



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

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

**Dydd Llun, 22 Medi 2014
Monday, 22 September 2014**

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

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir
trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are recorded in the language in which they were spoken in the committee. In
addition, a transcription of the simultaneous interpretation is included.

**Aelodau'r pwyllgor yn bresennol
Committee members in attendance**

William Graham	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Jocelyn Davies	Plaid Cymru (yn dirprwyo ar ran Alun Ffred Jones) The Party of Wales (substitute for Alun Ffred Jones)
Sandy Mewies	Llafur Labour

Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Eraill yn bresennol
Others in attendance

Gawain Evans	Dirprwy Gyfarwyddwr Rheolaethau Ariannol, Llywodraeth Cymru Deputy Director Financial Controls, Welsh Government
Lynne Hamilton	Cyfarwyddwr Gwasanaethau Cyllid a Masnachol, Llywodraeth Cymru Director of Finance & Commercial Services, Welsh Government
Michael Hearty	Cyfarwyddwr Cyffredinol, Gwasanaethau Corfforaethol, Llywodraeth Cymru Director General, Finance & Corporate Services, Welsh Government
Syr / Sir Derek Jones	Ysgrifennydd Parhaol Llywodraeth Cymru Permanent Secretary, Welsh Government
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

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

Michael Kay	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

Dechreuodd y cyfarfod am 15:18.
The meeting began at 15:18.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Darren Millar:** Good afternoon, everybody. We will continue with our meeting of the Public Accounts Committee, moving on to item 3 on our agenda. We have one substitution today and an apology from Alun Ffred Jones. We welcome Jocelyn Davies to this afternoon's session. We will go straight into item 4, just after I make the usual housekeeping announcements. If the alarm sounds, of course we should follow the instructions of the ushers. I ask Members and witnesses to turn off their mobile phones and other electronic equipment, as these can interfere with the broadcasting equipment. I encourage anybody who wants to contribute through either English or Welsh to do so. There are translation facilities, of course, available for everybody to use.

15:19

Cyfrifon Cyfunol Blynyddol Llywodraeth Cymru 2013-14
Welsh Government Consolidated Annual Accounts 2013–14

[2] **Darren Millar:** I am very pleased to be able to welcome to the session this afternoon the Permanent Secretary of the Welsh Government, Sir Derek Jones. Welcome to you. We also welcome Michael Hearty, director general for finance and corporate services at the Welsh Government, Lynne Hamilton, director of finance and commercial services at the Welsh Government—welcome to you, Lynne—and Gawain Evans, deputy director general of financial controls at the Welsh Government. Of course, we have the support of the Wales Audit Office as well for this session.

[3] Members will recall that this is the first session that the Public Accounts Committee has held on the Welsh Government's consolidated annual accounts for 2013-14. We have received a copy of those accounts and had the opportunity to digest them and, obviously, Permanent Secretary, we have a number of questions on them. Do you want to say a few words to open, and then we will go straight into questions from Members? I do apologise for having kept you, by the way.

[4] **Syr Derek Jones:** Dim problem. **Sir Derek Jones:** No problem.

[5] Thank you very much, Chair. Good afternoon, everybody. I will take a very brief opportunity to make a personal reflection, I think, because the signing of the annual accounts for me, as principal accounting officer, is one of the key points in the year. It causes a moment in time to look back on the business of the last 12 months. However, it is a sobering moment in time, I have to say, because it crystallises just the enormous scale and complexity of the Welsh Government's business. There is £15 billion-worth of the public's money under management, and it is disbursed through, I think, over 100,000 individual transactions. So, it is a weighty accountability. On the other hand, I think, for this year, taking that moment in time to look back, I thought that it was, overall, a reasonable set of accounts. It was not perfect: there were mistakes made during the year, and there are things that we will need to improve on, helped actually by the management letter that the audit office will send to me. Overall, it is a reasonable set of accounts, although you will perhaps challenge that. It has definitely also been a year, I felt, in which some of the challenges and pressures were beginning to come through from continuing reductions in budgets. So, we had 10% less spending power in that year than in 2010-11, I think. At the same time, cost and demand pressures in some areas were increasing. There are also ambitions to extend devolution in Wales to take on new powers and responsibilities, which all have to be managed and managed well. So, I felt that it was a pretty reasonable year, looking back, but a year in which clearly some of those pressures were beginning to emerge. I will stop there.

[6] **Darren Millar:** Thank you very much indeed for that. One of the biggest items of expenditure, of course, is your staffing budget. I know that Jenny Rathbone has some questions on this issue.

[7] **Jenny Rathbone:** Obviously, our most expensive resource, as well as our most important asset, is our staff in the Welsh Government. So, I wondered whether you could just explain the increase in the numbers since 2012-13. In the light of the fact that we have spent considerable sums of money on voluntary severance payments, I wondered whether you could just give us some explanation of that because, to the public, it will look as though we are not managing the numbers that we need very effectively.

[8] **Sir Derek Jones:** May I set a bit of context, first?

[9] **Jenny Rathbone:** Yes, of course.

[10] **Sir Derek Jones:** You are asking from around 2012-13 until last year's accounts, but if you take a strategic view over a longer period of time, you will see that Welsh Government staff numbers have not gone up but have gone down. So, staffing at the moment, I think, is about 600 people fewer now than in 2007, when a lot of these pressures started to emerge. I think that our running costs are lower now than they were seven or eight years ago. The organisation had to shrink quite quickly to get its head under some very tough budgets over that time, and those have gone up, to some degree, over the last couple of years. I have done an analysis of that to make sure that we understood the reasons for it because, looking ahead, it is going to be very difficult to accommodate increases. The reasons over the last couple of years are not all growth in staff, actually; there are quite a lot of transfers there. While the machinery of Government changes were going on—with the creation of Natural Resources Wales, for example, the health body, NLIAH, and I think that there are some others—out of those changes, it was decided that some operations should be brought in-house, as it were, and so the staff transferred with them. So, it is not so much an increase as a change. Other factors include the Welsh Government apprenticeships that were introduced during that period, so that, on skills policy, the organisation would be putting its money where its mouth was.

[11] The legal group also had to be expanded quite significantly. When I started in this job, not quite two years ago, there were zero Welsh Acts on the statute book and there are now 16. There has been a tremendous pressure on legal services. We have had to expand that and some other priority areas of business where we felt it was right to allow some growth. So, that, I think, is the overall picture, but, looking ahead—and I am currently discussing this with the First Minister and the Minister for finance—we will have to have a pretty tough and robust workforce strategy, because these overall budget pressures that I mentioned are not likely to go away in the foreseeable future and could well get worse, and central administration will have to make its contribution to those savings. It has done, actually. I think that, over the last couple of years, the central administration main expenditure group has returned more than £50 million from its baseline. I think that £54 million is the figure I recall. It has returned it to the centre, as it were, to help support priority front-line programmes. So, it has been okay up until now. We have stayed competent and capable and taken on new functions, but it will get even more challenging, I think, over the next few years.

[12] **Jenny Rathbone:** Now, I am sure that we would all be very keen to see apprentices joining the Government, but an increase in staff of 180 cannot all be down to either apprentices or the legal services that you require as we are now legislating. Also, letting people go—. There is a figure of £1.6 million for 32 people. How many of those people, if they were let go as a result of the amalgamation into Natural Resources Wales—. Could they not have been retrained and brought in to do different jobs?

[13] **Sir Derek Jones:** Well that does happen, and the organisation is never still. I have myself prompted a substantial switch of resources from what you might call the corporate centre to what seem clear to be pinch points in other areas, including legislation. I think that we moved 200 people, which represents about £7 million-worth of running costs, from corporate centre areas into other areas, which meant them picking up new skills. So, that does happen, but sometimes the best thing to do is to part company. We anticipate continuing to have to do that to create some headroom so that we can still recruit the new types of skills that we will require that we simply do not have in the organisation. So, it will not be long before the Welsh Government becomes a tax-raising Government, which it is not at the moment. Next year, we start with the complete devolution of non-domestic rating. By 2018, we will be introducing stamp duty and landfill tax. Following the Scottish referendum, I do not know, but the process might accelerate. Those will be new sorts of skills. I do not think that we will

be able to retrain to them all; we will have to recruit. If we are going to do that without the numbers going up again, that means that we will have to take out some headcount, and that might involve voluntary severance. I completely understand the point that the public might think, ‘Well, hang on, why is the Welsh Government paying people to leave?’, but that is the fundamental reason. However, it is a case of investing to save. My golden rule would be that I would want my money back and to be moving into profit after about 18 months. So, there will be a severance settlement but I would expect the salary saving to cover that within 18 months. Thereafter, the organisation is in profit. That will have been the case—I am saying this; you can hold me to it—in all of the severance settlements reflected there—

[14] **Jenny Rathbone:** It might be useful to have a note on exactly the posts that were let go, although not the names of the individuals.

[15] **Sir Derek Jones:** I could also offer you a note with that breakdown of where exactly the staff numbers have gone up, because I commissioned it myself. There is a residual amount where there is just some growth. That worries me because, in future, I think that we will have to be able to control that out. There is a certain amount of that, but most of the growth is in clear areas that are either priorities or transfers rather than increases.

[16] **Jenny Rathbone:** The other point I wanted to pick up on, which is related, because it is around the cost of employing people, is the number of days lost through sickness absence. Yes, they have gone down slightly compared with the previous accounting period to 7.1 average days lost, but it does not compare terribly well with the Office for National Statistics figures of 4.4 days. So, I wondered why we are not able to meet the average data.

15:30

[17] **Sir Derek Jones:** I am not happy with it. I do not think that it is a terrible position. The days lost on average have gone down in the last couple of years from 7.9 to 7.1, but 7.1 days lost is a horrible figure, is it not? Even so, that compares well with the UK civil service average and to the civil service average in Wales, but I know that it does not compare well with some private sector organisations, and I would like to see it lower, so, a little while back, I asked for an analysis and some proposals as to how we can do better. I do not think that everybody counts their sickness absence consistently. I think that we are pretty good at counting it, but 7.1 needs to keep coming down. It is mostly short-term sickness. I think that we have been very effective in reducing long-term sick levels, but short-term sickness, which is bad backs, colds and flu and some stress-related sickness, is a fine-grained management issue, usually, in a team. It is not a terribly easy thing to control from the centre, but I have asked for some further work on that.

[18] **Jenny Rathbone:** That is exactly where public attention will be, because nobody is going to argue that somebody who is seriously ill should not be on sick leave. It is much more about those other short-term issues. If you look at the figures in the NHS, which is part of the Welsh Government’s budget, they are much worse than that. Obviously, they are in a job where they come into contact with disease, but there are clearly some significant issues around stress levels that are causing people to go on sick leave.

[19] **Sir Derek Jones:** The trade union side has mentioned to me that it too looks ahead at the kind of pressures that the organisation will have to manage and has expressed some concern about whether that is going to put more stress into the organisation and, if it does, we might expect to see short-term sickness rising again. So, I think that it will be a sign not only of our ability to manage but of the morale of the organisation, which, I think, is currently quite good, that that does not happen. I agree with you that, if you look at the health boards and trusts, there are some worrying figures there. I think that the ambulance service has the highest sickness absence levels of all of the health bodies, so I am wondering, although it is

not my direct management responsibility, whether we can improve on that.

[20] **Jenny Rathbone:** In terms of the financial pressures, and we are, obviously, looking at the accounts, that is a very significant issue, because you cannot run an ambulance without a driver. So, what pressure can you put on the health boards to ensure that they are doing everything possible to reduce their sickness levels?

[21] **Sir Derek Jones:** We do meet the chief executives of all the health trusts regularly. The Minister meets the chairs and chief executives. They manage their own businesses, so it is their management responsibility, but, clearly, when the Welsh Government sees figures like that, it is bound to assert itself and to ask for action to improve, and that is what is happening, not least on the latest health figures.

[22] **Darren Millar:** Julie is next.

[23] **Julie Morgan:** Thank you. To pick up on a few of the points that have come up so far, there is obviously going to be a huge challenge ahead in terms of the different skills that are going to be needed and, at the moment, there is still a degree of uncertainty about what developments will take place as a result of the Scottish referendum and further legislative powers. Have you got a strategy worked out about how you are going to deal with who you will need in the workforce?

[24] **Sir Derek Jones:** Yes. I should say that, although I have flagged these up as challenges and pressures, I am not in the least bit daunted by them, and I think that the organisation will manage them well, because it has managed—. The last 10 or 15 years of devolution have been an absolutely profound change. I think that the phrase ‘transformational change’ is overused a bit, but, if you look at the organisation that I am now privileged to lead, it has undergone transformational change and managed all of that, and I am confident that we can manage the next phases as well. We have a degree of certainty only for some of it, but that includes the implementation of part 1 of the Silk commission’s recommendations. I will invite Michael to say a little bit more about this, perhaps, if you would not mind. The implementation of part 1 is about further financial devolution, large-scale borrowing and the beginnings of tax-raising responsibilities that I mentioned earlier. With regard to part 2 of the Silk commission, on policy and legislative devolution, we have not had a response from the UK Government about that, but it does look as if there is a possibility of that being implemented, and perhaps rather more quickly than we thought, and we have that within our sights. There are other factors that are less certain, and I could not pretend to have a plan for those, but we do have an implementation board, there is a ministerial group, and Michael chairs the tax-implementation programmes. Would it be all right if Michael said a bit more?

[25] **Mr Hearty:** For the implementation of the Welsh treasury, we have a programme board. There are a number of projects that sit underneath that programme board, focusing on the headline deliverables. So, we are focused on the Wales Bill, non-domestic rates and the two aspects of tax that will come in the longer term, plus the tax administration legislation. However, we are also acutely aware that all of those things have an impact on the organisation and how you then have to deal with it as an organisation. So, that is one of the strands of the work, which we have not really structured as a project at the moment, because I think we are a bit too far away, but we are mindful that we will have to think about the organisational implications, the capacity implications and the capability so that we can start to think now about how to grow the skills in the organisation, so that when the right time comes—. We have a good idea that we will need tax policy experts, but, if we recruit a tax policy expert now, they will not have a huge amount to do for two or three years, because there is an implementation plan to go through. However, we have sight of what that will look like and what those skills are that we will need so that we can get the planning in early so that, hopefully, we are ready for implementation with the right people in the right place.

[26] **Julie Morgan:** To what extent have you been able to grow the skills of the existing workforce?

[27] **Mr Hearty:** If you look at the sort of skills that we will need, they are finance skills, economists and a good sense of how the economy works, forecasting skills—to an extent, we have those sorts of skills already in the organisation, so there might be something about the capacity that we need to grow, maybe—but also some of the more nuanced skills around forecasting that we have never had to do before, so we will have to develop those skills as well. These are not unique, but, if I were to think of a particular role that we do not have at the moment but would have to think about in the future, it would be more around tax policy—how tax policy works and how that all hangs together. However, with some of the other skills, we have those types of roles in the organisation already, and we need to think about how we develop them with a view to a treasury function rather than the routine government duties that are carried out at the moment.

[28] **Julie Morgan:** May I just ask, about the treasury function, whether having the treasury function will attract more money for that purpose from Westminster?

[29] **Mr Hearty:** That is subject to an ongoing discussion between Welsh Government Ministers and UK Ministers. The Minister for finance wrote to the Chief Secretary to the Treasury quite recently about that particular discussion.

[30] **Julie Morgan:** It will be extremely difficult to do, will it not, if you do not have any extra money at all?

[31] **Mr Hearty:** Yes. We are not served particularly well by the fact that, in Scotland, that debate is now finished and the direction of travel is that the Treasury would not provide Scotland with any funding for implementing a treasury. We take the view that that was something that the Scottish Government dealt with the Treasury over, and Wales is different. The Minister for finance has written to the Chief Secretary to start those sorts of debates and discussions now.

[32] **Sir Derek Jones:** It is a blooming unhelpful precedent though. [*Laughter.*]

[33] The Welsh Government's view is very clear: in endorsing a recommendation for a transfer of powers, it must be accompanied by an appropriate transfer of resources. However, negotiation inevitably forms a part of that. In the case of the treasury functions, as Michael has just said, the Scottish Government accepted the responsibilities without a transfer of resources. Game on.

[34] **Darren Millar:** Sandy Mewies is next, and then I will come on to William Graham.

[35] **Sandy Mewies:** Just very briefly; it is along the same lines as Julie Morgan's question. The point now is that the Welsh Government is facing challenges, which, although they have been on the cards, could happen quite quickly; there is no definite timetable as to how some of them will go. There have been increases in legislation drafting and, presumably, that will increase. It is inevitable, I would guess, that you will have to have more staff to do some of the fiscal work, such as the specialist tax chores that are coming in. Alongside that, do you have any plans, when you are taking on staff, to have them trained in these issues? Alongside taking on qualified staff, are you thinking about using the staff that we already have who could be developed into those specialist areas?

[36] **Sir Derek Jones:** Yes, even around something like legislation, which is highly specialised at one end of the process; legislative drafting is highly specialised. However, at

other points, it is more about general administrative civil service work or policy work where staff can reasonably easily adapt to a particular pressure point, and we have been doing that, supported by a programme of legislative training. This is partly about the issue that Jenny Rathbone was testing me on earlier; we can sometimes move resources to a pressure point with a bit of training and familiarisation, but it is not a completely different type of skill set. I am working on the basis that, while we will need additional resource in some areas, in aggregate it will be very difficult to grow, simply because of the overall budget pressures. So, ‘prioritisation and simplification so that we can do more with fewer staff’ will be the leitmotif for the next couple of years, and it will be stretching.

[37] **William Graham:** In terms of the new Treasury function and the very substantial sum being made available by the UK Government for the M4 motorway, will that require new skills or is it just that the sum is large but the principles are the same?

[38] **Sir Derek Jones:** The nature of the financing for the M4 will be relatively familiar. However, as we go ahead and consider different or innovative ways of borrowing or using the markets, I suspect that we will need to supplement our skills in that area too.

[39] **William Graham:** Is that presently being considered within your contingency plans?

[40] **Sir Derek Jones:** This will be part of that. May I just say one other thing on tax? Again, for the reasons that Jenny Rathbone was asking me about, it would not be right to spend money on recruiting staff until you have a pretty clear visible need for it, but on tax we have a very good advisory group. We have an expert advisory group and the Minister has access to a taxation reference group, from which, at this stage, she can get the kind of expert advice that she needs. We will have to be pretty careful and selective about spending our money on resources.

[41] I think that it is a similar picture on strategic borrowing for capital investment. Regarding any work on this area at the moment, we can get external advice. We have pretty good capability inside the organisation, but I estimate that we will need to supplement the expertise as we go forward.

[42] **Darren Millar:** Just before I bring Aled Roberts in on student finance, may I clarify that the exit packages recorded in the accounts for this year are double the number they were in the previous year, but that you are confident that all of those can demonstrate value for money for the taxpayer in terms of savings that are accrued over the short to medium term?

[43] **Sir Derek Jones:** Yes; I would say that there would be a payback period of 18 months to two years, after which the organisation, as it were, would be in profit on that severance. Do you want me to write to you on—

[44] **Darren Millar:** If you could.

[45] **Sir Derek Jones:** I think that I have pretty much promised to do so.

[46] **Darren Millar:** There are four packages in excess of £100,000 and one in excess of £150,000. To demonstrate value for money from those, I think, is extremely important.

[47] **Sir Derek Jones:** Okay. I will write to you, but I am confident, Chair.

15:45

[48] **Darren Millar:** Okay; thank you for that.

[49] **Aled Roberts:** Rwyf eisiau gofyn un cwestiwn byr ar staffio. Rydym wedi bod yn delio â chyflogau uwch swyddogion yn gynharach y prynhawn yma. Ar dudalen 6 eich rhagair, rydych yn sôn am y bwrdd, a'r ffaith mai chi fel Ysgrifennydd Parhaol sy'n gyfrifol am benodi y *non-executive directors*, rwy'n cymryd, i'r bwrdd—chi yn unig sy'n gyfrifol, a dweud y gwir. Mae tri chyfarwyddwr o dan y diffiniad hwnnw ar hyn o bryd. A oes rhaid i chi gael unrhyw fath o ganiatâd gwleidyddol i ehangu ar hynny? Mae'r nodyn yn awgrymu mai chi yn unig sy'n gyfrifol am y nifer a'r taliadau i'r cyfarwyddwyr hynny.

Aled Roberts: I want to ask one brief question on staffing. We have dealt with senior officer pay earlier this afternoon. On page 6 of your foreword, you mention the board and the fact that it is you as Permanent Secretary that is responsible for appointing the non-executive directors, I take it, to the board—you alone are responsible, in fact. There are three directors under that definition at the moment. Do you need any sort of political consent to expand on that? The note suggests that you alone are responsible for the number and the remuneration for those directors.

[50] **Sir Derek Jones:** That is right; I am. I do not think that I would require political consent to change the number, but a prudent Permanent Secretary, if wanting to move that number down, would certainly want to approach the First Minister to check that out. Three works pretty well for us. I could even envisage a circumstance of wanting more than three non-executives on the board, because they have more than one role. They are the non-executive directors who sit around my board table to provide the non-executive view, but one chairs the corporate governance committee, for example, and I think that it is best practice to have a non-executive leading on corporate governance. Another chairs the remuneration committee; I am a member of that, but that deals with senior level pay in my organisation. It is chaired by a non-executive, with the other two non-executives as members, along with me and one other colleague. I will turn to the non-executives from time to time for ad-hoc work—to lead a review or something of that kind.

[51] They might tell you that they feel a bit pressed sometimes, but I think that three is okay for the moment. However, as the business expands and becomes more complex, or demands increase, I might find that I would want to increase that so as not to overstretch people. I think that that is my accountability, but I would almost certainly test that out with the First Minister.

[52] **Darren Millar:** Before we move to questions on finance, in terms of the reporting for the remuneration of those individuals, you include the sums paid to them in calculating the median total remuneration as recorded in the accounts, which, of course, reduces that significantly and almost misrepresents the true median total remuneration for those other senior officials when recording the accounts. Do you think that there is an issue there of clarity?

[53] **Sir Derek Jones:** It sounds like it, Chair. I was not aware of that, I confess, and there is absolutely no intention of—. You have had me in front of you on a matter of senior pay in the public sector and I would not want to do anything in our accounts or anywhere else that was not completely transparent. I think that our senior levels of pay are, by and large, in the defensible category.

[54] **Darren Millar:** So, that is something that you might address next year.

[55] **Aled Roberts:** Rwyf eisiau symud ymlaen at fenthyciadau myfyrwyr. Mae'r cyfrifon yn dangos gorwariant o £25.6 miliwn. A wnewch chi grynhoi'r gwallau a arweiniodd at y sefyllfa honno, os gwelwch

Aled Roberts: I want to move on to student loans. The accounts show an overspend of £25.6 million. Will you summarise the errors that led to that situation, please?

yn dda?

[56] **Sir Derek Jones:** Yes, of course. It was an error. When I mentioned at the beginning that I thought that the accounts showed a reasonable picture overall of governance and accountability, but that there had been mistakes, this was one of the main ones that I had in mind. It was just a processing error of putting figures into the financial model that estimates the outstanding value of the student loan book. It has been an area of some change, so the model has been changed once, and I think that it will be changed again, so there is some complexity and churn in the process. However, it was an error; I cannot excuse that. It did not create any problems with our spending power, although it sounds like a very large sum of money, because this is non-cash annually managed expenditure, and the error was spotted at a point in the financial year when it was too late to do what we would normally do in those circumstances, which is simply apply to the Treasury for the necessary cover to be transferred to our books, which would have been automatic. However, it was too late in the financial year, so we had to carry it forward as an error and an overspend. I think that £25 million netted off down to £10 million by some underspends of a similar category of finance. There is a sense of proportion as well in that it was a £25 million error on the model estimating the value of the student loan book, which runs into the billions, so it was relatively marginal on that item as well—but not good enough. We have examined the reasons for it, and have put changes in place. I never use the word ‘ensure’ in these circumstances, but we have put changes in place to reduce the risk of anything similar happening again.

[57] **Aled Roberts:** Rydych wedi dweud na ddylai hyn ddigwydd eto, heb roi unrhyw fath o warrant. A allwch chi esbonio, felly, beth yn union sydd wedi newid i sicrhau nad yw hyn yn digwydd eto? Nid wyf yn meddwl y byddai'r rhan fwyaf o boblogaeth Cymru yn derbyn bod camgymeriad o tua £25.6 miliwn yn rhywbeth sydd ddim o bwys.

Aled Roberts: You have said that this should not happen again, without giving any sort of guarantee. Can you explain, therefore, what exactly has changed to ensure that this does not happen again? I do not think that most of the Welsh population would accept that an error of around £25.6 million is something that is not important.

[58] **Sir Derek Jones:** I will turn to my colleagues for support on precisely what has been done. However, I hope that I was not implying that it is not important. It did not affect our spending powers is the point that I am making, because, as I say, it is a non-cash AME item, and would normally simply be automatically covered. However, it was an error in the way that the model had numbers input into it, and was not good enough.

[59] **Mr Hearty:** There are a few things, really. I think that the creation of the error has made us think really closely about a number of things—about process, about teams working together, and about how we pass information between different teams that might be in different parts of the organisation. Much of what we have done in order to avoid it happening again has been around creating closer joint working around teams, and putting better audit trails and processes in place. On creating groups, as a really good example, there was an assurance group that met on an ad hoc basis, usually at the time when the handle was turned on the model, but it now meets regularly, so that it can keep abreast of developments.

[60] As the Permanent Secretary rightly pointed out, this particular model had three versions in one year, because the Department for Business, Innovation and Skills in the UK Government had moved to this new model. So, we were having to work on understanding and implementing three different models during the year, and, as the Permanent Secretary rightly points out, errors happen, and there is an error in this particular case. However, it has made us think about—. It is easy to talk about tightening up on controls, but I think that we have done more than that. I think that we have gone beyond that, to put different processes in place, and different relationships, with the intention that, on this particular model, the same sort of error cannot happen. However, with these models, at some point, there is human intervention, and

human intervention happens, and that is what has happened in this case. I think that the organisation could have put things in place that would have made it harder for the human intervention to happen; I think that that is the point.

[61] On a wider point, colleagues might recall the difficulties that the UK Government got into around its west coast mainline franchise, which was a lot about the accuracy of controls, and checking around a very complicated and detailed model. One of the Permanent Secretaries at the Treasury commissioned a piece of work, to look at how the UK Government should tighten up on its operation of these sorts of business-critical models. While that work was not for the Welsh Government, we understand and agree with the recommendations that the Permanent Secretary came up with, and we are working to put something similar in place across all our business-critical models, to make sure that we do not just learn the lessons from this particular experience, but that we take those lessons, and apply them across all our business-critical models.

[62] **Aled Roberts:** Mae'r nodiadau yn sôn eich bod yn ymgymryd â rhaglen dysgu gwersi. A yw honno wedi cael ei chwblhau erbyn hyn? Hefyd, rydych yn sôn eich bod yn symud tuag at y model newydd hwn. A yw'r model newydd hwnnw'n weithredol?

Aled Roberts: The notes mention that you are undertaking a lessons learned exercise. Has that now been completed? You also mention that you are moving towards this new model. Has that new model been implemented?

[63] **Mr Hearty:** The lessons learned exercise has been concluded, and a lot of the detail that I gave you in the last answer is what has emerged from those lessons. The model, in terms of moving to a new way of controlling, monitoring and managing this, is in place now, and that will work throughout this financial year. We would like to think that the model itself—the Hero model, as it is called—will now be stable, and that we will not have any subsequent changes again as a consequence of change within the UK Government. However, if there are, I think that we have some processes and controls in place that are better than we had previously, and we should be able to manage those changes.

[64] **Aled Roberts:** Dyma fy nghwestiwn olaf. Mae nodyn 6 yn yr adroddiad yn dweud bod cynnydd o ran costau cyfwerth ag arian parod o £350 miliwn rhwng y ddau fodel. A yw'n bosibl ichi egluro i ni, fel llyegwyr, y gwahaniaeth rhwng y ddau fodel ac a ydyw'r gwahaniaethau hynny'n esbonio'n llawn y gwahaniaeth a'r cynnydd yn y gost i'r Llywodraeth?

Aled Roberts: This is my final question. Note 6 in the report states that there is an increase in terms of cash equivalent costs of around £350 million between the two models. Could you explain to us in layman's terms what the difference is between the two models and whether those differences fully explain the difference and the increase in cost for the Government?

[65] **Mr Hearty:** I will look to Gawain or Lynne to answer that in detail, but my understanding is that the £350 million in the accounts is an adjustment that we make to the student loan on an annual basis, just to reflect changes as a consequence of the write-off of loans and such activities. However, I will look to others to go into the detail.

[66] **Mr Evans:** On note 6, I think that you are referring to the student loans non-cash charge, and the difference between the £50 million and the £418 million. That was actually a one-off hit this year because we changed models between 2012-13 and 2013-14. That was a one-off hit, because it was a change in the model, and we had the same actually occur with the English model; we applied to the Treasury and were given the additional cover for that in annually managed expenditure for the year. So, it was actually to do with the assumptions underlying the model. Obviously, there are a number of assumptions in terms of the education model, whether they be age, write-offs, or how many individuals are likely to reach the threshold for payback. As you change models, those assumptions move, so we were covered

by the Treasury for that change.

[67] **Darren Millar:** I am going to bring in William Graham in a second, just on European funding, but I just want to confirm here, Sir Derek, about this £26 million or thereabouts. It has obviously resulted in an overspend on the education and skills budget of £10 million after being offset against some underspends elsewhere. In terms of the impact of that on the ground in our public services in Wales, have any public services been deprived of the opportunity to receive more income from the Welsh Government in order to spend on learners?

[68] **Sir Derek Jones:** No. Overspend is not really a very good description of this transaction, for lots of technical reasons, but the answer to your question is 'no'.

[69] **Jocelyn Davies:** Is that because it is AME?

[70] **Sir Derek Jones:** Yes.

[71] **Darren Millar:** Thank you for just confirming—

[72] **Mr Hearty:** It is a non-cash item, so it is like depreciation. It is not real cash.

[73] **Darren Millar:** Yes, yes, but with the other underspends, would that have resulted in additional spending had it not been for this—

[74] **Sir Derek Jones:** No, they were the same type of money.

[75] **Darren Millar:** That is fine. Excellent. I now turn to William Graham.

[76] **William Graham:** Thank you, Chair. Could you tell the committee about the issue regarding the suspension of ERDF funding and how that occurred?

[77] **Sir Derek Jones:** Yes. It occurred because the European Commission took a different view about the technicalities of the audit that it would accept on the regularity of payments, in the sense of the delivery of the outputs. An agreement had been reached with the Commission. We were operating one type of sampling. The Commission took the view that it would no longer accept that type of sampling, and we are in the process of negotiating the consequential changes to that. You can imagine that I am not terribly happy about it, but the payments are suspended in the meantime—or 'interrupted', as I think is the technical phrase. We have been putting a lot of work into this, with meetings over here and in Brussels. The Commission's auditors visited us recently to go through some of our paper work.

16:00

[78] We are still feeling confident that there is not a fundamental problem here, but as I sit in front of you, the payments are still interrupted. There is a meeting in Brussels on Friday at the Commission, which had this on its agenda originally, but it deferred it because of other more pressing business and will look at it at the next meeting towards the end of this month. Although the expectation of my colleagues who are involved in this is still that we will arrive at the right point, it has been going on for longer than I feel comfortable with.

[79] **William Graham:** You are confident, then, that, at the end of the day, we will receive the same amount of funding as was originally agreed.

[80] **Sir Derek Jones:** Yes, indeed. The Commission has suggested actually that we could now start preparing the claims for that process. That is a good sign, but I have learned already not to try to anticipate the conclusion of this process, because it has been going on for a long

time. It is not causing a problem for us, yet. Actually, Chair, you asked me about this the last time I was here, talking about grant funding. This is a cash management issue and we are okay at the moment, but the closer we get to the end of the financial year, the more concerned I would become, and that would require, potentially, an approach to the Treasury to get it to help us with cash management. I think that it would, because it has done the same for other authorities in the same boat.

[81] **William Graham:** Do you think that this weakness could have been foreseen?

[82] **Sir Derek Jones:** No. As you can imagine, I have had quite a lot of briefing, as principal accounting officer on this, from Michael and from my director of governance, who is not here today. I do not think that we have felt that this was avoidable. We felt comfortable, actually, with the processes that we were operating, and we mounted a spirited case that they were actually a better sampling methodology than the one that we are now obliged to use, because they take account of a sort of intelligent assessment of risk, so we would go to audit areas of the business that we think have a greater degree of risk. The Commission is going for a more statistical approach as it was statistical sampling, but it is its money, and so I think that the easiest way to get our programmes going is to accept its methodology, make the necessary corrections and move on.

[83] **William Graham:** Thank you. Could I just ask you also, in your notes here on the INTERREG III programme, there is money in that account, so will we be able to use that for something else in time?

[84] **Sir Derek Jones:** Can anybody help me with INTERREG III?

[85] **Mr Evans:** INTERREG III is actually money that we manage on other people's behalf. So, although we have separate accounts in the Welsh Government for Welsh Government funding and European funding for Wales, we also manage this INTERREG funding, which is not ours. We handle it for other people.

[86] **William Graham:** Right, so that €400,000 or whatever it is is not ours.

[87] **Mr Evans:** No, it is not ours.

[88] **William Graham:** Thank you.

[89] **Darren Millar:** Just to confirm, Sir Derek, you have referred to this issue in the past and suggested that it would be resolved relatively quickly. I think that that was back in May, and now, we are getting towards the end of the year. In terms of when it will become an issue for your cashflow and the actual resources that you have, when will we reach that point? What is the size of the amount that you have spent out that you are waiting to get back at the moment?

[90] **Sir Derek Jones:** I was advised, and I probably repeated, that we expected this to be concluded reasonably quickly. That was wrong. It has not been reasonably quickly; it has actually been reasonably slowly. I think that the cash management pinch point will come at some point in the last quarter of the financial year, probably towards the end of that quarter. I turn to my colleagues—

[91] **Darren Millar:** So, what is the scale? What is the total being held back at present?

[92] **Mr Evans:** We are paying about £30 million a month in place of European funding. So, it is about £360 million over the year, so we would start to have issues around cash probably around the second or third week of March. So, it is very close to the end of the

financial year.

[93] **Sir Derek Jones:** A lot of our cash leaves the organisation in the latter part of the financial year, and that is measured up in the billions, so this is currently manageable and, I think, will be manageable through to the conclusion, but I cannot put my hand on my heart and promise you, because, to a degree, this is outside of our control.

[94] **Jocelyn Davies:** I want to ask you about the Welsh risk pool, because you must be pretty disappointed to see that this money that you are having to put aside to cover clinical negligence within the NHS is rising, and rising significantly. Can you explain what has happened to cause that rise? Perhaps you could tell us what your strategy is going to be, going forward in future years.

[95] **Sir Derek Jones:** I will need some help on this. The Welsh risk pool has been a thorn in the side of financial planning for the organisation, I think, for as long as I can remember, and that goes back a way. I do not know for sure what causes fluctuations or volatility in medical negligence cases. It is an element of expenditure that the organisation manages rather than controls, if I can put it in that way. Perhaps Michael and Lynne or Gawain could help with further analysis.

[96] **Mr Hearty:** As the Permanent Secretary explained, the risk pool is something that is managed within the health department, and as part of its overall financial management of its financial risk, it needs to think about how it manages the pool going forward. The detail of that, really, as has been said, is a matter for the health director general rather than for us here. However, we could provide a note.

[97] **Jocelyn Davies:** So, you centrally would not have a long-term strategy for managing the size of the pool or for insuring the liabilities. It just falls on the health department. So, if this rises, it just has to find the money from somewhere. Lynne Hamilton, do you want to respond?

[98] **Ms Hamilton:** Yes, just to add to what Michael said, the pool is managed by the NHS shared service on behalf of the department, and I know that the director there, Neil Frow, works closely with Martin Sollis in the health department to work with the bodies to manage down the size of the pool. However, they are very dependent on the number of cases coming through, and it is a matter of quite complex case management and of working with both the health bodies and lawyers on making a judgment of risk as to the scale of likely damages that may have to be paid. I am told that it can become quite a long and protracted exercise, but it is managed very much on behalf of the service within the NHS shared service. Our role centrally is quite remote, but I do know that it is managed quite proactively within those bodies.

[99] **Sir Derek Jones:** Chair, I do not think we are giving Jocelyn Davies a very good answer on this point, so if the committee had an appetite for it, because it is highly technical, we could send a note. I think that there is expertise that is not in front of you today in terms of understanding and doing what we can do in relation to the management of the risk. However, as I think I said, we manage it rather than control it. It is a difficult item, but if you would like a more expert answer than that, I will commission one.

[100] **Jocelyn Davies:** There do seem to have been significant rises in recent years. I know that we have had explanations in years gone by, when I was sitting on this committee in early Assemblies, saying, 'Oh, well, we've had one or two complicated cases with large settlements', but it is still rising and rising every year. Okay, so—

[101] **Darren Millar:** Just a second, Jocelyn. I think that Aled wanted to come in on this.

[102] **Aled Roberts:** Has it always been administered by NHS shared services?

[103] **Ms Hamilton:** I do not think so, and the shared service is only in its third or fourth year of operation anyway. It was previously managed, I think, by one of the bodies on behalf of the other bodies, and then it moved into shared services when it was created. However, we will cover that in a note that we will provide, explaining the history of the management of it.

[104] **Jocelyn Davies:** I mean, it is £594 million. It is an awful lot of money.

[105] Maybe I could ask you about the cash levels, then, because it is obviously a matter completely for you. At the year end, they have fallen compared with the previous year. So, can you summarise your cash management policy, because, according to the figures that you have given us, it is now £21 million? I noticed earlier on, when we were talking about the £25 million on the student loan book, that you described that as a marginal sum compared with the value of the book, which was mid-billions. So, I guess that this would be a marginal sum compared with the overall Welsh Government budget, which is also billions. However, it just seems to me that it is incredibly low at £21 million. It was £80 million-odd last year, which was still, it seemed to me, quite low then at half a per cent. So, what is the percentage—

[106] **Sir Derek Jones:** It is a masterly management of cash, I think.

[107] **Jocelyn Davies:** Well, it must be, but—

[108] **Sir Derek Jones:** It is tight.

[109] **Jocelyn Davies:** ‘Tight’? You really are close to the wind there. What percentage of the overall budget is that?

[110] **Sir Derek Jones:** What—it is £21 million—

[111] **Jocelyn Davies:** It is £21 million. Someone would normally think that maybe 1% was prudent and yours is—

[112] **Sir Derek Jones:** It is going to be 0.1%.

[113] **Jocelyn Davies:** It is 0.14% or something like that. It is very, very small compared to—

[114] **Sir Derek Jones:** I will—

[115] **Jocelyn Davies:** What if you had an emergency?

[116] **Sir Derek Jones:** That is cash management we are talking about, and the organisation carries a prudent reserve. It is usually about £100 million or so of spending power as it were—

[117] **Jocelyn Davies:** So, you have got a little reserve—

[118] **Sir Derek Jones:** If we did, for some reason, start to run out of cash, we would turn to the Treasury for support with that and the reason why we should have it. We do have to operate to quite a tight cash management regime with estimates of cash requirements being submitted monthly to the Treasury. We are expected to comply with those estimates to a plus or minus variation of about 5%. So, it is quite a rigorous system. We are not taking a flyer on this, but it is cash management. It is not the same as our spending power in the event of a

flood or something like that.

[119] **Jocelyn Davies:** So, this £21 million is an indication of how well you are managing, because—. Some of you are nodding and some of you are wondering, ‘What’s he going to say now?’ [*Laughter.*] I have heard about landing a jumbo jet on a postage stamp, but this really is—

[120] **Sir Derek Jones:** It is a good example of financial management. It is tight. I think that I said in my opening remarks that it is a weighty accountability when you realise that through this organisation flows £15 billion-worth of the public’s money. I think that we underspent that in the year in question by 0.6%. I do not know whether anybody saw the film of HMS Duncan inching its way into Roath basin, but it sometimes feels a bit like that. There is very little space at the sides. Gawain, have I said anything wrong about cash?

[121] **Jocelyn Davies:** So, you are pleased with that; you are comfortable with that. You have no concerns about it and it is a demonstration that you are doing really, really well on your white-knuckle ride, I would say, in that last month, if you have just got that margin of £21 million.

[122] **Mr Evans:** Just to add to what the Permanent Secretary said, we are expected to manage our cash very well by Treasury. There is a 5% variance monthly and the Welsh Government achieved an average last year of 2.8%. Although that is very good, it still only just about put us in the top 10 of departments. So, you could argue that some people actually manage their cash even better than we do, believe it or not. However, although we manage monthly in terms of forecasts, when we get to the last quarter, and particularly the last month, we are in daily contact with departments over the invoices that are being released, the invoices that they are likely to receive and the grants that they are going to pay out. So, we do expect a lot of information from the departments in order to allow us to do this and we manage our cash balances and the bank accounts—we have a major bank account effectively with the Treasury and then we have a local bank account as well—on a daily basis. We are constantly looking at our balances. However, as I said, we work really on a rolling monthly basis up until the last quarter and that is really when we start to manage perhaps even more tightly and work very closely with the departments.

[123] **Jocelyn Davies:** Okay, thanks.

[124] **Sir Derek Jones:** It feels a bit like tempting fate, Chair, and I think that our external auditors, sitting alongside you, have flagged up a few concerns for the 2013-14 accounts about cash management and indeed about bringing in the budget itself. It is hard work.

[125] **Darren Millar:** Can you just clarify this for us, Sir Derek? Do you have policy in terms of the percentage of the overall block grant that you expect to have remaining in the account at the end of each year? It is prudent to have a policy, is it not, in terms of your cash flow management?

[126] **Sir Derek Jones:** Talking about outturn rather than cash, it would be that we are not overspent and that we have the least residual that we can safely manage by way of underspend—

[127] **Darren Millar:** So, £1 is what you aim for, is it?

[128] **Sir Derek Jones:** That would not be the minimum that we could prudently aim for, I do not think.

[129] **Darren Millar:** So, what is the minimum? I mean, what does your policy say? Can

you send us a copy of your policy? I have not seen one in the accounts, you see.

[130] **Sir Derek Jones:** I do not think that we have a policy that refers to a desirable figure of underspend. However, as I say, it is the minimum that we could prudently outturn on without taking a risk of the contrary, which is an overspend.

16:15

[131] **Jocelyn Davies:** Obviously, every single department has got to be on the button, has it not, in order for you to achieve that? Does that mean that, centrally, you have a tight control on all the departments to ensure that they are all on the button? Otherwise, you cannot do this.

[132] **Sir Derek Jones:** Departments have to take their own responsibilities, to a large extent, so, I do not think that there is tight control, but there is a very active system of forecasting and monitoring towards outturns. There is also a carry-forward arrangement in the year; it used to be called end-year flexibility, but it is now called the budget exchange mechanism. It is a bit tighter, having been tightened by the Treasury when the recession and financial stringency came in, but that allows for about £18 million-worth of carryover. So, if we underspend to that extent, within that, we do not lose the money. However, those are—

[133] **Jocelyn Davies:** Yes, but you have to have permissions for that, do you not? However, to get it down to this level, you must have tight control or you are monitoring very closely all the other departments.

[134] **Mr Hearty:** In the same way that Gawain was explaining how we keep a tight control and liaison with each of the lead finance officials from each of the portfolios on cash, we do that on resource and capital. Derek's management board takes monthly finance reports, so that we can monitor, at director general level, what the forecast position is. Using the analogy with landing a jumbo jet, the closer you get to the runway, the more you are doing that on a daily basis to make sure that we can manage the position.

[135] **Darren Millar:** That is relatively straightforward if you have one pilot in the jumbo jet, is it not? However, you have health boards, for example, that went over the postage stamp completely in the year, a number of which outspent their allocations and a number of which required brokerage in order to make ends meet. According to the accounts, there was an underspend of £26,882,000 that related to the timing differences—you have to explain those to me, because I thought that those should have been addressed with provisions in your accounts—between NHS consumption of resource and the cash drawn. Do you want to explain to me what that means in plain English, Sir Derek?

[136] **Sir Derek Jones:** I will need some help on that, Chair, but you are quite right. Three health boards exceeded their spending limits in this year. In all previous years, that would have been dealt with by a transfer of resources from the Welsh Government—what is often referred to as a bail-out. Given what is ahead of us, the decision was taken this year not to do that, but, as it were, to expose the issue more clearly and so the accounts of three of the health boards were qualified. It is not just Welsh health boards that are struggling with some of these issues; there are many health trusts in England that were in deficit towards the end of the year, but received transfers. I would not pretend that this is easy territory for us at all, but I think that it was the right thing to do to let those health boards manage their affairs, and if that meant overspending, for that to be plain. There is reputational damage there; if it happened again, any health board could expect to feel a more directly controlling hand from the Welsh Government, but I hope that by making that accountability clear and public, and by steadily moving to a three-year management regime for the health boards, we will be able to get the expectation, which has not been clear enough, that the budgets in these areas of health will be lived within.

[137] **Darren Millar:** However, that has an impact on your cash flow, does it not, if they—

[138] **Sir Derek Jones:** This is £26 million within the £5 billion health block that was underspent by that part of the organisation because of the mismatch of transfers.

[139] **Darren Millar:** Could you just explain that to us?

[140] **Sir Derek Jones:** Could you explain that in more plain English, Gawain?

[141] **Mr Evans:** May I, perhaps, go back to the question about cash more generally? I just wanted to make it clear that cash in the Welsh Government is managed centrally, hence we have the visibility. Although we rely on the departments for a lot of the forecast information, there is a single finance services team that pays all bills and all grant payments and manages the two main bank accounts for the Welsh Government. That is how we are able to work with them, but also have full visibility of the invoice payments and the grant payments that are going to be made. Obviously, that does help us in terms of our ability to manage it centrally.

[142] **Darren Millar:** Can you provide clarification on the £26 million underspend in the health—

[143] **Mr Evans:** That £26 million is not all cash. I had a look at it. We can provide a breakdown of that. It is not all cash. The way in which it is worded at the moment is perhaps not the best explanation.

[144] **Darren Millar:** So, with regard to NHS consumption of resource and cash drawn, you would provide for that within your provisions, would you not, usually?

[145] **Mr Evans:** As I said, in terms of the £26 million, there were non-cash and cash elements. So, the explanation is perhaps not clear, and I am more than happy to explain the £26 million.

[146] **Sir Derek Jones:** It would be a call-down from one or more health boards that was expected but did not materialise before the accounts closed.

[147] **Darren Millar:** However, you would usually provide for those, would you not, otherwise you would have one of these elements in the accounts every single year, would you not? It is not normal practice to deal with it in the way in which you have dealt with it, is it?

[148] **Mr Evans:** I am sorry, I am not really sure about your question. The way it reads here implies that we over-accrued. That is the way that I have taken this in terms of cash. However, as I have said, the explanation is probably not the clearest that we have ever provided, because it is not purely a cash impact on this. Effectively, we underspent on cash and non-cash with the health accounts.

[149] **Sandy Mewies:** Can we clarify the non-cash?

[150] **Darren Millar:** I am a little confused. It says in the notes to the accounts that, for health and social services, the underspend,

[151] ‘related to timing differences between the NHS consumption of resource and the cash drawn.’

[152] I appreciate that you would normally account for those with your provisions within the balance sheet, et cetera, in order to account for them. So, what I cannot understand is why

it only features here this year and was not in last year's consolidated accounts. There was obviously something unusual about the arrangement this year. Is that right?

[153] **Sir Derek Jones:** I do not know what was in the previous year's accounts, I am sorry, Chair. However, subject to the point that Gawain made, I think that this is accounted for appropriately, but the explanation would be, as I said, that it was expected that there would be a draw-down of this cash from a health body, but that did not happen before the books had to close at the end of the year.

[154] **Darren Millar:** Could you send us a note on that?

[155] **Mr Evans:** I do not think that it is unusual; I think that it is just that the explanation needs clarifying.

[156] **Darren Millar:** In terms of the national health service, Sir Derek, obviously, it is accountable in terms of its governance arrangements et cetera to the Welsh Government. Given that three of the eight boards have overspent in the year, with qualified audit opinions as a result of that, and that two further boards required brokerage, are you happy with the oversight and governance arrangements in terms of how they manage their financial affairs?

[157] **Sir Derek Jones:** I am not happy with the performance, Chair, but I am happy with the plans and proposals that are in hand for boards to completely accept and understand their accountability, develop a satisfactory three-year plan—which is in process for all health boards—and, having had that plan implemented, to live with it.

[158] **Darren Millar:** So, are you expecting health boards to breach their requirements this year as well—that is, within this financial year?

[159] **Sir Derek Jones:** No.

[160] **Darren Millar:** Not at all? They will all break even.

[161] **Sir Derek Jones:** I said that I did not expect them to—

[162] **Darren Millar:** Okay—unless they are planning not to through their three-year plans.

[163] **Sir Derek Jones:** Yes, and that is the case with at least one health board that I can think of, where we are satisfied with the three-year plan, but it will involve a difficult first year and then a better second and third.

[164] **Darren Millar:** I call on Aled Roberts.

[165] **Aled Roberts:** Mae rhai byrddau iechyd na fydd yn cytuno eu cynlluniau efo chi tan fis Ionawr 2015. Maen nhw wedi cael ymestyn y cyfnod, felly byddant jest yn delio efo'r flwyddyn yma. Felly, beth sydd yn mynd i ddigwydd? Mae sôn yn y gogledd, o ran cofnodion o flaen y bwrdd iechyd, ei fod yn edrych ar orwariant o rhwng £50 miliwn a £60 miliwn eleni.

Aled Roberts: Some of the health boards will not agree their plans with you until January 2015. They have been allowed to extend that period, so they will just be dealing with this year. So, what is going to happen? There is talk in the north, in terms of records in front of the health board, that it is looking at an overspend of between £50 million and £60 million this year.

[166] **Sir Derek Jones:** I have not seen that figure, and I do not know whether it is one that has been notified to us. Budgeting is really tight across the health domain. The Minister for Finance is well aware of that this year, and of the pressures that will be continuing next year.

However, we are tightening up the financial discipline on the health boards. They are perfectly aware of that and they know what our expectations are for the new three-year plans.

[167] **Darren Millar:** Jenny Rathbone has a quick question on sustainability.

[168] **Jenny Rathbone:** Yes. I just want to look at the detail of pages 8 and 9 of your report, where you indicate that you think that the results are positive in terms of the progress that the Welsh Government is making towards our sustainable agenda. Obviously, this will come into greater focus if the Well-being of Future Generations (Wales) Bill is passed. However, looking at page 9, there are some things that puzzle me in backing up that indication of positive progress, in that I see that renewable electricity consumption has gone back down to the level it was in 2010-11, whereas non-renewable electricity consumption has increased. I wonder whether you could just explain that. Indeed, in addition to that, our expenditure on energy in 2013-14 is not available. Why is that?

[169] **Sir Derek Jones:** Sorry, on—?

[170] **Jenny Rathbone:** This is page 9.

[171] **Sir Derek Jones:** Yes, I am on page 9. What was your last point please?

[172] **Jenny Rathbone:** The expenditure on energy, in terms of financial costs, for 2013-14 is not available, even though these are the accounts.

[173] **Sir Derek Jones:** Ah, right; I have got it, yes. I will say straight away that I do not know the answer to that. Unless any of my colleagues do, I will have to write to you to explain it. I do not know the explanation for the renewable decline, although we have had some rather high-profile difficulty with the wind turbine attached to our building in Aberystwyth, but I am not sure that that, on its own, would account for it, so, again, I would have to write to you. However, I think that the overall picture is positive and a huge amount of work has been done with the Welsh Government estate to bring its overall emissions down. We have set ourselves a target of a 30% reduction by 2020. On the basis of the overall emissions at the moment, I think that you would feel confident, except that I think that every next improvement is more difficult than the last one. So, I think that, on these sorts of things, I would expect to make some good progress early on, but then it will get more and more difficult to squeeze out further reductions. I think I would say that, in almost every case, reducing emissions requires capital investment, so better, more modern buildings, better heating and air conditioning systems—

[174] **Jenny Rathbone:** Air conditioning—hmm. Okay.

[175] **Sir Derek Jones:** It also requires improvements in travel and subsistence and so on. So, under financial stringency, will we be able to lay our hands on the funding for capital investment that you will need to get the longer-run improvements? I think it is a case of so far, so good, but I am not exactly relaxed about meeting the target, given how difficult it is going to be to find investment funding.

[176] **Jenny Rathbone:** I go along with your argument to some extent, in that, obviously, to make buildings more sustainable sometimes requires capital investment, but it is also about changing behaviours and people putting on a cardigan rather than turning up the heating.

[177] **Sir Derek Jones:** Or switching off the car engine.

[178] **Jenny Rathbone:** Yes, that is one that we have had some discussion about, but you do not even give us the expenditure on official business travel for the last two years. So, we

are not even able to see whether you are making any improvement on the amount of money that you are spending on business travel.

[179] **Sir Derek Jones:** You are quite right; it is not good enough. Unless any of my colleagues can help, I will have to write to you either with the numbers, which may not have been available at the time that the accounts went to print, but might be available now, or, if not, to say why that is.

[180] **Jenny Rathbone:** I think, in terms of the future generations Bill, if it becomes law, you will be obliged to provide this information. If we cannot even see whether the direction of travel is positive, then it is difficult for us to know whether you really are making positive progress. So, I would certainly like to see the missing figures if they are available.

[181] **Sir Derek Jones:** We are making progress on the emissions, though.

[182] **Jenny Rathbone:** Indeed; I acknowledge that. However, it is also about the sums of money involved. There is constant pressure in terms of the amount. Non-renewable energy is going to go on going up—we know that—so, if we do not use more renewables, we are going to obviously have an increasing energy bill.

16:30

[183] **Darren Millar:** So, you will send us a note in terms of the travel emissions, in particular, especially for official business.

[184] **Sir Derek Jones:** Yes. We will do that on all of the issues that Jenny Rathbone has pointed out: all of the non-availables and on why the non-renewables have gone down in some cases.

[185] **Jenny Rathbone:** Well, the non-renewables have gone up.

[186] **Sir Derek Jones:** Sorry, the non-renewables have gone up, and the renewables have gone down.

[187] **Darren Millar:** Thank you for that. Jocelyn Davies is next.

[188] **Jocelyn Davies:** I just wondered whether you could explain why sustainable development has changed from ‘the central organising principle for the Welsh Government’ to ‘a central organising principle for the Welsh Government’. When did that happen?

[189] **Sir Derek Jones:** I did not know that it did.

[190] **Jocelyn Davies:** Well, your bit of paper here states:

[191] ‘Sustainable development remains a central organising principle for the Welsh Government.’

[192] It used to be ‘the central organising principle for the Welsh Government’.

[193] **Sir Derek Jones:** I do not think that there has been a policy change. I think that it is a drafting issue.

[194] **Jocelyn Davies:** Well, next year, then, I expect that that will go back to stating that sustainable development is the central organising principle. Do you imagine so?

- [195] **Sir Derek Jones:** I have no difficulty with that drafting change—
- [196] **Jocelyn Davies:** I was going to ask you what the others were, but, if it is the central one, then you would—
- [197] **Aled Roberts:** It might depend on the notepaper. [*Laughter.*]
- [198] **Sir Derek Jones:** It is still sustainable development. These things never stay exactly the same. There is a strong emphasis now on sustainable development in the round. That is the economic and social, as well as the environmental, sustainability of communities and organisations. So, sustainable development being the central organising principle—
- [199] **Jocelyn Davies:** I am thinking of the broader definition of sustainable development—
- [200] **Sir Derek Jones:** It is true that it is not just about the environmental system.
- [201] **Jocelyn Davies:** I am glad to have that confirmed.
- [202] **Darren Millar:** Aled Roberts is next.
- [203] **Aled Roberts:** I am fine. My question has been answered in the past.
- [204] **Darren Millar:** May I just ask a question in terms of the travel subsistence and hospitality costs, Sir Derek? They seem to have risen significantly in the last financial year, with an 11% increase. Is there a reason for that? It is £0.5 million more.
- [205] **Sir Derek Jones:** I would need to do some analysis to confidently give you a reason, although the year that we are talking about coincides with my first full year in the job, and I may well have something to do with this in that I do not think that Welsh Government officials travelling in order to meet with their stakeholder or client groups, or to meet with businesses, or to invite important stakeholders, businesses or others into the organisation and being able to give them a cup of coffee and a sandwich is an extravagant overhead; I think that that is often part of a successful operation. When I arrived, I felt that, while it was understandable in order to reach some very tough budget limits, we had probably swung too far in the wrong direction on some of those things, and I had seen, from outside Government, the impression that what was now my organisation could make in seeming inaccessible or remote. So, I asked my managers to manage their own businesses and reach their own judgments about these things rather than imposing a central limit of, ‘Thou shalt never have a cup of coffee in a meeting’. So, that may be part of the reason, although it is a rather sharp increase. That might be part of it; otherwise, I will need to do a more detailed analysis.
- [206] **Darren Millar:** You would be happy to give us a breakdown between travel, subsistence and hospitality, would you not?
- [207] **Sir Derek Jones:** Yes, of course.
- [208] **Darren Millar:** There have obviously been lots of questions from Members on the content of the accounts. For some of those questions that you have not been able to answer you have said that you will go away and provide us with some further information on them. Do you think that there should be a bit more transparency in the accounts in the future in terms of the quality of the reporting and the information that is being reported? If we, as the Public Accounts Committee, have lots of questions and you, as the accounting officer, are not able to answer those questions in this forum, how on earth could a member of the public hope to be able to find this information accessible? Do you have any plans to improve the transparency?

[209] **Sir Derek Jones:** We do have plans to improve the accounts, and we are actually working with the Wales Audit Office on this now. It is something that the current management letter picks up. Michael will be able to say a bit more, I think, about that. There is a recently published command paper by the Treasury that makes proposals for new standards, I guess you would call them, for the accessibility of Government annual reports and accounts. We are working with colleagues in Whitehall on that. We have no problems with improving, but there is something of a tension between accessibility on the one hand—. I think there is a desire to have accounts being shorter, so we would consider it a success that, with one set of accounts, the latest is about 60 pages, whereas its predecessor was 80 pages. There are less copious notes so it is less of an off-putting read for the public. However, on the other hand, more transparency can also mean more information and more detail. So, I think that it will be a balanced judgment. However, I have absolutely no problem—. As far as I am concerned, this committee is entitled to know anything I know and anything my colleagues know about the management and accountability of the public's money in this area. I do not know what conclusions you will reach about this first session of scrutiny on the accounts, but when I first heard that you were intending to have it my first reaction was 'yikes', because it is already a large and quite detailed quarry of material and I knew that I would not be able to answer all of your questions. However, we will do our best and that includes picking up any suggestions for more detailed information, bearing in mind, as I say, that we are at the same time trying to produce shorter and more readable accounts.

[210] **Darren Millar:** In terms of the information that is available in the public domain, squirrelled away in different places, one thing you provide to the Finance Committee on an annual basis is the outturn report, which is obviously a much more detailed document than the consolidated accounts. Have you ever thought about attaching that to the consolidated accounts as an appendix or whatever just to help people to perhaps probe a little bit more in some of the areas?

[211] **Mr Hearty:** I do not know whether we have, to be honest, Chair. We do quite a lot of work with the Wales Audit Office thinking about how we can develop and improve the usefulness of the accounts. You are absolutely right that there is a sort of suite of information out there already. The Government produces its programme for government and the future generations Bill will take us even further down the road of performance reporting in terms of performance indicators across the public service in Wales. We are also working with the Chartered Institute of Public Finance and Accountancy. It is promoting a pilot scheme around integrated reporting, which is intended absolutely in the space of how you bring performance together with financial numbers and strategic information. The Welsh Government is going to lead on that for the public service in Wales pilot at this stage. The work that Treasury kicked off as part of the financial reporting advisory board group is something we have been quite heavily engaged in. We are taking the same approach that other Government departments are taking in terms of trying to take it a step at a time to make sure that we improve the quality of the accounts we have the moment before we start to take it into more complex areas. However, on the point about the outturn, we will take it away and look at it in the context of the suite of how we improve our overall streamlining of the accounts and our reporting.

[212] **Darren Millar:** Thank you for that. Jenny, did you have a final question?

[213] **Jenny Rathbone:** There is an intriguing note on page 56 about the cost of the Bute Avenue PFI. It is £5.1 million annually until November 2025 for a very small strip of road, and I just wondered what the learning was from that PFI that we might take forward into the commissioning of the M4 improvement that is mooted. It looks like a lot of money for one small road.

[214] **Sir Derek Jones:** I have no idea whether, looking at it now, we would think that that

was a good contract or not. It is clearly the one that we have got. I think, since those days, not just in Government in Wales, but in Government generally, there is a much greater degree of scepticism about this approach to capital investment, but it is still considered—as long as it is the right kind of PFI and genuinely transfers risk—that it could still be valuable. However, across Government in the UK, a number have been found to look like poor value for money as time has gone on. As I say, I do not know whether that will be the case here, but we certainly do not intend to repeat any of the mistakes that have been made in the past when it comes to the M4 or any other major item of infrastructure.

[215] **Darren Millar:** Okay, and, on that note, that concludes this particular session. Thank you very much, Sir Derek Jones, Gawain Evans, Michael Hearty and Lynne Hamilton for your attendance today. We look forward to receiving the additional information that you promised to provide and the clerks, of course, will be in touch and will liaise with you around that. Thank you very much indeed.

[216] **Sir Derek Jones:** Diolch yn fawr, Chair. Good afternoon, everybody.

16:40

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

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

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[218] Do any Members object? I see that no-one objects, so we will move into private session.

Derbyniwyd y cynnig.

Motion agreed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 16:40.
The public part of the meeting ended at 16:40.*