

Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date:

Tuesday, 20 January 2015

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Agenda

1 Introductions, apologies and substitutions (09:00)

2 Papers to note (09:00–09:05) (Pages 1 – 3)

**3 Intra–Wales – Cardiff to Anglesey – Air Service: Evidence Session 3
(09:05–10:00) (Pages 4 – 19)**

PAC(4)–02–15 Paper 1 – Letter from James Price, Welsh Government

ARUP Review Executive Summary

Wales Audit Office Briefing

James Price – Director General – Business, Enterprise, Technology & Science, Welsh Government

Gareth Morgan – Deputy Director, Delivery, Welsh Government

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (10:00)

Items 5 & 6

5 Intra-Wales – Cardiff to Anglesey – Air Service: Consideration of Evidence (10:00–10:20)

6 Glastir: Consideration of Responses (10:20–10:40) (Pages 20 – 25)

PAC(4)–02–15 Paper 2 – Letter from Gareth Jones, Welsh Government

PAC(4)–02–15 Paper 3 – Written Evidence from National Farmers Union

Public Accounts Committee

Meeting Venue: **Committee Room 3 – Senedd**

Meeting date: **Tuesday, 13 January 2015**

Meeting time: **09.00 – 10.27**

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<http://senedd.tv/en/2601>

Concise Minutes:

Assembly Members:

Darren Millar AM (Chair)
William Graham AM
Mike Hedges AM
Julie Morgan AM
Jenny Rathbone AM
Aled Roberts AM
Sandy Mewies AM
Jocelyn Davies AM

Witnesses:

Huw Vaughan Thomas, Auditor General for Wales, Wales Audit Office
Matthew Mortlock, Wales Audit Office
Jeremy Morgan, Wales Audit Office
Nick Selwyn, Wales Audit Office

Committee Staff:

Michael Kay (Clerk)
Leanne Hatcher (Second Clerk)

1 Introductions, apologies and substitutions

1.1 The Chair welcomed Members to Committee.

1.2 Apologies were received from Alun Ffred Jones.

1.3 The Chair welcomed Jocelyn Davies who was substitute for Alun Ffred Jones.

2 Papers to note

2.1 The papers were noted.

3 Senior Management Pay – Consideration of Welsh Government Response

3.1 The Committee considered the Welsh Government's response to the Senior Management Pay report, along with the Auditor General's advice.

3.2 The legal advisor to the Committee was asked to provide a brief note on the Accounts and Audit regulations.

3.3 The Chair would write to the WLGA to ask them to circulate the report and the Welsh Government response to Local Authority Leaders.

4 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from the meeting for the remainder of the meeting

4.1 The motion was agreed.

5 Wales Audit Office Briefing on Managing the Impact of Welfare Reform Changes

5.1 The Committee considered the Wales Audit Office's report on Managing the Impact of Welfare Reform Changes on Social Housing Tenants in Wales, and noted the Chair had requested a response from the Welsh Government to the report.

5.2 Julie Morgan AM declared an interest, as her daughter is employed by Shelter Cymru.

6 Scope of the Inquiry into Motorway and Trunk Road Value for Money

6.1 The Committee agreed the scope for the inquiry into Motorway and Trunk Roads Value for Money, and agreed to write to stakeholders to invite their views.

7 Scrutiny of Accounts 2013–14: Consideration of the Key Issues

7.1 The Committee considered the key issues of the Scrutiny of Accounts 2013–14 report.

7.2 Sandy Mewies declared an interest as a member of the National Assembly for Wales Commission and absented herself from discussions of the Commission's accounts.

Agenda Item 3

Adran yr Economi, Gwyddoniaeth a Thrafnidiaeth
Department for Economy, Science and Transport

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair – Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

12 January 2015

Dear Mr Millar

Further to my previous acceptance of your invitation to attend the Public Accounts Committee on 20th January and your request for a brief covering paper prior to 13 January, I enclose the paper in Annex 1.

Yours sincerely

James Price



BUDDSODDWYR | INVESTORS
MEWN POBL | IN PEOPLE

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Welsh Government response to questions raised by the PAC on 17 December 2014.

PAC question: How many of the 23 organisations that registered an interest in the contract actually went on to bid for the tender?

WG response: Two; one of which was a consortia bid.

PAC question: What factors enabled the less expensive subsidy and better service in terms of marketing for this contract?

WG response: An ITT that encouraged innovation, incorporated the recommendations made by PAC, actively engaged with key industry stakeholders and reflected the key findings from the 2014 review of the air service (undertaken by Ove Arup).

PAC question: How was the tendering process completed within the timeframe?

WG response: The tender process was completed in line with the requirements set out in Regulation (EC) No 1008/2008 and was achieved through effective and dedicated project management.

PAC question: Does the Government have any comparators with other subsidised routes e.g. cost per passenger for Arriva Trains Wales, or other air routes e.g. from the Scottish mainland to the Scottish Islands?

WG response: The Welsh Government has made extensive comparisons and found that there are significant differences in PSOs across Europe. Professional expert advice received by the Welsh Government states that direct comparisons can not be made. Despite this, according to a review undertaken by the Irish Department for Transport, in 2009 the level of subsidy of the Dublin-Knock PSO in Ireland was £151 and Silgo-Dublin was £80. The PSO for Barra-Benbecula was £83 in 2011/12. The current intra Wales air service contract forecasts an average per passenger subsidy of £85.

Executive Summary

The Intra Wales Air Service provides twice daily weekday flights between north and south Wales. The Air Service has been designated by the UK Government as a PSO (Public Service Obligation) which allows the Welsh Government to provide financial support to sustain the service.

The current contract expires at the end of 2014. The Welsh Government commissioned Arup, assisted by York Aviation and Aviation Analysis, to undertake a review of the value of the service and potential for alternative options should the Welsh Government decide to continue supporting an Air Service beyond the period of the current contract. The review also addresses a number of the areas raised in the Public Accounts Committee Report on the Intra Wales Air Service.¹

Subsidised air services between Cardiff and Anglesey commenced in May 2007. The original service was operated by Highland Airways under a three year contract. That contract was terminated after Highland Airways ceased trading in 2010. Following the resulting two month service interruption, a four year contract was awarded to Manx/FLM in 2010 to operate the service with a three month break clause. The Air Service is currently operated via a contract between Welsh Government and two companies who are joint signatories; Citywing (formerly Manx2) undertake the ticketing and marketing, and Links Air, who were novated to the contract in 2012, operate the flights.

Several other parties are involved in the delivery of the Air Service including the Ministry of Defence, which owns RAF Valley (within which Anglesey Airport is located), Europa Belfinger (a contractor operating the Anglesey Airport terminal facilities), The Isle of Anglesey County Council and Cardiff Airport.

In the first year of the service operating (May 2007 – May 2008) over 14,000 passengers (one way trips) used the service which exceeded initial forecasts. A similar level of demand was achieved in the second year of operation, although demand had begun to fall during 2008 as the UK economy entered recession. Following the 2010 service interruption demand continued to decline until the start of 2011 when passenger numbers recovered slightly. Passenger numbers fell slightly in the first half of 2012 but have since remained relatively stable at around 9,000 passengers per year.

As part of this review existing passengers were surveyed and there was consultation with a range of aircraft carriers. The passenger surveys indicated that the majority of passengers (74%) were travelling on business and using the Air Service to make trips of a short duration to north and south Wales (as opposed to connecting to onward flights at Cardiff or travelling to further destinations outside the local areas). Around 60% of business travellers were employed in the public sector with the remaining 40% in the private sector. The primary reason passengers gave for using the Air Service is the time saving it offers in comparison to alternatives and in particular the ability to make a return trip in a day between north and south Wales. It is notable that a number of passengers suggested should the Air Service not be available they may not have made their

¹ National Assembly for Wales, Public Accounts Committee, *Intra Wales – Cardiff to Anglesey – Air Service – Interim Report*, July 2014.

journey. Whilst a number of suggestions on service alterations were received (in particular timing of journeys) there was generally a good degree of stated satisfaction from existing passengers.

The operator consultation undertaken indicated that the limit on aircraft size means that renewal of the contract would not be attractive to some operators who do not have access to smaller aircraft. Aircraft operators also made a number of suggestions in relation to the current contract conditions; these primarily related to conditions increasing the flexibility and scope to vary the service offered.

In considering the potential renewal of the contract a review has been undertaken of a range of airports against the likely market for travel (population and employment catchment), the journey time benefits and the fit with the EU regulations on PSO services (in particular the alternative public transport options between locations). The review identified Cardiff, Anglesey and Hawarden airports as having the greatest potential to form part of a future Intra Wales Air Service. From these three airports it is judged that Cardiff Airport is best suited to be retained as the base for the aircraft in light of the facilities available for use by the operator. Two daily service patterns have been assessed in terms of their potential patronage and economic performance:

Option 1: Cardiff – Anglesey – Cardiff – Anglesey – Cardiff

Option 2: Cardiff – Anglesey – Cardiff – Hawarden - Cardiff – Anglesey–Cardiff

Whilst Option 2 was assessed to have a higher overall patronage potential the associated increase in operational costs would be likely to require an increase in the Welsh Government subsidy to support the service. It is also recognised that an air service between Cardiff and Hawarden may be considered marginal against the PSO regulations given the existing rail alternatives. For these reasons it is considered that maintaining the existing service pattern, Option 1, offers the best prospects for a future Intra-Wales Air Service.

The economic benefits of the service are particularly sensitive to the value attributed to passengers' time. By applying alternative values of time (for aviation passengers) to patronage forecasts for Option 1, it is considered that for a four-year contract to 2018 the Benefit to Cost Ratio of the service could be up to 1.10. This Benefit to Cost Ratio does not include a number of Wider Economic Benefits associated with the air service such as greater levels of business interaction between north and south Wales, additional costs borne by business of alternative travel modes (such as accommodation and effects of travel fatigue), improved access to new business markets and retention of businesses in north west Wales.

In relation to the procurement of a future contract a number of recommendations are made. These are targeted at increasing the flexibility and attractiveness of the service (to both passengers and the contracted operator) and to driving growth in patronage, and therefore lower subsidy, through a more comprehensive marketing strategy and by establishing a linkage between patronage and level of subsidy.

Following the findings of the review it is also recommended that the Welsh Government pursue a number of complementary measures. These notably include the investigation of measures at Anglesey Airport that would enable the airport to be compliant with the National Aviation Security Programme (NASP) regulations and in doing so obviate the current limit on the size of passenger aircraft that can be accommodated at the airport.

Document is Restricted

Agenda Item 6

Cyfoeth Naturiol
Natural Resources

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru
Welsh Government

Mr Darren Miller
Chair
Public Accounts Committee
National Assembly for Wales

8 January 2015

Dear Mr Miller

PUBLIC ACCOUNTS COMMITTEE: 2 DECEMBER 2014 WELSH AUDIT OFFICE REPORT ON GLASTIR

Following the Public Accounts Committee session on 2 December, I was asked to provide additional information on a number of points. I am pleased to provide this information below.

A note on the revised targets that Glastir is expected to achieve and how they will monitor the delivery against those, whether they are biodiversity targets or otherwise

Welsh Government outlined the strategic targets for Glastir under the next RDP programme in July last year. These targets, which are currently being negotiated with the European Commission, are:

- 1) To increase the level of investment into measures to mitigate green house gas emissions with the aim of contributing towards a reduction of net emissions from the land based sector in line with our international obligations.
- 2) To increase the level of investment into measures for climate change adaptation with the aim of building greater resilience into both farm and forest businesses and the wider Welsh economy and environment to ongoing climate change.
- 3) To increase the level of investment into measures to manage our water resources effectively with the aim of contributing towards an improvement in water quality in Wales and to meeting our obligations under the Water Framework Directive.



4) To focus increased resources on an identified list of priority species and habitats with the aim of contributing towards a reversal in the decline of Wales's native biodiversity and to meeting our obligations under the EU Biodiversity 2020 agenda.

5) To put in place measures and investment which maintain and enhance the characteristic components of the landscape and historic environment of rural Wales and to encourage increased public appreciation and access to the countryside.

6) To use agri-environment investment in away that encourages positive environmental outcomes but also contributes towards farm and forest business profitability and the wider sustainability of the rural economy.

In line with WAO findings WG also agreed that it would look wherever possible to quantify some of the benefits it expected Glastir to deliver once the budget available was determined. As I mentioned at the PAC, officials are currently working with the modelling team at the Centre for Ecology and Hydrology who lead the Glastir Monitoring and Evaluation Programme to develop realistic quantitative forecasts and targets. These will be published once the work has been completed and the new RDP approved by the European Commission. Progress towards these targets will continue to be monitored as part of the RDP Monitoring and Evaluation programme,

The average length of time an inspection takes

The average time taken to complete a Glastir Inspection (Entry/Advanced) in 2014 is four days, based on preparation time, the physical inspection and write up of the Inspection Report

The number of cross-compliance penalties and the total fines over the past few years

Details are provided in the table below.

Years	CAP element	Applied reduction s/ exclusion s (€)	Claimants sanctioned with a 1% reduction	Claimants sanctioned with a 3% reduction	Claimants sanctioned with a 5% reduction
2009	Direct Aid (SPS)	€ 1,492,652	64	285	152
	Pillar 2 (Rural Development)	€ 84,769	50	204	88
2010	Direct Aid (SPS)	€ 544,762	72	112	101
	Pillar 2 (Rural Development)	€ 71,132	50	89	76
2011	Direct Aid (SPS)	€ 568,783	44	105	101
	Pillar 2 (Rural Development)	€ 57,299.61	37	79	67
2012	Direct Aid (SPS)	€ 494,924	25	126	92
	Pillar 2 (Rural Development)	€ 50,323	16	55	37
2013	Direct Aid (SPS)	€ 456,364	25	100	88
	Pillar 2 (Rural Development)	€ 47,949	13	42	33

A note on how many applications for land to be left unfarmed have been turned down

Having considered the context of this question within the PAC transcript I have interpreted this question as asking how many applications were turned down because farmers were not offering/or willing to do additional work beyond existing practice.

The Glastir Entry scheme (basic level) application process is farmer-led. Farmers have to commit to undertake activities amounting to at least 34 points per hectare of their farmed land. So long as this minimum criterion is met an application would not be turned down. Because this is a farmer-led scheme it is not possible to assess the detailed level of change from current activity being offered for each individual application. This would require detailed baseline collection of all field management activity and stocking rates prior to entry for all farms that potentially might apply (i.e. the whole farm population). However, by analysing the activity undertaken it is possible to provide a relative benchmark at overall scheme level of the additional value provided compared to the previous Tir Cynnal Entry Level scheme.

As the Welsh Audit Office have set out in their report, one guarantee of additionality in an agri-environment agreement is the inclusion of payments for capital items. Under the predecessor Tir Cynnal scheme less than 5% of farms were required to undertake any capital works for a scheme payment of similar level to that offered under Glastir Entry and the total value of capital works delivered under the scheme was under 1% of the value of payments made. Under Glastir Entry (based on an analysis undertaken by Welsh Government for all entrants in the first two years of the scheme) more than 85% of farms were required to undertake capital activity and 36% of total scheme payment value was for capital works.

Under the Glastir Advanced (higher level) farms are selected and approached by Welsh Government with the offer of an agreement to participate in the scheme based on a farm visit which assesses what additional work would be required by the farmer to deliver towards the environmental objectives being targeted on the farm. All signed agreements require active farming for sustainable land management outcomes. Farmers not willing to undertake this work would not be offered a contract. Therefore it is possible more fully to assess to what extent applications are not progressed due to unwillingness by farmers to undertake additional work. In 2014 around 20% of farmers visited by a contract manager to draft a programme of works were not willing to undertake the necessary additional activities and therefore did not enter into agreement with Welsh Government for 1 January 2015.

An overview of the steps being taken to assist online applications

The online Glastir applications have a number of features to aid completion. These include instant validation, drop down menus and context-sensitive help. There is also more detailed step-by-step guidance available to access at any stage of the application. If customers have any queries, they can contact the Customer Contact Centre. The Customer Contact Centre staff are able to view all customer applications in real time, to enable them to talk the customer through any problems.

Customers who are unable to access broadband or who need more intensive support are able to book a face-to-face appointment at a Welsh Government divisional office. Customers can access the internet and the technical guidance required to register with RPW Online and complete their online application. This support is in addition to the service that agents and farming union representatives provide to help their members benefit from the advantages of online applications.

We are also working with colleagues to raise awareness of the Superfast Cymru and the Access Broadband Cymru schemes among the farming community.

The Glastir Advanced and Glastir Organics scheme application rounds were launched online during Autumn 2014 with great success. 99.75% of applicants were able to complete their applications without recourse to paper copies.

Yours sincerely

GARETH JONES

To: Publicaccounts.committee@wales.gov.uk Date: 8th January 2014

Contact: Rachel Lewis Davies
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Tel: Rachel.lewis-
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NFU Cymru submission to Public Accounts Committee Inquiry into Glastir

NFU Cymru welcomes the opportunity to provide further information to the Public Accounts Committee Inquiry into Glastir.

The source of our information is the Welsh Government Consultation Document – ‘A Water Strategy for Wales’ issued on 7th April 2014. We refer you to page 14 Figure 4 which shows the percentage of Water Framework Directive Failures attributable to agriculture is approximately 15%. Figure 4 also shows Failures attributable to Forestry at approximately 4.5% and acidification (which is an issue primarily associated with coniferous forestry) contributing a further 5%.

Some consideration of the land areas occupied by agriculture and forestry is also useful in understanding their respective impacts.

The Farming Facts and Figures, Wales 2014 identifies that the agricultural area is 1,740,000ha. The Welsh Government Woodland Strategy, page 15 Figure 4 shows that there is 287,400ha of woodland in Wales. Of this some 177,000ha is coniferous forestry with 111,500ha (63%) of this shown to be in public ownership.

As an industry we clearly recognise we have a role to play in improving water quality and delivering on the wider objectives of the Water Strategy and we would reiterate that NFU Cymru is a strong advocate of appropriate interventions for farmers where poor practices are responsible for water quality issues. We believe that any approach must be evidence-based and provide local solutions to local problems by working in partnership with industry to be effective.