

Agenda – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 14 January 2019

Meeting time: 13.30

For further information contact:

Fay Bowen

Committee Clerk

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1 Introductions, apologies, substitutions and declarations of interest

(13.30)

2 Paper(s) to note

(13.30 – 13.45)

2.1 The Regeneration Investment Fund for Wales (RIFW): Letter from the Welsh Government (29 November 2018)

(Page 1)

2.2 Community Safety in Wales: Additional information from the Welsh Government

(Pages 2 – 7)

2.3 Scrutiny of Accounts 2017–18: Additional information from National Museum Wales

(Pages 8 – 10)

2.4 Auditor General for Wales Report: Managing the impact of Brexit on the Rural Development Programme

(Pages 11 – 50)

2.5 Auditor General for Wales Report(s): Maturity of Local Government in use of data

(Pages 51 – 102)

2.6 Auditor General for Wales Report: Fiscal Devolution in Wales

(Pages 103 – 160)



- 3 NHS Wales Informatics Services: Welsh Government Response to the Committee's Report**
(13.45 – 14.15) (Pages 161 – 167)
PAC(5)–01–19 Paper 1 – Welsh Government Response
PAC(5)–01–19 Paper 2 – Letter from the Auditor General for Wales
- 4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**
(14.15)
Items 5, 6, 7, 8 & 9
- 5 The Welsh Government's relationship with Pinewood: Consideration of draft Report**
(14.15 – 14.45) (Pages 168 – 198)
PAC(5)–01–19 Paper 3 – Draft Report
- 6 Management of follow up outpatients across Wales: Consideration of scoping paper**
(14.45 – 15.00) (Pages 199 – 201)
Research briefing
- 7 National Fraud Initiative: Consideration of scoping paper**
(15.00 – 15.15) (Pages 202 – 203)
PAC(5)–01–19 Paper 4 – Scoping paper
- 8 Welsh Government Financial Support for Business: Auditor General for Wales' Report**
(15.15 – 15.30) (Pages 204 – 260)
Research Briefing
PAC(5)–01–19 Paper 5 – Auditor General for Wales' Report
- 9 Auditor General for Wales Report(s): Forward work programme**
(15.30 – 16.00) (Pages 261 – 283)
PAC(5)–01–19 Paper 6 – Auditor General for Wales' forward work programme

Tracey Burke

Cyfarwyddwr Cyffredinol / Director General
Y Grŵp Addysg a Gwasanaethau Cyhoeddus
Education and Public Services Group



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Public Accounts Committee Chair
National Assembly for Wales
Cardiff Bay
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29 November 2018

Dear Mr Ramsay,

Following my letter to you of 21 May on the Regeneration Investment Fund for Wales (RIFW), I am writing to offer an update.

As you are aware legal proceedings have been issued against Lambert Smith Hampton and Amber Fund Management for breach of contract and professional negligence. I can confirm that a judge has been appointed to preside over the case and a timetable has been set out by the courts.

I hope you will appreciate that there is very little that I can say about the legal process at this stage, but I am pleased to be able to report that we are continuing to pursue this case energetically and in the public interest. I am also happy to reassure you that once there are any significant developments towards resolving this matter we will wish to report that to the Committee.

Yours sincerely

Tracey Burke



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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding



Community Safety Technical Briefing for Public Accounts Committee Members

The following questions were received in advance of an update meeting to Committee members of 12 November 2018, with proposed answers provided.

1. What have been the major improvements in managing and delivering Community Safety in Wales since the Auditor General for Wales reported in 2016?

- Firstly, it should be iterated that community safety is an area which continues to pose significant challenges. The complexity of delivering devolved functions against non devolved competencies is something which impacts across all levels, politically and at an official level.
- It is therefore critical that a holistic approach to the criminal justice system is delivered here in Wales, where Governments can work together for the benefit of making our communities safer and we would like to move away from the current structures and adopt one that is fit for purpose. It is therefore crucial that the Welsh Government and the UK Government work together to explore how a different justice system would operate in Wales and we have begun this discussion with the Ministry of Justice.
- The Welsh Government and Her Majesty's Prison and Probation Service Wales have jointly developed **A Framework to support positive change for those at risk of offending in Wales**. The purpose of the **Framework** is to improve services for those at risk of entering or those already in the criminal justice system. The Framework will also promote continued collaboration in order to further reduce the number of offenders entering the criminal justice system, support offenders not to re-offend and to keep communities safe.
- The Safer Communities Programme Board has identified Serious & Organised Crime (SOC) and associated 'county lines' activity and serious violence as the most pressing priority for all partners and areas within Wales and agreed this will be the immediate focus in developing and implementing the Safer Communities Programme in close partnership with the PHW led Police Transformation Fund Early Action Together (EAT) programme.

2. Given the time lag between problems being identified and the development of the joint action plan, when do you anticipate citizens in Wales will see a tangible improvement in community safety services?

- We have already taken tangible steps - multiple work threads have been established under the Safer Communities Programme and are ongoing. Some of these areas, which will have a significant impact for citizens in Wales are:
 - Embedded a "public health" approach at the heart of our programme, in keeping with the Public Health Wales partnership agreement with policing and criminal justice agencies across Wales, ensuring the recognition of ACEs and trauma-informed practice within community safety partnership working;
 - Collaboration between Welsh Government and HMPPS/YJB in the development of "Public Health Justice blueprints" for young people and women who offend;

- Ongoing work to better align specific aspects of community safety working in WG including; substance misuse, VAWDASV, community cohesion and youth justice, safeguarding, housing and health;
- A workstream has been established to overcome the various identified barriers and issues to partnership data sharing, data development and analysis;
- Establishing a more integrated, collaborative approach to better understanding the strengths and deficiencies of agencies involved in “reducing reoffending” by looking at how they can work together to improve the “whole system” rather than individual components;
- Working with local authorities, police forces and SOC groups (to name but three) to refresh community safety. For example, working with Newport PSB and Gwent PCC to address the threat of county lines activity that has established itself in Pill, Ringland and Always. Local problem profiles for each of the 22 local authorities will be developed.

3. When can we expect to see the specific guidance for community safety in place? What do you think are the major challenges in developing this policy and how will you ensure it aligns with priorities of the Home Office?

- The challenges recognise the significant differences and divergences in the community safety landscape resulting from devolution, and the delivery of non devolved services within a devolved landscape.
- This is particularly prominent given the reliance upon devolved services to achieve non devolved outcomes. Over recent months, this has been particularly evident in the development and launch of a number of UK policies which have a direct impact upon devolved functions, and we have been working hard with UK Government departments to ensure they are relevant and appropriate to Wales. These include the Home Office Serious Violence Strategy and Serious Organised Crime Strategy and the Ministry of Justice Victims Strategy and Female Offending Strategy.
- So the task is not so much about ensuring this work aligns with the priorities of the Home Office, but how we can ensure that the Home Office strategies take account of Wales specific legislative requirements such as the Well-being of Future Generations Act, the Violence against women, domestic abuse and Sexual Violence Act.
- We will be engaging with community safety partners from early 2019, including the policing forces, local authorities and CSPs to identify their requirements for bespoke guidance that meets the needs of Wales, and we expect to have developed and implemented online guidance material by summer 2020.
- The development of the guidance will be achieved in parallel to work to develop an online training resource and database and a Wales wide network of community safety expertise. We make no apologies for taking the time (until 2020) to ensure we get this work right and it is fit for purpose, recognising that material is soon out of date and needs continuous refreshing.

4. How do you intend to demonstrate your performance to citizens, so they are able to judge whether community safety services are improving or not?

- Our work will be demonstrated through the reinvigoration of community safety working embedded in local authorities in collaboration with other key community safety partners to ensure a fully joined up multi-agency service that delivers solutions such as MASH services and solutions to problems locally and regionally such as outlined earlier regarding county lines activity in the Newport area.
- We will ensure there is local partnership involvement in order to provide support around the 'how' they do community safety - which includes citizen involvement and participation. The eventual Welsh guidance will provide more information and effective practice case studies.
- It should also be for local partnerships and partners [not WG] to evidence better performance to citizens as each area is different and will have differing local priorities. We can provide support, guidance and a more helpful strategic framework based on outcomes rather than inputs/outputs (bean counting).

5. What are the major risks facing public bodies in Wales to improving community safety services and how are these being managed and mitigated by the Welsh Government and its partners?

- The complexity and number of groups and organisations at regional and local level pose a significant challenge. The WG, along with its key partners including the WLGA and policing in Wales, are mapping out the different organisations that deliver through the lens of community safety and will be working with them to identify how these groups can better align or co-ordinate activity to ensure resources are used in the most appropriate manner, given that funding constraints and competing budget priorities continue to be an ongoing and significant risk.
- Data – at the moment a multitude of agencies are collecting data but we are not convinced it is the right data or that they are using it in the right way. And agencies are often not sharing it on a multi-agency basis. We have established a workstream that will look further into these issues with the aim of establishing an accord regarding data collection and sharing.
- Resources, in terms of money and frontline staffing, continues to be a major issue. Whilst there are specific pots of grant funding from the Home Office and the like, often this is short term and not long sighted/focused on long term outcomes or solutions. We will work with organisations that have bid for, or intend to bid for funding, include a sustainability element for when the programme funding ends and how they can get best use out of those resources.
- With the continued squeeze on WG budgets, we will also work with these and other organisations to look at how they can deliver services in a smarter or different way. The engagement at local authority level to develop 22 problem profiles will go a long way to achieving this.
- We are still largely unsighted of the risks that BREXIT may pose, as we get ever closer to 29 March 2019.

6. How are you planning to address devolution of policing and justice?

- It is critical that a holistic approach to the criminal justice system is delivered here in Wales, where Governments can work together for the benefit of making our communities safer. We want to move away from the current structures and adopt one that is fit for purpose. It is therefore crucial that the Welsh Government and the UK Government work together to explore how a different justice system would operate in Wales and we have begun this discussion with the Ministry of Justice.
- We want to see coherence, clarity and stability in our system of policing and justice governance and accountability that is currently lacking as a result of the current poor settlement and the ‘jagged edge’ between Welsh and UK Government responsibilities. Only then can we achieve better outcomes for victims, offenders and communities in Wales.
- The Cabinet Secretary for Local Government and Public Services will later this week give evidence to the Justice Commission where he is likely to say that we want to see a different approach to justice policy in Wales; a criminal justice system that is rooted in locality, in family, in rehabilitation, in support, in community. We need to gain a better understanding of why people end up in the criminal justice system and what preventative measures we can take to stop them taking this path.
- We see a system predicated on the basis of early intervention and prevention; considering how we can further divert people away from crime in the first place, but where we do have to work with offenders, that we do so in a holistic and rehabilitative way ensuring that all of us who have involvement in crime and justice consider the circumstances behind the crime and not only the crime itself.
- We will work closely with the UK Government, at Ministerial and official level, following the publication of the Thomas Commission report next year and if that recommends further devolution of policing and justice services to Wales we will make representation in the strongest possible terms for further reform and devolution of justice policy to Wales.

7. What mechanisms are you putting in place to support partners to address past ineffective and unsuccessful consultations (Page 63 of the Review Report)?

- The programme is being developed along the key themes of ensuring it is (i) evidence based and intelligence led (ii) supported by appropriate skills and knowledge (iii) sustainably resources and locally appropriate (iv) engaging and involving citizens (v) preventative and intervening as early as possible (vi) focused on long term improvements and benefits. We will ensure extensive citizen engagement to achieve these outcomes and develop more appropriate and effective collaborative outcomes frameworks to enable partners/partnerships to better measure performance and results.
- We will produce relevant “citizen focused” products (eg toolkits, guidance, case studies and training).
- We will aim to remove unnecessary duplication in citizen involvement approaches (eg Tell Us Once & Ask Cardiff approaches).
- We will aim to improve capacity of public bodies and partnerships to engage, consult, involve and facilitate participation.

8. What are you proposing to do to secure longer-term and better integrated funding of community safety?

- The programme will look at how best to make more effective use of the limited resources and funding, with a focus on strengthening collaborative service planning and commissioning arrangements that eliminate silos and duplication and focus on place based, person centred public service provision.
- While more money is welcome (end to public sector austerity) it's more about better public services planning and commissioning based on better evidence and intelligence, more focused on prevention and early intervention etc.

9. Given the wide range of activities set out in the Way Forward section of the Safer Communities Review, how does the Welsh Government plan to oversee and manage performance and what role do you see for the Public Accounts Committee in scrutinising performance?

- The Programme Board under the leadership of the Cabinet Secretary for Local Government and Public services will continue to oversee performance and programme delivery. A board member has been appointed as SRO for each of the workstreams and will be accountable to the Board and will be expected to ensure and report on delivery.
- In addition, a management group consisting WG, WLGA & PCC officials meet monthly to ensure the programme is on track.
- A virtual team comprising officials from WG, WLGA, PCCs, Home Office & PHW meet monthly to review and develop each separate work strand.
- We are open to discussing and agreeing with the Committee what role it envisages in the scrutiny of the programme, recognising that delivery is medium term to 2020 and will not be achieved at pace given the historic and endemic nature of community safety working.

10. What actions are you planning to address strengthen preventative and early intervention activities?

- As stated previously, we will aim to ensure a more joined up commissioning approach but also we are working to try and ensure local and regional activity/delivery and national policy and strategy better aligns with Aces, E.A.T., team around family, safeguarding and addressing vulnerability.

11. Given the importance of all partners playing their role, how do you intend to address mixed levels of engagement from health partners and inequitable relationships with third sector partners and service providers, particularly related to service planning and commissioning?

- We will consider this further as the programme develops further. We will review these matters and provide a robust and definitive leadership role.

Public Accounts Committee

PAC(5)-1-19 PTN3- 14 January 2019

Scrutiny of Accounts 2017-18

Additional Information from National Museum Wales regarding staff sickness absence

National Museum Wales Initiatives being implemented to address sick absence are focused to reducing the incidences of casual absences (i.e. short-term absences for minor ailments), and mental-health related absences. These include:

- Refresher training for managers in attendance management, in particular reminding them of Amgueddfa Cymru's policies and procedures and the need to carry out the return to work interview for all absences;
- HR Advisor monitors absences on a weekly basis to ensure that the return to work interview has been carried out. Where this has not happened, email reminders are sent. This is followed up by HR Officers;
- Trigger points have been tightened and are being closely monitored by the HR Advisor and HR Officers. From January 2019 staff members with three episodes of sick absence and/or 10 days sick absence in any rolling calendar year are invited to meet with their line manager and HR Officer to discuss their health and wellbeing and what support they might need to improve attendance;
- Following this meeting, cases are escalated under Amgueddfa Cymru's Capability Procedure if there is no improvement in attendance over a specified period of time;
- A Wellbeing Group has been established with Managers and Trade Unions working in partnership to address wellbeing issues. Their work is currently focused on mental health issues and menopause awareness.

- Amgueddfa Cymru participated in the Mind Workplace Index. The Wellbeing Group will develop an action plan to address any areas for improvement when results are received (these are expected in March)
- Stress Awareness and Resilience workshops have been held at all museums
- Mental Health First Aid training is offered to staff
- Yoga sessions have been piloted at the museum
- Mental Health Awareness training for Managers is being arranged for Quarter 4
- We offer an Employee Assistance Programme for all staff which provides confidential information and counselling
- Staff with mental ill health are referred to DWP's Able Futures for further support

Sickness days

- Days lost per employee for the 2017–18 financial year totalled 10.94 with 2.52 of these as a result of mental ill health.
- In the 2016–17 financial year, total days lost per employee as a result of sickness was 13.17 with 2.79 of these as a result of mental ill health.
- The absence rate for Quarter 1 and Quarter 2 for 2017–18 was 4.89%.
- The absence rate for Q3 2018–19 was 3.6%. This compares with 4.81% for the same period in the previous year.

The number of days available is calculated on the basis of individual work patterns, i.e. the number of working days per week (totalled for all staff) x the number of weeks in the quarter. The annual figure is the sum of the four quarters which gives the total number of available working days per annum. We do not adjust the figure for annual leave and public holidays. We use headcount as the basis for the calculation. Pool arrangements are not included in these calculations. The breakdown can be seen below.

	2017 - 18				
	Q1 Apr - Jun	Q2 Jul - Sep	Q3 Oct - Dec	Q4 Jan - Mar	Total
Est Act Sick days	1426.26	1721.80	1560.77	1836.02	6544.85
Calendar Days in Quarter	91.00	92.00	92.00	90.00	365.00
Weeks in Quarter	13.00	13.14	13.14	12.86	52.14
Est. Working Days Per Quarter	31253.91	32963.547	32429.40	32288.83	128935.69
% of Working Days Taken Sick	4.56%	5.22%	4.81%	5.69%	5.08%
Headcount at qtr start	572	606	595	599	593
Headcount at qtr end	603	598	601	611	603
Average	572.5	602	598	605	598
Average no of days lost	2.49	2.86	2.61	3.03	10.94

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Managing the Impact of Brexit on the Rural Development Programme for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 1998.

The Wales Audit Office study team comprised Alice Rushby, Daniel King, Jennie Morris, Adam Marshall, Lucy Evans, Mark Jeffs, Chris Pugh and Seth Newman under the direction of Richard Harries.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary report

Summary

- 1 The European Union's Common Agricultural Policy (CAP) provides funding to support farmers, the countryside and rural communities. It has two 'pillars'. Pillar 1, called the European Agricultural Guarantee Fund (EAGF), is a direct payment to subsidise farmers amounting to approximately £211 million¹ annually. Pillar 2, called the European Agricultural Fund for Rural Development (EAFRD), is delivered through a Rural Development Programme designed by each UK administration and approved by the European Commission (EC). This report focuses on this element of 'Rural Development funding' under the Welsh Government's Rural Communities - Rural Development Programme (RDP)².
- 2 Since 2000, Wales has been eligible for €1,143m (approximately £972 million) of EU Rural Development funding. Wales is eligible for around £522 million under the current round which forms the 2014-2020 Rural Development Programme, although EU rules mean Wales would actually have until 2020 to commit³, and until 2023 to spend and claim the funding⁴. The Welsh Government currently plan to contribute an additional £252 million of 'co-financing'⁵ taking the the overall value of the current programme to £774 million.

1 For the purposes of this report we have used GBPs throughout. Where values were only available in Euros we have used the Welsh Government's current planning exchange rate – 0.85 GBP to 1.00 Euro. Exchange rates will have varied over time, and so there may be variations in the same values quoted elsewhere.

2 gov.wales/docs/drah/publications/170705-wales-rdp-2014-2020-document.pdf

3 For this report, we mean that the funding is committed to a specific project following approval by the Welsh Government and signed acceptance of the grant offer letter by the project sponsor.

4 The RDP includes annual allocations of funding across the programme period (2014-2020), which total the full value of the EAFRD funds. The annual allocations cannot be exceeded but the Welsh Government have a further three years (known as N+3 or decommitment principle) from each allocation within which they can commit, spend and claim the funds. N+3 targets are cumulative and rise each year to 100% of funding which must be spent by 2023.

5 'Co-financing' is the domestic funding provided by the Welsh Government to deliver the Rural Development Plan in Wales. EC Regulations stipulate a maximum and minimum percentage of funding that can come from the EC depending on the type of funding, the type of scheme and the location of the beneficiary of funding. Within these parameters, the exact percentage of domestic and EC funding is put forward by the UK administration, agreed by the EC and set out in their Rural Development Programme.

- 3 The EU has set six overall priorities for the funding. These are underpinned by generic EU ‘focus areas’ and ‘measures’ through which the priorities will be achieved (**Box 1**). The Welsh Government produces a Rural Development Programme document which sets out how it will use the funding to achieve these priorities. The Welsh Government sets up a range of schemes, which farmers or organisations can apply to. Each successful application becomes a project for the purposes of the EU rules. **Part 2** of this report sets out the process in more detail.

Box 1 – Rural Development Programme 2014-2020 structure

EU Priorities	<p>Member States and regions draw up their rural development programmes based on the needs of their territories and ensuring that at least four of the following six common EU priorities are addressed:</p> <ul style="list-style-type: none"> • fostering knowledge transfer and innovation in agriculture, forestry and rural areas; • enhancing the viability and competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management; • promoting food chain organisation, animal welfare and risk management in agriculture; • restoring, preserving and enhancing ecosystems related to agriculture and forestry; • promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors; and • promoting social inclusion, poverty reduction and economic development in rural areas.
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Box 1 – Rural Development Programme 2014-2020 structure

Focus Areas	The rural development priorities are broken down into 'focus areas'. For example, the priority on resource efficiency includes focus areas 'reducing greenhouse gas and ammonia emissions from agriculture' and 'fostering carbon conservation and sequestration in agriculture and forestry'. Within their RDPs, Member States or regions set quantified targets against these focus areas. They then set out which measures they will use to achieve these targets and how much funding they will allocate to each measure.
EU Measures	The RDP sets out a selection of measures drawn from the Rural Development Regulation to address the EU priorities and focus areas. A measure is a set of specific activities or investment, eg investment in physical assets.
Welsh Government Schemes	Schemes are devised by the Welsh Government (or other member state or region) to satisfy the EU measures. A scheme is essentially a framework of activities set by the Welsh Government designed to achieve the generic EU measures. These are translated into 'scheme rules' advertised to individuals or organisations to apply for funding under the specific scheme.
Applicants' Projects	Applications for specific projects are submitted to the Welsh Government who assess the proposed activities against the scheme rules and accept or reject the project.

Exhibit 1 – key facts about the 2014-2020 Rural Development Programme

EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT



= £522 MILLION



= £252 MILLION



Knowledge transfer and innovation*

- Innovation and cooperation
- Links with research and innovation
- Lifelong learning and vocational training



Competitiveness

£97M	£65M
Total Expenditure	EU Grant


- Farms performance, restructuring and modernisation
- Entry of skilled/younger farmers



Food chain and risk management

£87M	£53M
Total Expenditure	EU Grant


- Agri-food chain integration and quality



Ecosystems management

£329M	£250M
Total Expenditure	EU Grant

- Biodiversity's restoration, preservation and enhancement
- Water management
- Soil erosion and soil management



Resource efficiency and climate

£68M	£40M
Total Expenditure	EU Grant

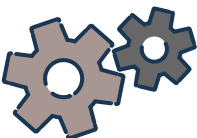
- Energy use efficiency investment
- Renewable energy and waste management investment
- Greenhouse gas and ammonia emissions reduction
- Carbon conservation and sequestration



Social inclusion and local development

£165M	£97M
Total Expenditure	EU Grant

- Diversification and job creation
- Improved services/infrastructure
- Improved ICT



Technical assistance

£31M	£17M
Total Expenditure	EU Grant

- Audit and controls
- Evaluation and monitoring

*Note: This priority is considered cross cutting.

The allocation under priorities 2-6 contributes to the achievement of Priority 1 targets.

Figures based on first modification of RDP extant at time of publication, converted at an exchange rate of €1: £0.8

Source: Welsh Government website

- 4 On 23 June 2016, the UK voted in a referendum to leave the European Union. In March 2017, the UK Government served notice of its intention to leave the EU. In line with the two-year timetable set out under EU law, the UK will leave the EU at 11pm on 29 March 2019.
- 5 The impact of Brexit on the EU Rural Development Funding depends on whether the UK leaves the EU with a 'deal' or not. EU law allows for the UK and EU to agree a 'Withdrawal Agreement' which sets out the terms of the UK's departure. In March 2018, the UK and EU published a draft Withdrawal Agreement. The draft Withdrawal Agreement set out a range of areas where the UK and EU agree as well as some key areas of disagreement. Among the areas of agreement are that the UK will continue to participate in the 2014-2020 EU Rural Development Programme until its end.
- 6 On 14 November 2018 the UK and EU published a revised draft Withdrawal Agreement. However, at the time of drafting the revised agreement has not been formally approved by the EU or the UK, and there remains a chance that the UK will leave the EU without a Withdrawal Agreement. In a no deal scenario, Wales will have to rely on a UK Government guarantee, announced in October 2016⁶, to replace EU funding for projects that have been 'signed before the UK leaves the EU'. During drafting of this report, in late July 2018, the UK Government announced that it was then extending its guarantee of EU funding to cover Rural Development Programme contracts signed before the end of December 2020. **Exhibit 2** sets out at a high level the two key scenarios – 'deal' and 'no deal'.

6 In August 2016, the UK Government announced an initial guarantee to fund projects signed before the Chancellor's Autumn Statement. The October 2016 announcement preceded the Autumn Statement and extended the guarantee to all projects signed before the UK leaves the EU.

Exhibit 2 – UK/EU Withdrawal agreement – latest deal and no deal scenarios for Rural Development Programme in Wales



- 7 This report considers whether the Welsh Government is effectively managing the risks and opportunities for the Rural Development Programme posed by Brexit.
- 8 **Appendix 1** sets out our audit methods. This report focuses at a high level on the key risks. We have not reviewed the overall management of the programme in depth. Nor have we reviewed the Welsh Government's broader response to the risks and opportunities of Brexit.
- 9 The report is structured around the key risks to EU funding and opportunities as a result of Brexit. **Exhibit 3** sets out the key risks and opportunities and our conclusions in relation to how the Welsh Government is managing them.

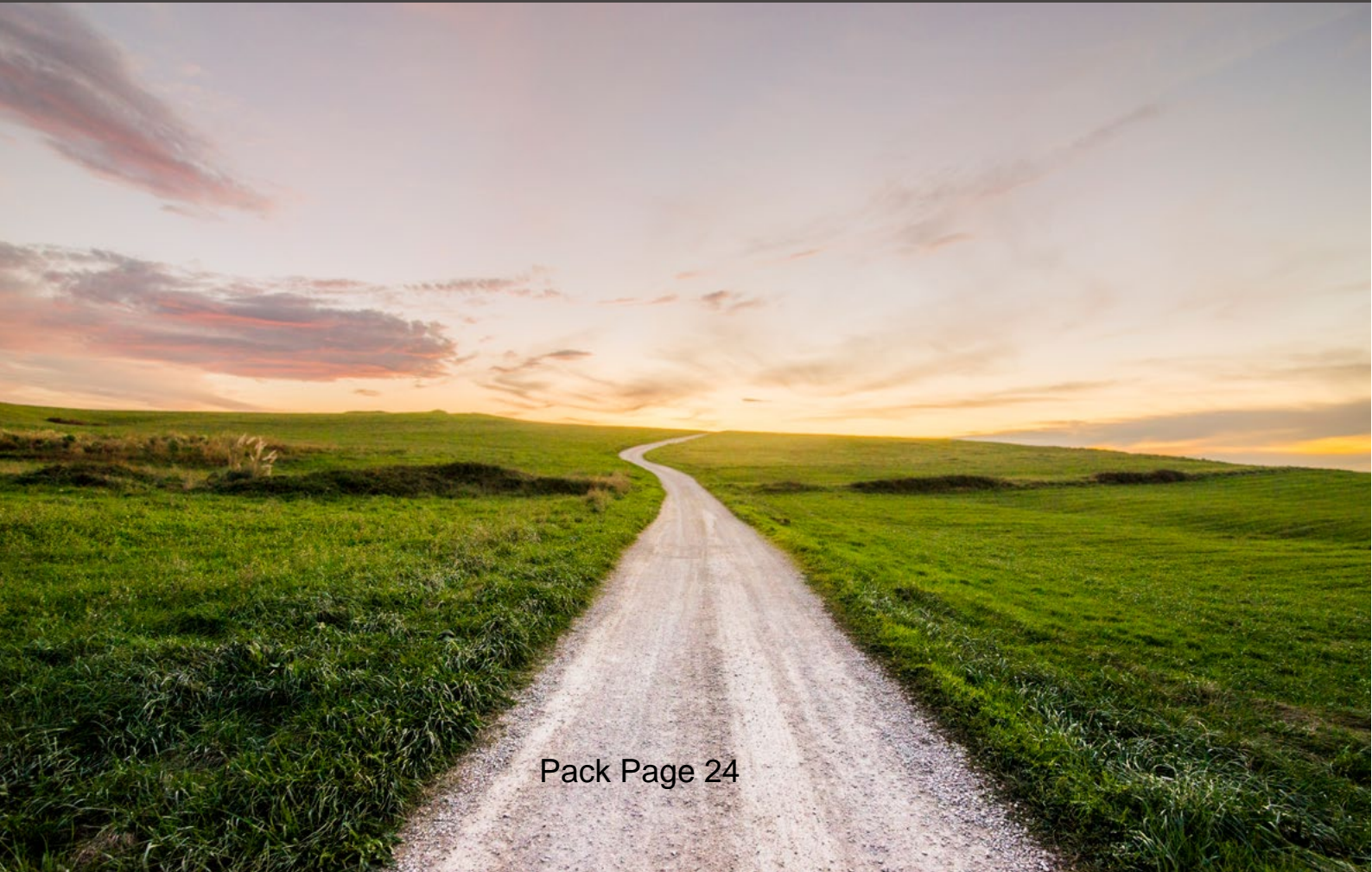
Exhibit 3 – key risks and opportunities related to EU Rural Development Funds in Wales as a result of Brexit

Risk/ opportunity	Conclusion
Key risk: that Wales loses out substantially on funding.	The Welsh Government faced financial risk had the UK Government not amended the terms of its post Brexit funding guarantee.
Key risk: that the Welsh Government does not have robust governance and control arrangements in place to effectively manage the Rural Development Programme through Brexit.	The Welsh Government has checks and balances to ensure that it complies with strict EU rules, but needs to strengthen scrutiny and risk management of the overall RDP.
Key opportunity: to apply lessons learnt from years of managing the EAFRD fund in Wales to any replacement scheme.	The future of agricultural funding post-Brexit is unclear but the Welsh Government are trying to shape debate and have set out what they want future arrangements to look like.

- 10 We make the following key recommendations for the Welsh Government:
- a The current scrutiny arrangements for the management and delivery of the RDP should be improved. A scrutiny forum should allow sufficient attention for the detailed consideration of the programme by informed and engaged members based on clear and accurate information. In particular, the reporting and consideration of 'commitments' should be clear.
 - b Risk management arrangements for the RDP should be clarified and documented so that officers and departments understand their responsibilities and to ensure that all risks with the RDP, and in particular in the context of Brexit, are appropriately identified and managed.
- 11 In addition to the recommendations made above, there are also some key issues for the Department to continue to manage even with the extension of the guarantee:
- a keeping in view wider economic changes, including in relation to Brexit, and adapting the programme where necessary in response;
 - b Increasing the rates of commitment, working with potential project sponsors to address concerns, including around the availability of match-funding;
 - c Increasing the rate of spending by encouraging projects to submit their claims for EU funding more promptly;
 - d Working with beneficiaries to minimise project underspends that could result in funding being lost to Wales;
 - e Recruiting and retaining staff at a time where there is significant uncertainty about some of the roles within the Department, and potentially increased workload as a result of an increase in the pace of project assessments;
 - f Sustaining robust checks and balances; and
 - g Ensuring that during the transition to any replacement for rural development funds, the Department's expertise is retained either in the replacement programme or in the wider Welsh public service.

Part 1

The Welsh Government faced financial risk had the UK Government not amended the terms of its post-Brexit funding guarantee



- 1.1 This part of the report looks at how the Welsh Government has been managing the risk that Wales loses EU funding as a result of Brexit. In particular it looks at the deal or no deal scenarios for Brexit. In the deal scenario we consider the impact of the draft Withdrawal Agreement and any residual risks to EU funding. In the no deal scenario, we look at the risks associated with the UK Government's previous guarantee to fund projects that have been signed at the point of Brexit (29 March 2019), and the consequences of the 24 July 2018 UK Government announcement extending the guarantee to cover the full allocation. In the no deal scenario, we also look at the wider UK funding position and the risk that the UK has to fund projects that could have been claimed from the EU by the Welsh Government.

The Welsh Government initially took steps to speed up the programme to maximise EU funding but later relied on the UK funding guarantee

- 1.2 Under EU rules the Welsh Government has until the end of December 2023 to spend and claim the full allocation of £522 million in EU funding. The Welsh Government originally planned to commit all funding to signed projects by December 2020 so that it then had the three years between 2020 and 2023 to spend and claim it back from the EU.
- 1.3 Following the EU referendum in July 2016, the Welsh Government sped up the pace of commitment in order to claim as much EU funding as possible by the time of Brexit in March 2019. They did this by opening more schemes and increasing the percentage of EU funding for some schemes.

- 1.4 Under EU rules, the Welsh Government can set some of the rates for the proportion of EU funding. The maximum EU funding that can be used on schemes ranges from 53% to 90% dependent on the location of the beneficiary, the type of funding and the activity being funded. Rather than set different funding rates for each scheme, at the start of the programme the Welsh Government initially set a flat-rate of 43% funding from the EU across all schemes funded by mainstream EAFRD. After a 'lessons learned' exercise following the previous programme it considered a flat-rate to be a lower risk option, given that the EU can impose significant financial penalties across the whole programme if the funding rates as set are not adhered to. In 2016, in response to the referendum result, the Welsh Government increased the flat-rate EU funding rate from 43% to 53%. This was the highest rate that could be applied to all claims. Higher rates for certain measures and beneficiaries are allowable within EC regulation, but continuation of a flat-rate was considered preferable by the Welsh Government to reduce the risk of it applying the incorrect rate and having financial penalties applied by the EC.
- 1.5 In October 2016 the UK Government announced its funding guarantee. This pledged to replace EU funding for all projects committed to by the Welsh Government at the point of Brexit. The Welsh Government could have continued to open more schemes and increase EU funding rates further in order to draw down EU money at a faster rate, but chose not to. The Welsh Government's preference was that the RDP should run over the time frame as it was originally planned and to rely on the UK government guarantee to fund it. The Welsh Government considered that there were difficulties with expediting the programme to claim more EU funding. These difficulties are set out in **Box 2** below.

Box 2 – factors that the Welsh Government state limited their ability to further expedite the Rural Development programme

A potential reduction in the size of the RDP

The Welsh Government considered that increasing EU co-financing rates further would have reduced the size of the overall programme. That is, by claiming EU funding at a higher rate, the EU pot would have been exhausted more quickly. While the value of the EU pot would have remained the same, the co-financing element by the Welsh Government would have been smaller because it would have contributed a smaller proportion to each claim paid.

The overall impact of this would have been less money spent on the RDP. However, the Welsh Government did not consider whether there were other ways that they could have spent the same amount of money outside of the RDP in order to both maximise EU funding and maintain the same level of benefit for rural development in Wales.

Risk of weakened controls

The Welsh Government considered that there was an increased risk of internal financial controls being compromised and schemes being less robust or claims ineligible. This in turn could have led to financial penalties and clawbacks by the EU.

Limited staff resource

A lack of capacity within the Welsh Government's Scheme Management Unit has stifled the ability to open and administer more schemes. As at March 2018 there was a backlog of 132 projects still in appraisal stage.

Competition limitations

Given the regulatory requirement for the programme to be competitive, the Welsh Government does not have any projects held under consideration which can be called upon in order to quickly commit funds.

Box 2 – factors that the Welsh Government state limited their ability to further expedite the Rural Development programme

Planning of co-financing

All of the co-financing in the programme comes from the Welsh Government. However, it does not commit to its co-financing budget for the lifetime of the programme (including N+3 years). Co-financing is set on an annual basis, alongside the wider Welsh Government budget. The amount of co-financing available tends to be the same from year-to-year and does not match the known patterns of the programme, with spend lower in the early years and rising at later points. As such, the co-financing has tended to be underspent early in the programme but becomes a potential barrier later in the programme. The Welsh Government has been reluctant to open new schemes that would cover future years, without certainty that the necessary co-financing will be available.

1.6 As of March 2018, the Welsh Government had committed almost two-thirds of the EU funding (£378 million).

Exhibit 4 – position of the 2014-2020 EU funding for the RDP at end of March 2018



- 1.7 The Welsh Government had plans to take it to what it considered to be 100% commitment by March 2019 a maximise the UK funding guarantee. All EU funding was allocated to Intermediate Bodies. Intermediate bodies are internal departments of the Welsh Government that take managerial responsibility for delivering a series of schemes under the RDP. The Intermediate Bodies had a pipeline of schemes worth £109 million of which £83.9 million would not be committed to signed projects before March 2019. The Welsh Government did not seek to clarify whether such a commitment to an internal department without an underlying signed project would fit the terms of the UK Governments funding guarantee until November 2017.
- 1.8 It is too early to judge the likely impact of the funding in terms of the benefits it achieves and whether the original expectations or targets will be met. The Welsh Government measures and reports progress against a wide range of detailed measures. **Exhibit 5** sets out the key performance measures that the Welsh Government reports having achieved by the end of March 2018.

Exhibit 5 – the Welsh Government’s key indicators for the EAFRD programme as at 31 March 2018

	Progress	Target
Physical area supported	689,186 hectares	688,000 hectares
People in training	6,400	13,000
Agricultural holdings supported	882	3,773

Source: Welsh Government data

If there is a Withdrawal Agreement, EU funding will continue largely unchanged so there is a limited risk of Wales losing out substantially

- 1.9 If the draft Withdrawal Agreement is agreed between the UK and EU, then under the terms of the draft Withdrawal Agreement, Wales will continue to be able to participate in the 2014-2020 programme until its end. In accordance with EU rules the Welsh Government has plans in place to commit all EU funding to signed projects by December 2020 and to spend and claim all funding by the end of the programme in 2023.
- 1.10 Even with a Withdrawal Agreement in place, Wales could lose out on some funding if projects underspend. The Welsh Government has the option to mitigate this risk by overcommitting funds. Given the uncertainty of future funding the Welsh Government may need to be more cautious about over-commitment, thereby increasing the risk that it is unable to balance out and redistribute underspends. For each 1% of the value of the EU funding underspent, Wales would lose around £5.2 million.

There was a significant risk of Wales losing out on funding in a no deal scenario until the UK Government very recently extended its guarantee

Under the previous terms of the UK Government guarantee, there was a significant risk of Wales losing funding if there is no Withdrawal Agreement in March 2019

- 1.11 If the UK leaves the EU without a deal in March 2019, EU funding to Wales will stop. The UK Government's guarantee in October 2016 said that it would replace funding for 'all structural and investment projects' that have been 'signed before the UK leaves the EU'. As previously drafted, the guarantee only covered funding for projects approved by 29 March 2019.

- 1.12 The Welsh Government had allocated all EU funding to Intermediate Bodies, which it expected to be covered by the UK Government guarantee. Of this, £83.9 million would not be committed to individual projects by March 2019. As reported above the Welsh Government did not begin to seek clarification on whether the terms of the guarantee would include the use of Intermediate Bodies until November 2017. The UK Government produced a draft guidance note on the detail of the guarantee in June 2018 and this confirmed that the intermediate body commitment would not fall within the scope of the guarantee. As a result there was a significant risk that Wales would have lost the £83.9 million unless the Welsh Government could have rapidly developed new schemes or signed-up projects in a very short space of time.
- 1.13 There could also have been losses to Wales due to a lack of flexibility to move funds around between projects and schemes after Brexit. In a programme of this size, some projects and schemes will inevitably spend less than they planned. Under EU rules, the Welsh Government has some flexibility to redirect underspends at a scheme or project level to other projects and schemes up to the end of the programme period. However, it was not clear that the UK Government guarantee, which was specifically related to approved projects, would allow such flexibility to move funding beyond the point at which the projects had been approved and the funding guaranteed. Therefore, any underspends could have been lost to Wales.

The UK Government has recently extended the guarantee with the new terms significantly reducing the risk of Wales losing funding in a no deal scenario

- 1.14 In February 2018, the UK Government's Department for Environment, Agriculture and Rural Affairs produced a White Paper on the future of agriculture after Brexit. The White Paper referred to a Conservative Government manifesto commitment and stated that 'we will maintain the same cash total funding for the sector until the end of this parliament: this includes all EU and Exchequer funding provided for farm support under both Pillar 1 and Pillar 2 of the current CAP. This commitment applies to each part of the UK'. Taken literally, the White Paper appeared to offer a blanket guarantee that Wales would get the full allocation under the current RDP. However, Welsh Government officials confirmed with the UK Government that it only related to new funding after 2020, not the current round. Therefore, at that point the UK Government guarantee to fund projects approved by March 2019 still stood.

- 1.15 On 24 July 2018, the UK Government announced that it was extending its guarantee of EU funding to cover all projects signed before end of December 2020. As drafted, this extension of the guarantee significantly reduces the risks associated with both not committing funding and underspends in a no deal scenario. However, the precise impact will become clearer as the UK Government sets out further details on how the guarantee will work in practice.
- 1.16 The Welsh Government Rural Development division along with the Welsh European Funding Office (WEFO) attempted to try to clarify the UK Government's interpretation of the guarantee. **Box 3** sets out the areas where WEFO on behalf of the Welsh Government had asked for further detail. The UK Government intends to produce updated guidance on the extended guarantee in the near future, which we understand will address some of the issues that were raised. Ultimately, the scope of the guarantee is a decision for the UK Government.

Box 3 – key areas where WEFO has sought clarity over the UK Government guarantee

Project/scheme variation flexibility

Will the UK Government permit variations to agreed projects committed at 29 March 2019 and still regard varied commitments to be covered by the guarantee?

Impact on other funding

Can the UK Government confirm the guarantee will not impact on any other funding earmarked for Wales?

Overall value of guarantee

How and when will the UK Government determine whether there is a Sterling value of the ceiling on its guarantee?

Regulations

What existing EU regulations does the UK Government expect to retain and what audit and inspection process will be required post Brexit?

Cut-off point

Will the UK Government meet any amounts that are in the system at the point of Brexit?

Technical assistance

Will the UK Government continue to fund WEFO staffing and other training, advice and support costs under the guarantee?

There is a wider risk to the UK funding position in a no- deal scenario

- 1.17 Although this report focuses on the risks to Wales, there is a wider risk to the UK funding position in a no- deal scenario. In a no- deal scenario, the gap in funding the programme would be covered by the UK Government. The size of that gap depends in part on the amount of EU funding that Wales (and other parts of the UK) can draw down from the EU before Brexit. To draw down funding from the EU, projects first need to spend the money then submit a claim to the Welsh Government. The Welsh Government then pay the claimant and draw down the funding from the European Union.
- 1.18 At the start of the programme the EU set out their overall funding budget to the Welsh Government in annual allocations from 2015 to 2020. These allocations are the maximum amounts that Welsh Government can draw down in that year. The N + 3 rule then allows the allocation to be claimed up to three years after. Beyond the three years that funding is lost. To date the Welsh Government have met all N + 3 targets and no funding has been lost.
- 1.19 In a typical programme it is usual for annual allocations not to be fully used within the year, and for member states to make use of the N + 3 periods to claim their full funding. However, given Brexit, and in the event of a no- deal scenario this timetable for claiming EU funds will shorten considerably to March 2019. At the end of 2018, the Welsh Government intends to have claimed £192 million (43%) of the £445 million cumulative EU allocations available to them by that date. It is therefore almost certain that three months later Wales will not have been able to draw down the total EU allocation available to them before Brexit in March 2019.
- 1.20 In [paragraph 1.5](#) above we report the Welsh Government's view that there were logistical difficulties and risks in expediting the programme in order to maximise the funding coming from the EU prior to Brexit. These included potential limitations in Welsh Government resources to deliver more schemes or the availability of Welsh Government co-financing.
- 1.21 It is difficult to be sure exactly how much more the Welsh Government could have spent had it chosen to accelerate the programme, but it is clear that in a no deal scenario the amount of funding that will need to come from UK, rather than EU sources, is likely to be higher as a result of the Welsh Government's decision not to expedite the programme.

Part 2

The Welsh Government has checks and balances to ensure that it complies with strict EU rules, but needs to strengthen scrutiny and risk management of the overall RDP



- 2.1 This part of the report considers the arrangements in place to:
- a ensure that projects only use money in line with EU rules; and
 - b monitor progress with the overall programme.

The Welsh Government has checks and balances to ensure that it complies with strict EU rules

- 2.2 The Rural Development Programme document sets out how the Welsh Government matches its priorities to those of the EU funding programme. In developing the Rural Development Programme, the Welsh Government chooses which EU 'measures' it will adopt and how much of the available funding it will allocate to each. Once the Rural Development Programme document is approved by the EU, the Welsh Government sets up specific schemes to deliver the activities outlined in the RDP. Each scheme must directly match at least one EU measure. Several of the schemes, such as Glastir, are well established and have been run under previous funding rounds. All schemes are subject to Ministerial approval and must demonstrate that they are aligned to both the EU priorities and the Welsh Government's own objectives.
- 2.3 Each scheme has its own set of criteria. For most schemes farmers or organisations need to apply through an expression of interest. Officials then review the applications to determine whether they meet the criteria. The Welsh Government has streamlined the application process and provides clear instructions and guidance to applicants. The Welsh Government also offers considerable administrative support to potential applicants.
- 2.4 The Welsh Government has sought to learn and apply lessons from previous programmes. Following the completion of the last RDP 2007-2013, the Welsh Government met with a number of stakeholders and carried out a public consultation to gather views on the strengths and weaknesses of the programme. This identified areas of good practice to continue, and areas for improvement which were factored into the design of the current RDP arrangements. This included the creation of a specific 'Scheme Management Unit' (SMU) to streamline the set up and administration of applications and claims, and a simplification of the financial structure of the programme to make the administration of funding clearer and easier.

- 2.5 Under EU Regulations, the Welsh Government must comply with a series of control standards. These standards cover a range of issues, including ensuring that EU funding is only awarded and spent on things that the EU deems eligible. The Wales Audit Office reviews the Welsh Government controls over Rural Development Funding every year to provide assurance over the compliance with the required standards⁷. The controls are also subject to periodic review by the EU. If the Welsh Government cannot demonstrate that its controls meet the required EU standards, it could result in financial penalties being imposed by the EU.
- 2.6 The Wales Audit Office concluded in 2015, 2016 and 2017 that in general, the Welsh Government complied with the EC control standards. In 2016 and 2017 the Wales Audit Office reported one area for improvement where officers were making administrative mistakes in interpreting scheme rules and determining the eligibility of claims for funding. In response to the Wales Audit Office findings, the Welsh Government implemented an action plan of training and guidance for officers. Our 2018 audit will follow up whether this action plan has been successful.

There is scope to strengthen oversight and risk management of the overall RDP

- 2.7 Risk management arrangements in relation to the RDP are not coordinated, with responsibilities divided within the Welsh Government. The Rural Development Division is tasked with managing operational risks, the Brexit liaison team manage the risks associated with the Brexit interface with UK government, and the Welsh Government Finance Department consider financial risks. No central risk management arrangements are in place to bring all risks associated with the RDP and Brexit together and our work identified that the arrangements are not fully understood by officials. As such, there is a possibility that key risks are not captured and considered. For example, whilst the Welsh Government officers understood some of the risks associated with the UK Government's guarantee, the detailed considerations of the risks to the Welsh Government's financial position and the delivery of the RDP is not documented on any of the relevant risk registers.

7 Article 5(3) and 6 of Commission Implementing Regulation (EU) No 908/2014 sets out the requirement for member states to appoint a 'Certification Body' to audit their annual agricultural fund accounts and internal controls and report their findings to the EC. The Wales Audit Office work in a consortium of UK auditors to provide this Certification Body function to the UK member state. The Wales Audit Office deliver the Welsh Government element of the audit.

- 2.8 The Programme Monitoring Committee (PMC), which comprises independent members and officials from the EU, oversees the overall programme alongside the EU Structural Funds programme. We found that the level of scrutiny of the Rural Development Funding at the PMC is limited in comparison to EU Structural Funds.
- 2.9 PMC members have themselves expressed concern over their lack of detailed understanding of the Rural Development Funding. The financial and management information regarding the progress of the RDP that the Welsh Government provides to the PMC is unclear and sometimes inaccurate. For example, the term 'commitment' is used to describe three scenarios:
- commitments made to scheme EOI windows and other activities;
 - commitments to projects underpinned by a signed contract with a beneficiary; and
 - commitments to projects underpinned by a signed contract with a beneficiary with the exception of annual payments where only the current year's payment is included once the claim has been received (the definition used for some EC returns).
- 2.10 The Welsh Government recognises some of the limitations of PMC to offer robust scrutiny of the management and delivery of RDP and has taken some steps to improve matters. It has offered training to PMC members to help them better understand the rural Development Funding but take up by PMC members has been limited. They have also recently made PMC papers available to members in advance of meetings to give them more time consider the progress of the RDP.

Part 3

It is not yet clear what will replace European Union agricultural funds post-Brexit but the Welsh Government is trying to shape debate



3.1 This part of the report looks at emerging plans for replacing EU agricultural funds post-Brexit. This section does not comment on the merits of the plans. At the time of drafting this report, the Finance Committee of the National Assembly for Wales is holding an inquiry into the replacement of EU funds, and the Welsh Government has published a Green Paper consultation document, 'Brexit and our land: Securing the future of Welsh farming'⁸. We have set out the position of the UK Government and the Welsh Government on the future of agricultural funds at the time of drafting. Ultimately, the question of which tier of government is responsible for any replacement scheme is a political and constitutional matter to be resolved between the UK Government and the devolved governments.

The UK Government has set out a broad vision for agriculture in England and a transition phase but recognises that devolved governments will decide their own priorities

- 3.2 In February 2018, the UK Government published a consultation paper⁹ setting out its ambitions for the future of farming and the environment after the UK leaves the EU. This consultation paper included reference to a Conservative government manifesto commitment to provide devolved administrations with an annual budget for farm support equal to the annual average cash total for farm support under both pillars across the 2014-2020 programme. It will be for the UK Government and devolved administrations to determine how to spend that money.
- 3.3 The paper does not comment on the level of funding after 2022. Evidence presented by the Minister for Agriculture to the House of Commons Welsh Affairs Committee in May 2018¹⁰ also made it clear that the total level of UK funding for agricultural support post-2022 has yet to be confirmed.

8 Welsh Government, **Brexit and our land: Securing the future of Welsh farming**, July 2018

9 Department for Environment, Food and Rural Affairs, **Health and harmony: the future of food, farming and the environment in a Green Brexit**, February 2018.

10 House of Commons Welsh Affairs Committee, **Brexit: priorities for Welsh agriculture**, July 2018

- 3.4 The UK Government's consultation closed on 8 May 2018 and it has subsequently introduced an Agriculture Bill that sets out its vision for Agricultural policy that distinguishes it from the European Union's Common Agricultural Policy. The Bill had its second reading in the House of Commons on 10 October 2018. Whilst the UK Government's position is that its vision for future Agricultural policy could work for the whole of the UK it recognises that devolution provides Wales with the powers to decide its own priorities. However, the consultation paper also referred to the possible establishment of common frameworks where necessary in order to enable a well-functioning internal market across the United Kingdom, compliance with international obligations and protection of common resources.
- 3.5 In addition to the Agriculture Bill, the UK Government intends to develop a UK Shared Prosperity Fund. This may apply to non-agricultural schemes currently funded from the RDP. Further details around the UK Shared Prosperity Fund and the Welsh Government response to this are included in our recently published report, [Managing the impact of Brexit on EU Structural Funds](#).¹¹ The Welsh Government has set out its vision for agricultural policy in Wales post Brexit and wants full control and funding to be devolved.
- 3.6 In February 2018, the Cabinet Secretary for Environment and Rural Affairs outlined a vision for future land management in Wales, to address economic realities, help prepare for Brexit and integrate land use with the Welsh Government's broader ambitions in the Well-Being of Future Generations and Environment Acts. They are summarised in a set of five principles ([Box 4](#)) to underpin reform in Wales.

Box 4 – the Welsh Government's principles for change

- keep farmers, foresters and other land managers on the land
- food production is vital
- a need for a prosperous and resilient Welsh land management industry whatever the nature of Brexit
- future support will focus on delivering additional public goods
- all land managers should be able to access new schemes

Source: Welsh Government

¹¹ [Managing the impact of Brexit on EU Structural Funds](#), paras 3.2- 3.5.

- 3.7 Building on these principles, in July 2018, the Welsh Government set out its own proposals for agricultural policy after the UK leaves the EU in **Brexit and our land: Securing the future of Welsh farming**. The proposals seek views on:
- a new land management programme consisting of an economic resilience scheme and a public goods scheme to replace the CAP; and
 - how the specific schemes that will deliver the support should be designed.
- 3.8 The paper sets out the Welsh Government's objection to any reduction in funding as a result of the UK leaving the EU, which would jeopardise its ability to support the activities that are currently funded through EAFRD and EAGF. The Welsh Government is calling for a new, rules-based system of replacement funding, which ensures the allocation of resources within the UK is based on relative need and not the Barnett Formula¹².
- 3.9 In setting out its thinking on the future of agricultural funding, the Welsh Government has sought to learn lessons from its experience of managing agricultural funds for rural development and proposes a phased transition plan to move from old to new schemes by 2025. The Welsh Government's policy paper is clear that the EU's common agricultural policy does not do enough to deliver the required outcomes for Wales and outlines a case for bespoke support in Wales. The paper also outlines that future UK frameworks ([paragraph 3.3](#)) must recognise that Wales' land is different and that its communities and sectors are different and allow flexibility to make policies reflecting the unique context in Wales.
- 3.10 The Welsh Government is engaging with stakeholders to obtain views on its proposals through an online consultation and a series of open meetings being held until 30 October 2018. It intends to bring forward details proposals by spring 2019 and publish legislation by the end of the Assembly term.

¹² The Barnett formula is a system for allocating grants to Northern Ireland, Scotland and Wales. A full explanation can be found in our [Guide to Welsh Public Finances](#), July 2018

Appendices

Appendix 1 – Audit methods

Appendix 2 – List of schemes



Appendix 1 – Audit methods

Document review and data analysis

We reviewed a wide range of documentation including:

- Welsh Government guidance documents
- Independently commissioned reviews of the Programmes
- European Commission audits
- Wales Audit Office external audits of Agricultural Funds accounts and control systems
- Financial and performance data provided by the Welsh Government
- Ministerial briefings
- Minutes from various meetings including the Programme Monitoring Committee

Interviews

We have discussed the administration of the programmes with Welsh Government senior officials and held a series of interviews to discuss emerging findings and clarify key aspects of the programmes.

Observations

We attended and carried out observations at the December 2017 and May 2018 Programme Monitoring Committee meetings.

Appendix 2 – List of schemes

Scheme	Purpose
Farm Business Grant Scheme	Helps farmers to improve economic and environmental performance of their agricultural holdings. The grant provides a financial contribution towards capital investments in equipment and machinery.
Sustainable Production Grant Scheme	Helps farmers develop more sustainable, profitable and resilient farm businesses. The grant provides a financial contribution towards capital investments in equipment and facilities that relate to: <ul style="list-style-type: none"> • Animal health and welfare • Crop storage • Production housing and handling • Renewable energy production • Soil and crop management
Food Business Investment Scheme	Provides support to primary producers of agricultural products and businesses that do first and/or second stage processing activities in Wales.
Cooperation and Supply Chain Development Scheme	Supports the development of new products, practices, processes and technologies in the agriculture, forestry and food sectors.
Sustainable Management Scheme	Supports collaborations aimed at improving natural resources and benefits they provide including reducing greenhouse gas emissions and improving business and community resilience to the impacts of climate change.
Rural Community Development Fund	Grants primarily to community-based organisations for a wide range of activities to help meet local needs and strengthen communities.

Scheme	Purpose
Timber Business Investment Scheme	Supports improvements in value of forests, for example by enabling woodland management activities, timber harvesting and/or in-forest or small-scale timber processing.
Co-operative Forest Planning Scheme	Supports a range of activities aimed at encouraging planning and creation of broadleaved and conifer woodland.
European Innovation Partnership Wales	Supports the development of research and innovation in agriculture and woodlands.
LEADER	Supports local development and capacity building in rural communities.
Knowledge Transfer and Innovation Scheme	Supports the development of a more professional, profitable, diverse and resilient land based sector targeting farming and forestry businesses.
Rural Business Investment Scheme	Support projects that offer clear benefits to the food and drink industry.
Glastir	Scheme designed to deliver specific environmental goods and services aimed at combating climate change, improving water management & maintaining and enhancing biodiversity.

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Cyfarwyddwr Cyffredinol – Director General



**Llywodraeth Cymru
Welsh Government**

Mr Adrian Crompton
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
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20 December 2018

Dear Adrian

**Response to the Report of the Wales Audit Office on the Managing the Impact of Brexit
on the Rural Development Programme for Wales**

I welcome the publication of the above report and the findings set out within in. I am pleased to set out at Annex A the Welsh Government's response to the two recommendations contained within the report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Slade'.

ANDREW SLADE
Director General
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Recommendation 1

The current scrutiny arrangements for the management and delivery of the RDP should be improved. A scrutiny forum should allow sufficient attention for the detailed consideration of the programme by informed and engaged members based on clear and accurate information. In particular, the reporting and consideration of 'commitments' should be clear.

Response: Accepted

Welsh Government is in the process of thoroughly reviewing the scrutiny arrangements for the management and delivery of the RDP. Both the RDP Policy Board and RDP Management Board will be re-established, to ensure high level and operational level scrutiny is improved and consistent. We will consider how to more effectively support PMC members as part of this action to ensure their continued effective scrutiny.

This will be in place by the end of the current financial year.

Recommendation 2

Risk management arrangements for the RDP should be clarified and documented so that officers and departments understand their responsibilities and to ensure that all risks with the RDP, and in particular in the context of Brexit, are appropriately identified and managed.

Response: Accepted

Welsh Government are reviewing risk management process as part of the overall review of RDP governance arrangements. Officials in different parts of Welsh Government will contribute to the risk management process which will be overseen by the RDP Policy Board.

This will be in place by the end of the current financial year

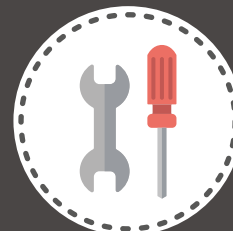
In addition to the above actions, we will review the points raised in paragraph 11 of the report. This will be conducted as part of the overarching work to respond to the scrutiny and risk arrangements planned in recommendations 1 and 2.

Archwilydd Cyffredinol Cymru
Auditor General for Wales

The maturity of local government in use of data



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This report has been prepared for presentation
to the National Assembly under the Public
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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Introduction

Local authorities are slowly developing a culture that values and uses data to its full potential to help improve services and outcomes

- 1 The growth of 'big data'¹ strategies in the private sector and the availability of 'open data'² has been unprecedented in recent times, and has revolutionised the way organisations make decisions. With the technology available today, and the rate of technological change, data-driven decision making is becoming the norm rather than the exception. However, is this approach extending to local authorities in Wales?
- 2 Being smart and strategic in using data brings many benefits for local authorities, their partners, the communities they work in and the citizens they serve. Making better use of data supports authorities to take better and quicker decisions. It also allows authorities to make best use of resources by identifying waste and inefficiency, and thus increasing productivity. Most importantly, maximising use of data is good for democracy because it strengthens governance and accountability.

- 1 Big data requires making sense of the vast amounts of data a local authority collects – processing, analysing and exploiting it for local authority, partner and community gain. Big data refers to digital information that is massive and varied, and that requires technology and best practices to sort, process, store and analyse.
- 2 Open data is the idea that some data should be freely available to everyone to use and republish as they wish, without restrictions from copyright, patents or other mechanisms of control. One of the most important forms of open data is open government data because making government and local authority information available to the public can facilitate transparency, accountability and public participation.

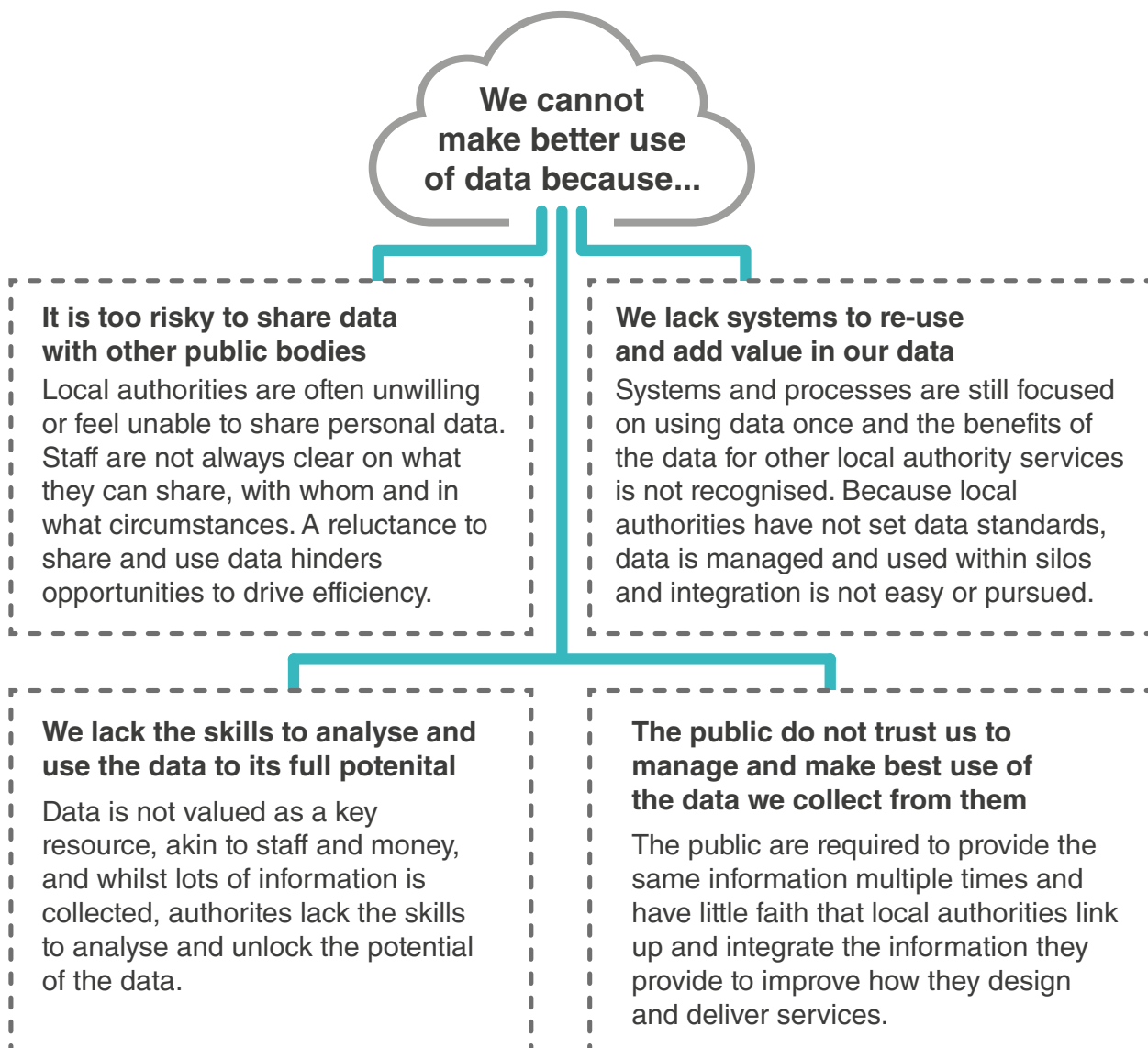
Exhibit 1 – Why making better use of data is important for local authorities



Source: Wales Audit Office

- 3 Local authorities are sitting on a ‘rich vein’ of personal, financial and community level data that could help them deliver more efficient and effective services. To do this, local authorities need to ensure they have the right building blocks in place to unleash this data potential, specifically; agreed management standards, common coding, and the right culture, leadership and skills. The benefits of linking and using data, both within local authorities and with partners, is challenging and authorities need to overcome some significant barriers if they are to maximise their use of data – **Exhibit 2**.

Exhibit 2: The barriers to why local authorities are not making better use of data



Source: Wales Audit Office

- 4 Given these challenges, this study assesses whether local government has the right building blocks and culture in place to capitalise on the data³ that it holds. Our methods are set out in [Appendix 1](#).

3 This study is not about technology, software or hardware. Rather, it is a study of the key characteristics of a mature organisation that uses and values data to plan and deliver services

Summary report


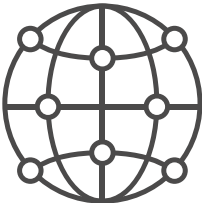
Summary





- 5 In **Part 1** of the report, we study the strategic approach taken by local authorities to making better use of data. We found that local authorities are not taking advantage of the massive amounts of data they collect to operate as efficiently and as effectively as possible. Too often services and teams hold information in silos and use it for a single purpose. Because authorities lack corporate data standards, duplication of information is common and integration of data often poor. Consequently, the potential for reusing data can be overlooked. In the age of big data, breaking down organisational silos to drive a culture change is a priority. Authorities generally lack a clear vision for use of data and the leadership needed to help create the right strategic environment to maximise the benefits of data is not consistently present.
- 6 In **Part 2** we summarise local authorities' data protection work and how they are progressing sharing data with other public bodies. Local authorities can collect and hold very personal and sensitive data to help them deliver their services. This data can assist their partners but using and sharing data is a delicate balancing act. We found that authorities have generally good arrangements for data protection but are often risk-averse and not prepared to share information, despite the availability of national approaches like the Wales Accord on the Sharing of Personal Information (WASPI). Public sector partners need to do more to unlock the full potential of the data that they hold.
- 7 In **Part 3** we examine whether local authorities have the skills and capacity to gather, share and analyse data. A key component of maturity in using data is ensuring staff are equipped in data analytics, to use the data that they, and partners, hold to understand events, predict future scenarios and model potential demand. We found local authorities recognise they do not always have the right skills nor the capacity to make the best use of data.
- 8 In **Part 4** we consider how effectively local authorities use available data to agree future priorities and allocate resources. Authorities with high levels of data maturity use data to trial approaches to learn what works and make available open data in real time to support a wide range of organisations to develop new services and approaches. We found local authorities are using data to review performance, but gaps and weaknesses in the data they use mean that decisions are not always based on the full range of evidence. In general, local authorities can understand past performance but are not so adept at using data to help anticipate the future or model possible scenarios.


- 9 Based on these findings, the Auditor General has concluded that **local authorities are slowly developing a culture that values and uses data to its full potential to help improve services and outcomes**. From our work, we have identified what we consider to be the key aspects of data maturity in local government, and these are set out in **Exhibit 3**.

Exhibit 3 – Data Maturity in local government

The Exhibit sets out the key aspects of data maturity. Level 1 describes an organisation with low levels of data maturity, and level 3 an organisation with high levels of data maturity. **Overall, we conclude that most authorities are characterised by the descriptors at level 1 and level 2.**

Key Characteristic	Level 1	Level 2	Level 3
<p>Leadership</p> 	<p>Leadership on data and organisational culture encourages a risk-averse approach, which does not value or seek to maximise data usage.</p>	<p>Leaders recognise the value of streamlining and improving use of data, both within the local authority and with partners. The culture in most of the authority has not progressed from 'identifying' the opportunities of integrating and sharing data to actually 'doing' it.</p>	<p>The organisation has a strong leadership culture based on transparency and valuing and using data to underpin decisions. The authority openly shares data and insights with citizens, partners and stakeholders setting out the rationale for choices. Data is valued and used across the authority.</p>
<p>Corporate standards</p> 	<p>Services operate independently in silos, and define their own data requirements. The local authority lacks corporate standards for how services should capture and use data and little integration or sharing of data takes place internally or externally.</p>	<p>The local authority knows what data is collected by services and has some linked databases, but data networking has developed organically. The local authority lacks data standards and whilst data sharing and integration takes place, it is in narrowly defined areas.</p>	<p>The local authority has corporate data standards and coding structures. The local authority has identified its long-term data requirements and is streamlining systems to reduce duplication and improve accessibility. Data is integrated and coding gaps when identified are addressed.</p>

Key Characteristic	Level 1	Level 2	Level 3
<p>Integrated customer data</p> 	<p>Service users often apply multiple times for services or assistance. Duplication of data is common and some services rely on paper-based manual systems.</p>	<p>Duplication is known, but not always addressed. Some standardisation takes place, usually around established parameters such as property gazetteers, but is limited. Most data is digitised but not linked.</p>	<p>Citizens apply once, and services are configured to meet their needs. Data is entirely digitised and regularly cleansed to ensure it is accurate. Data sharing and integration is well advanced. Duplication is kept to a minimum.</p>
<p>Data protection</p> 	<p>Data protection legislation is understood and complied with, but is a block to sharing data.</p>	<p>Data protection legislation is understood and complied with and is not seen as a block to making better use of data.</p>	<p>Data protection legislation is complied with and implementation is supporting the local authority to appropriately share data internally and with other bodies.</p>
<p>Data analytics</p> 	<p>Investment in data analytics – segmentation analysis, forecasting and predictive analysis – is limited. There is little capacity and a deficit in skills to improve use of data. There is no or little investment in upskilling staff.</p>	<p>The need to build skills and capacity and invest in making better use of data is recognised, but not always addressed. Improving capacity and upskilling staff is a known risk but progress to address this is slow or limited.</p>	<p>Staff have been equipped in data analytics, and services regularly use data from a range of sources to understand events, predict future scenarios and model potential demand. Data analytics is recognised and valued as a core function and is resourced sufficiently.</p>
<p>Data-driven decisions</p> 	<p>Data is reported and performance is analysed. The focus of performance reporting is limited to local authority service information, is mostly historical and backward looking, and not reported in real time. Data analytics is rarely used.</p>	<p>Data is reported and performance is analysed. The local authority is focusing on monitoring and measuring impact. The importance of data analytics is growing but not embedded or sufficiently developed in most services.</p>	<p>Data is reported and through performance evaluation, corrective action is taken when the data shows a change in direction is needed. The local authority has a record of accomplishment of using data analytics to manage services and is focused on understanding future demand.</p>

Key Characteristic	Level 1	Level 2	Level 3
<p>Open data</p> 	<p>The local authority is not using data to effectively support decision making. Open data and public reporting is very limited.</p>	<p>The local authority uses data to underpin decisions but limitations in its coverage and analysis weakens 'real time' choices. Open data is produced but coverage is limited.</p>	<p>Data-driven decision making is well established and accepted as the 'way to do things'. Open data is made available in real time and a wide range of organisations use the information to develop new service and business opportunities.</p>

Source: Wales Audit Office

Recommendations

10 Through our study, we have made the following recommendations to support improvement.

Recommendations

R1 Part 1 of the report highlights the importance of creating a strong data culture and clear leadership to make better use of data. We recommend that local authorities:

- have a clear vision that treats data as a key resource;
- establish corporate data standards and coding that all services use for their core data;
- undertake an audit to determine what data is held by services and identify any duplicated records and information requests; and
- create a central integrated customer account as a gateway to services.

R2 Part 2 of the report notes that whilst it is important that authorities comply with relevant data protection legislation, they also need to share data with partners to ensure citizens receive efficient and effective services. Whilst these two things are not mutually exclusive, uncertainty on data protection responsibilities is resulting in some officers not sharing data, even where there is agreement to provide partners with information. We recommend that authorities:

- provide refresher training to service managers to ensure they know when and what data they can and cannot share; and
- review and update data sharing protocols to ensure they support services to deliver their data sharing responsibilities.

R3 In Part 3 of our report, we conclude that adequate resources and sufficient capacity are ongoing challenges. However, without upskilling staff to make better use of data, authorities are missing opportunities to improve their efficiency and effectiveness. We recommend that authorities:

- identify staff who have a role in analysing and managing data to remove duplication and free up resources to build and develop capacity in data usage; and
- invest and support the development of staff data analytical, mining and segmentation skills.

Recommendations

R4 Part 4 of our report highlights that authorities have more to do to create a data-driven decision-making culture and to unlock the potential of the data they hold. We recommend that local authorities:

- set data reporting standards to ensure minimum data standards underpin decision making; and
- make more open data available.

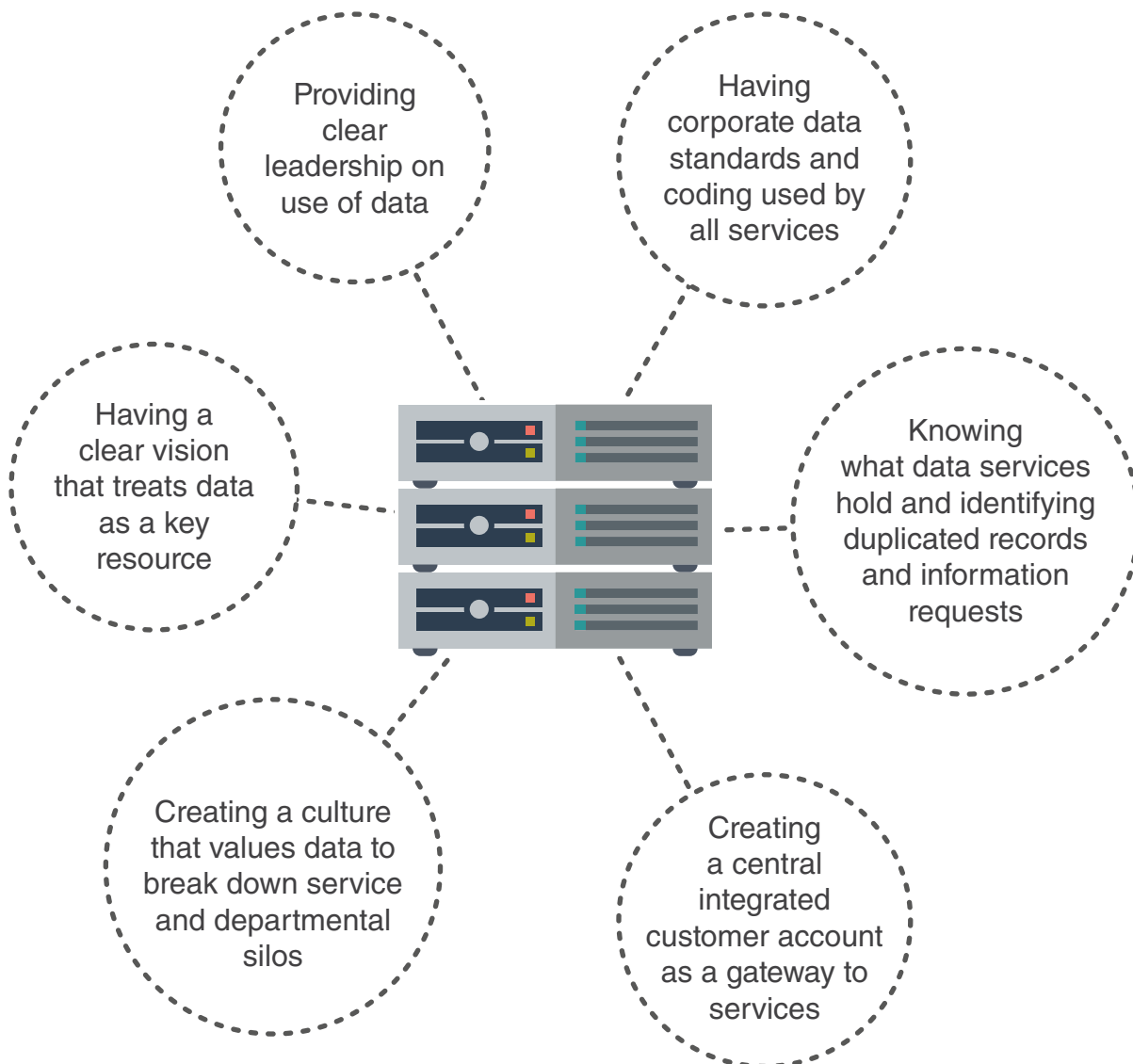
Part 1

A clear vision and effective leadership help create the culture needed to maximise the use of data, but few local authorities have focused on building an environment to get the most from the data they hold



1.1 A strong data culture and making good use of data are intertwined, and authorities cannot have one without the other. Creating a culture where Elected Members, senior officers and front-line staff think about and use data differently is the key challenge facing authorities in making better use of data. Summarised in **Exhibit 4** are some of the key steps we have identified from our study that help local authorities create a data-driven environment.

Exhibit 4 – Creating a data-driven environment



Source: Wales Audit Office

Authority leaders need to do more to create a strong data culture

- 1.2 Local authorities collect a lot of data that supports them to plan and deliver a wide range of services. However, much of the data collected is not capable of being shared or re-used because it is held in silos. Research suggests that 90% of unstructured data is never analysed, remaining 'dark' and unexplored; and this is despite organisations investing significant resources in collecting this data⁴. Joining up and integrating data has been a problem since databases have existed, but the amount of potentially relevant data available now is thousands of times larger. A mature local authority will move from identifying the potential benefits of data, to using all of the data in making choices, decisions and determining service delivery changes.
- 1.3 Linking up authority data can be difficult because it requires departments, services and teams to replace long-standing processes with new ways of working. It also requires staff to be less risk-averse and more accepting of the benefits data can provide for colleagues, partners and citizens. The culture of an organisation has a great effect on maximising the potential held in data and can be a major barrier to a local authority fully utilising it. The way an authority is set up, how services and staff work and how senior leaders recognise and value data, influence culture. Despite some passionate authority leaders who recognise the potential benefits of unlocking data, more needs to be done.
- 1.4 People we interviewed highlighted that breaking down barriers and silos in the established, and often risk-averse culture of an authority, is challenging and requires support from key decision-makers. In particular, interviewees noted that frontline staff are critical to success and need to understand the importance of their role in collecting customer data. If there is no will or leadership setting the right 'tone at the top', then it is difficult for authorities to maximise their use of data.



The biggest challenge to making better use of data is...

“A culture of silo management, a reluctance to innovate and a lack of awareness of how data can be used”

Operational Manager

“Culture change and the reluctance to share information across services”

Head of ICT

“Leadership and culture and formal recognition of the role of data in and across the organisation to support every facet of operational, tactical and strategic decision making”

Information Compliance Officer

- 1.5 We found that no local authority has a designated senior officer who purely leads on data, and who has no other responsibilities. From our fieldwork, we found that some authorities see leadership on data as technical in nature giving responsibilities to the Head of ICT, or shaped by compliance with data protection legislation with the Senior Information Risk Officer taking the lead. These posts provide important technical and specialist views, but are often not ‘advocates’ who can influence and create change at different levels and in different areas of activity, especially breaking down silos on re-using data within customer-facing services.
- 1.6 Effective leadership is also about ambition and having a clear vision for data underpinned by specific outcomes that recognises data as a key resource, like finance and staff. Our research found that despite highlighting that making better use of data is a weakness, most authorities lack a vision, strategy or plan for improving data and are not clearly articulating what they need to do to improve. A number of interviewees felt that this was a particularly pressing challenge because without a vision and plan, it was unlikely that any concrete actions could be developed and implemented, and even less likely that there would be improvements.
- 1.7 Local authority officers noted that in the absence of a clear and consistent corporate focus on data, improvement actions are generally left to individual services to take forward, thus making it difficult to determine who is (or should be) taking the lead and is accountable for coordinating efforts to improve data usage. In addition, the absence of targets and goals for improving data usage, vital for signalling what an authority hopes to achieve with improved data, makes it difficult to measure progress and improvement. This creates a risk that services will view data-related issues differently, which can lead to duplication of action, no action at all, and/or reinforcement of inconsistencies and weaknesses when collecting, managing and using data.



The biggest challenge to making better use of data is...

“Culture, moving to a use of insight from a data-driven rather than experience perspective”
Head of Policy

“Cultural issues surrounding data use”
Corporate Management Team Member

Managing data as a corporate asset helps support integration, but few authorities have adopted standards that help unlock this potential

1.8 Whilst authorities are mostly clear on the data they need to deliver services, many authorities have not carried out a data audit to determine future data requirements. In particular, ICT Managers and Information Compliance Officers flagged issues of concern that operational managers are not considering their future data needs, nor identifying which information they collect is common across services. Many responding to our data tool noted that within their authorities, it is not commonplace to integrate data across services, and this is despite authorities having the ability to join up data to offer greater insight, which helps them to deliver earlier and less expensive interventions.

1.9 Local authority Heads of ICT services in particular, highlighted a continuing risk that local authorities are doing too little to standardise their data, and still do not use common data coding across services to make integration easier. Too often the data collected by a service is determined by professionals who are clear on what they need to deliver their functions, but are less aware of (or do not consider) the wider corporate/ community benefits of the data they collect and its potential re-use. The way data systems are developed, how information is coded, and the lack of standardisation in commonly used data fields (eg personal names, addresses, ethnicity, etc) can therefore make connecting and joining up data much harder than it needs to be.



The biggest challenge to making better use of data is...

“ Different data collection systems that don’t talk to each other and the lack of understanding of how data collected for one service area can impact on the delivery of services elsewhere”

Operational Manager

“ Different service areas within the Council use different systems which makes it difficult to provide coherent joined up provision for the public”

Operational Manager

“ There are so many bespoke and separate systems it is difficult to know what is held where and by whom”

Operational Manager



1.10 For instance, property data collected by authority departments is often referenced differently. Some services use bespoke reference numbers created as part of the system implementation, some use street gazetteer addresses (which can often be incomplete or partial), and others use northings/eastings⁵. Within each of these, the way information is recorded can vary. To bring information held in disparate systems together can, therefore, be expensive and time consuming. Local authorities that do not have the ability to join up and match records held in the different ICT systems within their own organisation will also find it difficult to collaborate with partners to integrate data.

1.11 Nevertheless, we identified some positive examples of how local authorities are seeking to standardise data to improve integration and insight. Newport City Council's central property identification code has enabled the authority to link service data. Although this does not cover all departments and all areas of work, it is nonetheless helping the authority to draw together information from a variety of different databases to support officers delivering frontline services. Similarly, Denbighshire County Council use their local land and property gazetteer (LLPG) for addresses, which is helping the authority to map service provision and coverage. Likewise, both the Vale of Glamorgan Council and Rhondda Cynon Taf County Borough Council integrate some service data to help identify vulnerable households who need support but to also target action for anti-social behaviour.

1.12 Overall, however, we found limited evidence of authorities using corporate data standards, and current approaches to integration of data are mostly one-off initiatives and pilots developed within services. Corporate data standards describe and specify how to 'record data', and can help breakdown departmental silos and make integration and analysis easier. We concluded that not developing and using common coding is a missed opportunity that makes integration more difficult and costly.

The biggest challenge to making better use of data is...

“Whilst the Council is good at holding a significant amount of data ... often it is held in systems that are difficult to interrogate and, therefore, a lot of the data held is not used effectively”

Operational Manager

“Consistent standards in the collection and use of data”

Corporate Management Team Member

5 The terms 'easting' and 'northing' are geographic Cartesian coordinates for a point. Easting refers to the eastward-measured distance (or the x-coordinate), while northing refers to the northward-measured distance (or the y-coordinate).

With the growth in ‘big data’ it is important that local authorities ensure the accuracy of their information, but data quality remains an ongoing challenge for some

- 1.13 The concept of data quality, and having robust management processes to record reliable and accurate data (service specific, financial and performance) is not a new one. Having quality data gives you better insight and is an important part of a mature approach to governance and decision making. Conversely, poor quality data can lead to flawed decision making, wasted resources, and can leave vulnerable people at risk.
- 1.14 Quality control and data accuracy is an integral part of data management and should take place at various stages: during data collection, data entry, data checking and use of data. Checking data to ensure accuracy can typically involve both automated and manual procedures, including checking the completeness of records, verifying a random sample of information for accuracy, and checking for double entries. Documenting in detail the data controls at each of these stages, can help maintain quality.
- 1.15 Despite recognising the importance of data quality, it can be challenging to get right. Whilst local authorities consider data quality is improving, data accuracy⁶ remains a challenge for some organisations. Problems with systems not being efficient or effective to hold and use data, double counting, duplicated records and incomplete and partial information were all highlighted as ongoing difficulties in raising and maintaining data standards. There are also still too many inconsistencies between systems, which is having a huge impact on quality and reporting which can result in decisions being based on incomplete or inaccurate data. A number of third sector and national organisations we interviewed raised concerns that from their experience the quality of local authority data varies widely.



The biggest challenge to making better use of data is...

“Need to ensure adequate capacity to undertake enough quality assurance and quality control of data sets”

Operational Manager

“Ensuring quality and not just having data for data’s sake, we should only have what we need and not waste any valuable resources capturing the unnecessary”

Operational Manager

6 Accuracy – data should be sufficiently accurate for its intended purposes. Accuracy is most likely to be secured if data is captured as close to the point of activity as possible. Data should be captured once only, although it may have multiple uses.

Citizens are required to provide the same information multiple times when applying for services, but authorities are not integrating management systems to improve data efficiency



- 1.16 Reducing duplication and linking up data can help save on content management systems⁷ and hosting costs⁸. It also produces better quality intelligence and supports integrated service delivery and decision making. ‘Collect once, use numerous times’ is a valuable principle. We found that whilst local authorities recognise that duplication is present, the extent of duplication is often unknown.
- 1.17 All groups of officers responding to our data tool noted that their local authority had not removed duplicated data collection processes, and that work to streamline information demands is at best progressing slowly. A number noted that linking data held on old ICT technology, and the continued reliance on paper-based databases to collect and manage data, are not helping to identify nor reduce duplication.
- 1.18 Advocacy groups we spoke to think public services repeatedly, and unnecessarily, ask for personal data, requesting the same information multiple times, for instance; address, age and family make up – creating ‘data fatigue’ and putting people off from applying for services, especially as it is not always clear to citizens why local authorities collect the data. For example, our survey of citizens found that 82% of respondents did not know why their local authority collects so much information on them, and what the authority does with the data they hold about them.

The biggest challenge to making better use of data is...

“Removal of duplicate data and ensuring future effective management of information”

Operational Manager

“Making efficient use of data will be ensuring that we only collect what is necessary once and use effectively across the Authority. Traditionally all service areas have their own data systems that are difficult to share across each other”

Head of ICT

“Developing smart systems that integrate data holding between departments, reduce duplication and allow effective analysis of data”

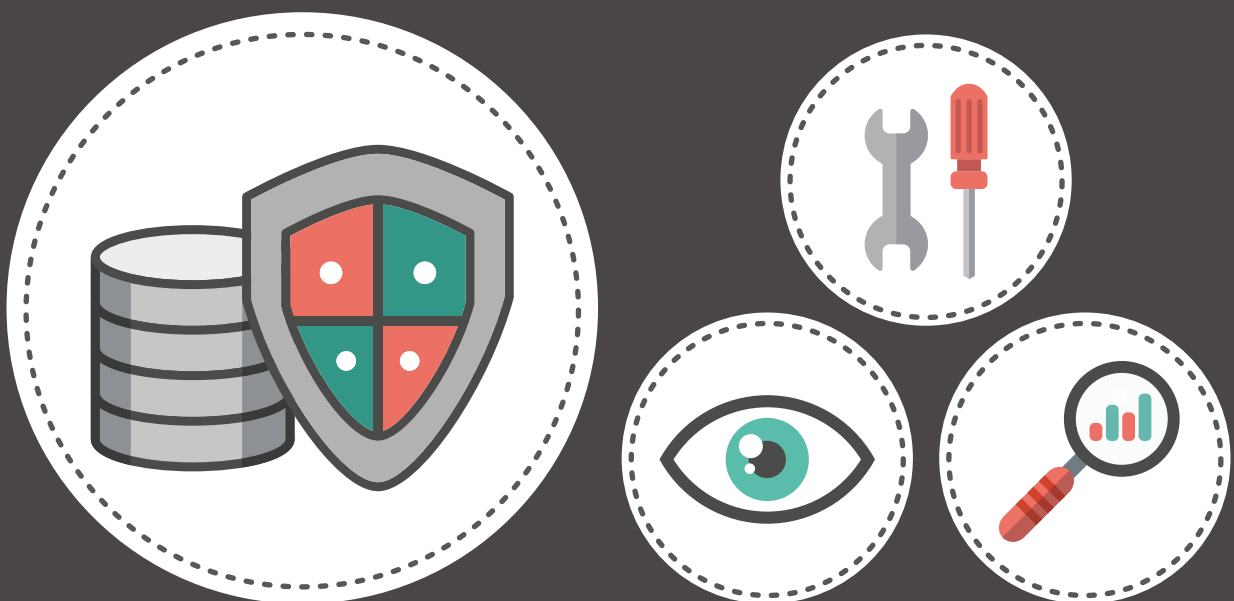
Operational Manager

- 7 A content management system manages the creation and modification of digital content and typically supports multiple users in a collaborative environment.
- 8 A hosting service provides shared or dedicated hosting of a service or services to customers, most often websites, data files, images and similar content. Hosting is often outsourced on basis to reduce cost and to ensure there is a disaster recovery coverage in case of core system failure.

1.19 The needs of professionals and services, not citizens and service users, mostly determines how data is collected. We found that no Welsh local authority operates a central single customer account that links all services to individuals. Some authorities have online portals for services – Gwynedd Council for example – but no authority has created a comprehensive single account that places the service user at the centre of the services they receive. For instance, the London Borough of Camden through its Camden Resident Index is integrating data and matching information from multiple sources to provide a comprehensive and linked overview of residents, properties and businesses – see [Appendix 3](#).

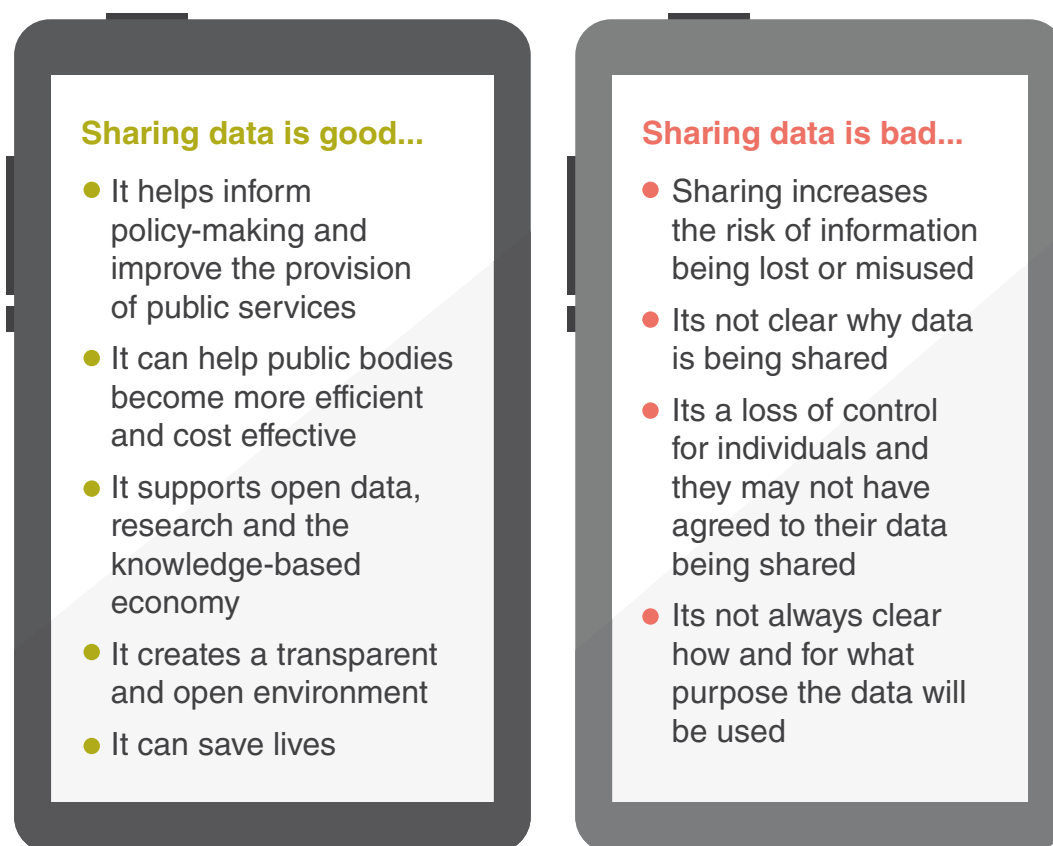
Part 2

Local authorities are generally good at complying with data protection regulations, but do not always share the personal data they collect with partners



2.1 Local authorities are often the gatekeepers of very personal and very sensitive information. They handle all sorts of data on a daily basis, covering everything from income to detailed health and care records. Technological advancements present authorities with opportunities to exploit the wealth of information they possess, by mining, sharing and integrating data with partners. However, using data in the public sector is a delicate balancing act. Local authorities need to protect personal information from data misuse, but in a way that does not suffocate innovation. As a result, many public sector organisations wrestle with the benefits and risks of sharing information with other organisations – **Exhibit 5.**

Exhibit 5 – The benefits and risks of sharing data with other public bodies



Source: Wales Audit Office

2.2 Authorities are making some progress in discussing the need to share data, but too often potential partners are not prepared to participate because of data protection concerns. The introduction of the General Data Protection Regulation (GDPR) in May 2018 has brought these tensions into even greater focus.

2.3 The GDPR requires all public sector organisations to understand how they manage the privacy of data about anyone classed as an EU citizen. This covers citizens, customers, contractors, agency staff, volunteers and employees – anybody that is an EU citizen and where a local authority holds privacy-related data about them. The new regulation means that citizens have significantly more rights and powers on how their data is used and consumed, with large fines available for breaches of the regulation. Citizens also have the ability to request that a local authority provide the details of all the information held about them (called a ‘Subject Access Request’ or SAR).

2.4 Many of the changes introduced by GDPR are enhancements to existing data privacy regulations⁹, but they still present significant challenges. Authorities need to find all the data on ‘persons’, not just most of it. As noted above, this is challenging given data is held in silos, in different systems and in different formats, including data left by citizens using electronic channels and social media. Authorities also need to ‘enact consent’, defining what they will do with data, by whom and what data elements can or cannot be used. They will also need to ensure they have a clear understanding of the ‘right to be forgotten’¹⁰ requirements and constraints.



The biggest challenge to making better use of data is...

“GDPR, the UK Data Protection Bill and the Digital Economy Act all need to be aligned and used as opportunities rather than barriers”

Information Compliance Officer

“The new GDPR requirements and public willingness to allow data to be shared”

Corporate Management Team member

“New regulations (GDPR) coming into force... will be a challenge and current arrangements will require complete review”

Operational Manager

“GDPR... just at the time that we are looking to join data together to help us predict demand and intervene early, residents have the right to tell us to forget what we know about them!”

Corporate Management Team member

9 Personal data is also governed by the requirements of the Data Protection Act 2018 and is defined in the Act as information relating to the racial or ethnic origin; political opinions, religious or other beliefs; membership or otherwise of a trade union; physical or mental condition; sexual life of a person and the commission or alleged commission of any offence or the disposal or sentence in any such proceedings by a court.

10 Under Article 17 of the GDPR, data subjects have an important right to erasure, which is sometimes referred to as ‘the right to be forgotten’.

2.5 From our research, we found that local authorities are confident that they are fulfilling their responsibilities under the 2018 Data Protection Act and making steady progress implementing GDPR. We found that officers:

- a are broadly clear on when and in what circumstances they can share data with other bodies or individuals;
- b know their responsibilities to ensure that the data is processed in accordance with data protection legislation, and know what controls their authority has over personal data;
- c are clear on what they should do if something goes wrong in managing and controlling data; and
- d know where to obtain help and guidance within their organisation on sharing personal data with another public body.

2.6 We also identified a number of continuing challenges, especially an enduring cultural resistance to sharing information in some authorities. Heads of Policy and Operational Managers responsible for frontline services raised concerns about data protection legislation stopping them undertaking projects that involve the use of personal and sensitive data. A number also commented that data protection and GDPR stops them sharing information with partners. Others noted that the legislation is burdensome to comply with, has too many standards and requirements, and is out of kilter with the current policy drive to develop 'big data' capabilities and make available greater amounts of 'open data' online.

2.7 Most importantly, concerns over data protection is encouraging risk-aversion and stifling innovation in using data, because local authority staff fear being penalised. The legal implications of a data error can be severely damaging, not only to the reputation of the organisation but can also mean large civil penalties, criminal prosecution or litigation against individuals for compensation.



The biggest challenge to making better use of data is...

“Convincing business areas that it is possible to share data with appropriate safeguards put in place to erode misconceptions that ‘their’ data cannot be shared”

Information Compliance Officer

“ICT security and data protection constraints can prevent data sharing”

Operational Manager

“Data protection... limits data sharing”

Elected Member

2.8 The **Wales Accord on the Sharing of Personal Information (WASPI)** is a tool to help public bodies share personal information between agencies. WASPI covers public bodies and organisations directly dealing with health, education, safety, crime prevention and social well-being, and can help an organisation meet its data protection responsibilities and support the collaboration and integration of services. We found that there are mixed views on the benefits of WASPI. Although Information Compliance Officers are generally positive about its benefits, members of Corporate Management Teams and Heads of Policy saw it as less helpful.

2.9 We also identified several issues of concern. WASPI has been in place for several years, but the size of agreements can be off-putting and need updating. Furthermore, whilst all major public bodies in Wales are signatories, a number commented that from their experience not all partners act in accordance with, or in the ‘spirit’ of, WASPI. Like much of the data protection legislation, some officers treat WASPI as another reason to block the sharing of data, rather than an enabler for sharing information, mainly because frontline staff are not always confident of their legal responsibilities and when to share data with others.

2.10 The nature of WASPI agreements are not in themselves particularly conducive to sharing because you have to be clear on what you want to access/ share, and how the data will be used, prior to setting up a data sharing agreement. Often, however, the benefits of sharing are not apparent until the agreement is in operation. Finally, ICT issues, including secure methods of data transfer and system compatibility, remain an ongoing challenge to sharing information for some and influence how well, or not, WASPI works.



The biggest challenge to making better use of data is...

“Possible infringement of data protection legislation”

Operational Manager

“Data protection – used as an excuse to prevent data being shared”

Operational Manager

“As staff are more aware of data protection they become scared of it and see it as a barrier to sharing – we need to promote data protection more as a means of sharing information within a legal framework and not as a barrier”

Information Compliance Officer

- 2.11 Even authorities who are using WASPI, and consider it to be working well, such as Denbighshire County Council, have taken the time to clearly set out and specify the personal information they can share, and this can take a long time to get right. It is clear, however, that some individuals will not share information if they do not feel supported to do so. There is no doubt that a strong message from leaders can make a difference. Problems with data sharing between public bodies has therefore practical, legal and cultural risks. Moreover, local authority staff have varying appetites for sharing their data, even in cases where mostly non-personal and non-sensitive data is involved.
- 2.12 With all of this in mind, do the benefits of sharing data with partners outweigh the risks? As one interviewee summarised the challenge, 'no one ever died by sharing too much data, but plenty of people have died by not sharing.' The consequences of not sharing information can be extreme, as judged by the findings of a number of high profile Child Practice and Serious Case Reviews¹¹ and Domestic Homicide Reviews¹², which have identified weaknesses in information sharing that resulted in missed opportunities for intervention¹³. The findings of these reviews provide a persuasive case for sharing information in a balanced, reasonable and permissible way. Local authorities and their partners, who are on top of the legislation, can seek to mitigate potential risks and start to reap the benefits of using, integrating and sharing their data.

11 These are held after a child or vulnerable adult dies or is seriously injured under circumstances where abuse or neglect are thought to have been involved.

12 Domestic Homicide Reviews (DHR) are carried out when someone aged 16 or over dies as a result of violence, abuse or neglect by a relative, household member or someone they've been in an intimate relationship with. The DHR looks at the circumstances that led to the death to enable professionals to understand what happened and what needs to change to reduce the risk of something like this happening again.

13 For example, the February 2015 findings of the South East Wales Safeguarding Children Board Overview Report of children who died in a house fire in 2012.

Part 3

Local authorities are not investing sufficiently in developing their data management capacity and analytics skills



- 3.1 Local authorities hold a vast resource of insight, intelligence and data that has the potential to drive efficiency, direct resource allocation and fundamentally improve the delivery of services. A mature local authority will use data to improve services and transform their organisation, and will have staff and Elected Members who are skilled and confident data users. Having good data analytical skills to inform and direct resource decisions is therefore a key component of a mature approach to using data.

Data analytics refers to the process of crosschecking, cleaning, reorganising and modelling data for decision making. Data analysts gather, arrange, process and model data from different sources to arrive at a conclusion. Analysts are capable of evaluating large volumes of data, be it structured or unstructured, and prepare and present data in the right form for decision-makers and to help solve problems. In the era of big data, data analytics plays a business critical role.

- 3.2 Local authorities, in general, do not have the right skills and capacity to manage data effectively. The weakest area and most significant challenge we identified is reducing resources and a lack of skills, especially in data management and analytics. Despite recognising that good quality and timely data is business critical for authorities, data is not consistently valued as a key resource similar to money, people and buildings.
- 3.3 Local authorities recognise that recruiting and retaining people with the right skills is an ongoing challenge. A number of interviewees noted that budget cuts are stretching resources and capacity, and authorities can sometimes struggle to maintain ICT skills. Local authority Heads of ICT and Policy are generally more negative about the adequacy of resources for data management projects, highlighting in particular insufficient capacity to maintain the integrity and accuracy of databases. Similarly, local authorities recognise they need to do more to identify their specific long-term future data and intelligence needs, and map resource requirements against these.



The biggest challenge to making better use of data is...

“Resources! More resources are required in terms of staff and technology to make the most efficient and effective use of data”

Corporate Management Team Member

“Resources – poor systems and inadequate resilience within staff group”

Operational Manager

“Lack of resources to manage and analyse data properly”

Head of ICT

3.4 Good practice in developing staff in this area does exist. Local authorities who exhibit greater levels of maturity in data management such as Newport City Council have integrated critical corporate functions such as information governance, business improvement and policy development. Newport City Council gauged existing data analysis capacity and identified roughly 50 employees who undertook data analysis as part of their day-to-day duties. As a result, the local authority is creating a central resource to develop and enhance staff skills and capacity to help embed data-driven decision making and generate greater insights into customer demand for services. Another example is the well-considered information management strategy produced by Conwy and Denbighshire Public Services Board (PSB) that focuses on building data skills and capacity – see [Appendix 3](#) for more details.

3.5 Documentation reviewed as part of our study work often highlights that data and information management policies are focused on ICT technology – computer hardware and software, cloud storage and integrated telecommunications – but not enough on improving data usage and analytics skills amongst staff. Whilst ICT infrastructure and the architecture that connects systems and data is important for data to be shared and interrogated, the capabilities and data literacy of local authority staff also need to be developed and improved. Too often, however, local authority staff are not being equipped to match the scale and pace of technological change and the demand for data analytics.

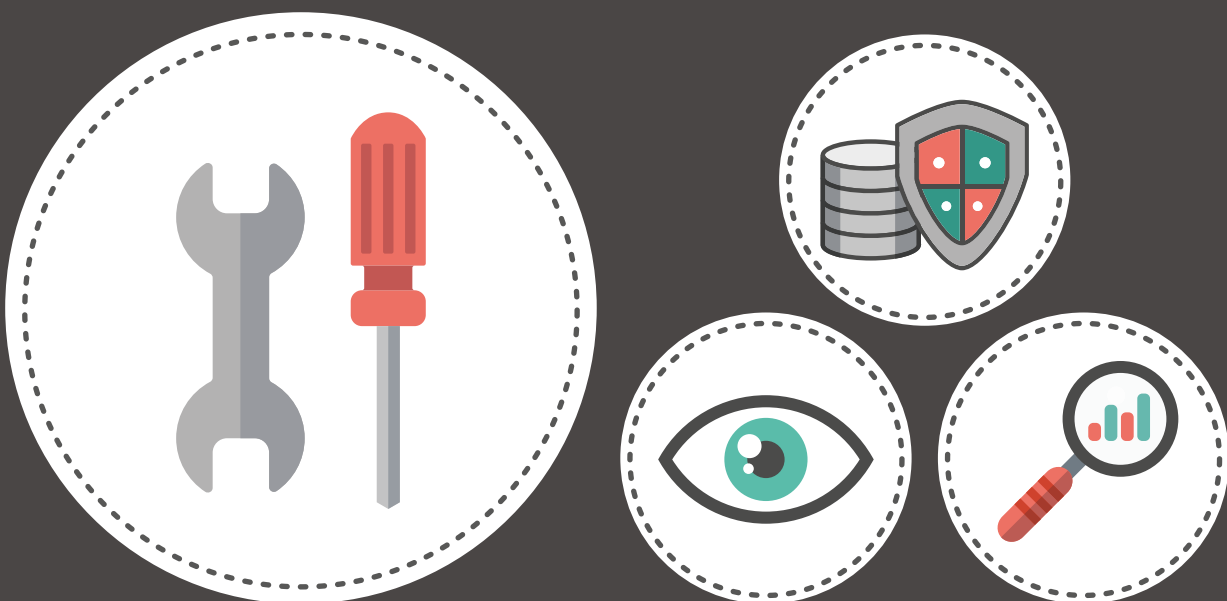
3.6 For example, we found little evidence of local authorities embedding data skills into their work force strategies, and poor levels of data literacy is a reoccurring theme from our data tool. Staff and elected members are often not confident in using the data that they have, in particular information from third parties. Some local authorities also see analytics as the function of data specialists and outside the core business of managing and delivering services.



The biggest challenge to making better use of data is...	
“Reductions in staffing levels and skill gaps – specifically staff with good knowledge and understanding of different software systems used for data management”	Operational Manager
“Having the resources to capture and then analyse data to create information needed to secure sustainable quality services”	Corporate Management Team Member
“Understanding of the power of data, the skills to make good use of data”	Elected Member
“Resources and skills shortage in data analytics”	Head of Policy
“Resource to maintain data to appropriate levels of accuracy and updating to reflect those elements that have changed”	Operational Manager

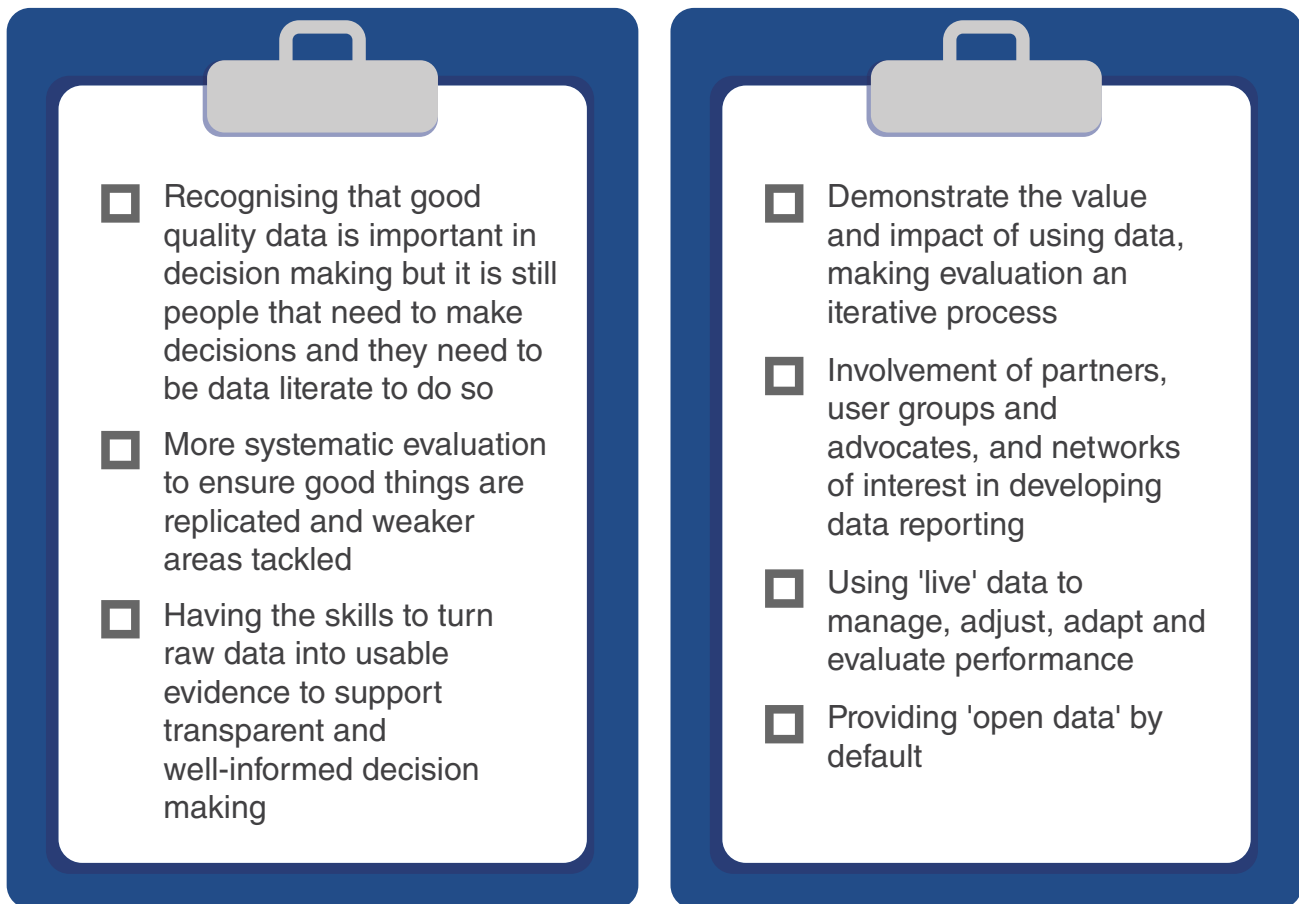
Part 4

Local authorities use data to manage performance, but gaps and weaknesses mean that decisions are not always based on a full range of evidence



4.1 Data-driven decision making is an approach to governance that values decisions that are underpinned by verifiable data. However, the success of the data-driven approach is reliant upon the quality of the data gathered, the effectiveness of its analysis and interpretation, and the processes established to judge impact and performance. **Exhibit 6** summarises the key conditions of a mature local authority with data-driven decision-making culture that we have identified from our study.

Exhibit 6 – Creating a 'data-driven decision-making' culture



Source: Wales Audit Office

Analysing performance is often limited

- 4.2 The fundamentals of good and mature approaches to scrutinising local authority performance have not changed, and reviewing the wide range of available data to judge how well services are performing is critical. The findings of our study highlights some long-standing weaknesses in the effectiveness of local authority scrutiny arrangements remain. The quality and trustworthiness of data remains a concern, especially linking up and drawing evidence from multiple sources. Stakeholders such as research bodies and service user groups we interviewed have generally negative views about the quality and accessibility of local authority performance reporting. Interviewees noted poor use of benchmarking, and a focus on internal rather than external audiences in reporting, which makes it hard for service users and citizens to judge how local authorities are performing.
- 4.3 Some Elected Members noted that the information they receive is often limited in coverage and does not provide sufficient insight for them to be able to challenge performance. Others noted that repeatedly officers overburden scrutiny committees, providing lots of information but little useful evaluation and analysis of the salient issues. We also found a minority of Elected Members raising concerns that the information they receive is ‘manipulated’ or only partial in coverage to avoid bad news and further scrutiny.
- 4.4 Stakeholders we interviewed echo these views, commenting that they have concerns that the data used to justify decisions is not robust nor reliable. For example, the limitations in the data used in equality impact assessments, an issue we have repeatedly flagged in our most recent national audit work¹⁴. Accurate reporting and effective balanced scrutiny are fundamentals of good governance. To build public trust in data, it is essential that local authorities report transparently and accurately, and Elected Members ensure they act responsibly in challenging services and scrutinising performance.



The biggest challenge to making better use of data is...

“Getting members to understand the data. As a Cabinet member I come before Overview & Scrutiny and I do not get questioned as I should be because members either have not read the reports or do not understand them”

Elected Member

“The authority is very selective in the data it shares with members and can be evasive when more detail is sought”

Elected Member

“Knowing how to distinguish between useful and less useful data and knowing what to do with it to measure performance and drive change”

Elected Member

14 See the Auditor General's reports on **How Local Government manages Demand – Homelessness and Housing Adaptations**.

Local authorities are increasing the amount of open data they publish

- 4.5 Open data is an important characteristic of data maturity, and making information available in real time can assist a wide range of organisations to develop new businesses and services. Open data can enable better data sharing across organisations and geographical areas. However, whilst open data supports transparent decision making, we found there is still a way to go to convince some that open data is an opportunity and not a threat. For instance, some Elected Members and local authority officers raised concern that open data can make some aspects of their professional judgement redundant.
- 4.6 The perception by some user and advocacy groups we interviewed is that local authorities are taking small steps in the right direction to use open data to encourage the development of new products or services to meet customers' needs. Stakeholders think that open data only works where local authorities can create demand for it and there is local pool of educated/skilled applicators. Third sector and representative bodies that we interviewed think there is a major skills deficit in maximising open data at this time in many areas of Wales.
- 4.7 Notwithstanding this, the availability of open data is increasing. Examples include customer-facing work in Newport such as the **My Newport**¹⁵ information portal containing detailed ward profiles. Torfaen County Borough Council make open data available through their website and **MyCouncilServices**¹⁶ portal, covering food hygiene ratings, locations and condition of ancient monuments, locations of authority assets such as grit bins, and school catchment areas. South Wales Police are using a neighbourhood **YourArea** section to inform people about crime and events in their area, and to gain feedback. Each page includes future meeting details, local priorities, details for every local officer and PCSO, and a link to the Police.uk page which provides crime statistics published by the Home Office. Camden's **Open Data portal**¹⁷ and **Open Data Charter** is particularly innovative. See **Appendix 3** below for more details of good practice.



The biggest challenge to making better use of data is...

“I think open data is a big opportunity for all Councils to improve engagement with their residents, & to minimise the increasing trend of FOIs. Data is a resource & could be an income generator too”

Elected Member

15 See newport.gov.uk/iShare/mynewport

16 See torfaen.gov.uk/MyCouncilServices

17 See opendata.camden.gov.uk

Decision making is not always driven by effective analysis or evaluation of data

- 4.8 Data-driven decision making is a key element in the maturity of local government in use of data. Our criteria for a local authority with high levels of data maturity are set out in [Exhibit 3 \(Paragraph 9](#) on pages 9, 10 and 11), and suggests the highest level of maturity exists where data-driven decision making is well established and accepted as the ‘way to do things’. An organisation that embodies a mature approach to data-driven decision making has some important characteristics. It is derived from, and built on:
- a clear leadership;
 - b robust policies, systems and processes;
 - c adequate resources and evolving skills; and
 - d good analysis, reporting and evaluation.

Our work shows that all of these conditions are required, and are linked and mutually supportive.



The biggest challenge to making better use of data is...

“Any performance indicators which are described as good seem to be because the Council is doing a great job, while those which show them not doing well we are told other local authorities submit information in a different way or because of a lack of finance”

Elected Member

“The data, especially that relating to schools’ performance, is often unreliable and is frequently presented to members without being subject to any statistical tests”

Elected Member

- 4.9 From our fieldwork, we found that, universally, Elected Members, officers and stakeholders, recognise that data can help local authorities set priorities and make better choices when planning initiatives to deliver desired outcomes. However, most authorities are only just starting to get to grips with all the data they have, and all the ways they could use it to improve decisions and outcomes. Overall, we conclude that local authorities still have some way to go in creating a data-driven decision-making culture.
- 4.10 We found that authorities are not always taking the opportunity to link data sets to build up analysis and deliver more focused insight, especially linking cost and performance data to understand the cost of core activities, such as determining a planning application or collecting a rubbish bin.
- 4.11 Our examination of all 22 local authority corporate plans finds some common shortcomings. Overall, benchmarking, comparative data analysis, and forecasting is weak. Comparative information and data is limited with few comparisons with other areas and with comparable organisations outside of Wales. For example, there is limited predictive analysis¹⁸, which encompasses a variety of statistical techniques to model current and historical facts to make predictions about future scenarios. Likewise, few authorities noted the use of data mining¹⁹ or segmentation analysis²⁰.
- 4.12 Generally, local authorities continue to focus on historical management information, and agree that not enough analysis is undertaken on projecting demands or estimating longer-term trends in performance. The ability to compare with others and to look ahead are important management tools, but local authorities' limited capacity and insufficient skills in data analytics limits the potential for using data to model and transform services.

18 Predictive modelling helps to capture relationships among many factors to allow an assessment of risk or potential associated with a particular set of conditions. Predictive models uncover patterns in historical and transactional data to identify opportunities for decision makers

19 Data mining is the process of discovering patterns in big data to extract information into a comprehensible structure for further use.

20 Segmentation is the activity of dividing a market, normally consisting of existing and potential customers or service users, into sub-groups (segments) based on shared or common characteristics such as needs, common interests, similar lifestyles or even similar demographic profiles to identify potential growth to be able to plan for change and better target responses.

- 4.13 We found some examples of local authorities analysing data to improve services and make better-informed decisions. For example, Swansea City and County Council has analysed the coordination of employment services, and as a result has rationalised and refocused its efforts to support job creation. Likewise, Denbighshire County Council is using data to provide insight on citizens' needs when considering library opening times and in designing efficient waste collection routes. Likewise, Torfaen County Borough Council analysed its data on blockages in foster caring, and used social media and recruitment campaigns to increase the numbers of foster carers.
- 4.14 A consistent message from our fieldwork is that one of the biggest challenges is to make better use of 'live' data to both manage services but also evaluate performance. Unlike emergency services, such as the Police and Fire and Rescue services, who increasingly rely on live data to direct resources and quickly respond to emergencies, local authorities only occasionally use 'live' information (for example, social media feedback) to adjust service delivery and optimise performance. Similarly, whilst authorities use data to manage and decide on resources, financial reporting is often not agile enough to make real time decisions because of the time lag in producing budget data for decision makers. National policy makers echo these conclusions noting that there are some significant challenges in how local government can improve how it uses data²¹. We conclude that there is more for local authorities to do to create a data-driven decision-making environment which supports service improvement and transformation.

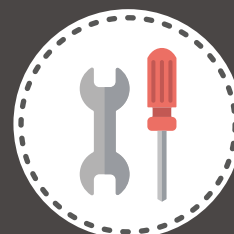
21 [For example, the Welsh Government's Digital Baseline of local authorities in Wales 2017](#)

Appendices

Appendix 1 – Study Methodology

Appendix 2 – Glossary

Appendix 3 – Good practice in use of data



Appendix 1 – Study Methodology

Data Tool – completed by all 22 local authorities covering Corporate Management Team, Operational Managers, Heads of ICT and Policy, Information Compliance Officer and Elected Members. The responses to our Data Tool are set out below:

Respondent Groups	Number invited	Number responding	% responded
Corporate Management Team Members	203	94	46%
Elected Members	1,259	295	23%
Operational Managers	851	434	51%
Information Compliance Officer	22	13	59%
Head of Policy	22	14	64%
Head of ICT	23	14	61%
Total	2,380	864	36%

National interviews with leaders in use of data: Nesta UK, Nesta Wales, Information Commissioner's Office (ICO), Welsh Government Chief Statistician, WLGA, Ofcom, Google UK, Satori Lab, Pinacl Solutions, Alliance for Useful Evidence, UCL Centre for Data Science, StatsWales, Office for National Statistics, Greater London Authority, London Fire Brigade and Camden Council.

Interviews with user and advocate groups including: CVS Cymru, Carers Wales, Gypsies and Travellers Wales, Welsh Third Sector Statistics User Panel and Cardiff Citizens Panel.

Fieldwork at Denbighshire County Council, Newport City Council, Torfaen County Borough Council and the Vale of Glamorgan Council.

Review of use of data in Public Service Board Well Being Plans.



Sample survey of 750 members of the public across all of Wales about awareness of local authorities' use of information held about them.


Appendix 2 – Glossary


- **Data** is factual information such as measurements or statistics used as a basis for reasoning, discussion or calculation that can be transmitted or processed.
- **Statistics** are numbers, data and information which are the underlying basis and evidence for decisions.
- **Information** is practical insight generated by practitioners to help make the best use of available data and knowledge for improving the execution of the organisation's mandate.
- **Intelligence** comprises the strategies and technologies used by organisations for the data analysis of information. The term is often used by the Police to track and predict crime with a view to preventing or curbing it.
- **Evidence** is often analysed data that can help decision makers understand what works, where, why and for whom. It can also point to what does not work, and can avoid repeating the failures of others by learning from evaluations of unsuccessful programmes.
- **Digitisation** means the facility for citizens and business to engage with a local authority over the internet, as well as for staff and elected members to carry out their responsibilities with new and emerging computer-based resources. It also means the ability for businesses and citizens to engage in online life with and beyond the local authority.
- **Data protection.** Personal data is information relating to an identifiable living individual. Whenever personal data is processed, collected, recorded, stored or disposed of it must be done within the terms of the Data Protection Act (DPA). The General Data Protection Regulation aims to give control to citizens and residents over their personal data and applies to data 'controllers'/'processors'
- **Sharing data.** The disclosure of data from one or more organisations to a third party organisation, or the sharing of data between different parts of an organisation see [ICO data sharing code of practice.pdf](#).
- **Big data** can give enhanced insight and aid decision making but can be difficult to analyse using traditional data analysis methods.
- **Open data.** Public services in Wales are putting more and more valuable data into the public domain, allowing citizens to find out more than ever about the performance of public services and hold public bodies to account.
- **Data analytics.** The process of crosschecking, cleaning, reorganising and modelling data for decision making.
- **Personal data.** Information relating to the racial or ethnic origin; political opinions, religious or other beliefs; membership or otherwise of a trade union; physical or mental condition; sexual life of a person and the commission or alleged commission of any offence or the disposal or sentence in any such proceedings by a court.


Appendix 3 – Good practice in use of data

Key Characteristic	Good practice examples
<p>Leadership</p> 	<p>National data leadership</p> <p>Welsh Government’s Digital Action Plan 2017-2020 promotes data as a valuable resource and aims to provide leadership and more support to digital leaders across Welsh Government. The plan identifies the need to improve the way the Welsh Government operates by: Being where citizens are; Empowering Welsh citizens; and use resources efficiently by using digital to a provide step-change in its ability to achieve these goals. The plan provides a framework for achieving this and is based on having inspiring and confident digital leaders at all levels, new skills, and by involving people in the development of policymaking and legislation, and making data open by default.</p> <p>Developing data leadership into organisational transformation</p> <p>Carmarthenshire County Council’s Digital Transformation Strategy 2017-2020 recognises appropriate digital technology is needed for the council to save money and improve services by collaborating with partners and seamlessly sharing and using good quality data. The Council recognises that central to improving access to services and supporting the move towards the generation of more open data is building public confidence in robust information security that protects citizen and business data from misuse and cyber threats.</p>
<p>Corporate standards</p> 	<p>Capacity building to drive a more collaborative culture</p> <p>Digital Flintshire 2017-2022 outlines how Digital Information and Technology will be used to support the County Council’s Improvement Priorities and strategic plans over the next five years. What makes Digital Flintshire different from other strategies is the focus on improving the local digital infrastructure, and in ensuring customers have the digital skills to access services and information online. This includes working with local training providers, partners and the third sector to identify and deliver effective customer training to ensure take up of digital services and support inclusion.</p>

Key Characteristic	Good practice examples
<p>Integrated customer data</p> 	<p>Single ‘Gateway’ to local authority services</p> <p>In 2013, the London Borough of Camden developed a Residents Index (CRI) uniting information from multiple council data sources to create a single, consistent view of residents across the borough and the council services that they are accessing. Camden, like all local authorities, was under pressure to deliver cost savings, whilst at the same time delivering continuous improvement to its service levels and meeting its social objectives. To address these challenges, Camden decided to unite previously siloed information into a 360-degree view of residents’ service engagement.</p> <p>Camden realized that adopting a ‘systems thinking’ approach could help it ensure that residents who registered their details with one service – for example, housing – would not need to give the same information again to other services. Similarly, the council wanted to empower its own staff to work more efficiently by automatically gathering information from other departments.</p> <p>There have been several positive outcomes from the creation of the CRI, including:</p> <ul style="list-style-type: none"> • helping to identify cases of illegal subletting of council housing and in identifying cases of school admissions fraud, thus ensuring that valuable resources go to the residents eligible for them; • enabling the Electoral Services team to maintain an accurate register of electors in the borough. The CRI could validate 80% of data from the electoral roll (which is higher than the 50% rate of the Department for Work and Pensions, which usually validates the council’s electoral data); and • providing critical information to support the council’s Multi Agency Safeguarding hub to identify changes in the composition of households of vulnerable children.
<p>Data protection</p> 	<p>Safe and secure data sharing</p> <p>The Conwy and Denbighshire Local Service Board (LSB) has developed a range of information and policies to encourage safe and secure data sharing amongst constituent partners. The PSB has built on the previous work of the Local Services Board and an Information Strategy and Information Sharing Toolkit will be updated. Training material focuses on lawful data sharing including the Wales Accord on the Sharing of Personal Information (WASPI) and the development of a range of information sharing protocols and products. The PSB is more able to demonstrate how it has used good quality data to derive its strategic priorities for Good Mental Well-being for All Ages; Community Empowerment; and Environmental Resilience. A realistic discussion about the PSB’s role was agreed which is to provide leadership and scrutiny within existing structures, rather than manage projects and integrate services delivery.</p>

Key Characteristic	Good practice examples
<p>Data analytics</p> 	<p>Using data to target prevention work</p> <p>Mid and West Wales Fire and Rescue Authority (FRA) is preventing arson fires and anti-social behaviour by gathering, sharing and using data and intelligence to target their work in priority areas and locations. The FRA collaborates with partners such as the police and council social services to share data to ensure effective targeting of efforts. Data on the cause of fire is captured through the national Information Recording System (IRS). This data is analysed to ensure that intervention activity and future safety messages reflects the risks of fires occurring. For example, with written guidance on hoarding and on giving tailored safety advice to the Gypsy and Traveller Communities. Information from the FRA's Data Portal is analysed at monthly management and station meetings to monitor the number of incidents, injuries and fatalities and to plan resource accordingly.</p> <p>Using data to build shared capacity and make efficiencies</p> <p>Dyfed Powys Police is improving the way it uses data to improve asset management. A wide range of incident and demand data is used to pinpoint optimum locations for police stations. Police officers can to look at crime and performance data on a county, ward and beat level. Data sets are also increasingly being combined, for example in integrating cost and performance information to understand performance and re-direct resources. As a result, investment is directed towards the most suitable assets and opportunities are pursued in to collocating police stations with fire stations, and to create specialist hubs of police expertise.</p> <p>Improving data analytics</p> <p>Dyfed Powys Police is increasing its capacity and capabilities to understand and analyse data more effectively. Examples include analysing data to close some outdated police stations, to co-locate police stations with fire stations, and to create specialist hubs of police expertise. Senior managers look for the peaks, trends, and forecasts in demand to allocate resources. Data sets are increasingly being combined, for example in integrating cost and performance information to understand performance and re-direct resources. Data mining is improving and for an increasing number of data sets, police officers can to look at crime and performance data on a county, ward and beat level. Analytical data is now aligned to operational matters, such as safeguarding and domestic abuse. Using data to profile organised crime and fraud is helping direct specialist resources such as scientific support and cybercrime. Dyfed Powys Police see themselves as a data hungry organisation and recognise where they need to do better.</p>

Key Characteristic	Good practice examples
<p>Data-driven decisions</p> 	<p>Data driven decision making to mobilise resources</p> <p>London Fire Brigade (LFB) operates from more than 100 fire stations across London, and is the busiest fire and rescue service in the UK. LFB developed a Dynamic Cover Tool (DCT) with a private sector provider to assist decision making in emergency service control rooms. The DCT helps to improve incident and risk coverage and ensures resources are used as efficiently as possible. Dynamic cover is the process of relocating available resources to maintain appropriate standards of risk and response cover across an area. DCT software provides a real-time visual aid to support the emergency control officer in moving emergency response vehicles.</p> <p>Integrating data to improve insight and plan strategic responses</p> <p>The Greater London Authority GLA is promoting the development and use of open data. The GLA see the greatest opportunities for open data are in modelling of extreme weather, predicting demand for natural resources, improving air quality monitoring, parking space utilisation, improving information on public transport connections, and on the availability of housing and community assets. Early GLA data open projects included tackling the problems of unlicensed housing in multiple occupations (HMOs), and in reducing the numbers of gambling premises in parts of London with particularly vulnerable people. The GLA is now moving away from its Borough Data Partnership to a data hub based on San Francisco's Data Academy See Data Academy aimed at improving consistency and quality of data sharing, data management, visualisation, analysis and data skills.</p>

Key Characteristic	Good practice examples
<p>Open data</p> 	<p>Using open data to build community capacity and drive economic wellbeing</p> <p>Data Mill North is a collaborative project originally set up to tackle the challenge of increasing demands and decreasing resources in Leeds. The aim is to enable people and organisations to explore the different complex relationships between the city’s services and businesses, by collecting open data from multiple sources in a single hub, offering a greater insight into the workings of the city than ever before. The project’s three top priorities are to visibly improve health & wellbeing, drive more housing growth & standards and improve travel & transport infrastructure. Data Mill North is now the single repository in the region for all public services to share data, insight and intelligence on a wide range of topics including local public services, detailed business and economic performance, adult education, and a high number of datasets and sources of housing information.</p> <p>The project founders are supporters of the Open Data Institute HQ which was established in November 2013. ODI Leeds works to bring social, environmental, and economic value in Leeds by improving data literacy and skills development. To date the project has hosted 668 events, raised an additional £883k in funding and helped 228 people find better paid jobs. All data sources in Yorkshire are currently being mapped – including the private, public and voluntary sector.</p>

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Fiscal Devolution in Wales: devolved taxes and Welsh rates of income tax



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 2006.

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Summary report

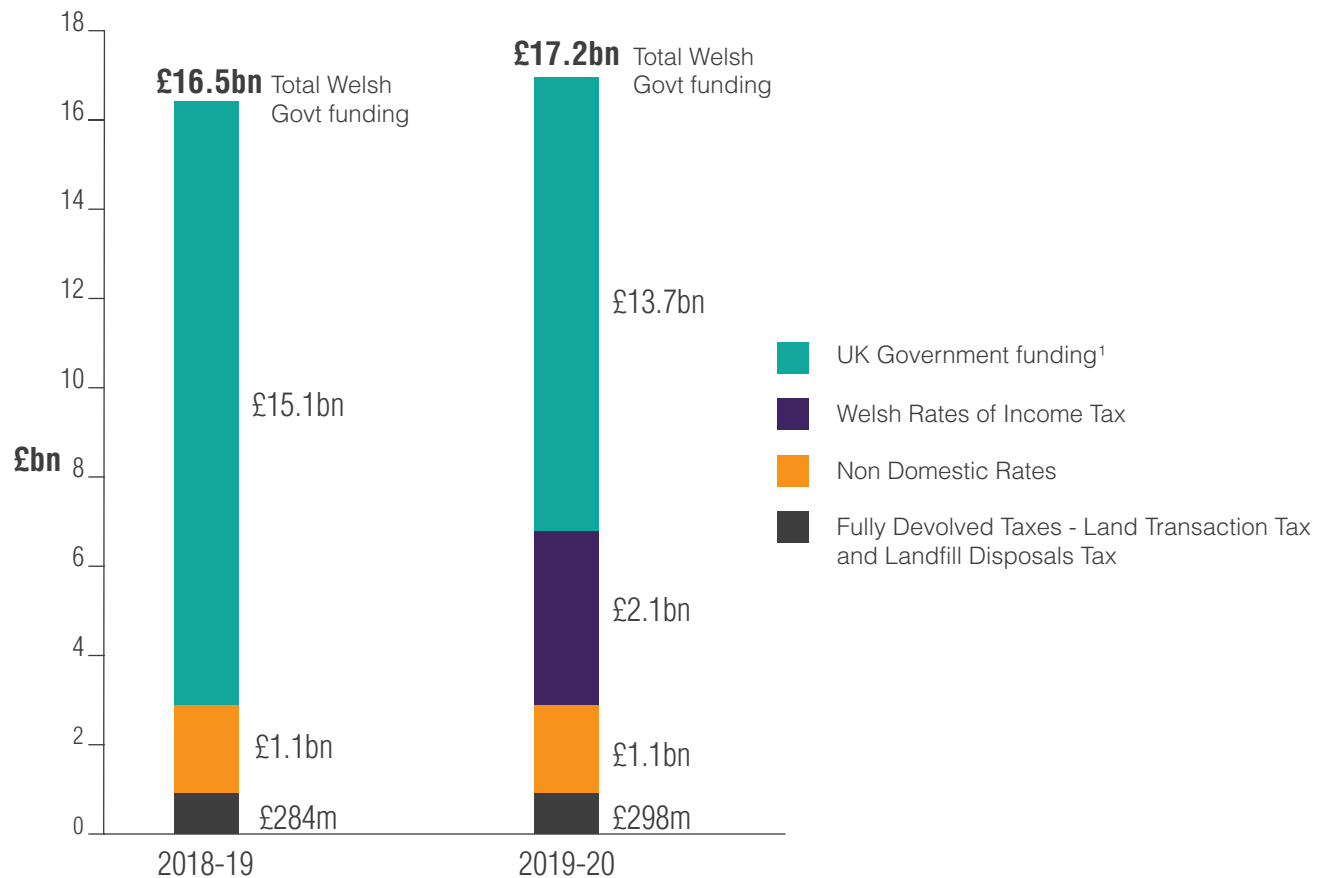
Summary

- 1 Fiscal devolution refers to the transfer of certain taxation and borrowing powers from the UK Government to the National Assembly for Wales (the National Assembly) and Welsh Ministers. On 1 April 2018, for the first time in over 800 years, taxes relating only to Wales began to be collected.
- 2 **Appendix 1** details the key legislative and other developments leading to fiscal devolution in Wales. Under the Wales Act 2014 and subsequent Welsh legislation, two devolved taxes are now being collected in Wales by the Welsh Revenue Authority (WRA) – Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT). Following the passing of the Wales Act 2017, it was confirmed that Welsh Rates of Income Tax (WRIT) would also apply for the first time from 6 April 2019, although this would still be collected by HM Revenue & Customs (HMRC).

Impacts on Welsh Government funding

- 3 Fiscal devolution means that a greater proportion of Welsh public spending will be raised directly from Welsh taxpayers. In its Draft Budget for 2019-20, the Welsh Government confirms that 20% of its overall spending (or £3.5 billion) that year will come from revenues raised from Welsh taxes, including WRIT, LTT, LDT and National Non-Domestic Rates. This is illustrated in **Exhibit 1** below:

Exhibit 1: a breakdown of Welsh Government funding



Note:

1. Figures for UK government funding do not include Annually Managed Expenditure (AME) or non-fiscal Department Expenditure Limit (DEL) spend.

Source: Welsh Government

Previous Wales Audit Office reports on fiscal devolution and the scope of this report

- 4 The Auditor General for Wales confirmed that he would carry out a series of reviews on the implementation of fiscal devolution. He has published two previous reports. His first report (**Preparations for the implementation of fiscal devolution in Wales**) was issued in December 2016, with a further report (**Fiscal devolution in Wales: an update on preparations for its implementation**) published in December 2017. Both reports are available on the Wales Audit Office website¹.

1 <http://www.audit.wales/publications>

- 5 In the 2016 report he concluded that the Welsh Government was preparing well to take on its fiscal devolution responsibilities, although significant challenges remained in getting detailed plans in place and delivering key projects. In 2017 he concluded that the fiscal reform agenda in Wales had made progress in these key areas. However, the programme was entering a critical phase with a tight timetable to deliver by 1 April 2018.
- 6 Our 2017 report also noted that the Auditor General for Wales would conduct a further review during 2018 to assess how the WRA is operating, monitor the implementation of LTT and LDT, and review preparations for WRIT from April 2019. This report therefore fulfils these purposes, answering two questions:
 - a **Is the WRA operating effectively to administer devolved taxes in Wales?**
 - b **Does the Welsh Treasury have appropriate arrangements in place to obtain assurance over HMRC's implementation of WRIT?**
- 7 A summary of our findings in this review is provided below, with details of our audit methods provided in [Appendix 2](#). Our report does not review the work carried out by HMRC to implement WRIT, which is the focus of a separate report by the National Audit Office.

The Welsh Revenue Authority is operating effectively to administer devolved taxes in Wales

- 8 The Welsh Government established the WRA Implementation Programme (the Programme) in November 2015, which worked to form and build the WRA and its tax collection systems. As part of its work, the Programme established the WRA Shadow Design Authority, to act as a shadow Board for the WRA. With all members of the WRA Board appointed by September 2017, the Board was able to meet for its first formal meeting on 18 October 2017.
- 9 While still under the control of the Welsh Government, the Programme reported to the WRA Board from October 2017 to provide updates on progress and key developments as it worked towards the collection of LTT and LDT from 1 April 2018. The WRA legally came into existence from 18 October 2017 and has collected LTT and LDT since 1 April 2018, with the Welsh Government closing the Programme shortly afterwards.

10 Our review finds that:

- a the WRA was set up effectively to allow it to collect LTT and LDT from 1 April 2018, meeting its key challenges:
 - the National Assembly for Wales passed all required legislation in time to enact the WRA and allow it to collect devolved taxes;
 - a joint UK and Welsh Government Readiness Assessment, and Welsh Government Remit Letter and Framework Document were confirmed and in place;
 - the WRA’s governance structures were appropriately established;
 - with the help of its suppliers, the WRA finalised its digital systems in time to collect devolved taxes from 1 April 2018;
 - the WRA prioritised the recruitment of key staff, ensuring all critical roles were filled prior to 1 April 2018;
 - the total cost of setting up the WRA fell within budget;
 - the WRA’s operational guidance was largely in place on 1 April 2018.
- b since 1 April 2018, the WRA has administered the two devolved taxes appropriately:
 - the WRA’s Tax Management System has operated effectively since 1 April 2018;
 - the WRA has responded appropriately to internal and external feedback by making relevant changes to its processes and guidance;
 - recruitment has continued at an appropriate rate to maintain the WRA’s operations;
 - the WRA has delivered training to staff in line with an agreed plan to maintain key operations;
 - appropriate arrangements have been made to share data arising from LTT and LDT transactions with stakeholders.

- c the WRA has taken appropriate steps to allow it to respond to potential future developments, including working with the Welsh Treasury where appropriate:
 - the Welsh Treasury and the WRA have adopted a joint governance structure for Welsh fiscal devolution that allows both bodies to identify and respond to potential developments;
 - the WRA has designed flexible systems and processes which will help it to respond to future changes or developments;
 - the WRA needs to consider some important issues going forward as it develops its three-year Corporate Plan.

11 In **Exhibit 2** below, we highlight the key areas of focus for the WRA as it continues to develop.

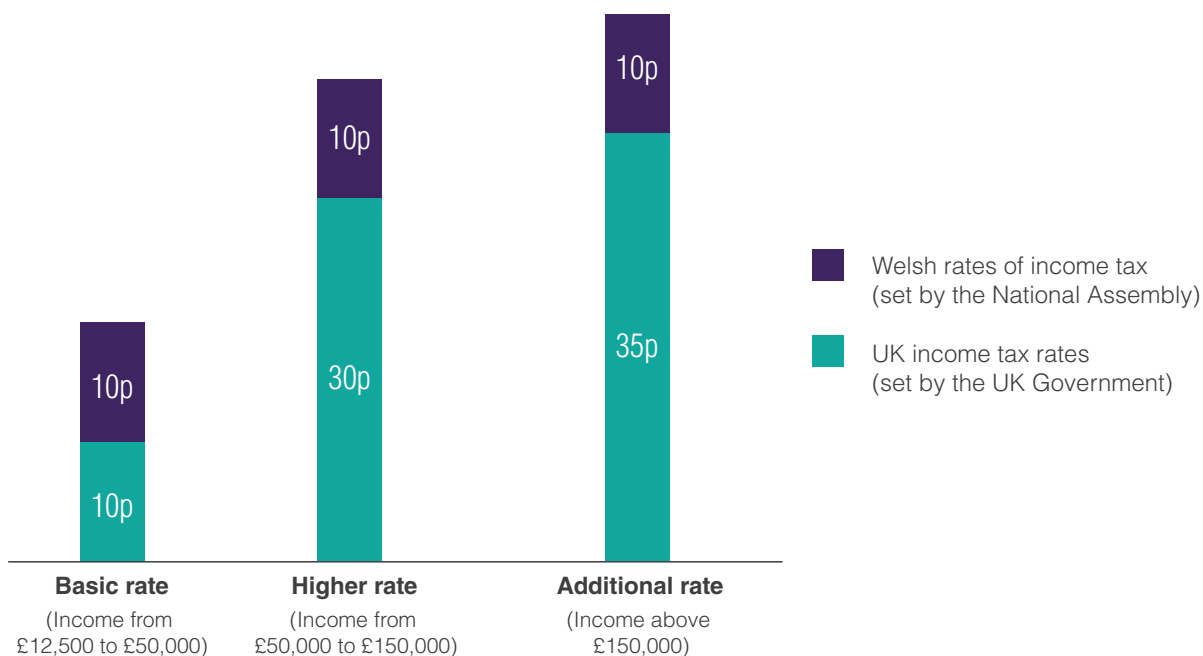
Exhibit 2: key areas of focus for the WRA

Area of focus	Details
Digital systems (paragraph 1.32)	To enable the WRA to increase its digital capability, it will be important to focus on creating strategic partnerships with suppliers to ensure the best value for money for its digital systems.
Recruitment and retention of staff (paragraph 1.41)	Effective development of people and teams needs to continue to ensure that the WRA can continue to recruit and retain a high-calibre workforce. As part of this, the WRA needs to evaluate the results of learning and development programmes that it develops or commissions.
Governance arrangements (paragraph 1.51)	The WRA needs to continue working in partnership with the Welsh Treasury to ensure the effectiveness of the joint governance arrangements in place.
2019-2022 Corporate Plan (paragraph 1.59)	The WRA needs to work to confirm its three-year Corporate Plan, which will need to consider the following areas: <ul style="list-style-type: none"> • Definition of its purpose • Identification of performance measures • Approach to ‘tax risk’ • Costing of WRA activity • Strategy for digital development and support • Development of internal operating policies

The Welsh Treasury has appropriate arrangements in place to obtain assurance over HMRC’s implementation of Welsh Rates of Income Tax

- 12 With WRIT being introduced from 6 April 2019, arrangements for income tax rate-setting in Wales will change. In January 2019, the National Assembly will consider a resolution on whether to vary the rates of income tax paid by Welsh taxpayers from April 2019 (in simple terms, income taxpayers who live in Wales) or whether to keep them the same as the rates paid by English and Northern Irish taxpayers (the Scottish Parliament confirms the income tax rates for Scottish taxpayers). These rates will only apply to Welsh taxpayers’ non-savings, non-dividend income.
- 13 On 6 April 2019, the UK Government will reduce each of the three rates of income tax (basic, higher and additional rate) paid by Welsh taxpayers by ten pence. The three Welsh rates confirmed by the National Assembly will then be added to the reduced UK rates. The combination of reduced UK rates plus the Welsh rates will determine the overall rate of income tax to be paid by Welsh taxpayers, as illustrated in **Exhibit 3**:

Exhibit 3: how Welsh Rates of Income Tax will be applied



Source: Welsh Government

- 14 Wales will only have partially-devolved income-tax powers. The Welsh Government will have no powers other than to set WRIT each year once the UK Government deducts ten pence from each rate. It will not have the power to create, amend or remove income tax bands (ie the basic rate, higher rate and additional rate bands). It also will not be able to amend any income tax reliefs or allowances set by the Chancellor of the Exchequer, such as the Personal Allowance.
- 15 Furthermore, HMRC will continue to collect all income tax due in Wales. HM Treasury will then remit the proportion collected under WRIT to the Welsh Consolidated Fund each year. This differs from the two fully-devolved taxes, LTT and LDT, which the WRA has collected independently since 1 April 2018.
- 16 Welsh taxpayers should therefore notice little change in how HMRC collects their income tax, other than to their tax code which will begin with a 'C', and will not need to take any direct action.
- 17 Our review finds that:
 - a plans are in place to pass the Welsh resolution required to enact WRIT, with the majority of UK legislation already passed:
 - most of the UK legislation required to establish and enact WRIT has been passed;
 - the National Assembly for Wales will consider a motion in January 2019 to approve WRIT.
 - b The Welsh Treasury is actively participating in governance arrangements to transfer responsibilities for WRIT to Wales:
 - HMRC has established a project to set up WRIT and the Welsh Treasury attends the Project Board;
 - the Welsh Treasury uses the project's governance structure to influence discussion and raise matters of concern.
 - c The Welsh Treasury is obtaining appropriate assurance over HMRC processes to identify Welsh taxpayers:
 - HMRC has established methods to identify Welsh taxpayers and has shared them with the Welsh Treasury;
 - the Welsh Treasury has sought and obtained advice and assurance over the methods used to identify Welsh taxpayers.

- d The methods used to forecast revenue due to Wales from WRIT are appropriate, and the Welsh Treasury is exploring ways to improve underlying data:
 - the Welsh Treasury forecasted the revenue due from WRIT for the 2019-20 financial year in time for inclusion in the Welsh Government’s Budget;
 - Bangor University has provided assurance over the forecast of revenue due from WRIT during 2019-20;
 - the Welsh Treasury uses the most recent data available in its WRIT forecasts and is exploring ways to further improve that data.
 - e The total cost of implementing WRIT is yet to be finalised:
 - the total cost of implementing WRIT is estimated at between £7.7 million and £9.7 million, with most of that cost relating to HMRC activity;
 - the Welsh Treasury has sought appropriate advice and assurance over HMRC’s cost estimates.
 - f Plans to engage with the public are clear, proportionate and identify measures of success clearly:
 - the Welsh Treasury and HMRC are working together effectively to deliver communications regarding WRIT;
 - survey results will allow the Welsh Treasury to measure public awareness of WRIT over time and plan future communications activity;
 - measures to engage with the Welsh public are reasonable and strike an appropriate balance between activity and cost.
- 18 We highlight the following areas of focus in **Exhibit 4** that the Welsh Treasury will need to consider as the WRIT project progresses:

Exhibit 4: areas of focus for the Welsh Treasury as the WRIT project progresses

Area of focus	Details
Ongoing governance of WRIT (paragraph 2.11)	The Welsh Treasury, in partnership with HMRC, will need to develop an appropriate governance structure for WRIT before taxes start to be collected in April 2019.
Data for use in forecasting and budgeting (paragraph 2.31)	The Welsh Treasury will need to work with HMRC to maintain access to the most timely and accurate data for WRIT forecasting. It will also need to consider the usefulness of potential new sources of data in its forecasting models, such as 'real-time information' from HMRC once Welsh 'C' tax codes are launched.
Costs of implementing WRIT (paragraph 2.37)	The Welsh Treasury will need to work with HMRC to confirm the final total project cost and negotiate a cost-sharing arrangement with them and the Scottish Government for any costs that relate to both the Welsh and Scottish income tax systems.
Engagement with the public (paragraph 2.53)	The Welsh Treasury will need to continue to monitor the impact of its public engagement activity, to measure the success of its work to date and to target future communications on WRIT.

Part 1

The Welsh Revenue Authority has operated effectively to date to administer devolved taxes in Wales



- 1.1 This section of the report is in three parts, looking at how the WRA was set up, how it has administered the two devolved taxes since 1 April 2018, and how it is able to respond to potential future developments.

The Welsh Revenue Authority was set up effectively to collect devolved taxes from 1 April 2018

The National Assembly for Wales passed all required legislation in time to enact the Welsh Revenue Authority and allow it to collect devolved taxes

- 1.2 As reflected in our previous reports, the Wales Act 2014, the Tax Collection and Management (Wales) Act 2016, the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017, and the Landfill Disposals Tax (Wales) Act 2017 established the foundations for Wales' devolved tax regime, setting up the WRA to collect LTT and LDT.
- 1.3 Key elements of these Acts have subsequently been brought into force by secondary legislation. Between October 2017 and March 2018, the National Assembly passed 19 items of secondary legislation covering a range of matters, from the establishment of tax rates and bands to the confirmation of the WRA's powers to investigate criminal offences. Following the passing of this legislation, the WRA had the legal powers to collect LTT and LDT from 1 April 2018.

A joint UK and Welsh Government Readiness Assessment, and Welsh Government Remit Letter and Framework Document were confirmed and in place

- 1.4 Before the WRA could collect LTT and LDT, the UK and Welsh Governments needed to agree a joint Readiness Assessment to formally disapply the two previous UK taxes in Wales, Stamp Duty Land Tax and Landfill Tax. This Readiness Assessment considered the preparedness of HM Treasury, HMRC, the Welsh Government and WRA in areas such as legislation, systems and processes, staffing and resources, communications and engagement, and governance and assurance.
- 1.5 The Welsh Government met counterparts from HM Treasury and HMRC in January 2018 to confirm that all required criteria under this assessment had been fulfilled. The Welsh Government's Cabinet Secretary for Finance and the Chief Secretary to HM Treasury then confirmed with an exchange of letters that Stamp Duty Land Tax and Landfill Tax could be disapplied in Wales from 1 April 2018.

1.6 In December 2017, the Cabinet Secretary for Finance issued a Remit Letter to the WRA. This document sets out the Welsh Ministers’ three key priorities for the first year of devolved tax collection (as set out in [Exhibit 5](#)), proposals for the development of performance measures for the WRA and the organisation’s operational revenue budgets for 2017-18 (£1.5 million) and 2018-19 (£6.0 million).

Exhibit 5: Welsh Ministers’ priorities for the WRA in 2018-19

Key priorities for the WRA in 2018-19
Devolved tax collection – enabling people to pay the right amount of tax at the right time.
Managing the devolved tax system to help deter and tackle tax evasion and tax avoidance.
Public service delivery – leading improvements to the administration of devolved taxation across Wales

Source: Welsh Revenue Authority/Welsh Government

- 1.7 The WRA then worked with the Welsh Government to confirm and publish a Framework Document in March 2018. This document underpins the relationship between the Welsh Government and the WRA. It confirms the roles and responsibilities of both bodies, processes for financial management and reporting, and arrangements for data sharing.
- 1.8 In our 2017 report, we noted that, as the first Non-Ministerial Department of the Welsh Government, there could be confusion over how the WRA is managed and governed. The Remit Letter and Framework Document, along with the WRA Corporate Plan for 2018-19 (which sets out how the three key priorities in the Remit Letter will be achieved) help to clarify the WRA’s role, as well as its working arrangements with the Welsh Government.

The Welsh Revenue Authority's governance structures were appropriately established

1.9 Exhibit 6 provides an overview of the WRA's internal governance structure:

Exhibit 6: the WRA's internal governance structure



Source: Welsh Revenue Authority

1.10 As we reported in 2017, significant work on the WRA's governance arrangements was completed before it came into existence on 18 October 2017. This work included the appointment of the Chair (February 2017) the Chief Executive (July 2017) and the non-executive members of the WRA Board (September 2017). Subsequently, the WRA has established its governance structures.

- 1.11 The Board comprises the non-executive Chair and Deputy Chair, four non-executive members, the Chief Executive, two executives and (from October 2018) a staff elected member. This membership complies with the requirements of the Tax Collection and Management (Wales) Act 2016. The Board has convened regularly since October 2017 and has established two sub-committees, an Audit and Risk Assurance Committee (ARAC) and a People Committee.
- 1.12 The ARAC comprises four non-executive Board members and is also attended by four executive advisors². The ARAC first met in November 2017 and has delegated responsibility to scrutinise the WRA's arrangements for risk, controls, governance and accounting arrangements, audit results and responses. The Committee also advises the Chief Executive on the WRA's use of public money and stewardship of its assets.
- 1.13 The People Committee is composed of three non-executive Board members, accompanied by three executive attendees³. It first met in June 2018, and is responsible for overseeing the WRA's remuneration strategy, as well as other issues around staff terms, recruitment, performance and talent management.
- 1.14 The WRA has also established governance arrangements to support the Chief Executive. Prior to 1 April 2018 an Executive Committee was set up, consisting of all staff members who report directly to the Chief Executive. The Committee covered matters including organisational performance, governance, policies and strategies. A Scheme of Financial Delegation from the Chief Executive to WRA officials was also issued in March 2018.
- 1.15 The governance arrangements established before 1 April 2018 to support the Board and the Chief Executive were operating effectively. The development of the WRA's internal governance arrangements has continued since 1 April 2018, as shown in [Exhibit 6](#) above. The WRA's internal auditors reviewed its governance arrangements in October 2018, concluding that they are 'suitably designed and applied effectively', with only minor observations arising.

2 The Chief Executive, Chief Finance Officer, Head of Internal Audit and Risk Manager/ Committee Secretariat.

3 The Chief Executive, Head of Human Resources and Organisation Development Manager/ Committee Secretariat.

With the help of its suppliers, the WRA finalised its digital systems in time to collect devolved taxes from 1 April 2018

- 1.16 At the time of our 2017 report, the delivery of digital systems remained the WRA Implementation Programme's area of highest risk. The WRA needed to develop a Tax Management System (TMS) to collect LTT and LDT from 1 April 2018, as well as a finance system to account for the operation of the WRA and taxes collected. It contracted a supplier to build and test the TMS, who completed their work over the first three months of 2018.
- 1.17 The TMS is divided into two principal areas – registration and tax returns. The WRA opened registrations for LTT users on 20 February 2018, allowing practitioners such as solicitors and conveyancers to register an account on the TMS. According to WRA statistics, over 1,200 LTT practitioners registered on the TMS before tax collection began, growing to over 5,300 by October 2018. The launch of registration for LTT was supported by the opening of the WRA's online and telephone helpdesk, which also opened to the public on 20 February 2018.
- 1.18 Given that there were only 18 Landfill Site Operators in Wales and the registration process was more complex, the WRA had previously decided to register LDT taxpayers manually outside the TMS. Registration for LDT began earlier on 23 January 2018.
- 1.19 Following Welsh Government security accreditation of WRA systems on 22 March 2018, the WRA opened the tax return element of the TMS for both LTT and LDT from 27 March. From that date, taxpayers could enter the system and draft LTT and LDT returns, but could not submit a return until 1 April 2018, when the TMS was launched in full.
- 1.20 The WRA completed a series of engagement events with users of the TMS prior to 1 April 2018, including user testing sessions, roadshow events across Wales and England and online webinars. These events included demonstrations of how to register and submit returns on the system. Because of the tight final timetable for delivery of the TMS, the WRA prioritised this engagement work on the tax return element of the system as practitioners would file returns on an ongoing basis, while registration on the system was a simpler, one-off exercise.
- 1.21 The finance system was also developed in time for the WRA to collect devolved taxes. Again, this system can be divided into two parts – corporate finance and tax. The corporate finance element (accounting for WRA operations) was finalised on 1 March 2018, with the tax element (accounting for tax collection) going live on 1 April 2018. There is also an automated interface between the TMS and the tax finance system, minimising human intervention in tax collection and processing.

The WRA prioritised the recruitment of key staff, ensuring all critical roles were filled prior to 1 April 2018

- 1.22 The WRA had 49 FTE staff members in post in April 2018, 14 fewer than originally planned. Recruitment took longer than planned as security vetting took more time than originally thought. The WRA therefore revised its recruitment strategy, prioritising the recruitment of senior management posts (to allow them to shape their teams), and customer-facing roles (to allow the helpdesk to open in February 2018). This ensured that these delays in planned recruitment did not hamper the early key operations of the WRA.
- 1.23 The WRA has also been able to recruit many Welsh-speaking staff, with Welsh speakers currently accounting for approximately one third of its workforce. We review the recruitment of staff beyond 1 April 2018, and the learning and development opportunities provided to them, from [paragraph 1.38](#) below.

The total cost of setting up the Welsh Revenue Authority fell within budget

- 1.24 The Welsh Government initially estimated the implementation costs of the WRA at between £4.9 million and £6.4 million for the three-year period 2016-17 to 2018-19. In our 2017 report, we reported that the budget for implementation costs had been reprofiled, with a total estimated cost of £6.3 million for the two-year period 2016-17 to 2017-18.
- 1.25 The final cost of implementing the WRA can now be confirmed. As [Exhibit 7](#) shows below, the WRA was delivered within this revised budget:

Exhibit 7: breakdown of WRA implementation costs

	Budgeted costs	Actual outturn
2016-17	£1.3 million	£1.275 million
2017-18	£5.0 million	£4.971 million
Total	£6.3 million	£6.246 million

Source: Welsh Revenue Authority

- 1.26 The WRA's first Remit Letter details the WRA's operational budget for its first accounting period. The funding allocations are £1.5 million for 2017-18, and £6.0 million for 2018-19, and are in addition to the implementation costs noted above.
- 1.27 The outturn and forecast data available indicates that the WRA expects to meet these allocations. The WRA's operational expenditure in 2017-18 was within budget at £1.497 million, and its management accounts for August 2018 forecast that the WRA will also operate within its allocation for 2018-19.

The WRA's operational guidance was largely in place on 1 April 2018

- 1.28 Operational guidance for taxpayers and practitioners is available through the WRA website⁴. All necessary guidance for LTT and LDT was drafted and approved by 1 April 2018, but publishing delays led to some guidance documents not being formally produced until April 2018. The WRA therefore prioritised the publication of guidance that practitioners were more likely to need in April, with users able to contact the WRA helpdesk to request draft versions of any unpublished guidance. The WRA has produced one version of operational guidance, for use by staff and practitioners alike, to reduce the scope for misunderstandings.
- 1.29 While developing its operational guidance, the WRA sought feedback from stakeholders including the Law Society and professional service companies for LTT, and landfill site operators for LDT. To ensure that the guidance properly reflected the meaning of all relevant legislation, the WRA also worked closely with the Welsh Treasury officials who had developed the original LTT and LDT Bills.

Since 1 April 2018 the Welsh Revenue Authority has administered Land Transaction Tax and Landfill Disposals Tax appropriately

The WRA's Tax Management System has operated effectively since 1 April 2018

- 1.30 The TMS has operated effectively since 1 April 2018, with no significant disruptions to its availability. In addition, the interface between the TMS appears to be working well, with data transferred between the systems every hour.
- 1.31 The number of registered TMS users has increased over time, growing from 1,200 registered users in April 2018 to over 5,300 in October 2018. More than 97% of LTT and LDT returns are now filed online.

4 <https://beta.gov.wales/welsh-revenue-authority/guidance-and-services>

- 1.32 The WRA has contracted the same supplier that developed the TMS to provide ongoing system support from April 2018. Given the tight deadlines for the development of the TMS, and the fact that the system is bespoke, it would have been risky for the WRA to choose another supplier. However, the support contract can be cancelled at any point at short notice, allowing the WRA flexibility in determining its future support needs. It will be important for the WRA to develop appropriate strategic partnerships with digital suppliers, to ensure that systems are developed and maintained efficiently and effectively in future.
- 1.33 Since April 2018, the WRA and its supplier have made minor updates to the TMS to improve functionality or fix issues. The WRA plans a programme of work for the supplier to develop more detailed system changes, based partly on the feedback obtained from users on its operation to date. The WRA has deliberately waited to enact significant changes to the TMS (compared with those changes required to keep the system in operation) to ensure that the system could operate effectively in the short term, and to ensure that feedback obtained represented the views of most users.

The Welsh Revenue Authority has responded appropriately to internal and external feedback by making relevant changes to its processes and guidance

- 1.34 The WRA has received generally positive feedback from Tax Forum meetings and other customer contacts on its operations. Early indications suggest that customers are pleased with the quality of assistance provided by the helpdesk, and that they receive detailed responses to queries.
- 1.35 The WRA has established methods to plan amendments to its systems and processes. WRA staff record internal and external feedback on its processes, consider any consistent themes arising from the feedback, and raise 'change requests' where required. As **Exhibit 8** shows, these change requests are then considered as appropriate:

Exhibit 8: consideration of change requests

Name	Authorised actions
Change Team	This team receives all change requests and authorises changes where they are judged to be beneficial and can be implemented at no cost.
Change Control Group	This group receives change requests referred by the Change Team which need further consideration, and can approve change requests that have no cost commitment.
Change Portfolio Committee	This Committee reviews any remaining change requests referred by the Control Group that have a cost commitment and prioritises them in line with its strategy and available finance.

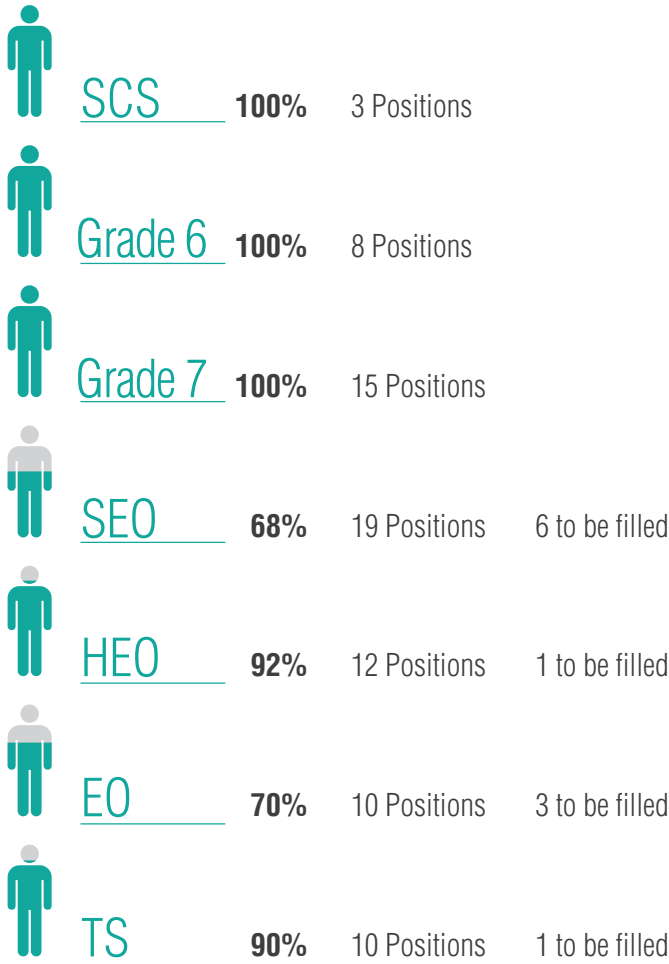
Source: Wales Audit Office

- 1.36 The WRA has responded promptly to customer feedback. For example, in May 2018, many Landfill Site Operators informed the WRA that topsoil did not qualify for site restoration relief under law, despite environmental regulations requiring its use. In October 2018, the National Assembly agreed to amend the Landfill Disposals Tax (Wales) Act 2017, allowing this relief to be claimed on topsoil taken to landfill.
- 1.37 In response to user feedback, the WRA has also reflected on and, where appropriate, amended its operations. For example, the WRA identified that a high proportion of queries it received were in respect of LTT higher rate transactions. In response, the WRA has arranged three webinars on the topic of LTT higher rates to provide advice and support to practitioners.

Recruitment has continued at an appropriate rate to maintain the WRA's operations

- 1.38 The WRA's recruitment strategy continues to be flexible and responsive to business need, with an estimated 30% of all staff being employed on a loan basis once initial recruitment is complete. The WRA expects that the recruitment of all remaining roles will be complete by 31 March 2019. At the time of our fieldwork, 11 vacancies remained out of the total of 77 posts in the organisation (equivalent to 75 FTE staff), as demonstrated in [Exhibit 9](#) below:

Exhibit 9: proportion of posts filled at each level of the WRA



Source: Welsh Revenue Authority

1.39 The WRA has had little difficulty in attracting recruits. On average, the WRA received 18 applications per post, with one recruitment campaign receiving 241 applications. The WRA is a small and specialised organisation and has representatives of 16 out of 28 Civil Service ‘government professions’ within its current workforce⁵.

The Welsh Revenue Authority has delivered training to staff in line with an agreed plan to maintain key operations

1.40 The WRA has prioritised the delivery of training to its staff to match the ongoing development of the organisation. The WRA has adopted a staged approach to the delivery of training (other than induction training for new staff), as outlined in Exhibit 10.

5 ‘Government professions’ are professions recognised within the UK Civil Service, ranging from communicators to engineers, to procurement managers and lawyers.

Exhibit 10: training priorities for the WRA

Priority stage	Training to be delivered
Stage one	Providing operational staff with the knowledge to administer LTT and LDT from 1 April 2018.
Stage two	Addressing any skill gaps of new recruits against job specifications.
Stage three	Enabling the WRA to fulfil its corporate responsibilities in areas like data protection and freedom of information.

Source: Wales Audit Office

1.41 Stage four will shortly commence, with a greater focus on individual personal development needs. This stage will be important to the WRA, as effective development of people and teams should ensure that it can continue to recruit and retain high calibre staff, and this will be a key area of focus for the organisation moving forward. As part of this, the WRA will need to develop a mechanism to evaluate the results of learning and development programmes that it delivers or commissions.

Appropriate arrangements have been made to share data arising from LTT and LDT transactions with stakeholders

1.42 LTT statistical data is published monthly, accompanied by narrative reports every quarter. LDT reports and data are published every quarter. The published data relates to tax due from taxable activity related to the relevant period.

1.43 The WRA provides this data to the Welsh Treasury in the same format as published on its website. The WRA and the Welsh Treasury have worked together to ensure that the data produced meets the Welsh Government's forecasting needs, while ensuring that taxpayer confidentiality is protected by aggregating LTT and LDT data and giving no detail of individual taxpayer transactions.

1.44 Initial indications suggest that the WRA's data is providing useful insight for the Welsh Treasury. For example, the first quarter of LDT data for 2018-19 indicated a significantly higher level of tax revenue than forecast. The WRA data gives the Welsh Treasury the first revenue information relating to landfill in Wales, as no specific Welsh data was available under UK Landfill Tax. On reviewing this data, the Welsh Treasury made the decision to revise its LDT revenue forecast for 2019-20, increasing it by £14 million.

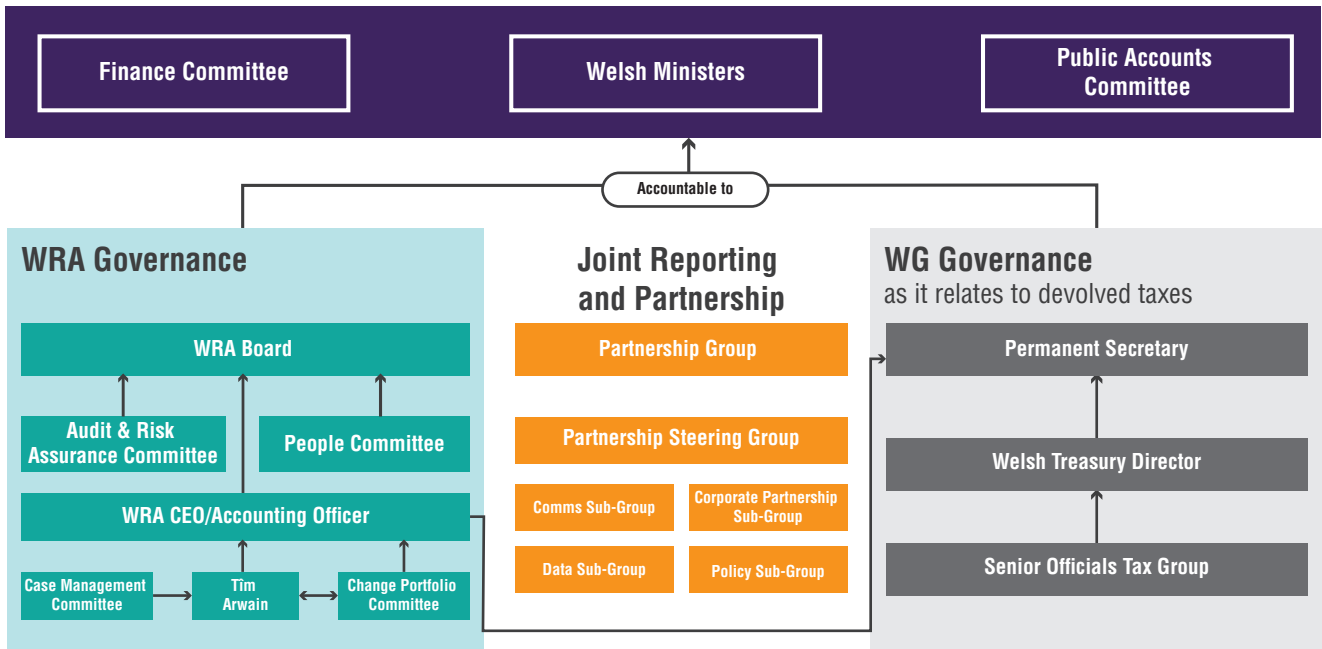
- 1.45 The WRA and Welsh Treasury are also reviewing how to share data most effectively. LTT data used to be published around two weeks after each month-end, but this speed led to significant revisions to this data in subsequent months (as LTT taxpayers have up to 30 days after transactions to submit a return). Consequently, the WRA now publishes LTT data around a week later, reducing the revisions to data to a reasonable level for the Welsh Treasury. The WRA also plans to publish annual data summaries for LDT and LTT in May 2019 and June 2019 respectively, for the Welsh Treasury and the public.
- 1.46 HMRC receives data on LTT and LDT transactions from the WRA on a weekly basis, for use in compliance work and their own statistical releases. The WRA is also liaising with other potential stakeholders to identify what data may be usefully shared in future. The WRA has primarily focused on developing and refining its own datasets, while also ensuring that taxpayer confidentiality is protected. In future, the WRA aims to establish a data user group with all recipients of its data to learn lessons, share relevant issues and receive feedback.

The Welsh Revenue Authority has taken appropriate steps to be able to respond to potential future developments, including working with the Welsh Treasury where appropriate, and has key areas of focus as it continues to develop

The Welsh Treasury and the Welsh Revenue Authority have adopted a joint governance structure for Welsh fiscal devolution that allows both bodies to identify and respond to potential developments

- 1.47 The Welsh Treasury and the WRA have worked together to establish a joint governance structure, ensuring that the working relationship developed under the WRAIP continues as the WRA evolves, while maintaining an appropriate level of independence. This 'joint reporting and partnership' structure is summarised in **Exhibit 11** below.

Exhibit 11: joint WRA/Welsh Treasury governance structure



Source: Welsh Revenue Authority/Welsh Government

- 1.48 As set out in the Framework Document, the Cabinet Secretary for Finance meets the Chair of the WRA at least quarterly to consider the WRA’s performance and to assess how the partnership with the Welsh Treasury is evolving.
- 1.49 There then sits a Partnership Group comprising the Welsh Government’s Permanent Secretary, the Director of the Welsh Treasury and the Chair and Chief Executive of the WRA. The group agreed its terms of reference in July 2018 and meets quarterly to discuss WRA performance and strategy, and seeks to maximise the opportunities for, and benefits of partnership working between the Welsh Government and the WRA. The group can also act as an escalation route where necessary and appropriate, for example, when reviewing services provided by the Welsh Government to the WRA.
- 1.50 Five working groups feed into the Partnership Group as listed in [Exhibit 12](#) below.

Exhibit 12: joint working groups between the WRA and the Welsh Treasury

Working group	Function
Partnership Steering Group	Oversees the four sub-groups below, ensuring that they carry forward an appropriate programme of joint work between the WRA and Welsh Treasury.
Policy	Considers, comments and advises on tax policy across the WRA, the Welsh Treasury and Local Government Strategic Finance.
Communications	Ensures that the internal and external communications of both bodies are consistent, and evaluates communications activity.
Corporate Partnership	Makes the necessary governance and operational arrangements to make joint working a success.
Data	Provides a forum for sharing data issues and best practice, including considering how data collection can be made more consistent.

Source: Wales Audit Office

1.51 This structure allows both bodies to work together, particularly on developing areas such as tax policy and data sharing. The WRA and Welsh Treasury are continuing to clarify these joint governance arrangements as the two organisations evolve. This approach to joint and open working should ensure that both parties maintain their independence but remain well placed to respond in partnership to future tax developments or changes.

The Welsh Revenue Authority has designed flexible systems and processes which will help it to respond to future changes or developments

1.52 The WRA has established appropriate processes to enable regular and detailed assessment of strategic risks. Tîm Arwain (previously called the Executive Committee) prepares and monitors the WRA's Corporate Risk Register, which is periodically reviewed by the WRA's Board and Audit and Risk Assurance Committee.

- 1.53 The WRA's IT systems are fully cloud-based, with no physical infrastructure. Provided staff have access to a secure internet connection, they can work from different locations if needed. This system has already been tested by inclement weather and by an office evacuation in early 2018. In both instances, staff were able to implement contingency plans by working in different locations, maintaining service delivery to customers.
- 1.54 The WRA's finance system is also flexible in nature. The WRA worked with a specialist supplier to develop its own finance software, mapping out the current and potential future needs of the system which were then incorporated into its development. The WRA now has an ongoing support contract with the system developer, which allows it to make required changes to the system quickly and easily.
- 1.55 The TMS is a bespoke system designed specifically for the WRA's operational needs. The system developer now provides ongoing support to the WRA and has already made appropriate changes to fix minor system issues since 1 April 2018. As with the finance system, the support contract with the supplier allows the WRA to make changes to the system when needed.
- 1.56 Given the WRA's relatively small size, staff on loan provide valuable skills and experience. When recruitment is complete, the WRA estimates it will employ 30% of its staff on a loan basis. The WRA is comfortable with maintaining this proportion to keep its staffing structure adequately flexible.
- 1.57 The WRA's Board has established the People Committee which focuses on the recruitment and retention of staff. WRA staff now share certain responsibilities between job roles to transfer knowledge and allow succession planning. This sharing of responsibilities between staff has helped the WRA to manage succession planning, business continuity and has provided opportunities for personal development.

The Welsh Revenue Authority needs to consider some important issues going forward as it develops its three-year Corporate Plan

- 1.58 The WRA's 2018-19 Corporate Plan set out how it proposed to achieve its priorities in its first year of operation. Legislation now requires the WRA to produce a three-year Corporate Plan covering 2019-2022, which must be submitted for approval by the Cabinet Secretary for Finance by 31 March 2019. The WRA's development of this revised Corporate Plan will be critical in shaping its strategic approach.

1.59 We have identified some important areas that the 2019-2022 Corporate Plan will need to cover, as set out in [Exhibit 13](#) below:

Exhibit 13: areas of focus for the WRA's 2019-2022 Corporate Plan

Area of focus	Detail
Definition of the WRA's purpose	The WRA has worked to confirm its organisational purpose. Doing so will set the scope of its strategy and activity in the upcoming three-year period, and the WRA is now carrying out wider engagement on its purpose statement.
Identification of performance measures for the WRA	<p>The 2018-19 Corporate Plan set out potential performance measures for the WRA. The WRA is developing a performance framework to assess progress and address any concerns over the next few years.</p> <p>A notable measure within the framework will be 'reducing tax risk' whereby the WRA is seeking to measure its effectiveness in helping taxpayers pay the right amount of tax at the right time. This would be an innovative performance measure for a tax authority and would need to be carefully designed.</p>
Approach to 'tax risk'	With the WRA now collecting LTT and LDT it will need to develop a strategy for 'tax risk' (the risk that taxpayers do not pay the right amount of tax at the right time). Such an approach would be in line with the 'WRA Approach' set out in its 2018-19 Corporate Plan.
Costing WRA activity	<p>The WRA's budget for 2019-20 has been set at £6 million. At this early stage in its development the WRA is continuing to refine its understanding of its cost base. However, several factors pose financial pressure on the WRA such as forthcoming pay awards, pay scale movements, and increased employer pension contributions.</p> <p>The WRA will need to identify its cost base for 2019-2022 as quickly as possible and agree what activity (if any) will need to be prioritised as part of its corporate plan and the budget that will be made available by the Welsh Government beyond 2019-20.</p>

Area of focus	Detail
Strategy for digital development and support	<p>The WRA has an aspiration to increase its digital capability. As a small organisation, it cannot employ all the digital expertise it needs directly. The WRA will need to establish a strategy combining in-house expertise with input from external suppliers, to ensure that its systems remain in operation and developments can be made as needed.</p>
Development of an internal policy framework	<p>The WRA has adopted most of its internal operational policies directly from Welsh Government equivalents. It has taken a pragmatic approach to developing its own bespoke policies, prioritising areas of work specific to the WRA's requirements or early tax collection operations.</p> <p>The WRA will need to confirm how it intends to develop and confirm its policy framework as the organisation evolves.</p>

Source: Wales Audit Office

Part 2

The Welsh Treasury has appropriate arrangements in place to obtain assurance over HMRC's implementation of Welsh Rates of Income Tax

- 2.1 This section of the report reviews the Welsh Treasury's arrangements to obtain assurance over HMRC's implementation of WRIT. It does not directly consider HMRC's work to implement WRIT, which is the focus of a separate report by the National Audit Office (NAO).
- 2.2 The NAO report will include an overview of WRIT project activities during 2017-18, including the governance of the project and progress on key activities such as taxpayer identification, communications and IT delivery. It will also seek to provide assurance on the costs incurred by HMRC and recharged to the Welsh Government.

Plans are in place to pass the Welsh resolution required to enact Welsh Rates of Income Tax, with the majority of UK legislation already passed

Most of the UK legislation required to establish and enact Welsh Rates of Income Tax has been passed

- 2.3 WRIT is only partially devolved to Wales, and as such Income Tax remains under the administration of the UK Government. Therefore, the majority of legislation required to implement WRIT has been passed by the UK Parliament.
- 2.4 The Wales Act 2014, as amended by the Wales Act 2017, confirms that the National Assembly has the power to pass a resolution to set WRIT. This Act defines a Welsh taxpayer, setting out measures to assess whether an individual is resident in Wales for Income Tax purposes. It then establishes the process for determining WRIT for the basic, higher and additional rates of tax.
- 2.5 Despite the Wales Act 2014 establishing the concept of WRIT and defining its processes, further technical changes to UK legislation are required. These changes reflect areas where the National Assembly's new rate-setting powers interact with other areas of the Income Tax system (such as Gift Aid and pensions tax relief). Following a technical consultation process on these areas, HMRC introduced two statutory instruments in December 2018 which are expected to be passed by the UK Parliament in January 2019:
 - a The Devolved Income Tax Rates (Consequential Amendment) Order 2018
 - b The Income Tax (Pay as You Earn) (Amendment No.2) Regulations 2018

The National Assembly for Wales will consider a motion to approve Welsh Rates of Income Tax in January 2019

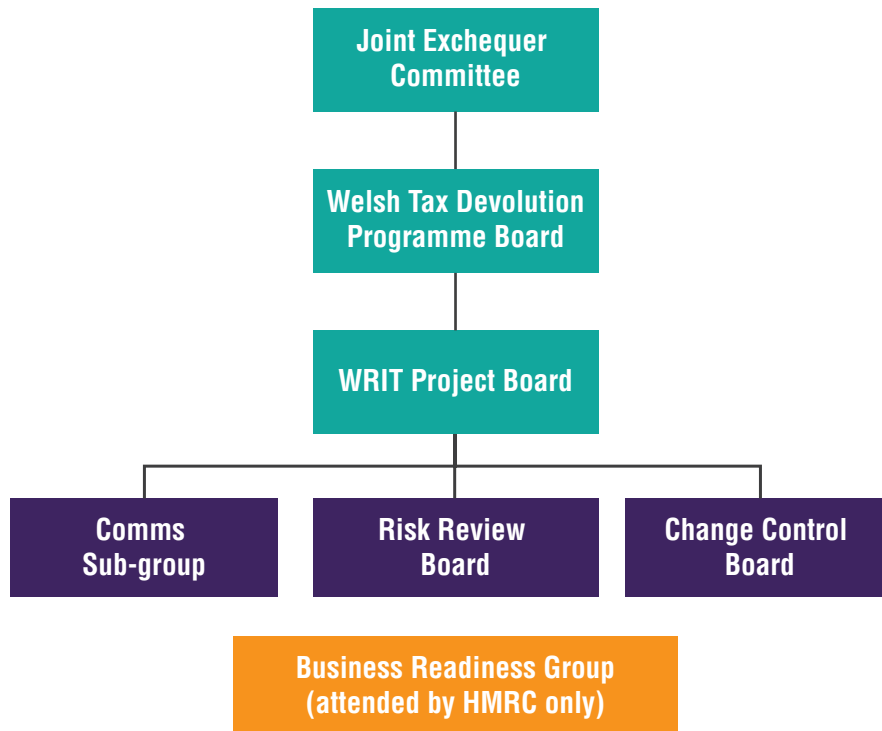
- 2.6 The Wales Act 2014 requires the National Assembly to pass a resolution determining WRIT each financial year. Under National Assembly Standing Orders, the WRIT resolution must be passed prior to the annual Budget Motion being agreed each year. Consequently, for 2019-20 the National Assembly will consider a WRIT resolution at a plenary session in January 2019, immediately before voting on the annual Budget Motion. The Cabinet Secretary for Finance proposed the first Welsh rates as part of the draft Budget published on 2 October 2018.
- 2.7 This resolution, if approved, will formally enact WRIT from 6 April 2019 and no further legislation will be required, unless there are further changes to wider UK tax legislation. While the Welsh Treasury currently does not foresee any delays to this resolution being approved, any issues could impact on HMRC's WRIT project, by limiting the time available to process WRIT changes in its own systems.

The Welsh Treasury is actively participating in governance arrangements to transfer responsibilities for Welsh Rates of Income Tax to Wales

HMRC has established a project to set up WRIT and the Welsh Treasury attends the Project Board

- 2.8 The Welsh Treasury and HMRC established the Welsh Tax Devolution Programme Board in July 2017. This Board provided senior oversight of the Stamp Duty Land Tax and Landfill Tax Transition Boards during preparations for the introduction of LTT and LDT and continues to provide oversight of the WRIT Project Board. The WRA is not involved in the governance or administration of WRIT.
- 2.9 In December 2017 a Memorandum of Understanding was agreed between the Welsh Government and HMRC, setting out the respective procedures, processes and responsibilities for the establishment and operation of WRIT. The governance structure set up for the WRIT project is illustrated in [Exhibit 14](#) below.

Exhibit 14: WRIT project governance structure



Source: Welsh Government

- 2.10 Once the Welsh Tax Devolution Programme Board has determined that the WRIT Project Board has delivered its objectives, HMRC and the Welsh Treasury will approve the transition to WRIT in spring 2019, with an exchange of Ministerial letters then following.
- 2.11 Once WRIT is ready to be established in April 2019, the Welsh Treasury and HMRC will confirm a Service Level Agreement setting out the arrangements for the ongoing administration of WRIT. The WRIT Project Board has begun considering the detailed requirements of this Service Level Agreement, which will need to be finalised by 6 April 2019. The future governance structure for the administration of WRIT from 2019-20 will also need to be confirmed.

The Welsh Treasury uses the project's governance structure to influence discussion and raise matters of concern

- 2.12 The WRIT Project Board meets monthly and is attended by officials from HMRC, the Welsh Treasury, the Wales Office and the Department for Work and Pensions. These meetings provide oversight of the detailed work and delivery of the project and provide an opportunity for all parties involved to review progress, scrutinise and challenge as appropriate.

- 2.13 Since June 2018 the Welsh Treasury has introduced an update paper as a standing item to WRIT Project Board meetings. These papers set out the latest developments since the previous meeting, including any communications with and feedback from the Cabinet Secretary for Finance and the National Assembly. This standing item ensures that the Welsh Treasury can raise issues and areas of concern and that required actions are captured and addressed.
- 2.14 The WRIT Project Board can escalate any matters of high risk or concern to the Welsh Tax Devolution Programme Board for further consideration or action. The Director, Welsh Treasury and Deputy Director of Tax Strategy, Policy and Engagement attend these meetings and can raise specific concerns from the Welsh Treasury in this forum.
- 2.15 In addition to scheduled meetings there is regular informal contact between officials from HMRC and the Welsh Treasury to raise immediate issues and generally co-ordinate the WRIT project. Welsh Treasury officials consider that good working relationships have been established at all levels to support the smooth transition to WRIT.

The Welsh Treasury is obtaining appropriate assurance over HMRC processes to identify Welsh taxpayers

HMRC has established methods to identify Welsh taxpayers and has shared them with the Welsh Treasury

- 2.16 With overall authority to administer income tax, HMRC has responsibility for identifying Welsh taxpayers from 6 April 2019 and beyond. The Welsh Government notes the correct identification of Welsh taxpayers as one of its priorities for the successful implementation of WRIT.
- 2.17 Taxpayer identification is not a one-off exercise before 6 April 2019. The Office for National Statistics estimates that around 57,000 people move to Wales each year, with a similar number leaving. This compares to roughly 40,000 in each direction for Scotland. With such large-scale cross-border movements, the WRIT project needs to ensure that HMRC has systems in place to accurately identify Welsh income taxpayers over time.
- 2.18 HMRC has established a method to identify taxpayers falling under the scope of WRIT and has identified over two million potential Welsh rate income taxpayers (65% of the Welsh population). This includes people who currently pay income tax, and people who do not but could fall under the scope of WRIT if their circumstances changed. This method involves four stages of work:

- a reviewing the quality of HMRC address data to ensure 91,123 Welsh postcodes are allocated to the correct country in their systems. This will include data cleansing to clear duplicate, missing or incorrect postcodes.
- b analysing 98 cross-border postcodes in detail, to ensure that the 1,090 properties in those postcodes are allocated to the correct country. Ordnance Survey data has been used to verify the correct country to apply in each case.
- c matching HMRC customer records correctly to addresses, to ensure that they are correctly identified as Welsh taxpayers. This includes the review of data from sources such as electoral rolls, employer data and council tax records to confirm whether a taxpayer falls under the scope of WRIT.
- d keeping these customer records up to date over time. HMRC will need to regularly review its customer address data, although a decision on how often this will be required is yet to be taken.

2.19 When implementing the Scottish rate of income tax, HMRC initially failed to identify 420,000 Scottish taxpayers. This issue arose as HMRC performed the third step of this exercise (matching customer records to addresses) using an automated scan of their systems. This scan only identified residential addresses entered in standard agreed formats, omitting those which could be entered manually or through other means.

2.20 HMRC has confirmed to the Welsh Treasury and the WRIT Project Board that this issue should not recur for WRIT, as the parameters of this scan have been set to identify Welsh postcodes entered in all formats.

The Welsh Treasury has sought and obtained advice and assurance over the methods used to identify Welsh taxpayers

2.21 It is difficult for the Welsh Treasury to obtain firm assurance that HMRC's approach to identifying Welsh taxpayers is appropriate. HMRC's systems and data in this area are both bespoke and significant in size and complexity – the need to protect taxpayer confidentiality means that external knowledge of systems is limited. However, the Welsh Treasury has sought appropriate advice and assurance over the methods proposed by HMRC to identify Welsh income taxpayers.

2.22 The Welsh Treasury actively participates in HMRC's project governance structures for WRIT. The Welsh Treasury's WRIT project team attends HMRC's monthly WRIT Project Board meetings where they can directly challenge and scrutinise HMRC's methods to identify Welsh taxpayers. Similarly, the Director, Welsh Treasury and Deputy Director of Tax Strategy, Policy and Engagement can raise higher-level issues or queries at regular Tax Devolution Programme Board meetings.

- 2.23 Further to this, the Welsh Treasury has consulted the Knowledge and Analytical Services (KAS) unit, the statistical and analytical research section of the Welsh Government. On behalf of the Welsh Treasury, KAS reviewed HMRC's proposed methods to identify Welsh income taxpayers. The Welsh Treasury confirm that KAS identified no fundamental concerns with the methods identified to identify Welsh taxpayers.
- 2.24 The Welsh Treasury has also sought additional external assurance over the approach proposed by HMRC in this area. An HMRC Health Check Review was performed in March 2018, followed by an independent Project Assurance Review (PAR) in October 2018. The PAR awarded the WRIT Project a rating of 'amber/green' and did not raise any specific concerns over HMRC's proposed approach to identifying Welsh taxpayers.

The methods used to forecast revenue due to Wales from Welsh Rates of Income Tax are appropriate, and the Welsh Treasury is exploring ways to improve underlying data

The Welsh Treasury forecasted the revenue due from Welsh Rates of Income Tax for the 2019-20 financial year in time for inclusion in the Welsh Government's Budget

- 2.25 The Welsh Government's Draft Budget for 2019-20, published in October 2018, contained an estimate for WRIT revenues of £2.1 billion. This estimate is based on a model developed and refined by the Welsh Treasury for use in policy decisions and budget forecasting. The WRIT forecasting model uses HMRC Survey of Personal Incomes (SPI) data for Wales, and Office of Budget Responsibility (OBR) forecasts of wages and employment growth for the UK. The OBR growth rates are applied to the SPI data to generate projected WRIT revenues. As there is no growth forecast data specific to Wales, the UK-wide forecast is used.
- 2.26 The WRIT forecasting model has the capacity to consider the impact of behavioural changes when tax rates change. As the Welsh Government has already committed to maintaining WRIT at the same level as UK income tax rates for 2019-20, it anticipates that any behavioural changes arising from the introduction of WRIT should be minimal that year. The Welsh Treasury will need to consider behavioural changes if WRIT rates do diverge from the rest of the UK. Behavioural change impacts on WRIT revenues could be complex to predict, especially in the early years, as the empirical evidence base is limited. In addition, the existing cross-border economic flows in both directions between England and Wales are significantly higher than those between England and Scotland.

Bangor University has provided assurance over the forecast of revenue due from Welsh Rates of Income Tax during 2019-20

- 2.27 This is the second year that Bangor University has provided independent assurance over Welsh Treasury fiscal forecasts, but the first year that those forecasts have included WRIT. In October 2018 Bangor University published their scrutiny report alongside the Welsh Government's Draft Budget for 2019-20, concluding that 'the forecasts are based on robust and appropriate methodologies and assumptions'.
- 2.28 In July 2018 the Cabinet Secretary for Finance announced that from 2020-21 the OBR will produce independent forecasts of tax revenues, including WRIT, for the Welsh Government Budget. This is in line with the agreed Fiscal Framework between the Welsh and UK Governments. However, as part of this relationship with the OBR, Welsh Treasury officials will continue to have an important role in preparing initial forecasts for Welsh taxes. The Welsh Treasury aims to agree a revised Memorandum of Understanding with the OBR on the arrangements for providing these forecasts by March 2019.

The Welsh Treasury uses the most recent data available in its WRIT forecasts, and is exploring ways to further improve that data

- 2.29 As noted in [paragraph 2.24](#), WRIT forecast models use HMRC SPI data specific to Wales. Welsh Treasury officials have confirmed that this is the best data source available for analytical purposes. The OBR uses SPI data at a UK-wide level to prepare their forecasts for the UK Government. HMRC confirmed to the National Assembly's Finance Committee in October 2018 that they aim to ensure that the Welsh Government and UK Government both have access to the same data for policy analysis and forecasting.
- 2.30 The most recent SPI data available is from 2015-16, and OBR growth rates are then applied to obtain the projected tax revenue from 2015-16 to the end of the forecast period. There is a delay in the availability of the SPI due to the nature of collecting self-assessment data. The data is not then immediately available to the Welsh Treasury as HMRC creates a version of the SPI which protects taxpayer confidentiality.
- 2.31 Welsh Treasury officials have emphasised the importance of obtaining accurate income tax data as early as possible, and Bangor University recommended as such in their October 2018 report. The Welsh Treasury is therefore continuing to liaise with HMRC to identify ways to improve the SPI and obtain it as quickly as possible. It is also considering how to use potential new sources of data in its forecasts, such as real-time Pay as You Earn information from HMRC once 'C' tax codes are introduced.

The total cost of implementing Welsh Rates of Income Tax is yet to be finalised

The total cost of implementing Welsh Rates of Income Tax is estimated at between £7.7 million and £9.7 million, with most of that cost relating to HMRC activity

2.32 The Fiscal Framework, signed by the Welsh and UK Governments, confirms that ‘as set out in the Statement of Funding Policy, the Welsh Government will meet all the net costs of devolution including implementing and operating Welsh rates of income tax’. The Welsh Government is therefore liable for all direct and indirect costs of implementing WRIT. This is further confirmed in a Memorandum of Understanding between the Welsh Treasury and HMRC.

2.33 Consequently, the Welsh Treasury is actively monitoring all the costs of implementing WRIT. At November 2018 the total cost of implementing WRIT was estimated at between £7.7 million and £9.7 million, with actual costs of £4.1 million accrued to date. This leaves £3.6 million to £5.6 million of implementation costs to be incurred over the remainder of 2018-19 and 2019-20. The majority of this total related to HMRC’s work on this project, as outlined in [Exhibit 15](#) below.

Exhibit 15: a summary of WRIT project costs payable by the Welsh Treasury

Project costs incurred by:	Minimum estimated cost	Maximum estimated cost
HMRC	£7,500,000	£9,500,000
DWP	£189,000	£189,000
Welsh Treasury	£36,000	£41,000
Total cost for WRIT project	£7,725,000	£9,730,000

Source: Welsh Government

2.34 HMRC initiated its WRIT project in April 2017. In September 2017, it provided an initial estimate of its project costs of between £5.0 million to £10.0 million to the National Assembly’s Finance Committee. HMRC explained that this range of costs included a contingency to account for the risks and uncertainty of estimating at such an early stage of the project. In October 2018, HMRC refined this total project cost estimate to between £7.5 million and £9.5 million, as recorded above.

2.35 The costs for DWP relate to amendments to its own systems and processes arising from WRIT, while the Welsh Treasury’s internal costs relate to engagement and awareness activity. HMRC then incurs various categories of WRIT project costs as outlined in [Exhibit 16](#).

Exhibit 16: a summary of HMRC’s WRIT project costs

Cost	Description
Staff costs	The cost of HMRC staff resource required to deliver the WRIT project, calculated using HM Treasury guidance in ‘Managing Public Money’.
Other non-IT costs	The cost of activity to enhance public awareness of WRIT (primarily the printing and posting of notification letters to taxpayers).
IT implementation costs	The cost of IT changes needed to recognise Welsh taxpayers, identify changes of address, and set Welsh rates of tax.
Business costs	The cost of HMRC staff resource required to deal with customer contact arising from public awareness activity.

Source: HM Revenue & Customs

2.36 While the estimate range had narrowed, there remained some uncertainty surrounding certain future costs. For example, the scope of work required to incorporate WRIT into existing systems for areas such as Gift Aid and pensions tax relief had yet to be finalised.

2.37 Furthermore, some of these outstanding changes to HMRC’s Income Tax systems will need to be implemented for both the Welsh and Scottish income tax regimes. The Welsh and Scottish Governments, along with HMRC, will need to agree how to share these costs and so the final costs for Wales resulting from these changes cannot yet be confirmed. These costs should form a relatively minor proportion of the total implementation costs.

2.38 On an ongoing basis beyond 6 April 2019, HMRC currently estimates its ongoing costs of running WRIT to be £0.3 million per year. These costs relate to HMRC establishing and maintaining an ongoing compliance regime for WRIT.

The Welsh Treasury has sought appropriate advice and assurance over HM Revenue & Customs' cost estimates

2.39 It is difficult for the Welsh Treasury to directly confirm the reasonableness of HMRC cost estimates, as costs relate to HMRC's own highly-customised systems and processes. Given HMRC's legal requirements to protect taxpayer confidentiality, any external knowledge of its systems and processes is limited. Despite this, it has taken reasonable measures to obtain assurance over the cost estimates provided by HMRC.

2.40 Firstly, the governance structure established by HMRC to oversee the implementation of WRIT allows the Welsh Treasury to directly scrutinise and challenge cost estimates put forward by HMRC. For example, once the revised October 2018 estimate was produced, members of the Welsh Treasury WRIT project team had the opportunity to discuss this estimate at the October meeting of the WRIT Project Board. Higher level challenge can also be offered at meetings of the separate Tax Devolution Programme Board.

2.41 The Welsh Treasury consulted the Welsh Government's Solution Design Authority (a strategic group that oversees all ICT/Digital spend) on how to appropriately scrutinise technical changes and related costs proposed by HMRC. The advice provided was that employing technical architecture expertise to scrutinise work performed by HMRC would be prohibitively complex, expensive and add little value, particularly as the Welsh Treasury's WRIT Team had added an ICT expert.

2.42 In addition to bolstering the WRIT team's capability, the Welsh Treasury has sought internal and external assurance over the processes followed by HMRC to identify and estimate its WRIT project costs. HMRC carried out an internal Health Check Review in March 2018, which was followed by an independent Project Assessment Review (PAR) covering HMRC and the Welsh Treasury in October 2018. The most recent PAR raised no specific issues on the reasonableness or accuracy of project costs estimated by HMRC.

2.43 HMRC also follow detailed internal assurance processes to scrutinise its project costs and ensure that they accurately represent work completed. This process has been openly shared with the Welsh Treasury, to allow it to question and challenge the approach taken. Among other measures, HMRC's assurance process includes:

- a review of market information and trends, and contractual arrangements,
- b three levels of internal review of each 'change notice', notifying the Welsh Treasury of costs incurred on the WRIT project; and
- c final approval of all change notices by HMRC's Architectural Review Board.

Plans to engage with the public are clear, proportionate and identify measures of success clearly

The Welsh Treasury and HM Revenue & Customs are working together effectively to deliver communications regarding Welsh Rates of Income Tax

- 2.44 The WRIT Communications Working Group operates as a sub-group of the WRIT Project Board. Comprised of officials from HMRC, Welsh Treasury and other stakeholders, this group meets monthly to co-ordinate and monitor progress against the separate WRIT Communications Plans produced by the Welsh Treasury and HMRC. The working group aims to co-ordinate these separate plans to avoid duplication of effort.
- 2.45 In June 2018 the Welsh Treasury finalised its WRIT Communications Plan. This is a living document, regularly updated by the Welsh Treasury communications team to reflect decisions made and actions delivered. It outlines the key messages to disseminate, the audiences to focus on and a timetable of communications activity.
- 2.46 The Communications Plan identifies areas of joint working with partners such as the Welsh Government Communications team and Press Office to spread messages about WRIT most appropriately across all stakeholders. The WRA has also been consulted to ensure that, if taxpayers contact it about WRIT, they are told to instead contact HMRC directly.

Survey results will allow the Welsh Treasury to measure public awareness of Welsh Rates of Income Tax over time and plan future communications activity

- 2.47 The Welsh Treasury commissioned Beaufort Research to undertake a baseline survey, allowing it to assess the impact of its communications plan over time. This survey established a baseline of awareness of the Welsh tax landscape and WRIT, based on 1,006 interviews undertaken in June 2018. Results showed that 24% of the Welsh population were aware of the introduction of WRIT, and that awareness is greater among older people.

2.48 The Welsh Government KAS unit reviewed this research, combining it with data from sources such as the National Survey for Wales to publish a baseline report on awareness of WRIT which is due to be published in early 2019. This research has been considered as part of the Welsh Treasury's WRIT Communications Plan, in terms of monitoring the success of communications work and identifying key audiences for future activity. Beaufort Research will conduct a new survey in March 2019, providing an opportunity to assess whether there is increased public awareness of WRIT in Wales.

Measures to engage with the Welsh public are reasonable and strike an appropriate balance between activity and cost

2.49 In November 2018, HMRC issued a bilingual notification letter to over two million individuals in Wales who could be affected by WRIT. The letter confirmed that WRIT would be introduced from 6 April 2019, and that individuals would not need to take any action unless they moved home or had their main residence outside Wales.

2.50 This letter enclosed a bilingual leaflet from the Welsh Treasury to provide further information on WRIT. The Welsh Government communications team conducted user testing of the leaflet with three different demographic groups to confirm its appropriate format and level of detail. The WRIT Communications Working Group reviewed the letter and leaflet once drafted to ensure consistency in the messages delivered by HMRC and the Welsh Treasury.

2.51 The Welsh Treasury has also contracted an external agency to manage a social media campaign to grow public awareness of WRIT, based on the theme of 'My Tax My Wales'. The campaign involves two 'bursts' of activity on the Twitter social media platform: one in October 2018 (around the release of the draft Budget) and the second in February 2019. Initial evaluation of the first burst of social media activity indicates that this campaign has reached over 60,000 Facebook users and 30,000 Twitter users.

2.52 In addition, the Cabinet Secretary for Finance has contacted Assembly Members to raise awareness of WRIT. Members have received the Welsh Treasury leaflet, details of the social media campaign and a document of common questions to help them respond to public queries. The Welsh Treasury has also consulted other stakeholders such as employer groups to maximise the reach of their key messages.

2.53 The forecast cost of this activity is relatively minor at between £36,000 and £41,000, as indicated in [Exhibit 15](#) above. The communications plan is relatively limited in scale, as Welsh taxpayers do not need to take any action once WRIT is introduced unless they need to advise HMRC of a change of address. A more extensive communications campaign could potentially have an adverse effect, increasing costs for the Welsh Treasury and HMRC through greater contact from concerned Welsh taxpayers. On balance therefore, the level of communications activity planned by the Welsh Treasury seems appropriate, but the effectiveness of this work will need to be monitored as it progresses.

Appendices

Appendix 1 – Background to fiscal devolution in Wales

Appendix 2 – Methods

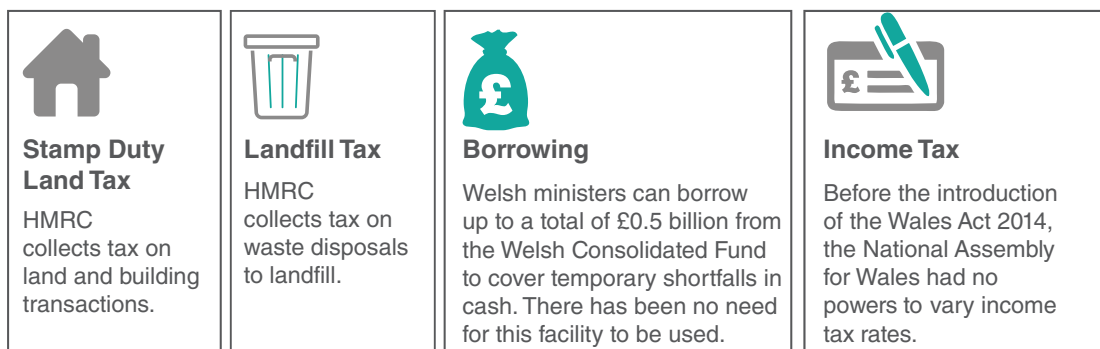


Appendix 1 – background to fiscal devolution in Wales

The Wales Act 2014 devolved certain taxation powers from the UK Parliament to the National Assembly and granted limited borrowing powers to the Welsh Government. The Act empowered the National Assembly to legislate for taxes on transactions involving interests in land and the disposal of waste to landfill for the first time. It also allowed the National Assembly to partially increase or reduce income tax rates (subject at that time to a referendum), extended the circumstances in which Welsh Ministers could borrow to manage the Welsh Government’s budget, and granted Welsh Ministers new powers to borrow for capital expenditure. **Exhibit 17** sets out the changes to the Welsh financial environment arising from this Act.

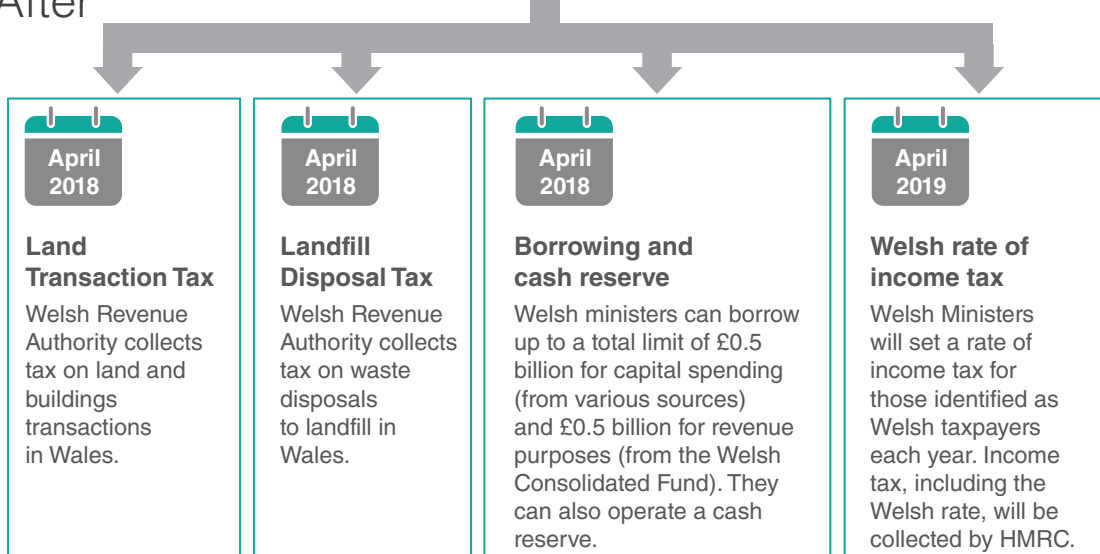
Exhibit 17: taxation and borrowing powers devolved under the Wales Act 2014

Before



Wales Act 2014 (and subsequent legislation)

After



Source: Wales Audit Office

The Wales Act 2014 was followed by a series of Acts passed by the National Assembly, led by the Tax Collection and Management (Wales) Act 2016. Together with the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the Landfill Disposals Tax (Wales) Act 2017, this legislation established the foundations for Wales' devolved tax regime. It established the WRA, the body which collects Land Transaction Tax and Landfill Disposals Tax.

Next, the UK Parliament passed the Wales Act 2017. Among other measures, this legislation amended elements of the previous Wales Act, increasing the maximum borrowing available to Welsh Ministers for capital purposes from £0.5 billion to £1 billion. It also removed the requirement for a referendum to approve the devolution of limited income tax powers to the National Assembly.

A timeline of the relevant legislation passed regarding fiscal devolution in Wales is outlined within **Exhibit 18** below.

Exhibit 18: key legislative milestones for fiscal devolution in Wales



Source: Wales Audit Office

In December 2016, the Welsh Cabinet Secretary for Finance and the UK Chief Secretary to the Treasury agreed a Fiscal Framework for Wales. This agreement confirmed the intention of the UK and Welsh Governments to partially devolve income tax powers to Wales from the 2019-20 financial year. Following the passing of the Wales Act 2017, HM Treasury tabled a statutory Commencement Order in July 2018, confirming in UK law that Welsh Rates of Income Tax would apply for the first time from 6 April 2019.

Appendix 2 – methods

We received an introductory presentation from the WRA which covered:

- the work undertaken to transfer from the WRA Implementation Programme to the WRA between October 2017 and March 2018;
- the current governance structures in place within the WRA, and how working relationships with the Welsh Treasury are being established;
- the WRA's approach to the recruitment and training of staff;
- a summary of the WRA's financial position; and
- key areas of activity since April, and future challenges faced by the organisation.

We also received an introductory presentation from the Welsh Treasury which covered:

- a summary of the methods used to develop tax policy in Wales;
- legislation required to enact LTT and LDT and establish WRIT;
- how working relationships with the WRA are being established; and
- the implementation of WRIT and its areas of focus, including methods to identify Welsh income taxpayers, implementation costs and the forecasting of tax receipts.

We reviewed a range of information during our audit including:

- various items of legislation including the Wales Act 2014, the Wales Act 2017, and other relevant items of UK and Welsh subordinate legislation;
- publicly available information on fiscal devolution in both Wales and Scotland;
- published documents from the Welsh Government and Welsh Ministers;
- the Welsh Government Budget for 2019-20;
- the assurance report on tax forecasts from Bangor University;
- reports from HMRC on the WRIT project, including details of the impact on its IT systems and estimates of project costs;
- minutes and papers from meetings of HMRC's WRIT Project Board, attended by representatives of the Welsh Treasury; and
- minutes and papers from meetings of key elements of the governance structures within the WRA and Welsh Treasury.

Over a two-week period, we also interviewed representatives and officials from the Welsh Treasury (including the Director and Deputy Director) and the WRA (including the Chair and the Chief Executive).

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Llywodraeth Cymru
Welsh Government

9 January 2019

Dear Auditor General for Wales

Response to the report *Fiscal devolution in Wales: an update on devolved Welsh taxes and Welsh rates of income tax (20 December 2018)*

I would like to thank you for this report. I am pleased that our progress over the past twelve months has been recognised, and I very much welcome the identification of the areas of focus made by the Wales Audit Office (WAO). We are confident that our future efforts are aimed in the right direction.

Engagement between the WAO and the Welsh Government has been active and constructive throughout the three reviews which have now taken place, and we are grateful for the collaborative relationship we have had with the WAO throughout this period.

As the report rightly identifies, we have achieved a great deal over the past few years and the work of the WAO through their formal reviews and continued engagement has provided valuable external input into a high profile and new area of capability for Wales.

Yours sincerely

Andrew Jeffreys
Director
Welsh Treasury

c.c. Minister for Finance and Trefnydd
Chair of the NAW Finance Committee
Chair of the NAW Public Accounts Committee



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Response to the Report of the National Assembly for Wales Public Accounts Committee Report on Informatics Systems in NHS Wales.

The Welsh Government acknowledges the findings of the report and offers the following response to the five recommendations contained within it.

Recommendation 1 – We recommend that the Committee receives six monthly updates from the Welsh Government on progress in implementing the digital recommendations in the Parliamentary Review and the Auditor General’s report in order to enable us to revisit these issues at a later date.

Accept – We recognise the Committee’s concerns and we have initiated actions to improve the pace of delivery, most of which were already in train ahead of the Committee’s final report. The Committee has recognised that evidence gathering by the Wales Audit Office for its Review began some 2 years ago and since that time, a number of improvements in our whole system governance of informatics programmes and digital change have been put in place.

The National Informatics Management Board was repurposed to ensure a focus on how the Health Boards and NWIS were working together to improve the delivery of the agreed *Informed Health and Care: a digital strategy for health and care* and this was reflected in the evidence provided to the Committee. In addition, the Committee will be aware of the commitment to increase investment in and focus on digital and informatics contained within *A Healthier Wales* which was issued earlier this year as the joint health and social care long term plan for Wales. This was in response to detailed commentary from the Parliamentary Review about digital opportunities and progress and informed by engagement across service users and providers.

I would expect that regular reporting will give the Committee an opportunity to see progress in respect of the recommendations in the Parliamentary Review and the Auditor General’s report. In addition to Welsh Government making additional investment available, within six months the three-year National Informatics Plan will be in place and the reviews of the digital architecture and governance of informatics in NHS Wales will have been completed.

Recommendation 2 – The Committee was also very concerned by the evidence we heard on system outages, infrastructure and resilience. Given recent evidence of further outages since we took evidence, we would like further assurance from Welsh Government that the systems are resilient. We recommend the Welsh Government set out a clear timetable for putting the digital infrastructure of NHS Wales on a stable footing.

Accept– As would be expected, I can assure you that critical systems are regularly and routinely tested to ensure that they are fit for purpose. Data centre services in Wales are provided within a quality environment that has been independently accredited to ensure that standards meet ISO requirements. The last accreditation was in September 2018 and all ISO accreditations are up to date.

The Committee will wish to be aware that NWIS is putting greater focus on undertaking routine maintenance (e.g. firmware upgrades) and in undertaking upgrade activities outside of core working hours. In the past five years £9.3m in additional funding has been provided by Welsh Government to fund essential replacements. NWIS is developing a business case to secure additional funding to reduce the likelihood of further downtime. We also expect each Health Board and Trust to have appropriate business continuity plans in place, including the use of the Joint Emergency Services Interoperability Principles for managing major ICT or cyber security incidents.

Welsh Government will continue to prioritise funding towards critical systems and this will be reflected in the three-year all-Wales National Informatics Plan which will go to the National Informatics Management Board (NIMB) in December. This will be further informed by the output of the architecture review due to commence early in the New Year. We will expect each Health Board and Trust's Integrated Medium Term Plan (IMTP) to reflect this nationally agreed agenda.

Recommendation 3 – In the discussions on the use of Cloud computing and the impact of recent outages, it was deeply concerning that, when many consumer systems appear to have very robust performance and up-time, the NHS in Wales is struggling to run its own data centres with 21 outages in the first 6 months of 2018 – one outage every 9 days. The Committee recommends a review of the senior leadership capacity in terms of skillset and governance within both NWIS and the wider NHS Digital Team.

Accept–The “Use of Cloud” Task and Finish Group developed guidance for the use of Cloud services in NHS Wales. This guidance encourages the use of cloud services alongside traditional software and infrastructure deployment models within the business case process and in April 2018, the NHS Wales Informatics Management Board, which includes representatives of Welsh Government, NWIS and each health board and trust in Wales, approved the guidance document for publication.

NWIS has worked on the adoption of new cloud services for several years and currently supports more than 10,000 users, using Microsoft Office 365 cloud services for email, file storage, Skype and other services. NWIS is also supporting Health Boards who are working on using PowerBI (Business Intelligence services) using the Cloud. One of the suppliers of GP systems for NHS Wales (is using ‘UKCloud’ to host the systems for its GP practices.

In addition to this, NWIS has worked with Microsoft and NHS Wales organisations over the past 18 months to put the underpinning systems in place to allow NHS Wales organisations to be able to consume cloud services from Microsoft Azure.

We are committed to significantly increase investment in digital infrastructure, technologies and workforce capacity, supported by stronger national digital leadership and delivery arrangements, as already promised in *A Healthier Wales*.

The Committee will also be aware of the commitment in *A Healthier Wales* to review hosted national functions, which includes NWIS, with the aim of consolidating national activity and clarifying governance and accountability. This was discussed in evidence to the Committee.

The leadership requirements across the whole system are a feature of the review of governance of informatics which will report to Welsh Government in January. This review, started earlier this year, has interviewed around one hundred people engaged in digital leadership and informatics management, including clinicians, across the NHS and will report early in the New Year. This action was already in place in advance of the Committee's recommendations, generated by the Parliamentary Review. Importantly this will be a whole system review and not limited to a review of NWIS capability and capacity.

Recommendation 4 – NWIS is currently overstretched and improvement requires far more than simply pouring more money into the existing organisation, which is unlikely to achieve significantly different results. We recommend that any additional funding apportioned to NWIS needs to be tied to reorganisation to achieve the improvements that are required.

Accept – We have always recognised the complexity and the challenges in delivering our vision of a single electronic record and previously accepted the WAO recommendation earlier this year to commission a review of our approach to building the digital architecture to support this. This work is now in train and will ensure that current market developments are considered as well as providing an overview of the rationale for local v national systems. This will build upon last year's decisions including the agreement to mandate national data repository systems, the setting up of the Welsh Technical Standards Board and to develop plans for a "National Data Resource" which will enable us to make a step change in how we capture, manage and use the data that we have across our health and care systems.

These actions as well as the governance review and the establishment of the NHS Executive, as signalled in *A Healthier Wales*, will inform the future shape and structure of informatics in the NHS in Wales and help to respond visibly to the Committee's concerns. The increased investment in digital committed to in *A Healthier Wales* will be advised by the three-year National Informatics Plan.

I trust the Committee will acknowledge that there will need to be continued investment in NWIS for the business-critical support and developments, delivered nationally, for which it is responsible, while these actions are underway.

The Committee will also wish to note that NWIS-driven initiatives have resulted in cost benefits, as well as operational ones. As examples: NWIS negotiations with Microsoft three years ago saved 40% on licensing costs of an Enterprise Agreement; the Picture Archiving and Communications procurement (PACS) saved £15m – against current Health Board-level contract costs; the GP systems and services procurement represents a saving of £1m per year on the core contract cost; and the deployment of a managed-print service across all GP practices is anticipated to generate savings in the region of £4m across the seven-year term. I am content to share further details of value for money in respect of National ICT implementations.

It is important to recognise the responsibility of each Health Board and Trust to work alongside NWIS in the development and delivery of national systems and align their local investment plans to achieve the agreed national vision for an integrated electronic patient record.

Recommendation 5 – We recommend that NWIS looks to increase its work with other public bodies, including those from UK Government. This approach could work on a number of levels, from the sharing of good practice on recruitment to the creation of Government Digital Service which could work across multiple agencies.

Accept - We recognise that sharing of good practice is essential as the NHS in Wales continues to deliver high quality services. This is important when addressing the challenges of recruiting quality staff within the digital space and there are opportunities to share, learn and adapt.

NWIS is increasingly working and exchanging information with other public bodies from within and outside Wales, such as Local Authorities, particularly in the implementation of WCCIS, and with the National Cyber Security Centre at a UK-level.

We also told the committee of Welsh Government engagement with NHS Digital, the Department of Health, the Scottish Government and Northern Ireland. We will facilitate and encourage more engagement, building on existing contacts and example of innovation. This will include engagement with the Digital Health Ecosystem Wales, the multi-stakeholder entity, including health, academia and industry, established under *Informed Health and Care*. The NHS clinical informatics community is also directly represented on the Welsh Government's Digital Transformation Panel.

The Welsh Government works across multiple agencies by working closely with the Office of the Chief Digital Officer to share lessons learned across the wider public sector in Wales.

As referenced above, the NHS's Welsh Technical Standards Board has accepted the GDS Digital Design Principles and the Welsh Government Digital Service Standards to ensure a consistency of approach when developing new services.

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Date issued: 8 January 2018

Dear Nick

Welsh Government response: Informatics Systems in NHS Wales

The clerks have requested my advice on the Welsh Government's response to the Committee's report on NHS Informatics. I understand that a plenary debate has been scheduled to discuss the report.

Overall, the response is positive, with the Welsh Government accepting the Committee's recommendations. The Welsh Government has put in place various reviews related to NHS informatics and is in the process of developing a new National Informatics Plan. While the response is largely focused on what is being reviewed, it highlights positive developments, such as adopting the Government Digital Service design principles. In general, the breadth and depth of the reviews and activity seem to reflect a recognition that significant changes are needed to address the concerns that my predecessor and the Committee have identified.

The Welsh Government has promised a further update in six months. By that time, the reviews should be completed and the Welsh Government will have produced the new National Informatics Plan. The Committee may wish to schedule a session with the Welsh Government during July 2019 to take further evidence on the basis of that update. No doubt the Committee will want further assurance that, following what has now become a lengthy period of review, the Welsh Government and wider NHS will act with urgency to put in place the resources and practical changes needed to improve informatics across the whole system. The Committee may also wish to check with the Welsh Government whether it intends to publish the findings and recommendations from the reviews or share them with the Committee.

The Committee identified significant concerns about data outages. The Committee may wish to request that the Welsh Government provide comparative information, showing whether the number/severity of data outages has reduced, as part of its update in six months.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Adrian', with a horizontal line underneath it.

ADRIAN CROMPTON
Auditor General for Wales

Agenda Item 5

By virtue of paragraph(s) vi of Standing Order 17.42

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Agenda Item 7

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Agenda Item 8

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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Welsh Government Financial Support for Business



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 2006.

The Wales Audit Office study team comprised Alastair McQuaid, Chris Pugh, Philippa Fido and James Ralph under the direction of Matthew Mortlock.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary report

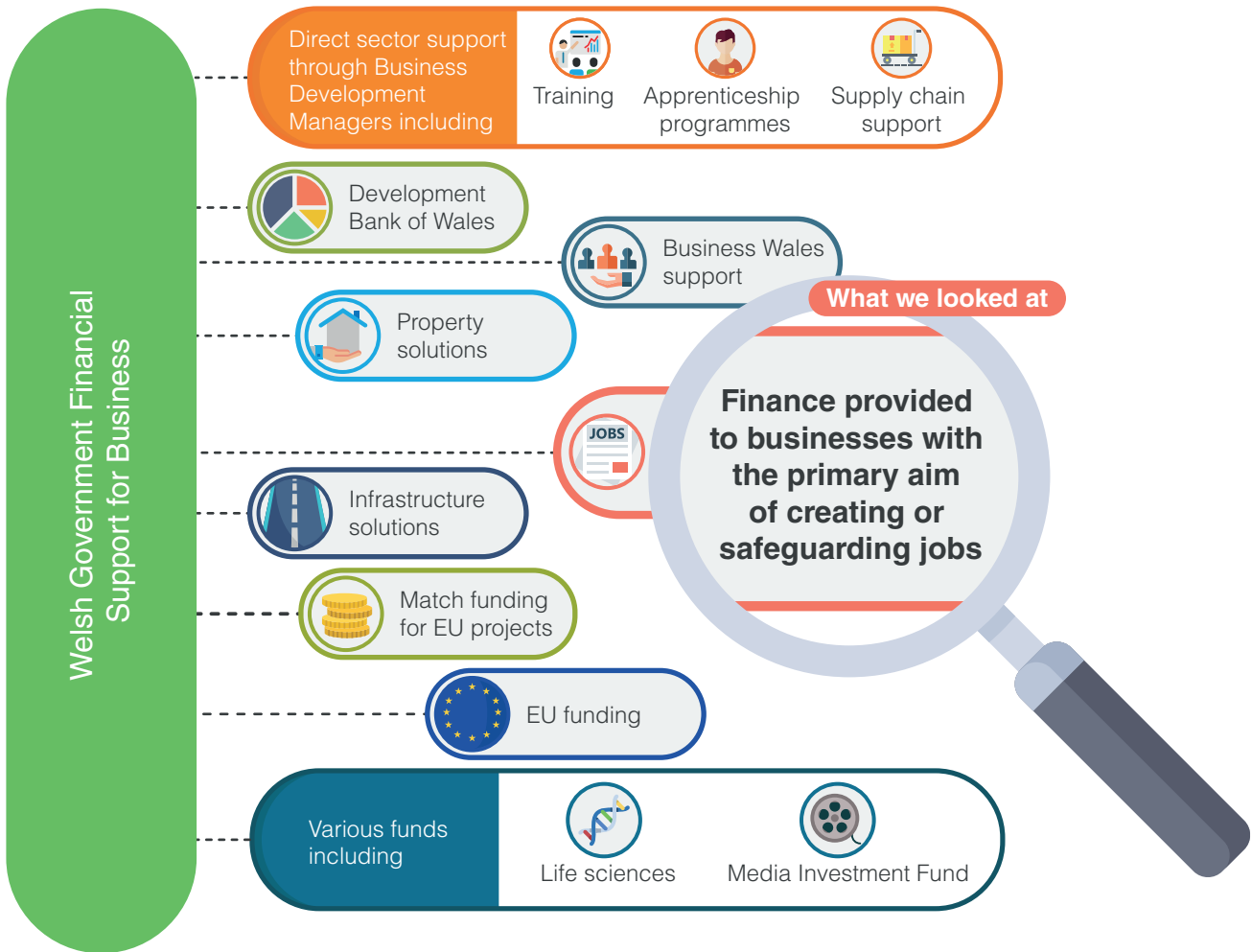
Summary

- 1 The Welsh Government published **Economic Renewal: a new direction** ('Economic Renewal') in July 2010. 'Economic Renewal' outlined the Welsh Government's wider approach to the Welsh economy and, within this, its strategic approach to providing financial support to businesses. The Welsh Government would target public grant, and increasingly loan, funding at companies it identified as having potential for achieving significant impact in nine key economic sectors.
- 2 Over recent years, the Welsh Government has highlighted specific projects it has provided funding to, which have successfully created or safeguarded jobs in Wales (**Appendix 3**). However, the Auditor General, the National Assembly's Public Accounts Committee (PAC) and the media have highlighted examples of projects that received Welsh Government financial support but did not deliver the intended benefits¹. Such individual cases have prompted the Auditor General to undertake a broader audit review, to give an overall picture of how well the Welsh Government provides financial support to businesses.
- 3 Various parts of the Welsh Government provide different forms of financial and other support to businesses for a range of purposes² (**Figure 1**).

1 In the course of our routine audit work we will follow up previous recommendations and may undertake specific work to test how measures to address them are working in practice. This report does not follow up previous recommendations made by the Auditor General or by the PAC because the Welsh Government is revising its approach to providing financial support to businesses.

2 The Auditor General has reviewed and reported on various aspects of Welsh Government and EU funding provided to Welsh businesses for different purposes. Most recently, the Auditor General has published a report on EU funding, **Managing the impact of Brexit on EU Structural Funds**, August 2018.

Figure 1: different ways in which the Welsh Government provides financial support to business.



Note:

During the course of our work, the Welsh Government rebranded Finance Wales as The Development Bank of Wales. The Development Bank of Wales supports the economy of Wales by providing investment funds to support businesses through a number of financing options. More information can be found at www.developmentbank.wales

Source: Wales Audit Office analysis

- 4 The Sectors and Business team within the Welsh Government's Economy Skills and Natural Resources (ESNR) Group team administers much of the project finance that the Welsh Government provides directly to individual businesses to create or safeguard jobs. We focused our audit work on this team and reviewed:
- a what the Welsh Government wanted to achieve and how much financial support the Sectors and Business team gave to businesses;
 - b how this financial support to businesses is managed and which types of businesses were supported;
 - c what the financial support achieved and what the Welsh Government has reported about its impact; and
 - d what the Welsh Government is going to do next in making changes to support its new economic strategy.

Of the financial support we reviewed, we identified that during the period April 2014 to March 2017, the Welsh Government agreed nearly £219 million of new support to businesses for jobs, and spent just over £167 million with the aim of creating or safeguarding jobs ([Figure 2](#)).

Figure 2: financial commitments and payments made by the Sectors and Business team to business to support jobs during the period April 2014 to March 2017

Commitments

£218.65M



Total value of offers committed



443

projects committed

404

(approx.)

unique businesses with projects committed



Spend



£167.5M

Amount spent on businesses

530

(approx.)

unique businesses paid



Notes:

1. New commitments are where the Welsh Government approves project funding and a business accepts the offer. The project may extend beyond 2017.
2. Spend is the actual expenditure during the period, some of which is on projects that started before 2014.
3. Unique businesses supported are included as an approximation, as the information provided by the Welsh Government did not enable us to establish exactly how many unique businesses had received financial support.

Source: Welsh Government data

5 We concluded that:

To date, the Welsh Government has focussed upon managing individual projects that support businesses and has not fully translated its vision for economic renewal into a co-ordinated programme, supported by comprehensive information, which clearly demonstrates its contribution towards the vision's objectives. However, the Welsh Government is beginning to overhaul its approach to how it will provide financial support to business in future.

6 In 'Economic Renewal' the Welsh Government set out its vision for supporting and stimulating the Welsh economy and its intent to target public resources on economic priorities, including by providing support to businesses. The Welsh Government undertook to report publicly on its progress towards the vision it set out in 'Economic Renewal', using a range of measures and indicators to show the impact of what it achieved.

7 We found that the Welsh Government has not reported on its financial support for business, across economic sectors and funding mechanisms, against the broad economic renewal objectives set out in 'Economic Renewal'.

8 The Welsh Government did not fully implement the arrangements it identified as necessary to deliver financial support to businesses in the context of the vision it set out in 'Economic Renewal'. Welsh Government officials have suggested that changes in Ministerial priorities and the continued impact of the economic downturn required a different approach in some respects, including less emphasis on repayable finance. The Welsh Government specified priority industry sectors towards which it would target support. However, it also provides financial support to businesses outside these areas and businesses have been unclear about what Welsh Government support is available to them and how to access it.

9 The Welsh Government does not gather the information which we expected to be able to review. Their current information systems do not easily provide a comprehensive total or a consistent breakdown of financial support provided by the Sectors and Business team which would give a full picture of how much financial support is given, how it is given, and what it achieves. Such a picture would inform routine management, support effective scrutiny and accountability, and also aid external reporting.

- 10 At present, evaluating the impact of the Welsh Government's programme of financial support to business, other than at the level of individual projects, is hindered by:
- a information held on incompatible systems that cannot easily be aggregated to produce timely, accurate and comprehensive reports;
 - b budgeting processes that provide flexibility across sectors but do not facilitate routine monitoring and reporting at sector and programme levels or of individual project spend to date; and
 - c the need to implement an approach to managing risk at a programme level, which the Welsh Government is in the process of developing.
- 11 The Welsh Government has replaced 'Economic Renewal' with a new economic vision for Wales, **Prosperity for All**, supported by a new action plan³. As part of this new approach, the Welsh Government intends to implement a revised framework to deliver financial support to businesses, involving streamlined funding mechanisms and fewer priorities.
- 12 The Welsh Government's initial four-year budget, set in 2016-17 was based purely on known commitments, which reduce as existing projects are completed. It does not include estimated future spend. The Welsh Government published a draft revised budget in October 2018, although this is still based only on known commitments.

3 In September 2017, the Welsh Government published **Prosperity for All: the National Strategy** (<https://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>) to support its key policy priorities for the rest of the current Assembly term. Its accompanying **Prosperity for All: Economic Action Plan** contains a new approach for delivering economic regeneration. (<https://gov.wales/docs/det/publications/171213-economic-action-plan-en.pdf>).

Recommendations

- 13 The recommendations below reflect that the Welsh Government is developing a revised approach to how it delivers financial support to businesses in response to 'Prosperity for All' and its accompanying 'Economic Action Plan'. The recommendations are intended to inform the Welsh Government's 'Economic Action Plan' implementation.
- 14 During our audit we encountered difficulties in obtaining timely, comprehensive and accurate information about financial support provided by the Sectors and Business team to create or safeguard jobs. These difficulties highlight the importance of having information management systems and processes that enable the Welsh Government to report on the costs of and contribution made by its financial support to business (and also other funding mechanisms not covered by this audit review) towards achieving the aspirations of 'Prosperity for All' and the objectives of the new 'Economic Action Plan.'

Exhibit 1: recommendations

Recommendations

R1 Risk management

Currently, the Welsh Government's Sectors and Business Team only assesses risk for individual projects in isolation and does not have a defined risk appetite across its programme of providing financial support to businesses. However, the Sectors and Business Team have informed us that they have been developing an approach to risk management with the Welsh Government's Internal Audit Service.

We recommend that the Sectors and Business Team confirm and implement an approach to its risk management and risk appetite to inform overall programme management and individual project selection.

Recommendations

R2 Systems

The Sectors and Business Team uses multiple systems to manage its programme of financial support to business through its sector teams. However, these systems have a number of inherent weaknesses and it is difficult to trace information on the programme of financial support through all of them to create a single comprehensive record.

We recommend that the Sectors and Business Team produce regular and timely comprehensive management information, reconciled to all systems, to support the delivery of its programme of financial support to business. This management information should include:

- Projects with approval information
- Original budgeted allocation
- Expenditure to date
- Current year forecast expenditure
- Current year expenditure
- Outcome information

R3 Financial Management and Forecasting

The Welsh Government's Sectors and Business Team has improved some aspects of financial management. However, there are still areas for improvement relating to overall budget forecasting and spend comparisons.

We recommend that the Sectors and Business Team develop future budgets to provide greater clarity on anticipated expenditure, including both known commitments and estimates of the additional funding available to support new projects.

R4 Reporting outcomes

The Welsh Government's Sectors and Business Team has not yet put in place the framework for measuring and reporting the impact of its financial support to business and how this contributes to its new strategic aims.

We recommend that the Sectors and Business Team produce comprehensive and timely performance reports that facilitate internal and external monitoring and scrutiny at both project and programme level.

Part 1

The Welsh Government did not fully translate its vision for economic renewal into a co-ordinated programme of financial support to businesses



The Welsh Government put a sector team structure in place but, for a number of reasons, did not fully implement other aspects of its economic renewal vision relating to providing financial support to businesses

- 1.1 In 2010, the Welsh Government published 'Economic Renewal: a new direction' setting out its intent to support and stimulate the Welsh economy in response to the economic downturn resulting from the banking crisis of 2008. 'Economic Renewal' sought to meet the challenges facing the Welsh economy by focussing public resources on a number of key economic priorities; one of which was targeting support to business, including providing finance and advice intended to:
 - a reduce the amount of direct financial support;
 - b move to an investment culture based around repayable rather than grant funding;
 - c adopt a sectoral approach focused on priority industries;
 - d build strategic relationships with 'anchor' companies⁴;
 - e offer limited specialised support to businesses; and
 - f improve the way the Welsh Government works with businesses.
- 1.2 The Welsh Government aimed to deliver its economic renewal vision by focussing support on high impact businesses in nine key sectors⁵ (Figure 3).

⁴ Anchor companies' are described in 'Economic Renewal' as high growth firms with the potential to increase employment dramatically and major companies which are important national companies or local employers with extensive supply chains in Wales.

⁵ 'Economic Renewal' identified six key sectors that the Welsh Government felt would have the most impact on the Welsh economy; three further sectors were added subsequently.

Figure 3: Welsh Government sectors



Source: Welsh Government

- 1.3 The Welsh Government's organisation structures and allocations of areas of responsibility have changed several times since 'Economic Renewal' was published and continue to evolve. The Economy, Skills and Natural Resources Group had primary responsibility for 'Economic Renewal'. This document is no longer 'live' but structures and processes to support its replacement, 'Prosperity for All', are not yet in place (Part 4). The Sectors and Business team still has a key role in managing the Welsh Government's financial support to businesses in the priority industry sectors.
- 1.4 Dedicated teams for each sector perform a business development role. These teams demonstrate good operational knowledge and experience of their sectors and develop relationships with businesses. Each sector team has a strategy, developed with advisory panels⁶ setting out how the teams aim to support growth within their respective sectors. However, the sector strategies lacked detail about how financial support is targeted within the sectors. As a result, actual financial support provision to businesses within the sectors has been more responsive than proactive and strategic, as envisaged by 'Economic Renewal'.
- 1.5 The Welsh Government never intended all funding for businesses to be channelled through the sector teams. However, it is difficult to present a full and accurate picture of the Sectors and Business financial support to businesses in a given period. For example:
 - a some projects are funded through the Sectors and Business team's financial allocation but are not managed by the Sector and Business team. For example, some loans are given to businesses through the team, but the Development Bank of Wales undertakes the quarterly reporting on behalf of the sector teams.
 - b some funding awards to businesses in the industry sectors are channelled through a separate Business Solutions team, which provides support to the sector teams, particularly in relation to loans.

6 Each of the sectors had an independent advisory panel. The panels comprised business representatives and worked with sector teams to set strategic direction and provide independent expert advice. The Welsh Government has now replaced the nine sectoral panels with a single panel providing advice.

1.6 The Welsh Government has not implemented all of its priorities in its 'Economic Renewal' vision for targeting its support to business. **Box 1** sets out the extent to which the Welsh Government has implemented the priorities within 'Economic Renewal'. Welsh Government officials have suggested that changes in Ministerial priorities soon after publication of that strategy and the continued impact of the economic downturn required a different approach in some respects. For example, the need to provide finance to businesses on a non-repayable basis. However, the Welsh Government is unable to provide any documents that record the change in policy focus away from some aspects of 'Economic Renewal'.

Box 1: Welsh Government progress against priorities in Economic Renewal

Priority	Progress
Reduce the amount of direct support ⁷	Direct support to business has fluctuated. Expenditure over the three-year period 2014-15 to 2016-17 was as follows: <ul style="list-style-type: none"> • 2014-15: £106 million • 2015-16: £126 million • 2016-17: £117 million
Move to an investment culture	During the period 2014-15 to 2016-17 most of the finance provided to businesses was awarded on a non-repayable basis. Therefore, the Welsh Government has not fully implemented this priority.
Adopt a sectoral approach	The Welsh Government has adopted a sectoral approach. However, it supports projects that do not fit into the sectors and also provides support outside the sector team structure to projects in sector industries. This approach is pragmatic but undermines the rationale for the sectors.
Build strategic relationships with 'anchor' companies	Sector teams have developed relationships with 'anchor' companies.
Offer limited specialised support to businesses	Some specialised support is offered to key businesses through the sector teams' relationships with them.
Improve the way they work with businesses	The Welsh Government has not fully evaluated whether its approach to 'Economic Renewal' has improved how it works with businesses.

⁷ In the context of 'Economic Renewal' direct support refers to financial support provided to business through grants, repayable finance and loans, not all of which are within the scope of this review.

- 1.7 In 'Economic Renewal' and the accompanying implementation plan, the Welsh Government made a commitment to publish reports showing progress towards its vision and the impact it achieved against a framework of indicators. To date, the Welsh Government has not done so comprehensively (paragraphs 3.1 to 3.3). The absence of a clear programme for delivering financial support and of comprehensive reporting, 'weakens accountability for financial support to business' contribution towards achieving the Welsh Government's economic objectives.

There has been a lack of clarity for businesses in what Welsh Government financial support is available and how they can access it

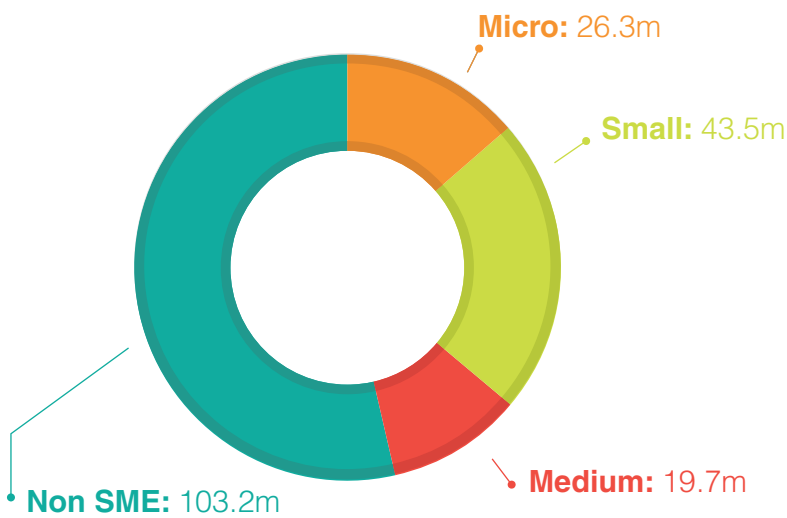
- 1.8 In 2013, the Federation of Small Businesses (FSB) identified a lack of awareness of Welsh Government financial support amongst its Welsh members⁸. However, the FSB's information does not compare levels of businesses' awareness within and outside the Welsh Government's industry sectors. The Welsh Government itself has not evaluated whether its approach to 'Economic Renewal' has improved engagement with and awareness within its target industry sectors and businesses.
- 1.9 Supporting high impact businesses in priority economic sectors was a key component of the Welsh Government's vision set out in 'Economic Renewal'. Sector teams engage with their industry sectors, working primarily with Anchor Companies and Regionally Important Companies⁹. The Welsh Government's Sectors and Business team provides a large proportion of financial support to businesses with whom it has an existing relationship. Businesses that do not have an existing relationship with the Welsh Government have less easy access to Welsh Government financial support through the Sectors and Business Team.

⁸ Small Businesses in Priority Sectors, Federation of Small Businesses. Published in 2013.

⁹ A regionally important company is considered to be of significant importance to the region of Wales in which it is located because of, for example, number of employees, commitment to a skilled workforce, development of the supply chain and investment in a Welsh site. (For 'anchor companies' see Footnote 5).

1.10 Around half of the new finance awarded by the Welsh Government’s Sectors and Business team in the financial year April 2014 to March 2017 was to businesses meeting the European Commission’s definition of small and medium sized enterprises (SMEs)¹⁰. **Figure 4** sets out the commitments for financial support for business throughout the period April 2014 to March 2017, analysed by company size¹¹.

Figure 4: commitments for financial support for business throughout the period April 2014 to March 2017, analysed by company size



Note:

1. Figures exclude open access funding; Welsh Economic Growth Fund and the Growth and Prosperity Fund.

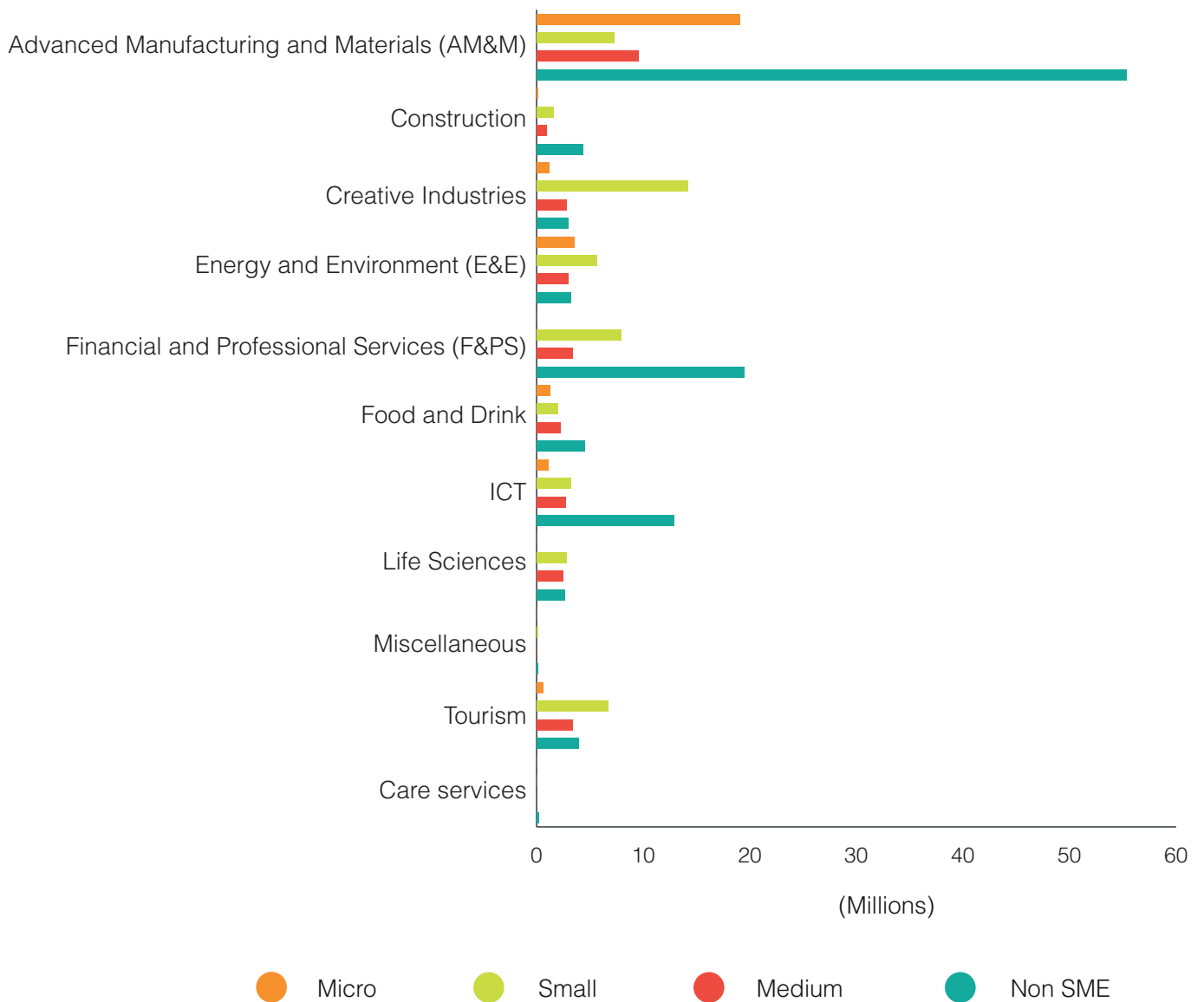
Source: Wales Audit Office analysis of Welsh Government data

1.11 The proportion of businesses meeting the European Commission’s definition of SME varies across the sector teams. Smaller sectors (for example Tourism) predominantly work with SMEs and larger sectors (for example Advanced Materials and Manufacturing) with Non-SMEs. **Figure 5** shows the distribution of financial commitments to businesses between April 2014 and March 2017 by sector.

10 The European Commission User Guide defines micro, small and medium-sized enterprises (SMEs) as enterprises with under 250 employees and an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

11 In respect of Figures, 4 and 5 the Welsh Government also funded two projects relating to business that were classed as either pre start-up or sole trader. The Welsh Government requested that pre-start businesses be included in the medium category (with funding of £128,913) and sole traders into the micro category (with funding of £1,676).

Figure 5: commitments for financial support to businesses April 2014 to March 2017, analysed by sector and company size



Note:

Figures exclude open access funding; Welsh Economic Growth Fund and the Growth and Prosperity Fund.

Source: Wales Audit Office analysis of Welsh Government data

- 1.12 The Welsh Government does not actively promote financial support to business that is available through the sector teams. However, it does occasionally advertise openly in order to invite applications from businesses to access specific funding schemes; for example, the Welsh Economic Growth Fund and the Growth and Prosperity Fund. However, such schemes represent only a small proportion of the total financial support which the Welsh Government provides.
- 1.13 The Public Accounts Committee of the National Assembly (PAC) issued its own report¹² following the Auditor General's review of Welsh Government funding for Kancoat Limited¹³ (**Appendix 3, Figure A4**). In its report, the PAC recommended greater clarity for businesses in relation to the types of finance offered; and for Welsh Government officials in terms of guidance for when finance should be repayable or non-repayable. The Welsh Government's revised approach to providing financial support to businesses should address previous PAC recommendations, but this is still being developed (**Part 4**).

The Welsh Government has not yet implemented an approach to balancing potential risks and benefits that would inform overall programme management and individual project selection

- 1.14 Providing publicly funded financial support to business inevitably involves an element of risk. Decisions about which businesses to support involve balancing political and commercial risks against potential benefits. When supported projects deliver policy outcomes that would not have been achieved otherwise, without support, Welsh Government financial support has added value¹⁴.

12 Public Accounts Committee – National Assembly for Wales, **The Welsh Government's funding of Kancoat Ltd**, February 2017.

13 Auditor General for Wales, **The Welsh Government's funding of Kancoat Ltd**, 14 July 2016.

14 EU law prevents member states' governments providing anti-competitive subsidies to businesses (unlawful State Aid). At present, the extent to which these regulations will continue to be applied by the UK Government following exit from the EU is unclear.

- 1.15 The level of acceptable risk to public funding may be different for business start-ups, expansion, relocation or retention and also different for grants, repayable finance or loans. It is common for private banks and investors to take a programme approach to risks across their investment portfolio in order to manage their overall risk exposure. A coherent approach to taking risks across sectors and funding mechanisms, which is related to the Welsh Government's strategic priorities and objectives, can help the Welsh Government to ensure that at a programme level, loan repayments and project benefits mitigate project failures and financial losses within a reasonable time frame.
- 1.16 The Welsh Government's decisions about funding individual projects are informed by assessments of relevant risks during the application process. These assessments are kept under review because risks can change during the course of a project for reasons beyond the control of the business concerned. However, at present, the Welsh Government assesses risk at an individual project level. There are no processes in place to review individual project risk against a framework or to aggregate this information at a programme level. Therefore, the Welsh Government is unable to articulate levels of acceptable risk for each sector, for types of project, for different funding mechanisms or for the entire business finance programme.
- 1.17 During an audit of financial support for business in May 2016 the Welsh Government's internal auditors issued a report on business finance, with a rating of limited assurance¹⁵. The report found that: 'There is no established risk appetite¹⁶ for individual investment schemes to set clear strategic directions and tolerances around the controls in place.' In response to this finding, the Welsh Government's Sector and Business team agreed an action to: 'develop an appropriate risk appetite template and consider how to further embed the assessment of risk within each funding scheme' by August 2016. The PAC review of Kancoat also considered the need for the Welsh Government to strengthen its approach to risk¹⁷. To date, there is no defined risk appetite in place for the Welsh Government's financial support to business. However, the Sectors and Business team informs us that they are currently developing an approach to risk management with the Welsh Government's Internal Audit Service.

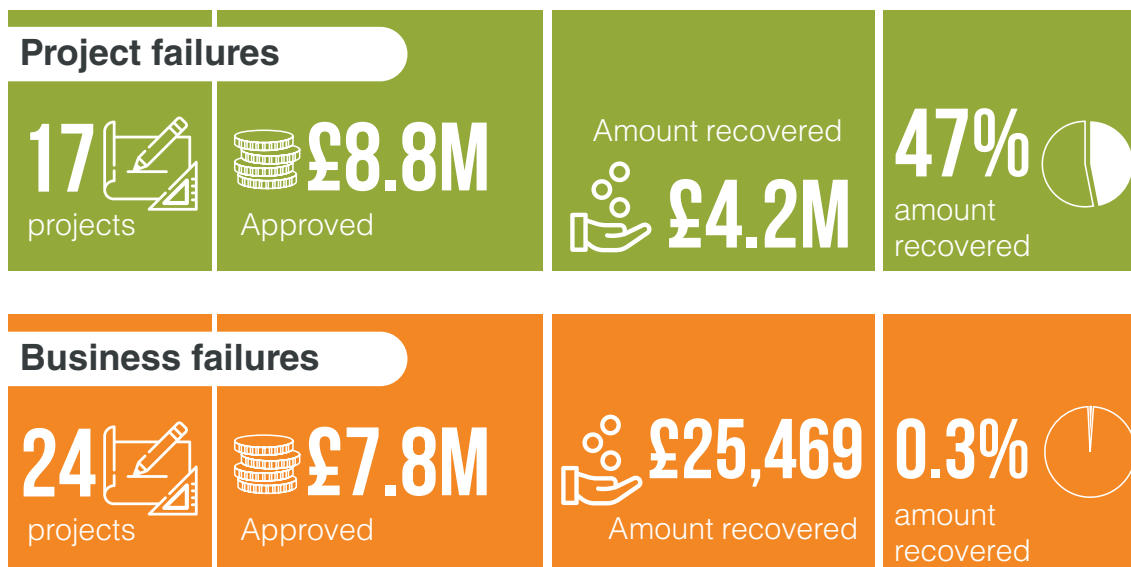
15 Defined as: management can take limited assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some significant matters require management attention, with moderate to high risk exposure until resolved.

16 Level of tolerance for exposure to risk. For example, banks' decisions about lending to individual businesses are informed by a broader view of risk exposure.

17 See also paragraph 1.13.

- 1.18 Despite the absence of an overall risk appetite, the Welsh Government's figures show that overall, the failure rate for projects or businesses that have received Welsh Government financial support during the period from 2014 to 2017 is low. The proportion of total funding involved is also relatively low. The number of projects that received financial support from the Welsh Government (530) and were successful is far greater than the number of projects or businesses that failed (Figure 6). Appendix 3 sets out examples of successful projects that received financial support from the Welsh Government.
- 1.19 Of the projects and businesses that failed during 2014-2017, the Welsh Government had approved some during this period and others prior to this period. The totals for project and business failures, and unrecovered funding are small compared with total support provided during this period (Figure 2). Between April 2014 and March 2017, the Welsh Government recovered 47% of the finance it paid to projects that subsequently failed, and 0.3% of the finance it paid to businesses that subsequently failed (Figure 6). During this same period, the Sectors and Business team, in total, committed £218.65 million to 443 new projects and spent £167.5 million across approximately 530 businesses.

Figure 6: projects and businesses that failed in the period April 2014 to March 2017



Note:

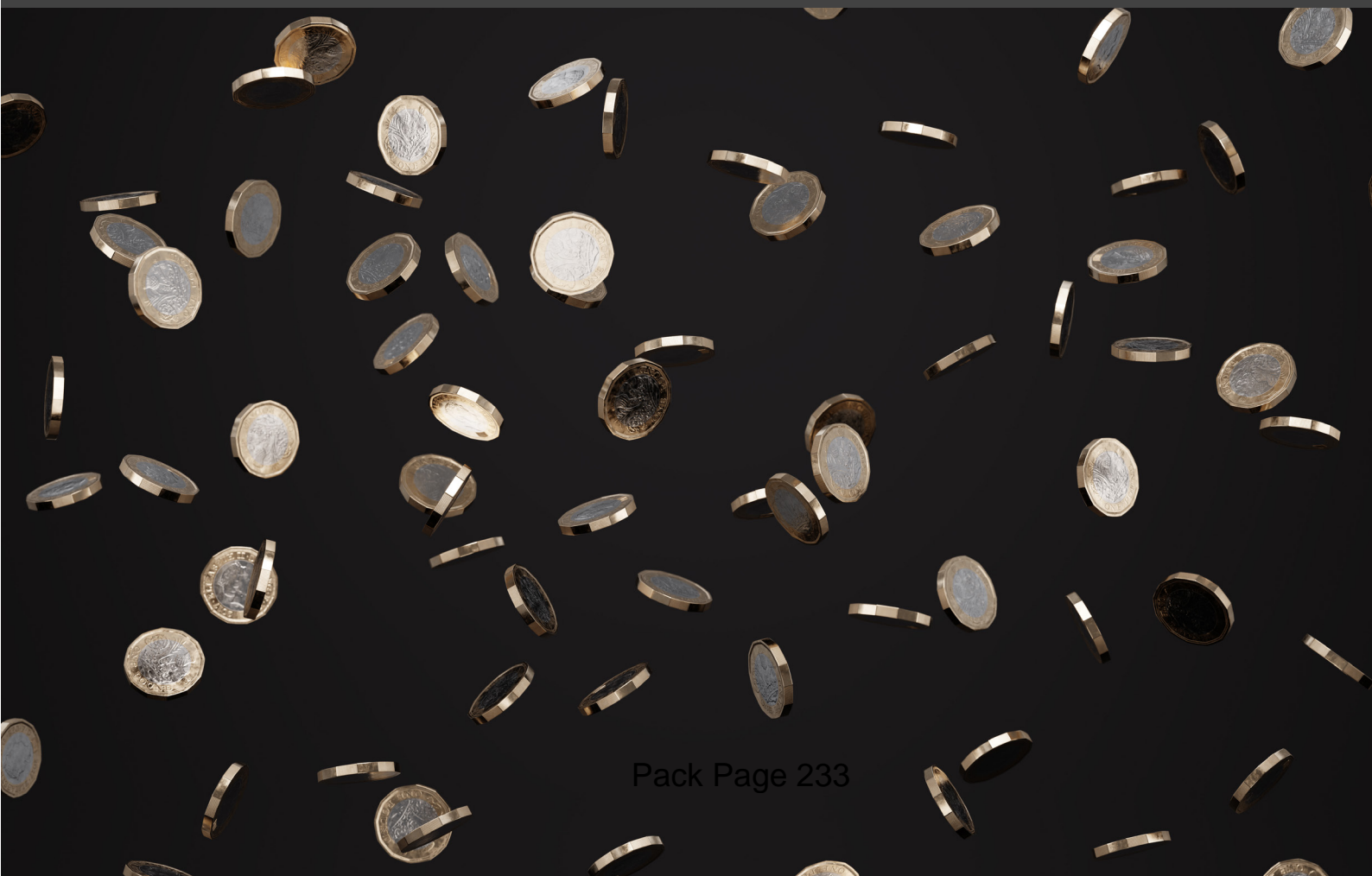
Business failure is a collapse of business. In such circumstances, the Welsh Government is unlikely to recover unsecured debt. Project failure is where a project does not achieve its objectives and does not necessarily involve business failure.

Source: Welsh Government data

1.20 Defining risk appetites across the programme of funding support for businesses may increase the level of risk the Welsh Government accepts for certain types of project, the industry sector or funding mechanism, thereby actually increasing the failure rate and the amounts lost by such higher risk projects. However, risks must be balanced by opportunities and benefits; some risks may be worth taking. By managing risk at a programme level and limiting the Welsh Government's overall financial exposure to high risk projects within a portfolio, any such losses may be outweighed by the positive economic impacts achieved by other successful projects across the programme as a whole.

Part 2

The Welsh Government has monitored individual projects separately but has not managed financial support to businesses as a programme



Management information about financial support to business is held on different systems and contains gaps and errors; making it difficult to produce a timely, accurate and comprehensive picture that would support programme-level monitoring

- 2.1 The Sectors and Business team is unable to easily generate timely, comprehensive and accurate management reports that relate the total amount of financial support provided to businesses to the outcomes achieved, at project and programme levels. This is because the Welsh Government uses various, separate systems to manage information relating to its financial support for businesses. Consistent codes or identifiers are not applied across all of these systems, and they do not interface with each other; requiring extensive manual reconciliation between them.
- 2.2 **Box 2** sets out the systems used by the Welsh Government to manage information in relation to financial support provided to businesses, along with their weaknesses.

Box 2: the Welsh Government uses several different systems to manage financial support provided to businesses

Business Account System (BAS)

BAS is the Sectors and Business team's Customer Relationship Management (CRM) system.

BAS is a bespoke CRM system procured in 2016 by the Sectors and Business team to support their interaction with businesses that receive financial support. BAS holds information about businesses and projects, but it does not interface with the Welsh Government's financial systems to produce comprehensive data in relation to businesses and projects.

The Sectors and Business team lacks confidence in management reports generated from information held on BAS and has not routinely used it to produce reports containing comprehensive management information, as requested during our study. The team has now recognised the benefits of improving the information and of generating more detailed management reports.

Box 2: the Welsh Government uses several different systems to manage financial support provided to businesses

Pay Grants

Pay Grants is the Welsh Government's bespoke grants payments approval system used by the Sectors and Business team to approve grant, and some loan, payments to businesses.

The Welsh Government's Grants Centre of Excellence recommends that different funding schemes are set-up separately on the Pay Grants system. However, the Sectors and Business team do not do this consistently, which hinders accurate scheme monitoring.

R-Drive

The Sectors and Business team's primary tool for recording project financial information is an annual Excel spreadsheet for each sector, referred to as the R-Drive.

For each project, the spreadsheets contain the anticipated spend for that year and actual payments made. Although the R-Drive records the number of jobs created by individual projects, it does not contain the total funding awarded or cumulative expenditure amounts. Therefore, the R-drive does not provide information that relates job creation to total project funding and does not generate programme level management reports.

The spreadsheets do not update automatically with information from other systems and require manual input. The Sectors and Business team told us they maintain the separate R-Drive spreadsheets because of the limitations of the SAP and PayGrants systems.

SAP

SAP is the Welsh Government's corporate financial accounting system, used by the Sectors and Business team to make payments to businesses.

SAP uses a coding system to identify and track payments. However, the coding system operated by the Welsh Government does not consistently link payments to individual projects, or different funding mechanisms. Therefore, SAP does not provide programme level management reports.

The Welsh Government's Sectors and Business team has improved some aspects of financial management of individual projects but for its programme of financial support to business, budget forecasts and actual spending comparisons are still unclear

- 2.3 There is a lack of clarity about budgets and forecasts for financial support to businesses and also about actual expenditure totals across financial periods. Financial planning and reporting in relation to providing financial support to businesses can be complex because:
- a the application process can extend over financial periods;
 - b an approved project may take several years to complete;
 - c an existing project can experience unforeseen delays and so funding payments may not be made as expected;
 - d payments may extend past practical project completion to ensure funding conditions are met and the intended benefits are achieved before funds are released; and
 - e unforeseen opportunities might emerge.
- 2.4 Managing these complexities effectively requires accurate and comprehensive information as well as robust but flexible systems and processes. However, we found:
- a inaccuracies and gaps in information provided to us;
 - b weaknesses in the Welsh Government's information systems ([paragraph 2.2](#)); and
 - c a lack of clear interaction between information systems.
- 2.5 In 2017-18, the Sectors and Business team had an indicative four-year allocation to 2020-21 for its overall programme delivery, based on receiving £110 million for 2017-18. The amount within this allocation, available for financial support to businesses can be flexed in-year depending upon the availability of additional funds within other areas of the Economy and Transport division's budget.

- 2.6 The Sectors and Business team's financial planning for providing support to businesses is based on existing commitments to approved projects in any given year. The Sectors and Business Team also maintains a list of future 'pipeline projects'. However, these 'pipeline' projects are not included in the budgets for future expenditure (paragraph 4.9).
- 2.7 In July 2017, a Welsh Government Internal Audit review of business finance forecasting concluded 'reasonable assurance on the controls in place over the Business Finance Forecasting process'. However, the report identified a lack of evidence to support budget monitoring and forecasting processes. Internal Audit also identified errors in records, and that in some instances, information was not up to date¹⁸.
- 2.8 Following the July 2017 Internal Audit review, the Sectors and Business team introduced additional budget monitoring and forecasting processes. The Sectors and Business team, via their local finance leads, now updates the R-Drive regularly with information from Business Development Managers, and monthly meetings with the relevant Head of Sector. The Sectors and Business team also holds a more formal half-year review process, where a meeting is held between the operations team, the Head of Sectors and Business, and finance and performance officials. Each significant project is discussed to compare actual project expenditure with forecast spend as well as those that are deemed to be 'at risk'¹⁹, in order to determine probable outcomes for the projects, and whether corrective action is required. Although this half-yearly review process strengthens monitoring and forecasting for individual projects, information systems still do not easily support accurate and timely programme management (see Box 2).

18 Welsh Government Internal Audit Service, Business Finance Forecasting, July 2017.

19 The Sectors and Business team identifies a project as being 'at risk' if it is unlikely to achieve its forecast spend profile.

Part 3

The Welsh Government has not demonstrated clearly how its financial support for business has contributed to the economic renewal objectives it set in 2010



The Welsh Government has not put in place systems and processes to produce information for publicly reporting on whether overall, its financial support for business contributed to achieving its intended outcomes

- 3.1 The Welsh Government's commitment to report publicly on progress against its economic renewal objectives was supported by **A Framework for Measuring Success** published in March 2011. This framework set out a range of indicators and measures for tracking and reporting progress, supported by an implementation plan. However, systems and processes to support monitoring and reporting against the framework were not put in place. Because the Welsh Government has not reported against the framework, it is unable to demonstrate whether its financial support to businesses is contributing towards achieving the overall economic regeneration objectives it set out in 'Economic Renewal.'
- 3.2 In 2015, the Welsh Government published the most recent edition of what it described as an 'annual statement' of a range of activities aimed at supporting businesses for the period 2014-15²⁰. The Welsh Government informed us that that the 'annual statement' was produced each year from the start of the Welsh Government's 2011-2016 Programme for Government. However, the report in 2015 is the only one currently publicly available. The 'annual statement' report was intended to represent a snapshot in time. The 2015 annual statement was supported with sector performance reports for the same period. However, this report did not report progress against 'A Framework for Measuring Success' and was not intended to do so.
- 3.3 The Sectors and Business team cannot easily aggregate information it holds on individual projects to provide an overview of its overall programme of financial support to businesses. The team cannot easily reconcile information drawn from different systems and lacks confidence in the accuracy of information that would enable routine reporting on financial support to business at a programme level. As a result, the Welsh Government is unable to easily produce timely, complete and accurate programme reports of financial support to businesses for the period 2014-2017, that link funding provided to the outcomes achieved ([paragraphs 2.1 to 2.2](#)).

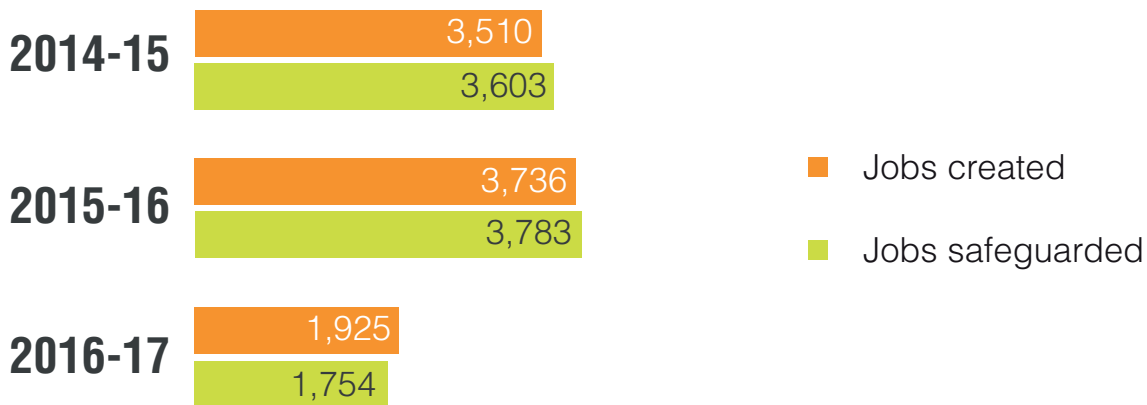
20 **Supporting Business and the Economy, Annual Statement from the Welsh Government 2015**. A report produced to meet an indicator that was part of the Welsh Government's 2011-2016 Programme for Government.

The Welsh Government focussed on creating and safeguarding jobs but did not monitor wider economic outcomes against the broad framework of indicators it undertook to report against

- 3.4 The Welsh Government's 'A Framework for Measuring Success', contains a range of indicators and measures for whether the economic priorities within 'Economic Renewal' are being delivered ([Appendix 4](#)). In practice, the Welsh Government has focussed its approach to providing financial support to business within 'Economic Renewal,' more narrowly, on creating and safeguarding jobs. The process for approving funding awards to individual projects considers whether, in addition to direct jobs, a project can deliver wider economic benefits to the applicant or within related businesses (for example, developing new technologies and skills).
- 3.5 The Welsh Government monitors the number of jobs created or safeguarded by individual projects because businesses are required to provide evidence of doing this to the Welsh Government when they submit claims for funding payments. However, the Welsh Government has not formally reported total jobs created or safeguarded since the last 'Annual Statement on Support to Business' in 2015²¹, and as part of that report did not analyse jobs by funding mechanism. Welsh Ministers do make public announcements on job figures, but these relate either to specific projects or to overall Welsh Government activities. The Welsh Government does not classify such figures as 'official statistics' because they are not compiled by its statistics team.
- 3.6 The lack of specific targets or formal reporting against Economic Renewal makes it difficult to assess how different funding streams contribute to the Welsh Government's strategic aims. [Figure 7](#) shows what the Welsh Government produced for us in a bespoke report to show total jobs created and safeguarded by the Sectors and Business team over the three-year period 2014-2017.

21 2015 was the last year in which the Welsh Government published its Annual Statement on Support to Business, containing information about numbers of jobs created or safeguarded across all areas of the Welsh Government.

Figure 7: approximate total jobs created and safeguarded relating to the financial support considered in this review (paragraphs 3 and 6) for the period April 2014 to March 2017



Note:

The jobs in Figure 7 are approximate as the numbers were calculated manually, and may include some jobs created or safeguarded through funding mechanisms not covered in this review. Figure A2 (Appendix 2) provides more detailed information relating to jobs created and safeguarded analysed by sector.

Source: Welsh Government data

3.7 The Sectors and Business senior management team monitors totals of jobs created and safeguarded through business finance. However, the Sectors and Business team compiles this information manually because it cannot generate it from any of the systems it uses to manage its financial support to business (Box 2).

Part 4

The Welsh Government has a new economic strategy and is now beginning to overhaul its approach to providing financial support to business



Recently, the Welsh Government launched a new economic strategy framework for providing financial support to business

- 4.1 To support its programme for government for the remainder of the current Assembly term²², the Welsh Government published ‘Prosperity for All’. To complement this and inform the delivery of its economic goals of growing the economy and reducing economic inequality, the Welsh Government has published an ‘Economic Action Plan’ and established a steering group to oversee its implementation.
- 4.2 Through its ‘Economic Action Plan’ the Welsh Government has introduced a new operating model for providing financial support to businesses and is aiming to establish a different relationship with the businesses it supports, which it refers to as its Economic Contract (Box 3). Businesses seeking financial support from the Welsh Government must demonstrate a minimum number of general business practices set out in the Economic Contract and must align proposals for financial support to at least one of five areas, referred to as ‘Calls to Action’ (Figure 8).

Box 3: definitions on Economic Contract and Calls to Action

Economic Contract	The Economic Contract is the Welsh Government’s commitment to continue to provide public investment to enable business growth alongside an expectation that business will make a contribution to its objectives in return for financial support. It sets a new relationship between business and government. Business will have clarity on where government will provide support to prepare people and business for the future.
Calls to Action	Businesses seeking financial support from the Welsh Government will be expected to contribute to at least one of its five Calls to Action, which are designed to support them to overcome the challenges of the future. Business will be able to see clearly where government will seek to provide support and people will be able to benefit from businesses that are preparing for future change.

22 Taking Wales Forward is the Welsh Government’s Programme for Government for 2016-2021, outlining the commitments it intends to deliver over that period. The ‘Prosperity for All’ strategy and ‘Economic Action Plan’ set out how the Welsh Government’s commitments relating to the economy will be delivered.

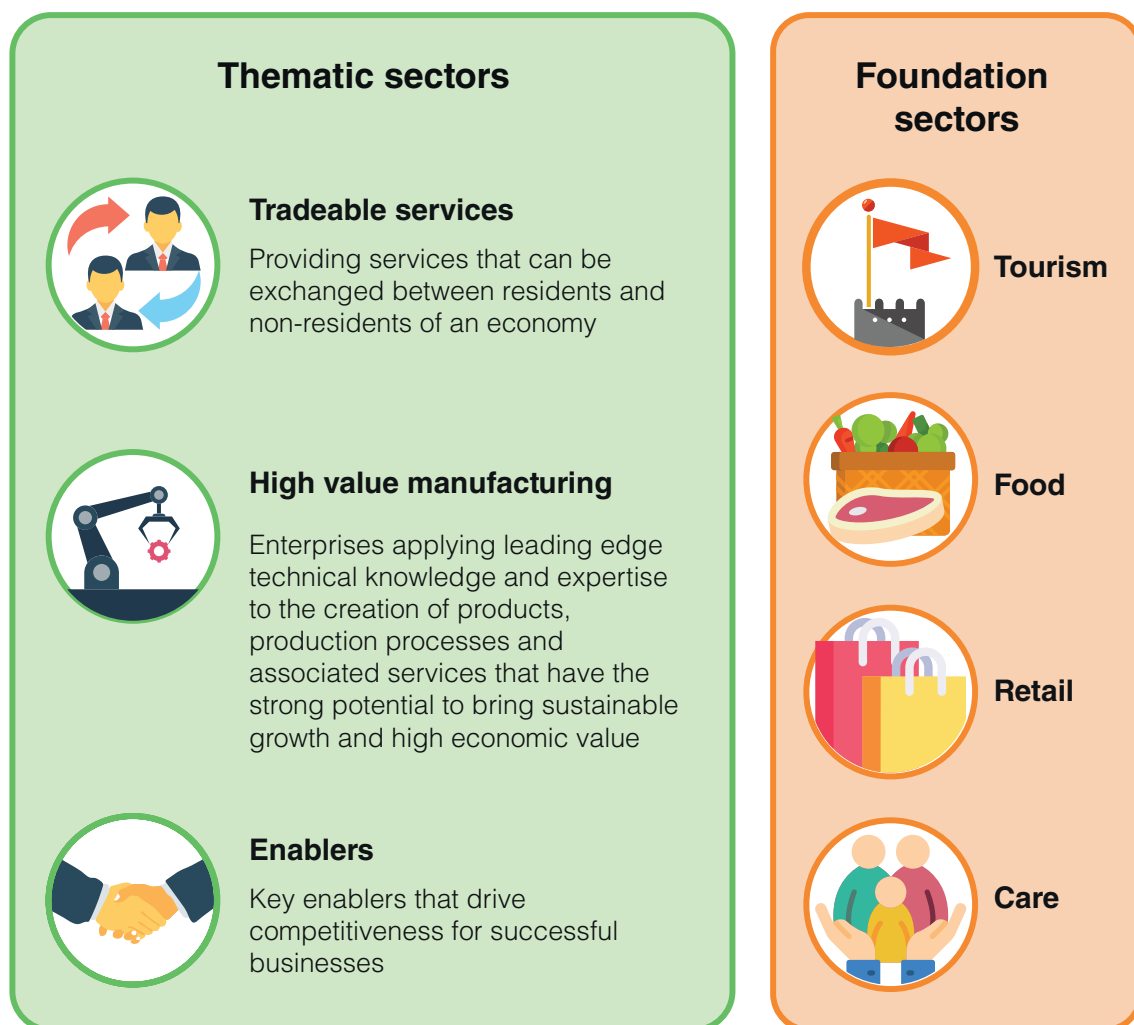
Figure 8: the Welsh Government’s planned operating model for considering financial support to businesses, under its ‘Economic Action Plan’



The Welsh Government has identified three national thematic and four foundation sectors to help focus its proactive work with businesses

4.3 The new operating model is open to all businesses in all sectors. However, the Welsh Government has identified three national thematic sectors and four foundation sectors to help channel and focus its support for business. (Figure 9). Although some initial work has been undertaken, at present, the Welsh Government has not yet changed its internal structure and is still operating through the previous sector teams. The Welsh Government has set an indicative timescale for organisational change to be in place by spring 2019.

Figure 9: the Welsh Government’s national and thematic and foundation sectors for funding support to businesses



4.4 The Welsh Government is simplifying how it provides financial support to businesses by replacing various grant-funding streams, with a single fund, the Economy Future Fund (EFF). The fund underpins the new operating model of the 'Economic Contract' and 'Calls to Action' (see [Figure 8](#)). The Welsh Government will also continue to offer repayable forms of finance, such as loans; retaining a flexibility over which mechanism to use, taking account of general economic factors. However, it intends to develop a clearer rationale for whether financial support is channelled through its own direct funding or via the Development Bank for Wales.

The Welsh Government intends to deliver broad, long-term economic benefits through its new approach to providing financial support to business

4.5 For the Welsh Government to meet its long-term aspirations, it is important for the focus of financial and non-financial support to businesses to widen beyond simply numbers of jobs. The Welsh Government will need to more fully consider ethical employment and business practices, not only in the businesses it supports directly, but also in their supply and delivery chains. Issues such as where profits are declared and taxes are paid are also increasingly important to the public.

4.6 Under the Welsh Government's Economic Action Plan, job creation and safeguarding will no longer be the primary objective of its programme of financial support to business. The Welsh Government intends to focus on broader target outcomes as set out in the 'Calls to Action', and indicators to measure success. At present, the Welsh Government has not yet determined how it intends to monitor and report on programme delivery.

4.7 The Welsh Government acknowledges that it needs to ensure that financial support to business is not narrowly focussed and secures wider benefits for businesses in Wales, and the Welsh economy as a whole. The Welsh Government's 'Economic Action Plan' highlights its long-term aspiration for economic growth in Wales, recognising the need to consider the impact on future generations. The introduction of the 'Economic Contract' and the 'Calls to Action' ([Figure 8](#)) are designed to help businesses develop inclusively and to future-proof themselves so as to contribute to the Welsh Government's vision of a sustainable and growing Welsh economy.

4.8 The Welsh Government's 'Economic Action Plan' also sets out how it has had regard to the Well-being of Future Generations (Wales) Act 2015 and used seven of its wellbeing objectives (**Box 4**) in shaping its new vision for economic growth in Wales. The Welsh Government's vision is 'facilitating an economy that delivers sustainable and inclusive growth, opportunities for all and which promotes individual and collective well-being'.

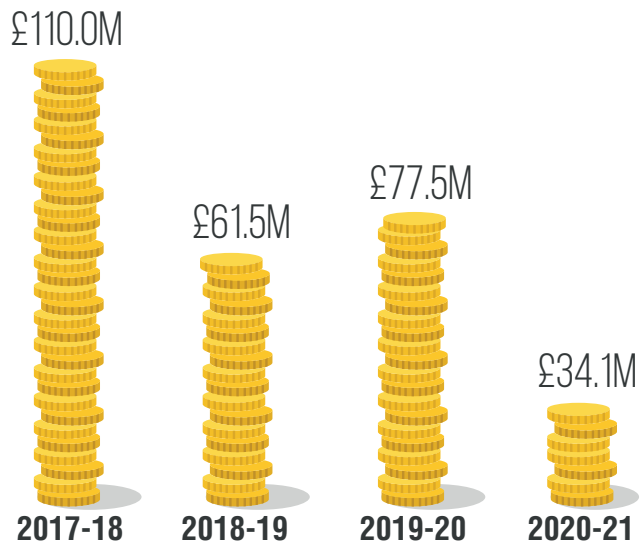
Box 4: Welsh Government Well-being Objectives used to shape its vision for economic growth in Wales

- Support people and businesses to drive prosperity
- Tackle regional inequality and promote fair work
- Drive sustainable growth and combat climate change
- Build ambition and encourage learning for life
- Equip everyone with the right skills for a changing world
- Deliver modern and connected infrastructure
- Promote and protect Wales' place in the world

The Welsh Government's budget for financial support to business has been revised to take account of projects under its 'Economic Action Plan', but it is still only based on known commitments

4.9 In 2017-18, the Welsh Government set a four-year budget for the provision of financial support to business under its previous strategic approach, 'Economic Renewal'. However, this budget only took account of projects where funding had been committed, and did not take account of potential future commitments (**paragraph 2.6**). In reality, the 'budget' is simply a schedule of projected payments, rather than a budget that can be allocated to delivering new priorities. **Figure 10** sets out the four-year budget approved in 2016-17.

Figure 10: Welsh Government four-year Sectors and Business team budget from 2017-18



Source: Welsh Government data

4.10 The Welsh Government published a revised budget for providing business finance in October 2018. This revised budget includes known commitments made since the launch of the Welsh Government’s Economic Action Plan, but it does not take account of future commitments. In the meantime, there are some specific sources of additional funding which the Sectors and Business team may be able to draw upon if the project meets the funding requirements of these schemes. Where a worthwhile project does not fit within existing schemes or budgets, the Welsh Government will explore ways to find the funds necessary to support it. Funding flexibility in-year for new projects may arise from existing projects with committed funding falling behind their expected schedule.

Appendices

Appendix 1 – Audit methods

Appendix 2 – Sector analysis of commitments of financial support

Appendix 3 – Project case studies

Appendix 4 – Economic renewal: A framework for measuring success



Appendix 1 – Audit methods

Existing audit knowledge

We reviewed existing information including relevant reports by the Auditor General for Wales, the National Assembly's Public Accounts Committee and the Welsh Government's Internal Audit Service.

Data analysis

We analysed financial and performance data information generated from a number of Welsh Government systems across the three-year period 2014-15, 2015-16 and 2016-17. However, the extent of our analysis was restricted to a narrow data set because of limitations of the Welsh Government's systems which could not produce timely, accurate and comprehensive data (paragraphs 2.1 and 2.2)²³.

In addition, the Welsh Government has focussed on jobs without monitoring wider economic outcomes against the broad framework of indicators in relation to 'Economic Renewal' which it undertook to report against in 2010.

Document review

We reviewed a wide range of documentation including:

- Welsh Government strategy and policy documents relating to providing financial support to business
- Welsh Government guidance documents for the systems used to manage its financial and performance information
- Minutes from various meetings including the Welsh Government's investment panel, the Welsh Industrial Development Advisory Board (WIDAB), and the Sectors and Business Senior Management Team meetings
- Applications for financial support from businesses

Interviews

We have discussed the Welsh Government's provision of business finance through a series of interviews with a range of officials.

23 When we began the audit, 2016-17 data was the most up-to-date available. However, because of difficulties encountered in obtaining and validating the data supplied to us by the Welsh Government, we did not extend the period to include 2017-18 data, which has now become available, prior to publishing this report.

Observations

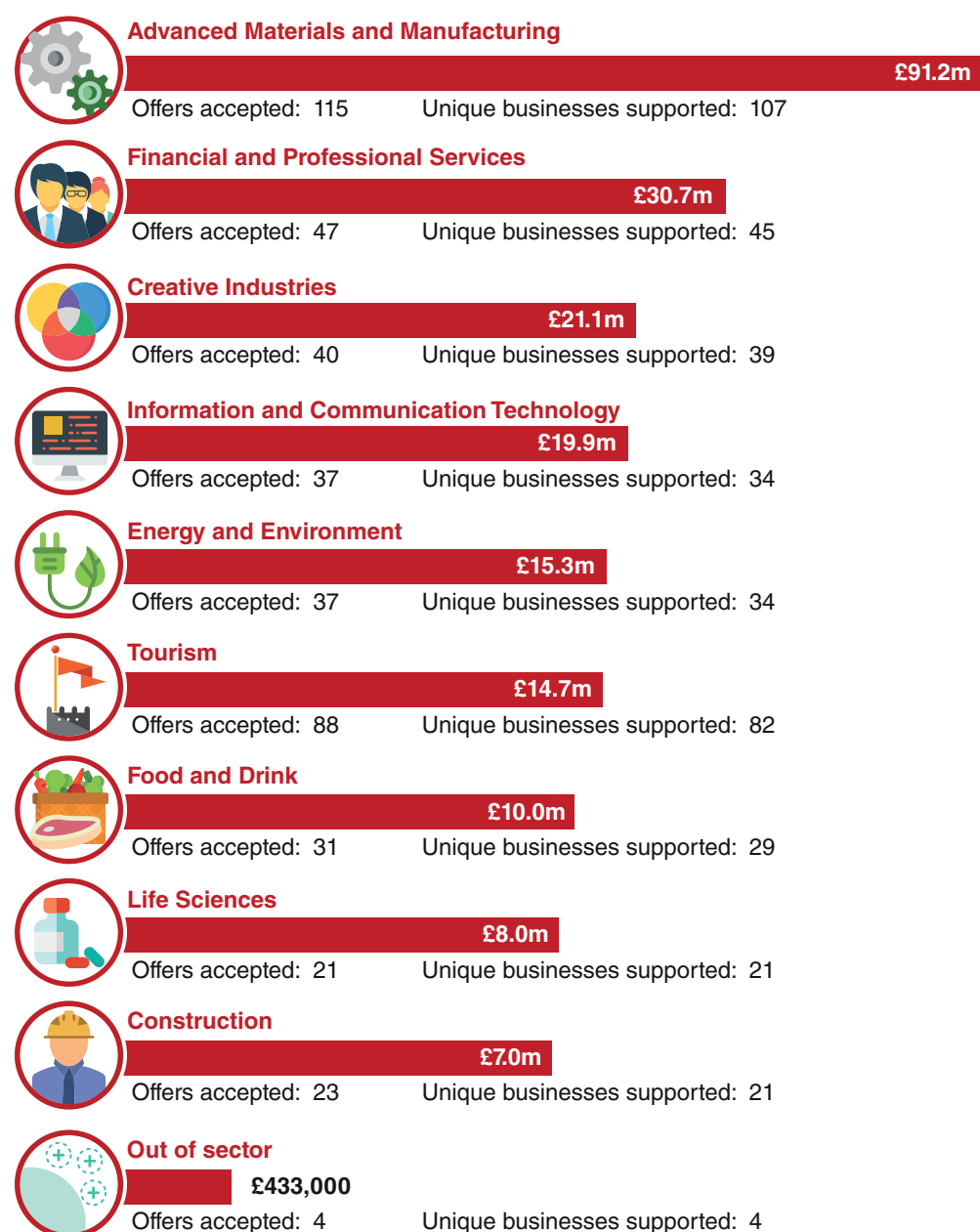
We attended and observed the following meetings:

- The Welsh Government's investment panels on 1 August 2017 and 26 September 2017.
- WIDAB on 5 September 2017.
- The Sectors and Business Senior Management Team meetings on 26 September and 24 October 2017.

Appendix 2 – Sector analysis of commitments of financial support

Figure A1 sets out the amount of financial support offered and accepted by businesses over the three-year period 2014-15, 2015-16 and 2016-17, analysed by sector. Unique businesses refer to the number of individual businesses receiving financial support, as some businesses receive support for more than one project. The Welsh Government deems an offer of financial support to be accepted by a business when a signed letter of acceptance is received.

Figure A1: financial support offered and accepted over the three-year period 2014-15, 2015-16 and 2016-17

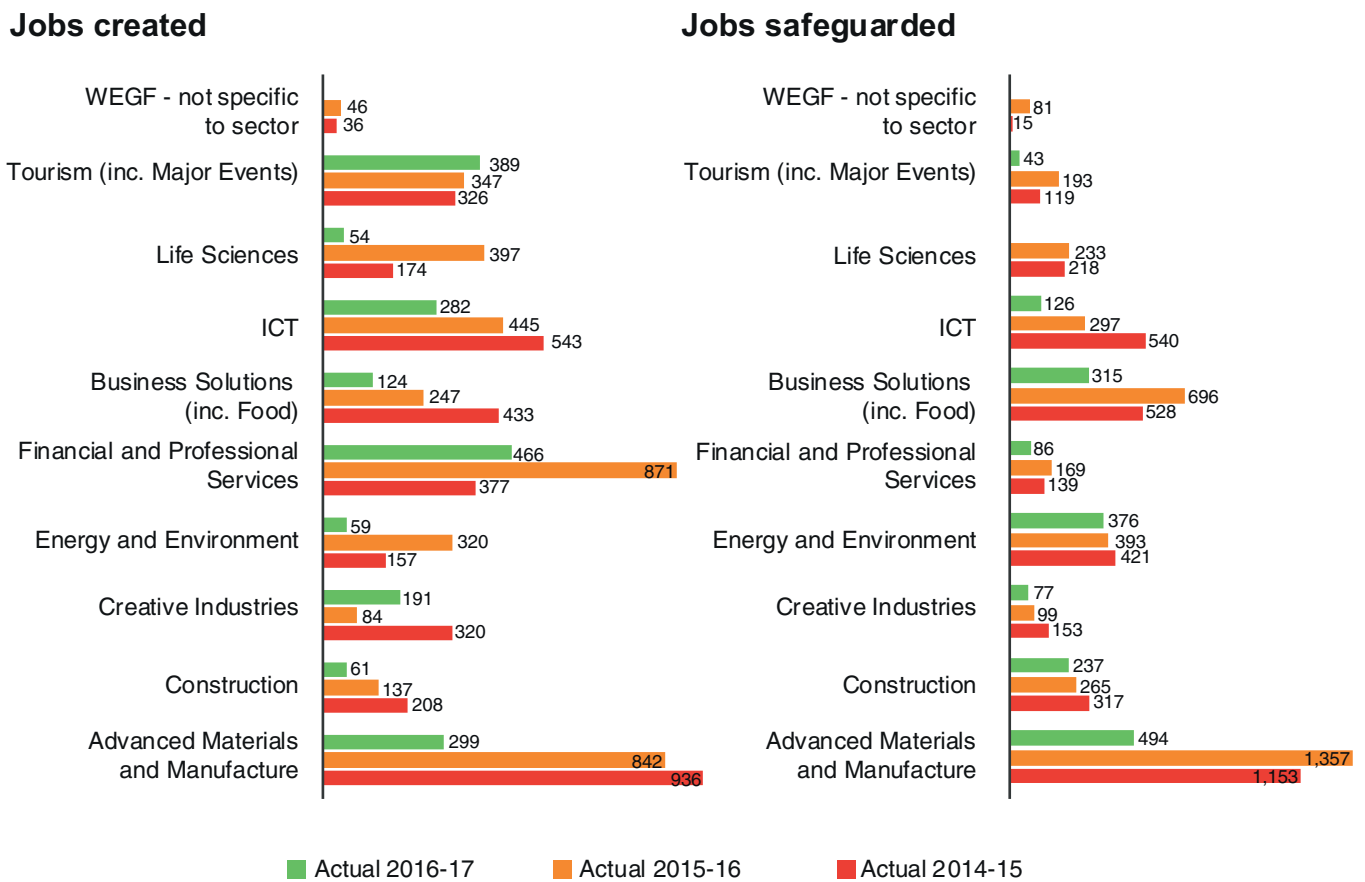


Source: Welsh Government data

Jobs created and safeguarded by sector for the three years 2014-15, 2015-16 and 2016-17

Figure A2 expands on the overall jobs created and safeguarded as set out in Figure 7, paragraph 3.6, analysing jobs by sector.

Figure A2: jobs created and safeguarded



Source: Welsh Government data

Appendix 3 – Project case studies

Figures A3 and A4 are examples of successful and unsuccessful projects (respectively) that received financial support from the Welsh Government through its Sectors and Business team. Successful projects are those that delivered in line with expectations and created or safeguarded jobs as anticipated. Unsuccessful projects are those that did not create or safeguard jobs as intended. In some cases the companies undertaking the projects went into administration or liquidation.

Figure A3: successful projects

Dr Beynon's Bug Farm Ltd.



Dr Beynon's Bug Farm is a tourist attraction, research centre, and working farm based in St David's, Pembrokeshire. The farm hosts a range of activities that aim to educate the public about insects.

The company received  **£36,400** from the Tourism Investment Support Scheme in June 2015, with a view to create/safeguard six full-time jobs.



The project was completed satisfactorily, and the business has gone on to be highly successful with significant **media coverage** and a number of **industry awards**.

TrakCel Ltd.



TrakCel Ltd. is a medical technology company based in Cardiff, providing software platforms for managing and tracking clinical supply chains within the cell-based therapies industry.

The company received two separate offers of funding: **£125,000** repayable business finance in 2014 for development and conducting trials, and **£125,000** non-repayable business finance in 2015 for commercialisation.

The company exceeded its targets by creating **29 full-time equivalent jobs**, and has now expanded its operations in the USA to become a leading provider of software for cell-based therapy supply chain management.

Festive Productions Limited (FPL)



FPL is a design led company offering a range of products to the Christmas decorations market. Notable customers include ASDA, Sainsbury's, John Lewis, House of Fraser, and Harrods. The company's head office is based in Cwmbran, where it employs 60 people full-time and 130 annual temporary workers.

A **£150,000** repayable business finance grant to contribute towards the cost of repair work at the company's Cwmbran site. The site's damaged roof threatened the viability of the company's Welsh operation, therefore the repairs would safeguard the **60 full-time** and **130 temporary jobs** based in Cwmbran.

The project was completed satisfactorily, with the site's jobs successfully safeguarded. The company **began repaying** the grant in **May 2017**.



Tenneco



Tenneco Inc is one of the world's largest designers, manufacturers and distributors of clean air products, ride performance products, and systems for automotive and commercial vehicles and large engines.



£3.7M non-repayable business finance awarded in December 2013. The grant contributed towards the opening of a new facility at Dowlais Top, Merthyr Tydfil, with the site being developed into a production and warehousing facility. Production at the site would supply notable automotive companies including Jaguar, Renault, GM and Nissan. A total of 224 new jobs were to be created and a further 36 safeguarded.

The project funding was completed and Tenneco exceeded its job targets, creating **226 new jobs** and **safeguarding 36**.

Source: Welsh Government

Figure A4: unsuccessful projects

Griffin Place Communications Ltd.



Griffin Place Communications Ltd. was a contact centre established in 2014 in Cwmbran. The company provided outsourced customer services, utilising sophisticated cloud software to maximize data security.

The company was awarded **£600,000** business finance (£100,000 of this was repayable) to create 121 jobs in Cwmbran.

The company was paid just under **£589,000** and created **127 jobs**. However, reports were received that staff were not being paid. Attempts to contact the company were unsuccessful, and the company eventually **ceased trading and entered liquidation**. There is no independent information to verify the reason for this business failure.

At the time of this report the Welsh Government is awaiting the final liquidator report, but is not expecting any recovery.

Mainport Engineering (1990) Ltd.



Mainport Engineering (1990) Ltd was a fabrication and engineering company based in Pembroke Dock.

The company was awarded **£650,000** from the Wales Economic Growth Fund (WEGF) to expand its operation by building a new facility, creating 30 new jobs and safeguarding 140 existing jobs.

The jobs target was narrowly missed with **27 new jobs created and 140 safeguarded**. The company's revenue was negatively affected following the **closure of a major client**. Replacement contracts to mitigate the shortfall in revenue did not materialise, and the company's base costs could not be covered. Combined with an ongoing dispute with HMRC, this led to the company entering into administration in October 2016.

At the time of this report the Welsh Government is awaiting the final liquidator report, but is not expecting any recovery.

Oysterworld Ltd.



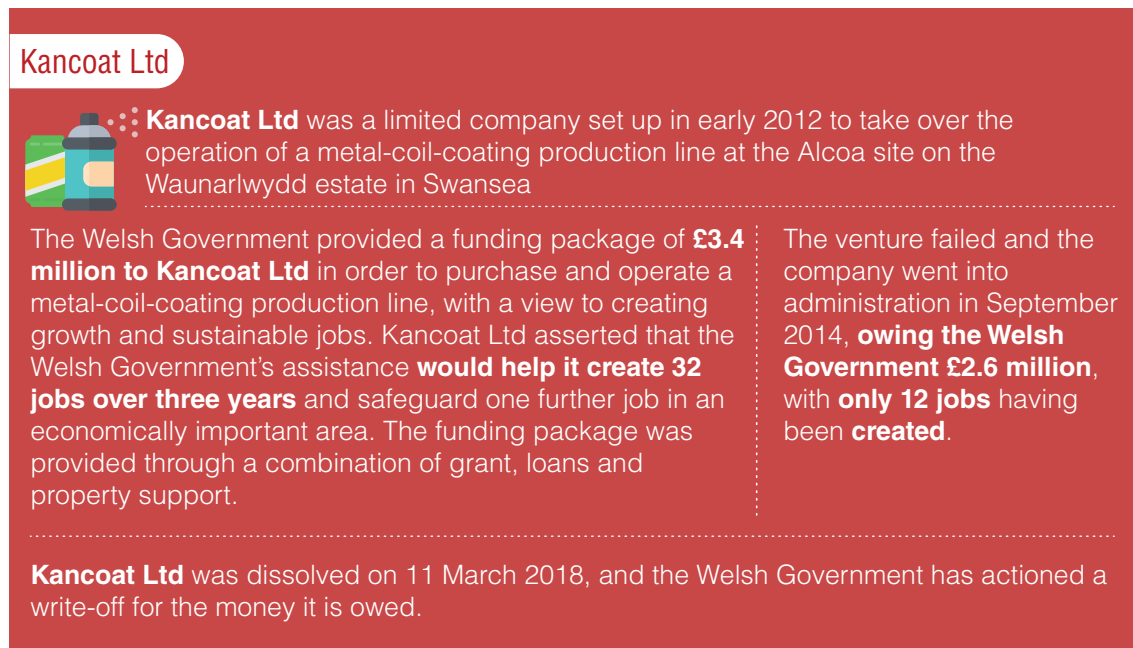
Oysterworld Ltd was a developer and distributor of online digital and downloadable games.

The company received two rounds of business finance for separate projects: i) **£1 million repayable** business finance (repayable on condition that annual turnover exceeded £25 million) for the establishment of a hub to develop and publish a multiplayer online game for children, and ii) **£415,000 non-repayable** business finance to develop children's puzzle games. These projects combined were forecast to create 85 full-time equivalent jobs at a site in Treforest.

The company met its target of **85 jobs created**, however, it began to experience substantial **cash flow difficulties**. This was compounded by a number of factors, including severe delays on gaming projects and failure to secure new contracts. The company was unable to pay its creditors or staff, and **entered into administration** in August 2016.

At the time of this report the liquidation process is ongoing and is anticipated to last for a further 18 months. The liquidator has informed the Welsh Government that it is uncertain whether there will be any money available to recover.

Figure A5: our previous findings in relation to the Welsh Government's funding of Kancoat Limited

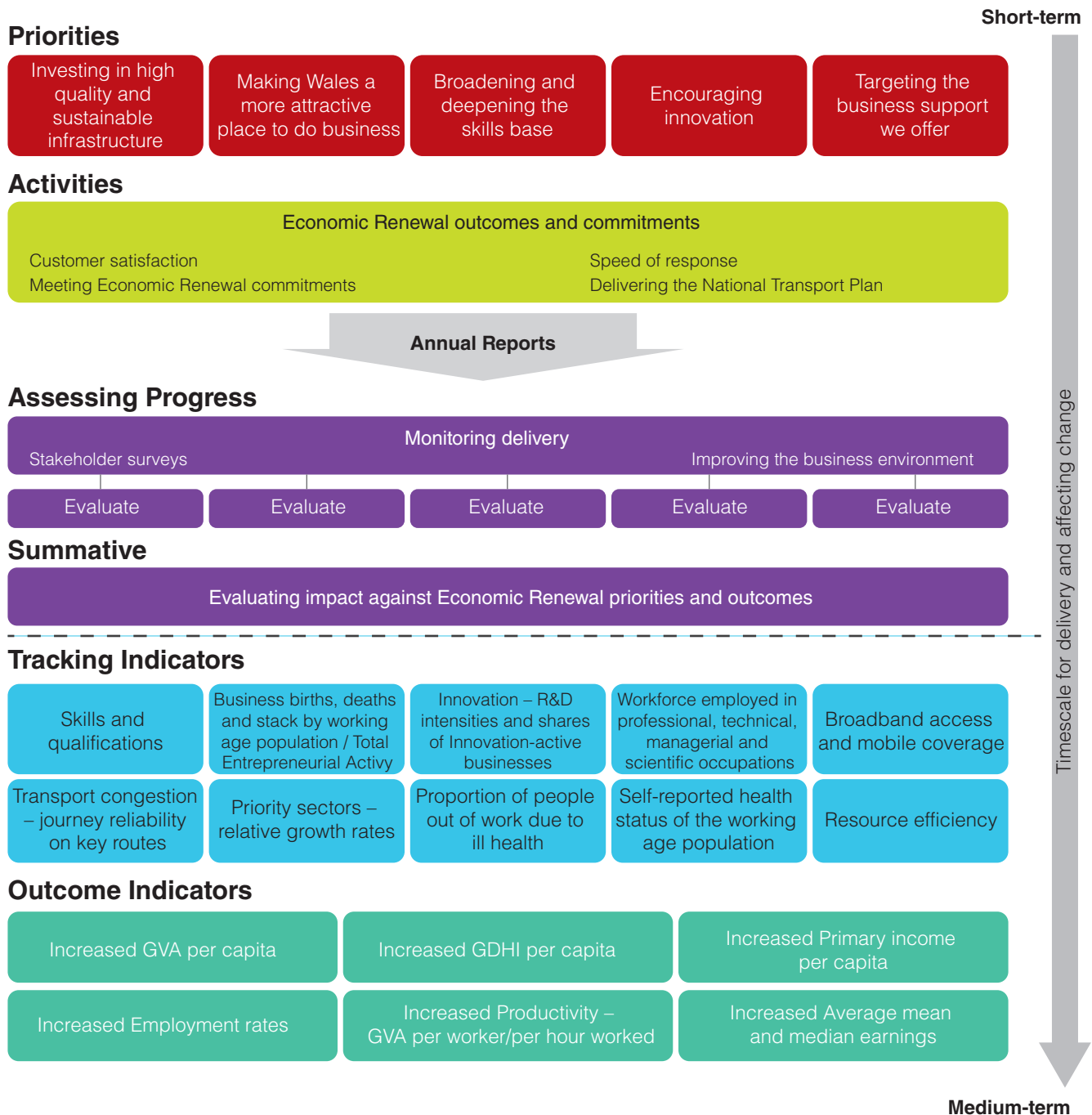


Source: Welsh Government

Appendix 4 – Economic renewal: A framework for measuring success

Figure A6 is the Welsh Government’s Framework for measuring success as part of ‘Economic renewal’. The Welsh Government document further sets out a more detailed supporting rationale for each priority contained within it.

Figure A6: economic renewal: A Framework for measuring success



Note:

Economic renewal: A Framework for measuring success contains a supporting rationale for each of its priorities.

Source: Welsh Government.

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