

Audit Committee**Date:** 25 January 2001**Time:** 2pm**Location:** Committee Room 1, National Assembly Building**Title: The Cabinet of the National Assembly's response to the recommendations of the Audit Committee, following the presentation of their Report on 24 November 2000.**

The Cabinet of the National Assembly is grateful for the Report. We welcome the findings and offer the following response to the six recommendations in the Report.

Recommendation (i)

We recommend that, when the Assembly sets financial savings targets relating to the reorganisation of public bodies in Wales in future, such targets should be determined with reference to an objectively based template or model, informed by relevant public and private sector comparisons.

Any future mergers will draw on the experiences of both the WDA enlargement and the establishment of the Council for Education and Training for Wales. Each merger is very likely to have its own unique factors and considerations and it is essential that in each case organisations have very clear objectives and desired outcomes in place at the outset.

The development of an appropriate template or model incorporating key principles to be observed and the possible use of benchmarking will be considered in the light of: the post-merger review; other advice which is available in respect of public sector mergers; and advice from organisations such as the Audit Commission and private industry. Experience shows that savings targets can often only be refined in any meaningful way once the proposal is firmed up and the necessary information collated and analysed.

Recommendation (ii)

We recommend that the Agency moves forward as a matter of priority with piloting desk sharing arrangements that would be relatively inexpensive to set up, separate from its initiatives to explore other flexible working practices such as teleworking that would be likely to require substantial investment in new technology.

The Agency will be running its first pilot flexible working scheme incorporating desk sharing in the West Division Offices at Penllergaer commencing in January 2001. BT Workstyle Consultancy Group has been engaged to advise on this scheme, which will involve 15 members of staff. It is intended that this pilot will run for three months, following which a review will be undertaken on its success or otherwise. At that stage, the Agency will be in a position to determine whether or not a full flexible working scheme is feasible or whether the options envisaged by the Committee are appropriate.

Recommendation (iii)

We recommend that the Agency should act as an exemplar to other public bodies in Wales by actively promoting good energy management practices in its own premises and by enthusiastically adopting the Assembly's sustainable

development agenda.

A report commissioned by the Agency on potential savings for energy costs, undertaken by Ingenco Ltd., is expected to be completed during December. Early drafts of the report indicate some areas of basic housekeeping where the Agency may make cost savings, and advice will be disseminated to staff. With regard to Principality House, there is limited scope for improvement as the Agency does not own the building, although it recognises the need for efficient energy use as far as this is under its control. Areas for improvement have been identified at the Penllergaer and Newtown offices and discussions continue on producing an action plan for these locations. The Agency is conscious that in any decision on expenditure on energy saving a balance needs to be struck to take account of the likely costs necessary to achieve any savings.

As part of the Agency's commitment to sustainability the potential for good energy management is specified in its design guides for new buildings, which are kept under review.

The Assembly's sustainable development agenda is reflected in the Agency's draft Corporate Plan and project approval processes.

Recommendation (iv)

We recommend that the Agency should take immediate action to develop and incorporate appropriate benchmarking into its processes for monitoring and reviewing its management running costs, to include benchmarking of energy and space utilisation as set out in part 3 of the report by the Auditor General for Wales.

The Agency's management running costs position is monitored monthly by the Agency's Board and Senior Management.

With reference to benchmarking of energy and space utilisation, one of the advantages of using external organisations to advise on these subjects (as referred to in (ii) and (iii) above) is to enable the Agency to be aware of and act in accordance with wider established best practices. The NAO report itself benchmarked the Agency against the comparative position with regard to typical and good practice unit energy costs, average occupation densities and spot occupancy rates. The Agency can use this for future monitoring and will develop appropriate benchmarking into its processes for monitoring and reviewing its running costs.

Recommendation (v)

We recommend that the Agency gives high priority to the completion of its commissioned research into the characteristics, constraints and needs of small and medium-sized enterprises in Wales.

The Cabinet recognises the importance of developing further knowledge of the small and medium-sized enterprise (SME) sector in Wales, and fully supports the Agency's proposals for a comprehensive survey of Welsh SMEs. However, there is a need to ensure that any research achieves the maximum possible effectiveness, whilst minimising the burdens on Welsh businesses. To this end, the Agency has been working closely with Assembly officials and other partner organisations.

In March 2000, the First Minister approved the proposals for the survey. BSL/Mori were appointed by the Agency in May to undertake the survey on its behalf. In August, Survey Control approval was obtained to undertake a pilot survey, necessary to ensure that the proposed questionnaire was clear and would produce good quality information. Following the successful pilot, the Agency has embarked on the process of further consultation with the business community, the Assembly and interested academics further to improve the survey.

Survey Control approval for the full survey has now been given and it is expected that the survey will take place in January 2001. The Agency will share the results with the Assembly and with its partners.

Recommendation (vi)

We recommend that the Assembly should establish guidelines, in consultation with the Agency, on the appropriate

emphasis between supporting indigenous businesses and supporting inward investors within the framework of its strategic targets and performance criteria, and that the Agency should develop appropriate arrangements for assessing the effectiveness of its performance in both these key areas.

The Cabinet recognises that the Agency must strike an appropriate balance between attracting new inward investment and supporting indigenous businesses. Both are crucial to the development of the Welsh economy. The definitions of these terms are problematic, however. Invest UK and the Assembly currently maintain two different sets of figures, and we must be careful before we move towards developing a third set, which may further complicate matters.

The Agency believes that the distinction between inward investment and indigenous business, based solely on ownership, is no longer relevant in today's increasingly international economy. A more helpful distinction might, for example, be between businesses based in Wales (whether Welsh-owned or not) and businesses moving into Wales. The Agency is currently refining its resource allocation and performance criteria.

Strategic targets for the Agency (e.g. jobs created/safeguarded and private sector investment) are currently split between inward investment and business development. The Assembly and the Agency are in close discussion to review the evaluation of Agency performance and the setting of more appropriate strategic targets.