into grants?

[173] **Dame Gillian Morgan:** That is a political question and the Minister for local government is committed, once the concordat is in place, to reducing the number of hypothecated grants and to moving more into the RSG. So, that is part of the more recent communications that have been going on over the past year or so since the election.

[174] **Mike Hedges:** What about the dangers of putting more into an unhyponthecated RSG?

[175] **Dame Gillian Morgan:** That depends, really. There are two perspectives on making it unhyponthecated. There are people who previously had hypothecated grants who all argue that if you put money into an unhyponthecated fund, you lose the focus on your particular care group. There is another view that states that if you have non-hypothecated resources, because you have a larger pot of money to pool, you get more bang for your bucks. I have never seen a study that has said which of the two is right. So, it is usually a political perspective of whether you believe that having stores of money for which you have clear and tangible outcomes that you can measure is better than having money in a big pot, when you will potentially lose some focus on some small areas. The report talks about Gypsy/Travellers, as there was some concern when the funding for those groups was unhyponthecated.

[176] There is a big natural experiment going on in England where a very different stance is being taken, moving to unhyponthecation. I hope that someone will look at any change in focus on some of the groups that have previously received grants, and recognise that we often use grants to target the hardest-to-reach communities to try to make them a priority. When you have a big pot of cash, you tend to think about the big things rather than the little things, although the little things can make a tremendous difference to some groups in society. Evaluation between the two countries will be interesting. Perhaps the Wales Audit Office could collaborate with the National Audit Office on that and give us some information.

[177] **Darren Millar:** Grants are not the only way to achieve policy objectives, are they?

[178] **Dame Gillian Morgan:** No, they are one.

[179] **Darren Millar:** So, why does there seem to be this focus on grants as opposed to using other levers, such as legislation or imposing financial penalties if someone did not perform as they should?

[180] **Dame Gillian Morgan:** I think that the focus is on a whole range of mechanisms. For example, we have the invest-to-save fund as a way of driving policy objectives through. We also have loan funds, procurement and a panoply of different things. We use all those, but for every individual policy, there will be a decision to be made, and which of those mechanisms is best to achieve that policy goal will depend on the nature of the group concerned and the nature of the objective that you want to achieve. So, I do not think that we only do grants; I think that we do grants among a growing panoply of other mechanisms. Over time, during the past few years, we have seen a change, and more different mechanisms coming in to complement what we have previously done through grants.

[181] **Julie Morgan:** Do you have any examples of disadvantaged groups that have lost out because they have lost specific grant funding? You have referred to Gypsies and Travellers, are there any other examples?

[182] **Dame Gillian Morgan:** These are not Wales-specific examples. The examples that we have exist because we still use a high level of hypothecated grants. I can quote a personal example from the health service—again, not in Wales—where a grant that was for deaf people was stopped and, over a period of time, we saw a decline in the quality of service. However, because we still use hypothecated grants, that is why we need an inter-country comparison between us, England and Scotland, as they move very early to de-hypothecation. I have seen no written evidence that they are seeing a deterioration, but if you talk to third sector groups across the UK, you will hear real concern that some of their priorities, which were exercised through grants, no longer get that type of priority. However, I have no evidence; it is only anecdotes and what people tell you when you have a conversation with them about it.

[183] **Gwyn R. Price:** Exhibit 6 in the auditor general's report refers to your own estimate that grant scheme administration costs can be up to 10% of the value of the grant. Why are the costs of grants management so high?

[184] **Dame Gillian Morgan:** It is up to 10% and the biggest factor is the scale of the grant. So, if you have a grant of many millions of pounds, running it is often as easy as running a grant that is worth £50,000. The smaller the grant, the higher the proportion of the cost of administering it. We have benchmarked and we are not a significant outlier, so it will depend on the scale and size of the grant that we are giving and what you need to put around it.

[185] **Gwyn R. Price:** Is there any reason why the 5% cost target that has recently been set by the UK Government for the National Lottery distribution bodies in England could not also be applied to grant schemes in Wales?

[186] **Dame Gillian Morgan:** We would like to be more ambitious than the 5% target, but there is absolutely no reason why 5% could not be an interim figure. However, the task for us is to always drive it down. Money spent on the administration of a grant is money that is not going to the intended recipients of the grant. I believe that the task of the principal accounting officer is to get as much money as we can out to deliver for citizens and that is the imperative of everything that we are trying to do, that is, to reduce the cost. However, sometimes, there is a political decision and a policy objective that can only be achieved through a grant and if that is a trade-off that Ministers are prepared to make to achieve the policy objectives, our task is to ensure that those costs are clearly quantified and included, so that when Ministers make a decision about the right tool to use to deliver the policy, we are making sure that we are bearing down on administrative costs, because every bit of money that we waste is money that we are not using for the benefit of citizens.

[187] **Darren Millar:** I think that the Welsh Local Government Association estimated that

the cost of grants to local government in Wales, in terms of their administration, was about £40 million or £50 million per annum, which is obviously a significant sum. I know that you cannot comment on the politics of this, but clearly the Ministers think that that is a price that is worth paying in terms of value for money.

[188] **Dame Gillian Morgan:** Indeed. Our tasks as we go through and as grants are renewed are to ensure that we have much better clarity about the costs of things, that we benchmark ourselves and that we compare ourselves with the best in class to ensure that we bear down on cost. However, it has to be part of the assessment. I do not know whether you want to say something on that, Michael.

[189] **Mr Hearty:** There are a few things that the members of the committee have been asking about that fold together in my mind: one is about the high cost and another is about the high number of grants and exactly what Ministers are trying to achieve.

[190] When we have hypothecated grants, we are in a specific position where, to my mind, it is about the maturity of a policy. So, there are lots of really sensible reasons why you might want to make grants specific to a specific policy, or policy intent. Maybe the outcomes are not particularly clear at a particular point in time, and maybe there is a lack of clarity about the take-up, and you therefore need to control the funding and the costs associated with that quite closely. It seems that we are trying to get to a place where, as a policy matures, we get a better understanding of take-up and a better understanding of how you best target the money to make the greatest difference for the people of Wales. That is the point at which you can then start thinking about unhypothecating and roll those things together. Once you roll them together, the administrative costs also start to get driven down.

[191] Among the many things that we are trying to do with the grants management project is getting those basics right, getting the management information in place, getting the processes in place, and getting a better dialogue going between grant managers and grant recipients about outcomes and so on. As that whole model starts to mature, on some of the concerns that the WAO raised around scale, cost and so on, you would like to see those sorts of things start to drive down. The 10% figure in the WAO report is the WAO's assessment. The auditor general himself suggests that that might be an approximation. Our view is that it is probably closer to 5% or 6% perhaps. However, the Permanent Secretary is right; we must keep an absolutely intense focus on what it does cost, because every pound that we spend on administration is not going to the people of Wales. That is really what is driving a lot of the grants management project.

[192] **Eluned Parrott:** Part 2 of the auditor general's report summarises some of the common and recurring weaknesses that some 18 previous reports have identified, such as failing to consider adequately the financial viability, capacity and capability of recipients, the lack of clarity of objectives, failing to adequately assess risk, weaknesses in ongoing monitoring and failing to act on lessons learned when designing new schemes. Why is it that those responsible for managing grants today have apparently failed to learn from the past mistakes of others?

[193] **Dame Gillian Morgan:** I think that I would challenge whether that still exists today because, again, you are looking at schemes and some things that were developed many years ago. The report highlights a number of things, but many of the mistakes go back 10, 12 or more years. It is very difficult to consider a report that is a mixture of historical situations, which I would say is an absolutely fair assessment of where we were, and what we would do today if we were starting the process. I think that we are now in a much more robust and certain world because of the work that we have put into the grants management project. My answer is that the grants management project, and what we have asked it to do, is part of how we disseminate the learning and how we respond to this issue, that is, why we seem to have

made the same repeated mistake. It is not just about us, of course, because the report also discusses public organisations in Wales. The grants management project, making sure that we have people who are experts, making sure that the standards that we set and the things that you really need to look at are not developed by everyone, but people who understand them, have to be the way that we handle this internally.

[194] **Eluned Parrott:** Given your new grants management project, how do you now check that potential recipients of grants are financially viable and have the capacity and capability to deliver the projects that they have proposed?

[195] **Mr Hearty:** There are a few things to address in your question. With the grants management project, along with the rest of the organisation, we are trying to put some basic principles in place about what is a good, properly managed grant landscape. We are working to make sure that grants managers understand what clear objectives and targets look like, that there is clarity around terms and conditions, and that we have effective and regular monitoring within the Welsh Government to ensure that, over time, the reasons why we gave the money were still translating into making a difference.

[196] There is quite a strong strand within the grants management project around training. The training is focused on two different populations: first, grant managers, so that they can understand about the objectives, targets and so on, and the second strand, which is focused more on the people who are effectively having a dialogue with the providers to understand what looks good about setting up an initial arrangement. That is face-to-face training; therefore, it is really important stuff to us as it is quite intense. We do include things around taking a risk-based approach to understanding what looks good about an organisation to which we are going to commit some Welsh taxpayers' money.

10.30 a.m.

[197] As part of that, we will include some work around due diligence so that we get them to understand what to expect to see in financial statements about financial sustainability, but also, more fundamentally, what to look for in terms of governance, assurance and controlling those organisations. We are trying to navigate to a place where we make the right decisions at the start, before we contract with an organisation to give it grant funding, to make sure that it understands the relationship and the expectations when going forward.

[198] **Eluned Parrott:** Therefore, the grants management project obviously hopes to change that culture for the future. To clarify, do you believe that you have been giving grant funding for more than a decade to organisations that did not know what a target or an objective was, and that you were not confident that they were therefore capable of delivering the projects that they had outlined to you?

[199] **Dame Gillian Morgan:** I do not think that that is what we said. With something like Communities First, for example, which was a programme that delivered grant funding to a large number of organisations, I think that you will find that, with the vast majority, we had all of those things. The story of grants, overall, is pretty good when you look at the amount of money concerned. The issue for us is always about how you minimise or prevent those issues that go wrong. We must set it in context because we are looking at 18 reports across a whole range of things, not all of which are to do with the Welsh Government. I have no idea as to how many grant recipients there are, but tens of thousands of people have had a grant and things have worked pretty well. We must set this within the issue. This is about slow, steady improvement; it is about continuous improvement, and it is about always learning the lessons, which is why you have to build it into the thinking around what you do.

[200] The Communities First report included an awful lot of positive points, where really

dramatic improvements had been achieved in communities. However, we had a number of difficulties, for various reasons, either because there was no tight control, or—as I said last time—because we will never spot fraudulent people. Our job is not to try to prevent fraud because we cannot, as it is not our sort of role; our role is to put as many affordable systems and processes in place as we can—because, obviously, there is a cost—that will minimise risk and keep it to the absolute minimum. In the reports, there are examples of where there was clear fraud exercised on grants. We must separate out what the learning is because it is not as simple as saying, ‘You have been terribly bad at managing grants’. I would not accept that. If it is about saying, ‘You have not been as good as you should in terms of managing all grants, and there is a journey of improvement for which you will have some lessons’, I would fully accept that.

[201] **Darren Millar:** In terms of the reports that have been published, whether they are the auditor general’s reports or your own internal reports, can you give us some concrete examples of system changes that you have introduced on the back of past reports? You will be aware that one of the criticisms that has been levied at the Government about the All Wales Ethnic Minority Association situation—although I do not expect you to comment in any specific detail on that—is that lessons and recommendations from past reports have not been fully implemented and followed up. Will you make some comments about that sort of accusation?

[202] **Dame Gillian Morgan:** I will take that question and then I will ask Arwel to comment on a specific thing. This is a Forth bridge problem because what happens is that you have a report and you train people, but systems, processes and people move on. I do not think that we have ever had a Forth bridge solution, which is what the grants management project is trying to do: it is trying to say, ‘You cannot sort out grants management with a one-off action of spreading knowledge because people will change; it will not be high on the agenda and it will slip again’. You sort it out by finding fundamentally different ways of doing it, where you actually pull people to one side and signpost. It then goes on, not just as a project, but as part of a continuing way of doing business. There is no quick silver bullet to this; it is about continuously training and educating 2,000 people, which is a big undertaking to keep people up to the levels and the standards. In the past, we have had success in spreading knowledge, but we have lost it as time has gone on. We are forever talking about how you put on more appropriate things and how you keep it on everyone’s agenda. Arwel, do you wish to answer some things about specific changes?

[203] **Mr Thomas:** I will pick up on a couple of examples in the auditor general’s report. Case study 1 looks at the Communities First programme. On the back of the Plas Madoc incident, we, as an internal audit team, then conducted a range of reviews across the Communities First network. From that, we decided that there were lessons to be learned generally. Most of them were not as significant as the Plas Madoc situation, but there were process issues and improvements to be made. As part of that, we have engaged with the Communities First policy people in designing a new Communities First programme, which is due to start in 2013. As a result of that, the number of grant recipients that we have will reduce by 50%. So, that is a specific example of us doing something where the number of grant recipients reduces, which will mean that the relationship and the monitoring that we have will be much reduced but should be much more effective.

[204] Another example is looking at the lessons learned from the Cymad Cyf. report. One of the issues there was how various public funding bodies did not communicate with each other in relation to sharing information and so on. AWEMA is probably a good example of where the first thing I did when it was referred to me was to look at what other public funding was going into it. That is what emanated from the joint review between us and the Big Lottery Fund. So, that was a specific ‘let us have a look at the organisation as a whole and at the raft of public funding’ approach. As a result, building on that association with the Big Lottery

Fund, we now have a formal arrangement and are meeting regularly with regard to the sharing of information and funding. We particularly share that information where concerns emerge, and not just with the Big Lottery Fund. Indeed, a week ago, the Big Lottery Fund hosted a meeting between us, the Welsh Local Government Association, the Welsh Council for Voluntary Action, county voluntary councils and sponsored bodies. So, that is just an example of the public funding sector getting together to learn lessons and to share information. Those are some examples of what we have been doing.

[205] **Jenny Rathbone:** I would not want to see a situation where we never took any risks, because, otherwise, we would never have creative solutions to intractable problems. How much progress has been made on having an outcomes-based approach, so that the direction of travel and the goals that people need to sign up to when they take on that money are clear?

[206] **Dame Gillian Morgan:** We are completely committed to an outcomes-based approach and it pervades everything that we are doing in terms of business planning and the programme for government. There are some bits of the organisation that are placing the risk-based approach and outcomes-based accountability right at the heart of how they think about and do their business planning. I switched on my BlackBerry last night and there was a note from Canada, where they have tried to copy the outcomes-based approach that we have developed around local government, where the guru of outcomes-based accountability has helped us to begin to think about those things.

[207] So, we are not in a position to say to you that we have outcomes-based approaches systematically throughout the organisation. However, we now have a number of places where that is the way they do business, which is what we want, and where learning is therefore shared across the rest of the organisation.

[208] **Jenny Rathbone:** So, on a score of 1 to 10, how far do you think you have got to by now?

[209] **Dame Gillian Morgan:** There is always reporter bias, and I am always a glass-half-empty person. So, I would say that we are probably at about 5.5.

[210] **Mohammad Asghar:** My questions are probably a bit longer, but I am sure that they will cover a lot of areas. How do you satisfy yourself that grant-funded schemes have met their objectives? Are you satisfied that the project outcomes are clear and measurable and that recipients fully understand their obligations to provide robust evidence that they have been achieved? Finally, to what extent do you monitor what happened with projects and grant-funded assets, and all that sort of stuff, after your funding ended?

[211] **Mr Hearty:** At the start of a relationship between the Welsh Government and a funder, we agree what outcomes we are looking for and on an award letter. Part of the award letter should include the performance that we expect from the organisation. So, that is built into the original dialogue, before we get into a funding situation, and we will talk through what the objectives are and what we expect to see. Once the money starts to go through, we will expect that dialogue to continue and for some metrics to come back about the performance of that organisation against the award letter, and we will monitor that over the period of the award to ensure that we are achieving the objectives and the outcomes originally intended when we set up the arrangement.

[212] **Darren Millar:** Julie, I think that you wanted to come in on this.

[213] **Julie Morgan:** No, I will wait for the next question, Chair.

[214] **Darren Millar:** Are you sure? Okay.

[215] **Dame Gillian Morgan:** May I add to that? You asked me a specific question about AWEMA, which I cannot answer, but, as opposed to four or five years ago, one of the things I think now and which has been a big lesson for me personally and something I do not think I would have accepted in the past, is quite how important governance is. It is all very well looking at the accounts and all those sorts of things, but it is difficult to get at what the culture of governance is in an organisation. However, it seems to me that the leadership role of the trustees or people in a political capacity, the way that they hold to account their chief executive and how often they meet are recurring themes that run through many of these 18 reports. So, one of the things that we are doing more now, within the Welsh Government and in how we train people, surrounds the governance of organisations and institutions. I would have thought that it was much more technocratic five years ago, but now I think it is much more cultural.

[216] The real questions are about leadership, grip and purpose. The challenge for us is how we get close to some of those things. They sound, at one level, very soft, but every single mistake—I know from another body of literature about catastrophes in the health service that there is the same lack of governance and challenge—is somewhere in the system of the organisation that, at the end of the day, is responsible. We are not responsible, because we are responsible for the use of public money. So, we are trying to understand how we can get into those sorts of questions while, at the same time, not vicariously trying to run the organisations, because that is too many things. I have changed my mind on that over five years.

[217] **Darren Millar:** Given that the problems that may have been identified with grants, whether they were to AWEMA or elsewhere, generally seem to have been exposed by whistleblowers saying, ‘There’s a problem here, so please come and investigate and have a look’ rather than through a proactive monitoring approach that has identified a problem in an organisation, do you agree that that is a problem that needs to be addressed? What are you doing to promote whistleblowing as one of the identifiers of problems within organisations in receipt of taxpayers’ money?

[218] **Dame Gillian Morgan:** Absolutely. If the big thing that should be causing us alarm comes within governance, which is really hard for us to look at from a distance, the question is how we respond and how we identify—because we get a lot of such things—the genuine from the disgruntled and the real issue of concern. So, we are wrestling with whether there are things in governance that, through the proxy measures that we can look at, which are really paper or reports, would give us some sense of whether an organisation was well governed. It is things like whether the trustees meet—that is a good indication. When they meet, are financial issues on the agenda? There is no off-the-shelf package that says, ‘This is governance and, if you look at these things, you will know whether an organisation is failing’. Many of our measures are second order; they are bound to be, because we are distant. That is the conundrum. I think that you are absolutely right. So, internally, we have done an awful lot over the last few years to up governance, which includes appointing a director of governance and establishing a whistleblowing panel.

10.45 a.m.

[219] We encourage whistleblowing—we are getting more whistleblowing internally, which is a good thing. It is not a sign of failure—you will whistleblow if you believe that someone will take action. There is a big issue for the Charity Commission, because I know that it gets a tremendous amount of whistleblowing. I am aware of something that we are involved in where you have to ask, ‘What is the Charity Commission going to do with this? We have no powers, and we do not give it money’. However, you listen, and you think, ‘Hmm, there is something fundamentally not wrong there’. This is work in progress, because

I do not think that we have the answer to it, but I am absolutely sure that there is a nugget of gold in there, and we have to find a proportionate way of looking at governance, because that is what it is about—people, leadership and culture. With the best will in the world, we will never know about that unless we are responsive to the outside world.

[220] **Julie Morgan:** This is a hugely important discussion, and with all the contacts that we have with the third sector, we are aware that most of the people who have become trustees and patrons have done so in a voluntary capacity—and I am sure that we have all done that. The point you make about how you actually reach them is very important. Is there a case for a standardised training programme with key pointers to try to get more to grips with these issues?

[221] **Mr Thomas:** Yes, I agree with you completely. I mentioned the meeting that we had with the Big Lottery Fund, the Welsh Council for Voluntary Action and the county voluntary councils, and, in fact, the Wales Audit Office was also there last week. One of the things that we are aware of is that we should not allow anything arising from AWEMA to give the third sector a bad name, and the important role that trustees play in working with the organisations that they are committed to is very valuable. If you look at AWEMA as an example, and at each of the weaknesses that were there, you will find that there is a whole raft of guidance available either through WCVA or the Charity Commission in terms of how it should be done. There is plenty of guidance for trustees, and so on. The challenge for us as bodies that fund the third sector is not to produce more guidance, but to actually get engagement from the organisations with that guidance, which Michael referred to earlier regarding the face-to-face training that we need for our own grants managers, but working with WCVA and the Charity Commission. That is exactly one of the purposes of us getting together—how we help and support trustees in terms of understanding the responsibilities and discharging them so that people are encouraged to become trustees as opposed to being put off. It is a very important part of our work.

[222] **Dame Gillian Morgan:** The challenge is how do you make something like governance—people hear the word and think, ‘Dull, boring, bureaucratic, forms’—into something that is about vibrancy, control of money, and getting the best out of the purse. Internally, our training goes under the title of ‘Trolls and sea-monsters’, because it is trying to make people realise that there are all sorts of issues every day, and you have to somehow attract people and persuade them that this is not about bureaucracy—it is almost the opposite of bureaucracy, because when you have good governance, you can take risks. Risk without good governance is what goes wrong. Risk with good governance allows you and unleashes you, but how do you make it sound as if it is something that is positive rather than all this negativity that tends to go around it, with people saying, ‘It is a chore, we have to fill a form in’? It is not about that; it is much more fundamental than that. Governance is my interest at the moment, actually.

[223] **Darren Millar:** Do you want to continue? I am conscious that we have 10 minutes left on the clock in this session and we have quite a few questions, so if we could all be brief, that would be great.

[224] **Julie Morgan:** Obviously, it is important right from the beginning of the application process that the applicants are able to get simple, clear information. What are you doing to ensure that that happens? I think that the auditor general’s report indicates some dissatisfaction with that.

[225] **Mr Hearty:** Absolutely. What we are trying to do is improve the standardisation and the understanding of the original set-up. Therefore, the guidance is clear about what people need to do, what needs to be filled in and how they need to engage with us. It is as simple and straightforward as it can be. That is all part of the grants management project.

[226] **Julie Morgan:** Do you think that you are making progress with that?

[227] **Mr Hearty:** We understand what the issues are that have made it such a complex relationship, and we are starting to work through the organisation, through the training and through the review that we have undertaken of grants across the Welsh Government to understand what the issues are. We are reflecting that in revised guidance and more standardised forms. It will take some time before that translates into visible outcomes because, as the Permanent Secretary said earlier, there is a lead-in time for these grants. Many of them were already in place and so we will have to wait for the next cycle before testing it out to check whether we have the balance absolutely right.

[228] **Dame Gillian Morgan:** A big grant funder for us is the Welsh European Funding Office. It is trying to streamline things by putting more online, and having single application forms. It is also trying to give people an early indication of whether an application is in the right ballpark. Often, you need that. You would rather know in a week that you were nowhere near it than know in three months that you have not been successful. Also, for the schemes where there is an underlying thing that is of benefit, it is trying to work alongside people to help them to navigate their way through the complexity. That is slightly different. I suppose that the jargon for that is 'co-creation', where you are working to help people to achieve their objectives. There is a danger with that because you must still be objective and must not have bias creeping into decision making, but it is a different way of doing things and it has been very successful.

[229] **Mike Hedges:** Given the concerns expressed by local government and the third sector, how are you going to ensure that your grant application process is rigorous and efficient?

[230] **Dame Gillian Morgan:** Through the grants management project.

[231] **Mike Hedges:** I thought that you were going to say that.

[232] **Darren Millar:** The auditor general's report talks a great deal about those grant applications and grant claims that have received qualified reports by accountants and external auditors. There appears to be wide variation in the performance of local authorities with regard to the levels of qualification reports. For example, I think that the highest rate was 60% of the grants being qualified, another was 10% and it was zero in the best authority. What do you do when there is a qualified report where a grant is concerned? Does that flag up any action at Welsh Government level? Are these followed up?

[233] **Dame Gillian Morgan:** One thing that we have changed is our process with regard to this. The reports have been going to the operations teams. We have now asked for these reports to go to the directors of finance, because you are absolutely right that, if we are seeing 60% and that is continuing, it says something about the organisation. However, actually, it says as much about us because, unless we are saying that that is unacceptable, no-one will change their behaviour. Clearly, we have not been as forthright in those conversations as we might have been. That is why we are now involving the directors of finance. It is too early to tell you whether that is having an impact. We will have to come back to you on that, probably in another few months. We hope that that will allow for a much more robust conversation.

[234] At the end of the day, there is a political choice to come so that, if an authority goes above a certain level, we just would not give it the money. Ultimately, as I know from another place in health services, that is a very powerful stick. However, you do not use it until you are giving people the opportunity to improve their systems. Going from 60% to zero is an enormous task in the context of changing the culture in that organisation. It must happen, but

we need to look at and monitor that.

[235] **Darren Millar:** I know that the Wales Audit Office has a certifying role for a large number of grants in Wales. However, there are external auditors who have certifying roles for other grants, including, for example, those for AWEMA. Are you able to answer whether any problems were flagged up by external auditors about how AWEMA was managing its grants?

[236] **Dame Gillian Morgan:** It is in your report, Arwel, so it is in the public domain.

[237] **Mr Thomas:** Yes. One of the first things to say is that that is covered in the report. One thing that we refer to is the fact that the external auditors did raise concerns. This goes back to the Permanent Secretary's comments on good governance. The external auditors' management letter did not go to the trustees, so the trustees were unsighted of the issues that the external auditor was raising. However, the role of external auditors in AWEMA is also part of what the charity commission is looking at.

[238] **Darren Millar:** Do you currently require any organisations that receive a management letter as part of their external audit to furnish the Welsh Government with that where public money is involved in supporting that organisation?

[239] **Mr Thomas:** We do not currently.

[240] **Darren Millar:** Are you going to consider that?

[241] **Dame Gillian Morgan:** We will be considering that. You get into some very difficult territory, particularly in relation to local government and the disclosure of its internal audit letters and management letters. There is a fine judgment to be made here, which is that organisations improve most dramatically when they themselves own the problem, and organisations deteriorate most rapidly when they hide stuff. We would argue that having more material, such as internal audit reports, would be a key tool for managers. We want Arwel to be as nasty, miserable and horrible as he can be. If you believe that that information is then going to be shared externally, it will change the pressure that I would put as a manager on you and change the way in which would tone the report. So, there is a really fine judgment to be made. At what point do you believe that organisations can no longer manage their own improvement, in which case, we probably should be pressing for it? For the vast majority of organisations, they are the ones who want to do a good job. We do not have loads of organisations out there trying to be poor.

[242] **Darren Millar:** Most organisations, if they receive a qualified audit, or a management letter from their external auditors or internal auditors, will react to it and come up with a plan to resolve it. The issue here is that there are clearly situations in which there has been a failure to follow up those things. The question is what action has the Welsh Government taken to ensure that there is a follow-up, particularly where public money is concerned? I think that you have answered the question.

[243] **Jenny Rathbone:** I ask you to comment on how we got to this level of disparity in 10 years of Welsh Government. How can we have such disparity in the ability to deliver? It is huge. I appreciate the points that you have made that you cannot use the big stick and you have to give people time to improve, but how have we got to this stage?

[244] **Dame Gillian Morgan:** With any statistical information like that, there will be a combination of factors involved. The first is that while there is that 60%, you have to work out how many of them are material. I take the view—and I am at one end of the spectrum—that one is too many. However, when you are busy and pressurised and things are non-material, not all organisations take the view that they need to invest in additional staff. I think

that this is about standards.

[245] The second thing is about continual training. How do you train people? What do you do when people come in? How do you, as managers in those organisations, feel about yourself if you are reported in that way? It is when senior management running through the chain say, 'Hang on, this is unacceptable here' that you get change.

[246] The third thing, and this is our challenge, is that, unless you do something with it actively—and for me, that was the most devastating table in the report—you do not provide the encouragement to other organisations to take it seriously. What you see, and what it shows, is that where you want to take this seriously, you can. The performance at the best end of this gives us something for people to aim. Ultimately, when you look at those sorts of things, you begin to wonder whether we should not pay resources if there are repeated errors, but that is a political decision and we are some way away from that. The best improvement comes from within organisations, not through using the hard stick. That is a big thing that we will be working on.

[247] **Darren Millar:** Okay. I am afraid the clock has beaten us again. There are lots of other areas that we wanted to question you on, but we will write to you with some specific questions to ensure that we get the evidence on the record to help us with our inquiry. It may be that the committee decides it wants to invite you again to talk on this very important matter. I thank you, Dame Gill, Arwel and Michael for your attendance today and thank the committee members for their endurance.

11.00 a.m.

Papurau i'w Nodi
Papers to NotePapers

[248] **Darren Millar:** The final item on the agenda is that there are some papers to note, which I will take as read. The meeting is now closed.

Daeth y cyfarfod i ben am 11.02 a.m.
The meeting ended at 11.02 a.m.