

Culling the Quangos

**The New Governance and Public Service Reform in
Wales**

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Executive Summary

Quangoland: The Way We Were

Quangos are not a new feature on the Welsh political landscape, nor have they always had such a poor reputation as today. From 1979, however, under the Tory policy of reducing the role of the state in service provision, the number of quangos in Wales more than doubled. During this period consumerism triumphed over citizenship, as democratic rights were replaced by those of the consumer. In spite of claims that quangos could be rendered more accountable than the state, this prompted a crisis of accountability, not least because quango members were being appointed by *Conservative* Ministers to deliver services in *Labour* heartlands. As a result of the parallel loss of power at local government level, accountability dropped ominously into the interstices between central and local government.

In Wales, the poor reputation of the quangos was exacerbated by a series of scandals. Throughout the 1980s and 1990s, the appointments process of many quangos was marred by a failure to adhere to the principles of transparency, accountability and equality of opportunity. The full extent of the crisis was eventually revealed by the Public Accounts Committee's 1993 investigation into irregularities at the WDA, which exposed a catalogue of errors of judgement, wilful disregard of protocol and sheer incompetence.

Reforming Quangoland

The 1995 report of the Nolan Committee on *Standards in Public Life* provided the initial impetus for quango reform. The Committee noted that a lack of transparency and openness was eroding public confidence, and recommended that a system of wide-ranging scrutiny be implemented to address these problems. Some initial progress in effecting reform was made following the election of a Labour government in 1997, but it was with Welsh devolution that reform became most pronounced. As Secretary of State for Wales, Ron Davies promised to reduce in number unelected bodies before the National Assembly was established, and place them under proper democratic control thereafter. This strategy has proved effective in improving the breadth and depth of scrutiny and accountability.

Nevertheless, the Richard Commission on the powers and electoral arrangements of the Assembly identified a lack of a *culture* of scrutiny. In particular, the twin problems of insufficient time and inadequate expertise within the committee structure were regarded as a barrier to scrutiny. Although progress has been made in improving the accountability of quangos in Wales, the triumph of soundbite over

substance ensured that the image of the all-consuming 'bonfire of the quangos', originally used to rally the pro-devolution lobby, has endured. As First Minister, Rhodri Morgan was firmly committed to a bonfire, triggering doubts about the real motives for it.

The Bonfire of the Quangos

The announcement on Bastille Day 2004 of the abolition of the WDA, WTB and ELWa, arguably the most radical shake-up of Welsh governance since devolution, was preceded by no public debate, a situation which has done nothing for Wales' reputation for open government. The secrecy surrounding the announcement also suggests that this was a deeply partisan decision, a view reinforced by four additional factors:

- The earliest suggestion that the quangos were proving politically problematic to the Assembly occurred at the Wales Labour Party Conference of March 2004. Tensions were made apparent when the Minister for Economic Development launched an attack on unnamed people in the 'delivery agencies' who felt they had the right to set agendas for 'their' quango.
- The timing of the Bastille Day announcement, coming as it did on the final day of Plenary before the summer recess, firmly suggested that this was a political decision. A decision on the fate of the 'Big 3' had been made and discussion of the matter was firmly quashed.
- In November 2004, all but one of the remaining quangos that the Assembly had direct powers to abolish were marked for incorporation. This was coupled with the removal of powers from the Arts and Sports Councils, resulting in their devaluation if not emasculation.
- The summary dismissal of a report from the Mergers Scoping Project in the summer of 2004 highlights the lack of any real consultation in the merger process and indicates that the First Minister had already made a firm decision on the quangos' future.

The New Governance: Key Issues and Conclusions

In addressing only its benefits, the WAG's consultation document *Making the Connections* fails to acknowledge key concerns related to the merger project:

- Firstly, real accountability relies on real scrutiny. A narrow and self-referential scrutiny system based solely on accountability to Ministers will create a democratic deficit. Insufficient time and competence to deal with scrutiny within the existing committee system will exacerbate this deficit.
- It is also questionable whether the Assembly has the commercial acumen to fulfil the roles of the ASPBs. Fast moving sectors cannot afford to engage with an organisation burdened with an onerous compliance culture.
- Thirdly, poor knowledge of good practice and insufficient benchmarking data will potentially prevent the merged organisation from being as well designed as it could be.
- Fourthly, the debate between centralising and decentralising factions is unresolved. In spite of the benefits of streamlining arising from centralisation, the importance of the local authority level should not be underestimated. The merger project risks creating an over-centralisation of functions within the WAG.
- Since independent expertise contributes to the ASPBs' outward-looking nature, the future of the agencies' non-executive function is also of concern. The expertise of board members who do not wish to submit to political control will be lost.
- Finally, it is uncertain that the cost efficiencies identified by the WAG are real rather than false economies. A net saving cannot occur where hidden costs outweigh the identified savings.

Consultation responses from organisations directly and indirectly affected by the merger process corroborate the findings of this report. Notably, four concerns recur in the responses. These are that scrutiny and accountability will be lacking, that the importance of customer focus risks being overlooked, that the WAG may lack the capacity to merge the civil service and delivery agency cultures, and that there has been a failure to address the silo mentality currently prevalent in the public sector.

For those sectors directly affected by the mergers, it is essential that the key issues exercising them at present are not overlooked by the Assembly during the restructuring process. In higher education, the pivotal issues are threefold: firstly, there is an apparent tightening of control by the WAG over HEFCW; secondly, the Assembly's reconfiguration and collaboration agenda is of considerable concern to Welsh HEIs; finally, and most critically, there is a growing funding gap in the Welsh HE sector. Equally difficult issues will have to be resolved in the post-16 education and lifelong learning sector, not least the challenge of creating an equitable and responsive funding system. In the new Economic Development department, the ongoing erosion of trust between the WAG and WDA is the key issue that must be addressed. It is also essential, however, that the WAG appreciates the need for more

robust performance indicators, without which the merged organisation cannot be held to account.

Two further imponderables exist, which cannot be resolved until the merger is complete. Firstly, does the WAG have the internal management capacity to digest the six quangos and substantially improve upon their performance? We are prone in Wales to think that new structures will solve old problems, but this has not worked in the past, and the quangos are being merged into an already overstretched civil service. Secondly, will Wales become less pluralist and more state-centric? Creating an efficient yet accountable public service system is the real challenge. Moreover, this must be achieved in the context of political openness to debate. The present climate of increasing ministerial control - signalling growing centralism and receding pluralism - is not conducive to this ideal.

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1 Introduction

The two issues at the heart of this report - the culling of the quangos and the reform of the public services - are without doubt the most serious challenges facing the Welsh Assembly Government (WAG) in its second term of office. The question that immediately arises is whether the WAG has the capacity to design and deliver better public services, particularly health and education, which can enhance the quality of everyday life in Wales. In the public anxiety stakes nothing remotely compares to the burgeoning concerns about the health service, where Wales lags woefully behind England with respect to what matters most to the electorate, namely waiting lists. There is more to the health service than waiting lists of course, and it is to the WAG's credit that it has done more than any of the devolved administrations in the UK to raise the status of health promotion, which plays Cinderella in an NHS that is largely geared to illness rather than health, treatment rather than prevention. But the waiting list issue has become so totemic that it has seriously damaged the reputation of the WAG, raising searching questions not just about the strategy, but also about the structure of the Welsh health service. As we shall see later, this means that the current structure of twenty-two local health boards is unsustainable, which is hardly surprising given the fact that this structure was largely devised to give local government, with its twenty-two unitary authorities, a stake in the health service.

Beyond the immediate details of public service reform, however, the culling of the quangos raises a wider question: will Wales become a less pluralistic, more state-centric society in the wake of the decision to abolish six quangos and merge their functions with the WAG? In other words, is there a *creeping centralism* at work in Wales which belies the notion that devolution creates a more robust and more accountable governance system?

It is a comment on the infantile state of political debate in Wales that we need to be reminded of the virtues of the quango (a merciful abbreviation of quasi-autonomous, non-governmental organisation), a public body that is used extensively in all OECD countries by governments of every political persuasion. The main rationale for the quango is that it affords governments a degree of flexibility that they would not otherwise enjoy in the design and delivery of public policies. In other words, the arm's-length relationship with government means that such public bodies are able to operate in a more agile manner compared to a government department, not least because the latter is obliged to operate within a very onerous compliance culture that makes it more risk-averse than an arm's-length public body or a private sector organisation.

But this is where real agreement seems to end, at least in Wales, where it is virtually impossible to have a dispassionate public debate about the pros and cons of quangos. Indeed, some sections of the Labour Party have effectively declared war on the quangos, raising the witch-hunting spectre of 17th-century New England rather than a pluralistic 21st-century country. These profound anti-quango sentiments have their origins, as we will see, in the crises and scandals that characterised Quangoland in the 1990s, when some quangos behaved as if they were a law unto themselves. But these anti-quango sentiments linger on, making a genuine debate difficult even now (Morgan and Roberts, 1993).

It is more difficult than one might imagine to secure funding for a research project that overtly questions the conventional wisdom or challenges politically correct mantras about the quangos. Because independent research is the lifeblood of a vibrant democratic society, it is disturbing to note that many organisations are reluctant to be associated with research that appears to run counter to the current policy preferences of the WAG. For this reason we would like to thank BBC Wales, Cardiff University, and CBI Wales for funding a project that may help us to understand the wider implications of the 'bonfire of the quangos' for the governance of Wales.

The remainder of this report is organised in four sections:

- Section two serves as a reminder of the way we were by briefly surveying the rise of the quango state in the UK, along with some of its more colourful manifestations in Wales.
- Section three examines the reforms that were introduced to regulate the quangos in a more robust manner, from the Nolan principles for standards in public life to the Richard Commission's findings.
- Section four examines the pros and cons of the 'bonfire of the quangos', a process that will eventually consume six public bodies in all, the most famous being the Welsh Development Agency (WDA), which will be abolished after a colourful 30 year career.
- Section five addresses the presumed benefits that are identified in *Making the Connections*, the WAG consultation paper on the 'merger' of the quangos.

Having examined the key themes in the quango debate, the report concludes with two questions that are not expressly mentioned in the official consultation paper – firstly, whether the WAG has the internal management capacity to digest the quangos and improve on their record and, secondly, whether this process will help Wales to become a more enterprising economy, a more vibrant democracy, and a more flourishing civil society.

2 Quangoland: The Way We Were

2.1 *The rise of the quango state*

Quangos are by no means a new feature on the Welsh political landscape. Labour governments have been the main architects of these quangos, particularly from the 1970s onwards; the most prominent of these was the Welsh Development Agency, created in 1976 and one of the first economic development agencies not only in Britain but in Europe. At this time the Labour government intended that an arm's-length public agency would provide a more robust approach to regional development than could the government. This stance was widely supported, not least by the trades unions: Arthur Horner, leader of the South Wales miners, was among the first to call for a new power to co-ordinate regeneration in the wake of the decline of traditional industries.

Thus quangos in Wales have not always enjoyed such a poor reputation as today, and Welsh Labour has not always taken such an anti-quango stance. The beginning of Labour's more schizophrenic attitude towards quangos can be dated quite precisely, since it coincides with the start of eighteen years of Tory rule in 1979. The Conservatives came to power with two key objectives. The first was to reduce public expenditure, the second to roll back the state sector. Successive Conservative governments exhibited a strong ideological aversion to the public sector, primarily on the grounds that it was inimical to the 'enterprise culture', but also because of antipathy towards the public sector unions and the fact that the public sector was an easy target in attempts to contain public expenditure.

Although manifestly failing to reduce expenditure, the Tories were more than successful in respect of privatisation of state interests. Aversion to the 'interference' of the state sector in society fuelled the creation of numerous quangos designed to improve the quality and efficiency of service provision to the public. Under successive Tory governments of the 1980s and 1990s, the number of quangos in Wales more than doubled. In addition, many of the functions of the civil service were transferred to Executive Agencies, in which staff retained civil servant status but where managers were granted greater personal autonomy and encouraged to operate along more business-oriented lines (Morgan and Roberts 1993). Meanwhile, a series of legislative manoeuvres effectively emasculated local government by removing many of its powers (see table 1).

The rationale behind these reforms was that citizens would be better empowered as a result of the conferment of consumer rights. The Citizen's Charter, launched by John Major, was designed to inform consumers about what they should expect from service providers, and recognised that citizens should have the right to demand value for money in the services for which they paid (Sullivan 2003). According to

John Patten, the new constitutional settlement embodied in changes to service delivery would, once service providers were made accountable to individual consumers, give all citizens 'real rather than paper rights' (Patten 1993, quoted in Morgan and Roberts 1993: 14). Accountability, according to this argument, would thus be improved because:

'The key point...is not whether those who run our public services are elected, but whether they are producer-responsive or consumer-responsive. Services are not necessarily made to respond to the public by giving citizens a democratic voice in their make-up. They can be made responsive by giving the public choices... Far from presiding over a democratic deficit in the management of our public services, this government has launched a public service reform programme that helped create a democratic gain' (Waldegrave 1993, quoted in Morgan and Mungham 2000: 49).

The clear implication of Waldegrave's argument is that market-based mechanisms of accountability could, and should, largely replace the traditional democratic mechanism, as exercised through the ballot box. This approach represented a triumph of consumerism over citizenship, in which the role of multi-faceted citizen was reduced to that of one-dimensional consumer. Patten's claim that citizens would receive 'real' rights also failed to take account of the fact that devolution of power was not to the citizen or community level, but to the governing boards of the quangos. Joe Rogaly, the Financial Times columnist, referred to the Conservative's public service reform programme as 'a mandarin's confidence trick' (Rogaly 1993, quoted in Morgan and Roberts 1993: 14).

A: Public spending on functions formerly carried out by local authorities (£m)		
Roads (London)		130
Urban Development Corporations		621
London Regional Transport		1,173
Higher Education		737
Grant Maintained Schools		279
Further Education		2,700
<i>TOTAL</i>	(A)	5,640
B: Public spending on functions transferred to local authorities (£m)		
Community Care	(B)	1,050
C: Net transfer of directly controlled services (£m)		
A-B	(C)	4,590
D: Public spending on services for which councils formerly had formal say (£m)		
Health (District Health Authorities)	(D)	17,500
Training (Training and Enterprise Councils)		2,100
E: Net overall transfer of public spending to quangos / central government (£m)		
<i>TOTAL (C+D)</i>		24,190

Table 1: Transfer of public spending from local authorities to quangos and central government, 1992-3 figures (after Morgan and Roberts 1993: 17).

In spite of Tory claims that quangos could be made more accountable than the state, in reality their institution prompted a 'crisis of public accountability' (Stewart 1992). In Wales in particular these unelected bodies had closer links to Westminster than to the communities that they served, not least because quango members were appointed by *Conservative* Ministers to deliver services in *Labour* heartlands. The appointment of John Redwood, MP for Wokingham, Surrey, as Secretary of State for Wales well demonstrates this tension between political power and political culture (Morgan and Mungham 2000). Far from permitting greater local autonomy and accountability, therefore, the quango state was responsible for a centralisation of power (see table 1). It was clear that the government was keen to exercise increasing control over local expenditure, but without being willing to be held accountable for associated problems. Accountability fell neatly into the interstices between central and local government answerability. The lack of clear lines of accountability was also responsible, according to the Audit Commission, for impeding economy, efficiency and effectiveness in the delivery of public services (Morgan and Roberts 1993). The quango state was therefore not only contributing to a crisis of democracy, but also failed to produce the results for which it had been designed.

2.2 *The quango state in Wales*

Prior to the establishment of the National Assembly, policy delivery in Wales was managed by the Welsh Office. Whilst the Welsh Office itself was directly responsible for policy, however, actual delivery of services lay in the hands of local authorities, health authorities, and quangos. Between 1979 and 1991, the number of quangos in Wales doubled to 80 and, when the Welsh Office published its planned spend for 1993/4, the Welsh quango budget was £2.1 billion; at 34% of all Welsh Office spending, this figure was comparable to the entire local authority revenue expenditure budget for Wales that year (Morgan and Roberts 1993). Not only were the quangos responsible for a large tranche of service provision in Wales, but they also established a reputation for being locally unaccountable. Most notably, the appointments process generated substantial controversy.

In a nation of some three million people, it is to some extent unavoidable that politicians develop a close familiarity with one another and with prominent members of, among other groups, the business community. As a result of this closeness, the need to demonstrate absence of bias in the appointments process, particularly in respect of pandering to 'old boy' networks, is heightened. Throughout the 1980s and early 1990s, appointments to quango boards in Wales failed repeatedly to adhere to the principles of transparency, accountability, and equality of opportunity. When Tony Lewis was appointed to the chair of the Wales Tourist Board in 1992, for instance, he was not subjected to any form of interview; rather, he received a single telephone call offering him the job, followed by a letter confirming his appointment. Other controversial appointees in the early 1990s included defeated Conservative parliamentary candidates, Tory councillors and their family members, and the then Welsh Office Minister Gwilym Jones' constituency secretary. Moreover, a core of people held positions on multiple quangos, giving rise to the term 'quango kings' for the 'inner circle that runs Wales' (Jackson 1992; Jones 1993). In addition to the biased appointments procedures, a number of irregularities were also highlighted at various Welsh quangos (Morgan and Roberts 1993).

At the Development Board for Rural Wales (DBRW), the outgoing Chief Executive in 1990, Dr Ian Skewis, received:

- over £15,000 compensation for unpaid leave, despite an absence of reliable leave records;
- a consultancy package worth £200 per day for up to 150 days, but with no specification for the scope of the work;
- an additional four months in post following the end of his contract and after his successor had taken up post.

Following concerns raised by the Welsh Office over apparent improprieties at the WDA, the Committee of Public Accounts was charged with investigating six irregularities in WDA practices. Investigations related to:

- the WDA redundancy scheme;
- the Agency's full expenses car scheme for senior executives;
- the retirement settlement made with the Agency's International Director;
- WDA operations in North America;
- the appointment of a new Director of Marketing;
- and payment of a Rural Conversion Grant to the Agency's Chairman.

The subsequent report (Committee of Public Accounts [CPA] 1993) reads as a damning critique of the Agency. It exposed a catalogue of errors of judgement, wilful disregard of protocol, and incompetence reaching into the 'top echelons of the Agency' (CPA 1993: viii). Of the financial irregularities uncovered by the Committee, an inappropriate redundancy compensation policy, in place between 1989 and 1992, cost £1.4 million over and above the cost of the scheme that should have been implemented. An additional sum was being lost annually as a result of compensation, continuing until they reached normal retirement age, to staff members given early retirement under this scheme; in 1991-92 this amounted to £316,000.

A further £33,000 was estimated to have been lost by the WDA, following the extension of a car scheme for senior executives to include the use of cars for private purposes without a personal contribution towards costs. The decisions to implement changes in both the redundancy payment scheme and the car scheme were not the WDA's to make. Permission should have been sought from the Welsh Office in both instances. Furthermore, in the case of the car scheme, the decision to extend the no private contribution policy to the Chairman and Deputy Chairman was not even taken by the Agency Board, but instead by the Chief Executive alone. The Agency's actions were, concluded the Committee of Public Accounts, 'unacceptable', and it was 'hard to understand why the Agency were unaware of the clear requirement to obtain [Welsh Office] approval' (CPA 1993: x).

As a result of its failure to adhere to existing protocols, the WDA also exposed itself to deception. A decision in 1989 to appoint a Mr Carignan, a United States citizen operating out of the US, to lead inward investment operations was a spectacular failure. Not only did Mr Carignan have such an inadequate knowledge of Wales that investment potential could not be realised but, following the decision not to renew his contract, he was also able to sell furniture and equipment bought for £53,288 with Agency funds. At the time of publication of the Public Accounts Committee report, the WDA had still only managed to agree in principle that the \$15,000 that Mr Carignan had made from the sale should be refunded to the Agency. This farcical state of affairs arose out of the WDA's 'inadequate contractual and supervisory

arrangements', which left them 'unable to prevent' the removal and sale of Agency equipment (CPA 1993: xii).

Criticism of the WDA became even more intense with the investigation into the appointment of Neil Smith as Director of Marketing. The extent of the Agency's failings is best expressed in the Committee's pithy observation that:

'[WDA staff] had not complied with their own recruitment procedures. As a result, they had employed in a senior position a person who had previous criminal convictions for deception' (CPA 1993: xiii).

Mr Smith was able to obtain the post of Marketing Director after the WDA failed to check his credentials or references. Once employed by the Agency, he demonstrated poor performance with regard to his attitude and to observance of financial regulations. He was dismissed by the Agency and subsequently charged by police with obtaining employment by deception and with theft. This was by no means the only instance of transgressions in recruitment procedures, however. The Agency Chairman at the time, Dr Gwyn Jones, was himself appointed to the post without his references having been taken up.

The Public Accounts Committee saved its most trenchant criticism for its concluding section on accountability. The standards of the Welsh Development Agency were, it found, 'well below' those that could be expected of it. Executives from the 'top echelons' of the WDA had presided over 'a catalogue of serious and inexcusable breaches of expected standards of control and accountability' (CPA 1993: xvii). That such improprieties were allowed to continue unchecked was the result largely of poor scrutiny. Based in Wales, and thus physically remote from Whitehall, agencies such as the WDA were not required to provide frequent and rigorous justification for their actions. In this sense they were wholly accountable neither to parliament nor to the local communities that they served. This need for better scrutiny was raised by the Committee of Public Accounts, which took a 'serious view' of the failure of the Welsh Office to scrutinise WDA actions and highlight irregularities at an early stage.

As scandals relating to the quangos continued to emerge thick and fast, so pressure for reform of the quango state mounted. By the early 1990s, all of the major political parties, with the exception of the Conservatives, were committed to redressing the democratic deficit in Wales through devolution. The Parliament for Wales campaign, formed at this time, even went so far as to use 'quango-busters' as its campaign slogan (Morgan and Roberts 1993).

3 Reforming Quangoland

The momentum to reform Quangoland began in earnest with the 1995 report of the Committee on Standards in Public Life, chaired by Lord Nolan. Established on the initiative of John Major, then Prime Minister, the Nolan Committee was charged with examining concerns that had arisen over the standards of conduct of a number of figures in public office. A previous inter-departmental review had already been conducted by the Public Appointments Unit (PAU). This review recommended the promotion of best practice, to improve transparency, achieve greater openness, and ensure high standards of probity. It is indicative of the extent of problems arising from the quango state that it was also deemed necessary to recommend 'routine use of references and interviews' during the appointments process (Committee on Standards in Public Life [CSPL] 1995: 69).

The Nolan Committee was broadly supportive of the PAU's findings. Of its report, an entire chapter was devoted to the issue of appointments to quango boards. Although it failed to uncover evidence of systematic bias, the Committee noted that the widespread *perception* of bias created uncertainty in the system and made gaining public confidence far harder. The lack of openness was found to be eroding public confidence, regardless of any actual occurrence of impropriety. It was also noted that 'it is clear that Ministers exert considerable powers of patronage', but that there were 'limited checks on the exercise of that power'. The report continued:

'If decisions are not made on a personal and party basis - or even on caprice and whim - it is largely because of the good sense of those in office, rather than because the system prevents such abuses' (CSPL 1995: 71).

It is apparent from the extensive list of irregularities in quango behaviour that Wales in particular was sadly lacking in the exercise of good sense, and that a system open to abuse was being openly abused. The need for effective scrutiny becomes even more apparent when one considers Nolan's assertion that '[quango] board members must be committed to working within the policy and resources framework set by the Minister'. The report quotes from a submission to the Committee from Archie Kirkwood MP, stating that:

'If...people in charge of extremely important decision-making bodies...are actually prepared openly to confront the political direction of the Government of the day...that makes the process of Government almost impossible to sustain...' (CSPL 1995: 73).

If this is indeed the case, then a high level of openness is paramount to ensure that decisions are subject to outside scrutiny, the alternative being that decisions are

made in secret by an inner circle of government sympathisers, effectively bypassing the democratic process. Recognition of the damage caused by the absence of sufficient external scrutiny was the key point separating the PAU and Nolan reviews. Although broadly supportive of the PAU's report, Nolan criticised it for failing to address the need for rigorous scrutiny.

In heralding scrutiny as the key to addressing failures of transparency and openness, the Nolan Committee recommended a wide-ranging scrutiny, to include internal checks, independent external scrutiny, and direct scrutiny by the public. Seven 'Nolan Principles' were created by the Committee to define best practice for conduct in public life and hence to facilitate open governance; of these, three were of direct relevance to the functioning of the quangos (CSPL 1995; see also box 1). These were: *objectivity*, to include choice of candidates based on merit alone where public appointments are concerned; *accountability* of public figures to citizens, to be effectuated through scrutiny; and *openness* about decisions made and actions taken. Two methods of achieving these ends in practice were advanced. Firstly, the creation of the post of Public Appointments Commissioner was recommended. This Commissioner would 'monitor, regulate and approve departmental appointments procedures' (CSPL 1995: 78). Secondly, in addition to the appointment of a cross-departmental regulator, the Nolan Committee proposed the introduction of codes of conduct, to act as standards against which actual performance could be benchmarked.

Seven Principles of Public Life
Selflessness: holders of public office should act solely in terms of the public interest, and not for personal gain.
Integrity: holders of public office should not place themselves under obligation to outside individuals or organisations.
Objectivity: in carrying out public business, holders of public office should make choices on merit.
Accountability: holders of public office are accountable for their actions and decisions to the public and must submit themselves to whatever scrutiny is appropriate.
Openness: holders of public office should be as open as possible about their decisions and actions.
Honesty: holders of public office have a duty to declare private interests and to resolve conflicts of interest so as to protect the public interest.
Leadership: these principles should be promoted by holders of public office by leadership and example.

Box 1: The seven 'Nolan Principles' for conduct in public life.

Following the Nolan report and the election of a Labour government in 1997, a more concerted effort to reform the quango state in Wales began. Openness and transparency in the appointments process became effective almost immediately; with the Welsh Office under Labour control, Elan Clos Stephens, in becoming the new Chair of S4C, became the first person to head a quango by replying to an advertisement and being subject to an open and transparent appointments process. It was once the Welsh Assembly had been established, however, that reform of the quango state became most pronounced. The 1997 White Paper on devolution 'A Voice for Wales' set out the envisaged relationship between the quangos and the new Assembly. Far from advocating the decimation of the quango state, the White Paper proposed for the Assembly 'partnership with unelected bodies' (Welsh Office 1997: 16). Provision was made for the Assembly to have the power to abolish individual quango functions or whole quangos, but equally it was implicit in references to the future openness and accountability of both the appointments process and day-to-day quango operation that a proportion, although not all, of the existing quangos would remain.

In the Assembly's early days, a number of quangos, or Assembly sponsored public bodies (ASPBs) as they became known, did indeed see themselves 'merged' with the Assembly. The Cardiff Bay Development Corporation and the Residuary Board for Local Government, which had fully discharged their intended duties, were dissolved, as were two health quangos and Tai Cymru. At this time, Ron Davies also made a speech to parliament in his role as Secretary of State for Wales:

'Unelected bodies will be reduced in number before the Assembly is established, and placed under proper democratic control and scrutiny once the Assembly is in place. No longer will our key public services lie in the hands of political appointees operating in secret and accountable to no one in Wales' (Davies 1997, quoted in Thomas 2004: 2).

The distinction between the proposed abolition of certain quangos *before* the formation of the Assembly and the scrutiny of the remaining quangos *after* its formation suggests that there was no expectation of a wholesale cull. However, following Rhodri Morgan's announcements in July and November 2004 on the fate of the quangos, it has become apparent that perceptions of what an Assembly would mean for the future of the quango state have varied widely.

Llew Smith, Labour MP for Blaenau Gwent from 1992 to 2005 and a fierce opponent of devolution, has frequently criticised members of the devolution 'Yes' campaign for subsequently 'attempting to re-write history' (Smith 2005: 140). According to Smith, the commitment to a 'bonfire of the quangos' was a commitment to their total abolition rather than to a selective cull combined with improvements to scrutiny

arrangements. He criticises Ron Davies for describing 'bonfire of the quangos' as merely a 'colourful phrase', citing Davies as saying at the time that 'this unaccountable and over-bureaucratic system must end' (Davies 1995, quoted in Smith 2005: 138). Yet if we re-read Davies' 1997 statement to the House of Commons, it is clear that his position was not one of total abolition. Rather, he envisaged a rationalisation of the number of quangos prior to the formation of an Assembly. Indeed, even the quotation presented by Llew Smith as evidence of an Orwellian representation of the 'truth' does not imply a total cull. Ending an unaccountable and over-bureaucratic *system* is not at all the same thing as bringing all quangos to an end. Whilst it would be inaccurate to suggest that all members of the 'Yes' camp held the same views, a trap into which Llew Smith falls, there is clear evidence that Ron Davies was not alone in his vision. Morgan and Roberts (1993), for example, cite the potential for improved scrutiny as a significant motivating factor in the campaign for devolved government.

Although no less misguided for the fact, the belief that the Assembly was founded on a commitment to disband all Welsh quangos is not held by Llew Smith alone. Llanelli MP Denzil Davies accused Ron Davies of reneging on his commitment to a full-scale cull, whilst Rhodri Morgan has similarly come under attack in the past. The problem here is, unfortunately, the triumph of sound bite over substance. Conceived at a time of serious loss of confidence in the Welsh quango state, the phrase 'bonfire of the quangos' became a potent symbol. No amount of explanation of the actual future envisaged for the quangos could quite eclipse the image of the all-consuming bonfire.

In spite of continued criticism over the failure of the Assembly Government to eliminate the quangos from Wales, many of the concerns that were relevant prior to the Assembly's establishment have now been addressed. Scrutiny has steadily increased and accountability has also been improved. In post-devolution Wales, for example, the democratically elected Minister holds his or her quango to account in multiple ways: by controlling the purse strings; by appointing the chair; by selecting the board; by setting the strategic targets in the remit letter; and, ultimately, by sacking the chair and the board if the targets are not met. On top of all these political control mechanisms, the quango is also subject to internal and external auditors and, most visibly, to the *public* scrutiny of the relevant subject committee of the Assembly. Indeed, Dafydd Wigley notes that, so frequent did questioning of WDA representatives by the Economic Development Committee become in the wake of the Assembly's formation, senior WDA officials became increasingly concerned that there was insufficient time to complete their other work (Wigley 2004).

Nevertheless, the torch that would eventually ignite a bonfire under six of Wales' quangos has been kept alight at the highest level by Rhodri Morgan. The First Minister earned a colourful reputation during the 1990s as a 'whistleblower',

exposing sleaze and malpractice in the Tory-controlled quango state; in fact, it was largely owing to his interventions that the WDA found itself hauled before the Committee of Public Accounts in December 1992. Rhodri Morgan's stance on the quangos found continued justification into the new millennium in reports such as the Public Administration Select Committee's (PASC 2003) *Government by Appointment: Opening Up the Patronage State*. The Committee found that, as a result of failures to make the appointments process for public bodies sufficiently transparent, the public believed appointments to be 'the preserve of the privileged few, even if not always a "fix", or the product of "cronyism"' (PASC 2003: 4).

Yet the Commission on the Powers and Electoral Arrangements of the National Assembly for Wales, known as the Richard Commission, although concurring with the principal findings of the Public Administration Select Committee, presents a different conclusion from that drawn by Rhodri Morgan (Richard Commission 2004). This has fuelled concerns that the First Minister is being driven by a 'personal vendetta' against the quangos, the product of long-standing poor relations with the WDA (Wigley 2004). The Richard Commission, which reported in March 2004, was appointed to examine the sufficiency of the Assembly's powers. Of its final report, one chapter is devoted to investigating how the relationship between devolved government and the quangos has changed since the creation of the National Assembly. Unlike the UK-wide PASC review, therefore, its remit in respect of the operation of the quangos relates solely to Wales.

The Commission recognises the hugely significant role that the quango question played in pre-devolution debate, not least because quangos more than doubled in number between 1979 and 1997, in a process that was replete with well-publicised financial mismanagement. It also notes that a reform package and the promise of a 'bonfire of the quangos', designed to make quangos more directly accountable to the people of Wales, proved to be an important factor in securing support for the devolution proposals. Nowhere, however, do we find any evidence for the source of the phrase 'bonfire of the quangos', or any proof that it formed part of the official devolution offer.

ASPBs that Assembly has power to abolish
Care Council for Wales ELWa Qualifications, Curriculum and Assessment Authority for Wales (ACCAC) Wales Tourist Board Welsh Development Agency Welsh Language Board
ASPBs that can only be abolished by primary legislation

Countryside Council for Wales Higher Education Funding Council for Wales	
Royal Charter Bodies requiring order of Privy Council to be abolished	
Arts Council for Wales National Library of Wales National Museums and Galleries of Wales Royal Commission on the Ancient and Historical Monuments of Wales Sports Council for Wales	
Other ASPBs not specified in Government of Wales Act 1998 *Advisory body treated as an executive ASPB	
Environment Agency Wales Local Government Boundary Commission for Wales*	Require primary legislation to be abolished
Health Professions Wales	Can be abolished by WAG
Wales Centre for Health	Only shadow ASPB in 2004; not <i>officially</i> established

Box 2: Welsh executive ASPBs and their status prior to 2004 merger programme.

The Richard Commission noted that all but two of the major quangos (see box 2) had been subjected to a 'strategic' or 'quinquennial' review by 2003-04, the aim of which was to consider whether there was a continuing need for the function and, if so, whether a sponsored body was the best means of delivery. Significantly, while all these reviews suggested changes to improve the effectiveness, governance and accountability of the bodies concerned, 'no review so far has recommended using the Assembly's powers to transfer or abolish functions or whole ASPBs' (Richard Commission 2004: 128).

Although the Commission did not find any major problems with the quangos, it did uncover some serious shortcomings in the Assembly, particularly with respect to its scrutiny role. A *culture* of scrutiny was regarded as lacking throughout the Assembly, and committee members were felt to lack both the time and the expertise to undertake effective scrutiny. For example, the report quotes the experience of Dafydd Wigley, at that time the chair of the Audit Committee, who said:

'I am on three major committees and I am on three others, six committees in all. On some of those committees you could have 300, 400, 500 pages of background material to read once a fortnight and usually there are more informal meetings more frequently. The pressure on the individual members of the Audit Committee is substantial and does beg the question whether the Assembly is

the appropriate size and whether we do need more Members in order to allow Members to give the time necessary to all the functions' (Dafydd Wigley, quoted in Richard Commission 2004: 132).

When asked why the Education and Lifelong Learning Committee had not scrutinised Education and Learning Wales (ELWa) more effectively, the chair of the committee could only say:

'It is a question of time really, because we agree to scrutinise a body, let us say, once a year. I think with ELWa...it should be scrutinised far more often' (Gareth Jones, quoted in Richard Commission 2004: 131).

Just as time constraints form part of the scrutiny deficit, so too does a lack of expertise. The Commission learnt that AMs have not developed a sufficiently detailed understanding of the quangos to be able to examine their work effectively. As the chief executive of the Countryside Council for Wales said:

'I suppose the point we are trying to make is that the members sometimes are not as well briefed...I think the back-up facilities they have sometimes may, therefore, be deficient in terms of being able to access information' (Roger Thomas, quoted in Richard Commission 2004: 131).

Aside from the twin problems of time and expertise, the Commission also drew attention to another problem that compromised the scrutiny role of the Assembly, namely ministerial membership of subject committees. This meant that Ministers were responsible for setting the policy direction of the quangos in their capacity as sponsoring Minister, and then were responsible also for holding the same quango to account in their capacity as members of the relevant subject committee, a situation which called for some clarification in the relationship between quangos, Ministers and subject committees.

For all the shortcomings of the Assembly's scrutiny role, the Richard Commission still felt able to say that 'the advent of the Assembly has changed the framework of accountability and scrutiny for quangos' because 'there is now greater transparency and accountability to Ministers' (Richard Commission 2004: 130). Concluding its chapter on unelected bodies the Commission said, quite emphatically, that 'we received no evidence to suggest that the present formal powers are a constraint upon the Assembly's ability to hold to account the quangos that it sponsors' (Richard Commission 2004: 137).

Case Study: The Welsh Language Board

In August 2004, three months before the Board's impending abolition was announced, Meri Huws was appointed as the new Chair of the Welsh Language Board by the Assembly Culture Minister, Alan Pugh. In a rumpus reminiscent of the more colourful controversies from the days of Quangoland, the Shadow Culture Minister, Plaid Cymru's Owen John Thomas, accused Pugh of political bias in the appointment of Ms Huws. In a radical departure from protocol, the appointment of Ms Huws, a Labour party member, was announced by Mr Pugh on the Eisteddfod maes. This announcement, made before the panel report on the short-listed candidates had even been finalised, was preceded by a process that Owen John Thomas alleged failed to ensure equality of opportunity to candidates.

Having reviewed the appointment of the new Chair, though, Dame Rennie Fritchie, the Commissioner for Public Appointments, concluded that there was no evidence to suggest a breach of the principle of appointment on merit. The failure of the Culture Minister to adhere strictly to guidelines on the documentation process, she continued, 'while disappointing, demonstrates a lack of consistent process rather than a lack of openness or transparency' (Fritchie 2004: 6). Her additional finding that the leaking of confidential information about the candidates and selection procedure demonstrated a 'clear breach of the Code of Practice' (Fritchie 2004: 7) provided the cue for an Assembly Cabinet spokeswoman to turn the tables on Thomas. Noting that 'the substantive claims made against the Minister, that of political bias and a lack of integrity, have proved to be false', she claimed that 'it is clearly Owen John Thomas who has breached the code' (Shipton 2005a).

However, whilst the Cabinet celebrated the vindication of their choice of appointment and Thomas branded the report on his complaint a 'whitewash', a number of concerns are highlighted by the Commissioner's report:

- Firstly, although there was no proof of bias in this instance, Welsh Ministers' expressed wish to see the Political Activity Declarations that accompany applications, information that is removed from applications viewed by UK government Ministers, leaves them open to allegations of bias.
- Secondly, the panel that determines the candidates from whom the Minister will ultimately choose a Chair exists primarily to ensure that the Minister selects from an unbiased candidate list. If the Minister sits on that panel, then its probity is potentially undermined.
- Finally, it is apparent that Alan Pugh failed to observe the rules that exist to ensure the integrity of the appointments process. Notably, he failed to complete interview matrix sheets detailing his reaction to all candidates bar Ms Huws; in addition, the announcement of the chosen candidate on the maes not only suggests an eye for a publicity opportunity, but also demonstrates the Minister's belief that he had the *right* to override the established protocols. It is to keep just such an attitude in check that these protocols exist.

4 The Bonfire of the Quangos

4.1 *Bastille Day: round one of the merger project*

There is no suggestion in the Richard Commission report that the impending cull of the quangos, at that time less than four months away, was desirable, necessary, or in fact imminent. Admittedly, in his evidence to the Commission, the First Minister left open the possibility of a 'bonfire' in the Assembly's second term:

'For us, over the past four years, the question was how much institutional churn do you introduce? How much of it would require primary legislation? Is this a priority for the first term and the early years of the Assembly? We took the decision about the limit, about the institutional churn that Wales could cope with, and those were the decisions that were made but without any commitment for the long-term future...We continue to study the quangos and make comparisons with quangos elsewhere in the general direction of making sure that transparency and accountability is maximised' (Rhodri Morgan, quoted in Richard Commission 2004: 129).

Nevertheless, when the announcement came on Bastille Day that the Assembly was to abolish the WDA, ELWa, and the Wales Tourist Board (WTB), it came as a surprise to everyone bar the insiders who had been privy to the decision. Arguably the most radical shake-up of Welsh governance since the formation of the Assembly, the quango cull was decided upon, unlike the earlier decision, without public debate. That the decision to abolish the quangos was taken behind closed doors by a select group of Labour politicians, their advisers, and civil servants does little for Wales' reputation for open government.

Announcing the abolition of the 'Big 3' quangos to the Assembly on 14 July, Rhodri Morgan claimed that the changes would make the Assembly Government more 'governmental' in character, reducing the distinction between policy creation and implementation, and thus increasing the ability of the Assembly to 'generate distinct Wales-oriented policies' (National Assembly for Wales [NAW] 2004: 37). The announcement made only passing reference to the need for improved accountability of the quangos. By far the most prominent reason given was that the merger project would bring improvements in terms of the efficiency and responsiveness to user needs of public services. This reasoning ties in closely with Rhodri Morgan's overall vision for the public services, as laid out in a BBC lecture in October 2004. In contrast to the business-style model of public services, which advocates dividing up public sector organisations to make them leaner and more competitive, Morgan's view envisages efficiency gain being achieved through economies of scale. This 'co-operative model' is based on co-ordination and collaboration between public sector agencies (Morgan 2004). In the context of this model, the announcement on the

abolition of the 'Big 3' can be seen as contributing to the Assembly Government's vision for the public sector.

According to the Economic Development Minister, scrapping the quangos and merging them with the Assembly civil service will create powerful 'one-stop shop' departments with 'increased commercial focus' (Davies 2004). Yet over a century of political science thinking suggests that arm's-length public bodies afford governments the kind of flexibility that they could not otherwise enjoy. This is not because civil servants are not competent and industrious. It is because the civil service code, with its safety-first protocols, invariably tends to rate process over outcome, making the public sector more risk-averse and less innovative than either the private sector or arm's-length public bodies.

To support his case, the Minister draws on the experience of the Wales European Funding Office (WEFO), which he says has worked better since it was fully integrated into the Assembly. This argument is weak because, in two respects, the analogy is weak. Firstly, WEFO was largely integrated in all but name anyway, symbolised by the fact that its original director, John Clarke, was based in the Welsh Assembly Government buildings in Cathays Park, Cardiff, rather than in Cwm Cynon, the Valleys location where his officials were based. Secondly, and more importantly, the WEFO function is to dispense Structural Funds, a highly bureaucratic process that is a world away from iterating with fast-moving businesses.

The lack of evidence to support some of the other claims made on behalf of the 'bonfire' is also worrying. For example, the Minister claims he had 'wide-ranging support for these changes from the business community' (Davies 2004), but has produced no evidence to corroborate this claim. The truth of the matter is very different: not only was the business community never consulted, but also the CBI actually said that the decision 'calls into question the nature of the Assembly's partnership with business' (CBI Cymru 2004). Most worrying of all was the hubris. Within days of the Bastille Day decision being announced, Davies issued a joint statement with the WDA chairman saying that the new 'commercial organisation' would be 'the best of its kind not only in the UK, but in Europe'. This again is a triumph of spin over substance, because neither of them had undertaken the commercial benchmarking work to know what constitutes 'best practice' in the UK, let alone in Europe.

In spite of its low profile on Bastille Day, the drive for more democratic accountability is the official rationale for the abolition of the quangos. This rationale also relates to the co-operative public service model since, in dispensing with the consumer-based model espoused by Thatcher and adopted by Blair, Morgan is in effect propounding a citizen-based model. The rights of service users are more

broadly defined as those of the citizen, rather than being restricted to those of the consumer. This is apparent from the Assembly Government's vision for public services, *Making the Connections: Delivering Better Services for Wales*, which was published in October 2004.

The ability of the ASPB merger project to deliver improved accountability has been widely questioned, however. At the time of the announcement on the WDA, WTB and ELWa, criticism of the reforms was not especially forthcoming. Alun Cairns was one of the few to articulate misgivings, as was Liberal Democrat AM Mike German who expressed reservations over the proposals and gave them only a 'cautious welcome because of the questions that are as yet unanswered' (NAW 2004: 44). In particular, he was dubious about the ability of the Assembly to adopt a greater scrutiny role. With the passage of time, however, more voices began to question how great the scrutiny deficit might be. As the Richard Commission had already found, serious shortcomings in respect of scrutiny already existed in the Assembly prior to the July 'bonfire' announcement. Dafydd Wigley's submission to the Commission detailed the time pressure that committee members were already under when undertaking their scrutiny role (Richard Commission 2004).

In First Minister questions on 12 October 2004, Mike German questioned whether additional time would be made available for scrutiny following the merger and its attendant increase in the need for ministerial scrutiny. He noted that the Economic Development Minister was currently being subjected to fifteen minutes of scrutiny every four weeks in plenary, with an additional forty-five minutes of scrutiny in committee approximately every three weeks; with the addition of the WDA and WTB to his portfolio, this workload is expected to rise significantly (Morgan and Upton 2005). In reply, the First Minister downplayed the lack of time, saying that this was an issue for committee chairs to raise with the Presiding Officer. Clearly unsatisfied with this response, a number of AMs again raised the issue of scrutiny in questions following Rhodri Morgan's November announcement on the fate of the remaining quangos. Comments heard by Dafydd Wigley also arouse concern over future accountability: certain people in large corporations have suggested that it will be easier to manipulate ministers and civil servants behind the closed doors of the new system, as opposed to under the current spotlight of scrutiny (Wigley 2004).

The First Minister argues that the relevant Minister will be directly accountable for everything in his or her department after incorporation, making ministerial accountability simpler and clearer. There are two weaknesses in this argument. Firstly, unlike the specialised quango boards, subject committees lack the time and the expertise to bring sufficient scrutiny to bear on their enlarged remit. Secondly, focusing on ministerial accountability ignores the concept's wider dimensions. Politicians are wont to interpret accountability in a narrow and self-referential way, meaning accountability to them. But this ignores the notion of accountability to the

public forums of civil society – to the boards of specialised professionals, to the glare of the media spotlight, and to open and transparent public debate, for example. On the basis of the evidence to date, it seems that incorporation is being sought not so much for accountability, because that exists in ample form already, as for day-to-day control, the one thing that eludes politicians in the present arm's-length system.

The Richard Commission received a number of submissions that suggested widespread disquiet about the increasing level of control being exerted over supposedly arm's-length functions, a trend that is set to culminate in total control once they are subsumed within the Assembly. The chair of the Sports Council for Wales described the changing relationship between his ASPB and the Assembly as one in which the 'arms are getting shorter' (Richard Commission 2004: 134). Enid Rowlands, the former Chair of ELWa, also drew a distinction between the freedom experienced by the health authorities, one of which she previously chaired, and the 'very, very ongoing dialogue that...the National Council have with the Welsh Assembly Government' (Richard Commission 2004: 135). The language used plainly hints at a subtext of concern with the excessive control being exerted over ELWa's functions. With the quango now set to be abolished, these concerns will evolve into another kind of managerial dilemma, namely how to strike a judicious balance between civil service control procedures and commercial focus.

Case Study: The Welsh Development Agency

The merger of the Welsh Development Agency with the Assembly Government has provoked concern from a number of quarters over Wales' future economic prospects. In an unpublished paper entitled 'Merger or Mess?', UNISON, the public service union, has questioned the merger process. Concluding that 'UNISON CYMRU WALES is not convinced that enough thought has been invested in the planned merger proposals' (UNISON 2004: 10), the paper claims that 'the acid question...is whether the prevailing bureaucratic culture of government will indeed stultify the commercial flexibility and entrepreneurial spirit required to be successful in this policy area' (2004: 4). This strident criticism of the merger process, and scepticism over the ability of the Assembly Government to assume the WDA's mantle, is in marked contrast to UNISON's position as reported by the Economic Development Minister. Speaking on 1 February 2005, Andrew Davies told reporters that the union had praised the handling of the merger (Shipton 2005a).

Whilst this may well have been the case, it is evident that the *principle* of the merger has not found such favour in all quarters of the union. Criticism of the proposals has been equally forthcoming from Dafydd Wigley, former MP and AM, who has publicly called on the Assembly Government to rethink the cull of the WDA (Wigley 2004). Taking an insider's view of the Assembly, he highlights numerous barriers to successful integration, including:

- potentially irreconcilable differences between public and private sector cultures, and scepticism about politicians in the business community;
- a widespread feeling that civil servants lack full appreciation of the needs of the business sector;
- bureaucracy and long, business-unfriendly timescales in the public sector;
- lack of time for effective scrutiny in the existing WAG committee structure;
- absorption of the WDA image within the WAG causing loss of Welsh profile internationally.

For these reasons, Dafydd Wigley claims that the merger is ill thought out:

'People may be frustrated by aspects of the way in which the WDA has been working, particularly in recent years. That is quite understandable... However, criticising the WDA - often rightly - does not justify its abolition. It could be a question, literally, of out of the frying-pan into the bonfire' (Wigley 2004).

4.2 November: round two of the merger project

Following the Bastille Day announcement, speculation began to grow about the fate of the remaining quangos, a decision on which was scheduled for November 2004. The presumption was that a second wave of mergers would be announced, since the First Minister had stated in his Bastille Day address:

'If other bodies need to remain separate from ministerial control and accountability then so be it. However, *I doubt that will apply in many cases...*' (Rhodri Morgan, quoted in NAW 2004: 37, emphasis added).

Prior to a decision being announced, a consultation period was entered into with the thirteen affected quangos (box 3). In August 2004, the Permanent Secretary wrote to the ASPB Chief Executives, informing them of the terms under which their fate would be decided. There was a general assumption in favour of incorporation, but three exceptions were identified:

- where bodies audit or regulate Assembly Government business or are quasi-judicial;
- where bodies take decisions that are better kept at arm's length from the Government;
- where such bodies undertake functions or exercise professional judgements that are clearly non-governmental in character (Shortridge 2004).

Shortridge's letter also indicated that the First Minister would take into account the power of the Assembly to act *without* seeking primary legislation by the UK Parliament. In a report compiled in September 2004 by the Assembly's Members' Research Service, for the use of AMs for informational purposes, the status of the remaining quangos with respect to their abolition was set out (Thomas 2004). Out of Wales' sixteen executive ASPBs, three had already been marked for incorporation on Bastille Day. Of the remaining thirteen quangos (see box 3), only the Care Council, the Qualifications, Curriculum and Assessment Authority (ACCAC), the Welsh Language Board, and Health Professions Wales could be immediately abolished by the Assembly; the rest all require either primary legislation or an order of the Privy Council in order to be dissolved.

ASPBs considered for abolition
Arts Council for Wales
Care Council for Wales
Countryside Council for Wales
Environment Agency Wales
Health Professions Wales
Higher Education Funding Council for Wales
National Library of Wales
National Museums and Galleries of Wales
Qualifications, Curriculum and Assessment Authority for Wales (ACCAC)
Royal Commission on the Ancient and Historical Monuments for Wales
Sports Council for Wales
Wales Centre for Health
Welsh Language Board

Box 3: ASPBs considered for abolition in November round of quango reform programme.

In his 30 November statement to the Assembly, the First Minister revealed that an additional three ASPBs were to be scrapped. These were ACCAC, the Welsh Language Board, and Health Professions Wales. Remarkably, this last quango had only been established by an Assembly Order on 1 July 2004, just thirteen days before Rhodri Morgan announced his quango review (Shipton 2004). In addition, the Arts Council for Wales (ACW) and the Sports Council for Wales were to have their strategy, policy and planning capability transferred to the Assembly. Finally, it was announced that the Arts Council would lose funding control over six major national arts bodies, and that responsibility for the Tir Gofal scheme would be removed from the Countryside Council for Wales.

Given Rhodri Morgan's well publicised doubt that many ASPBs would need to remain at arm's length from the government, the feeling that the second round of the quango reform project was an immense anti-climax was hard to avoid. The implication on Bastille Day had been that the vast majority of the remaining quangos would be culled, but this state of affairs obviously failed to come to pass. Morgan was roundly derided by fellow Assembly Members, Ieuan Wyn Jones for one chiding him for having left his matchbox at home. The 'bonfire' analogy was also taken up by Nick Bourne, who referred to the announcement as a 'damp squib'. This may well have been the case, but what was particularly puzzling was why the First Minister had left himself open to such criticism. It is apparent from the Members' Research Service report of September 2004 (Thomas 2004) that the legal status of the remaining ASPBs was well documented. It would seem more politic to conduct a

review of the quangos in a low key manner, without the fanfare that actually accompanied the announcement on Bastille Day. Why, then, was the announcement made so publicly?

The political motivation for the decision is plain to see. Firstly, tensions between the quangos and their political masters had begun to show at the Wales Labour Party Conference in March 2004. The Economic Development Minister launched a political tirade against unnamed people in the 'delivery agencies' who seemed to feel they had the 'right to set the priorities and agenda for 'their' quango'. It was an open secret that this was aimed, among others, at Graham Hawker, the then Chief Executive of the WDA. In retrospect we can see that Hawker's disastrous tactics played into the hands of politicians who were by nature anti-quango. The two most important political relationships in the life of a WDA Chief Executive are those with the Chairman of the Agency and the sponsoring Minister, both of which were beyond repair. Perhaps the most astonishing thing about Hawker's tenure was his decision to restructure the Agency whilst keeping the Chairman and the Minister in the dark about what was going on. When an anxious manager asked why the Minister was not being kept informed of the restructuring plan, one of Hawker's inner circle offered the staggering reply that there was no *legal* requirement to do so. This 'arrogance' of WDA officials has also been cited as a barrier to effective co-operation between the Agency and local communities. Whether the dissolution of the WDA was an appropriate response to these problems, however, is another matter. The Agency was evidently broken, but the impression persists that the solution might prove to be worse than the problem.

The timing of the announcement on the future of the WDA, WTB and ELW also suggests that their dissolution was a political decision. As the AMs Nick Bourne and Alun Cairns noted in debate following Rhodri Morgan's Bastille Day statement, that the announcement came on the final day of Plenary before the summer recess appeared more than coincidental. 'The timing', Alun Cairns told the First Minister, 'makes us cynical. You know that if you last this hour, then you do not have to answer questions for the next three months' (NAW 2004: 55). For an announcement that Rhodri Morgan himself had described as 'extremely important' to be made at such a time does not imply openness to debate on the part of the Assembly Government. A decision had been made and any discussion of the matter was firmly quashed.

Further evidence that the abolition programme was politically motivated came with the second round of the cull in November 2004. As reference to the Members' Research Service report demonstrates, Rhodri Morgan abolished virtually as many executive bodies as he could without seeking primary legislation. Only the Care Council for Wales escaped unscathed. Moreover, for some of those quangos that could not readily be abolished, notably the Arts and Sports Councils, which lost their strategic planning and policy-making functions, the First Minister removed powers, resulting in a devaluation of the Councils if not an emasculation.

The summary dismissal of a report from the Mergers Scoping Project, established in August 2004 to assess the options for the merger of the 'Big 3', provides the final indication that the First Minister had already made a firm decision on the future of the quangos. Although the report was, at the time of its rejection, only a work in progress, it had already established three alternatives for the merger:

- Minimum integration - replacing the Board with the Minister, but maintaining most of the operational activities, structures and branding of the ASPBs. This arm's-length model is similar to the current operational model for Cadw.
- Integration by 2006 - replacing the Board with the Minister, but also merging the ASPB fully with its sponsor division to create a single organisation.
- Integration by 2007 - recognising that the first two options represent two extremes, this model envisaged a more gradual transition of functions into the Assembly.

The Project's findings were widely regarded to lack vision, and it could therefore be argued that their dismissal is a positive sign that the WAG is keen to see its vision for the modernisation of public services carried through in the merger process. It is also true, however, that the rejection of the report highlights a merger process that has been devoid of any real consultation. Neither quango staff nor their clients and customers had the opportunity to contribute to the decision on their future. The lack of consultation is partly a reflection of a fast-track mentality, which breeds a feeling among staff that 'getting it right' is perhaps less important than 'the quick fix'. If the merger is to be sustainable, it is essential that this mentality is addressed. As for external stakeholders, it is naive of politicians to claim, as they have done, that it will be 'business as usual' for the customers of the 'Big 3' quangos: a reorganisation on this scale can take at least two years to 'bed down', during which time employees could be forgiven for making job security and career prospects their principal concerns.

The uncertainty surrounding the future direction of the incorporated bodies raises another potential problem that the politicians will need to address as a matter of urgency. This concerns the role of professional expertise in the post-merger period. Although sometimes decried as self-seeking quangocrats, board members offer a wealth of experience, especially business acumen, and the public sector in Wales is

not over-endowed with these skills. The key question is whether these men and women will be willing to commit their time and expertise to organisations which are directly controlled by politicians, where they will have far fewer powers and where there is less scope for them to make a difference. The Welsh Assembly Government has done nothing to enhance its reputation with the business and professional classes of Wales by the way it has managed the 'bonfire' process, and this may make it that much harder for it to recruit and retain the expertise it will need if the post-merger bodies are to be commercially focused organisations.

Speaking on 1 February 2005, the Economic Development Minister claimed that no evidence of an exodus of talent from the WDA was apparent. 'We're not losing people, we're keeping people', he continued, stating that fewer employees had left the Agency in the post-announcement period than in the corresponding period prior to the announcement (icWales 2005). However, it would seem far too early in the merger process to assess the impact of the announcement on Agency staff. The merger will not be complete until 2006 and a further period of consolidation for the new organisation will follow that. In view of this, the Minister's comments appear more than premature, and concern over the ability of the merged bodies to attract and retain quality employees remains.

The desire for control of ASPB functions by the Welsh Assembly Government raises questions about a new trend towards the recentralisation of power. Following the creation of the Assembly, much of the centralisation of power achieved under Tory rule was reversed. By retaining many of the quangos but making them accountable within Wales, a balance was achieved between the freedom and control of the ASPBs. More recently, the shortening of the arms tying the quangos to the Assembly has given cause for concern that a new wave of centralism is sweeping through the Welsh governance structure. Had the cultural quangos been incorporated in addition to the economic quangos, there would have been an unprecedented centralisation of power within the Assembly, and a politicisation of civil society that would have made Wales unique in the European Union. It was on these grounds that some of the Royal Charter quangos defended themselves prior to the November announcement.

The National Library, for example, argued that incorporation would erode or destroy charitable instincts and the benefits flowing from them; that it would jeopardise long-term planning goals by subjecting them to short-term political aims; and that the effectiveness of the Library and the professionalism of its staff would be threatened. It also recalled the central conclusion of the quinquennial review of the Library, published in 2002 and approved by the Assembly Government, which said that support for the arm's-length principle was very strong and 'there are no compelling arguments for moving away from it' (National Library of Wales 2004: 2). The Arts Council for Wales chose to defend itself on the basis that, in a free and

pluralistic society, the arts are fundamentally non-governmental in character, and must remain so to maintain freedom of expression. More pragmatically, it also argued that its role as a lottery distributor could not be incorporated, and that the arts in Wales would be the poorer if these UK funds were compromised (ACW 2004).

Despite surviving on paper, the Arts Council nevertheless found itself effectively emasculated. Faced with the impossibility of abolishing the Royal Charter bodies without UK government agreement, the First Minister pursued the next most destructive course of action for the quangos, and set about removing functions. With one third of grant budget transferred to Assembly control, along with the Arts Council's former strategic planning role, the arts in Wales now risk becoming highly politicised. These moves will also divorce strategic planning from the local knowledge held by ACW officers.

The Welsh Local Government Association (WLGA), otherwise an avid supporter of the abolition of the quangos, also recognised that further centralisation of public functions within the Assembly Government could lead to 'an unhealthy concentration of power and a weakening of accountability' (WLGA 2004: 3). The WLGA's alternative proposal is for the devolution of more power to local authority level, a suggestion that triggered a rapid rebuttal from the business community in Wales. In a forthright letter to Andrew Davies, the heads of Wales' four premier business associations voiced their:

'...strong opposition to the transfer of significant economic development powers, currently held by the WDA, to local authorities' (Rosser et al. 2004).

The business leaders claimed that the local authorities had neither the expertise nor the scale to provide economic development services. According to this rationale, balkanising the WDA through devolution of power to local authorities risks creating a mockery of the 'one-stop shop' concept. In fact, the reality is that, with the abolition of the quangos in 2006, the reverse will be true. Cardiff Bay and Cathays Park will assume the roles formerly fulfilled by Westminster and Whitehall, and greater centralisation rather than fragmentation of power will ensue.

Case study: Local Health Boards

On 1 April 2003 the Assembly Government created twenty-two Local Health Boards (LHBs) to replace the five existing health authorities. These bodies, whose boundaries correspond to those of the Welsh local authorities, have responsibility for commissioning primary and secondary care services.

In January 2005, the Auditor General for Wales reported to the National Assembly on the waiting list problem affecting the Welsh NHS. This critical report found that waiting times in Wales were not only longer than in Scotland and England, but that significant variation existed between the LHBs with respect to waiting times. The number of patients per thousand head of population waiting over eighteen months for a first outpatient appointment, for example, varies by a factor of nearly twelve between individual boards (National Audit Office Wales 2005a: 28).

The Auditor General also noted the findings of the Wanless Review of Health and Social Care in Wales, published in 2003, which highlighted a lack of accountability of Board chief executives (National Audit Office Wales 2005b). By not making executives accountable where waiting list targets are not met, a culture that effectively rewards failure is fostered.

The current structure of the NHS in Wales has come under scrutiny and been found wanting. If the 'bonfire of the quangos' was really driven by a desire to raise the quality of the public services in Wales then one might have expected the process to begin with the LHBs, the local health service quangos, because public disquiet is much more pronounced in the health sector than it is in the business, tourism and post-16 education and training sectors, where the WDA, the WTB and ELWa operated respectively.

But the crisis in the Welsh health service creates a major conundrum: although structural reform of the service is inevitable at some point, there is no appetite for major upheaval among health service staff.

The principal reason why the LHBs have to be reformed has nothing to do with ideology and everything to do with expertise - in a small country of less than 3 million people, Wales simply does not have the management expertise to properly staff 22 separate local health quangos. The other reason is to reduce the expense of 22 separate bureaucracies, the savings from which could help to redress one of the major causes of the health service crisis, namely the shortage of capacity throughout the system.

Although the original LHB structure was designed to secure 'co-terminosity' with 22 local authorities, this compounded one mistake with another. Like a piece of defective DNA, the local government template was wrong in the first place, spawning authorities that were too small to play a strategic role; but this template was used to design 22 LHBs and 22 Community Consortia for Education and Training (CCETs), thereby reproducing the original structural defect.

5 The New Governance: Key Issues and Conclusions

5.1 *Consultation on the Mergers*

In January 2005 the Assembly Government published a consultation document on the merger of the WDA, WTB and ELWa into the Assembly. This document outlined six benefits of the mergers, all of which are intended to tie in with the Assembly Government's vision for public services in Wales (WAG 2004). These benefits are:

- **accountability** - abolishing the quango boards will establish a clear line of accountability to Ministers; external advice will be incorporated into this new structure;
- **improved customer and stakeholder service** - linking policy development and delivery within Government will provide a coherent one-stop shop system;
- **demonstrable results and application of best practice** - robust performance and benchmarking data will allow progress to be monitored and performance compared nationally and internationally;
- **streamlined delivery** - streamlining will be achieved through shortening of the decision-making process and transfer of resources from administration to delivery;
- **opportunities for staff** - staff will have access to a wider job range and will progress based on their delivery as much as their policy-making skills;
- **organising to deliver** - integration of departments will improve delivery and create savings that over the long term can be invested in front line services (WAG 2005).

We aim here to distil the key issues arising from the mergers, with reference to the principle benefits envisaged by the Assembly Government. In relation to each of the key outcomes a number of questions remain to be answered. We address these below.

5.1.1 Accountability

The first outcome of the merger process discussed in the consultation document is accountability. According to this document, 'the mergers of ASPBs will establish clear lines of accountability to Ministers' (WAG 2005: 3). Certainly the major rationale for undertaking the mergers exercise has been the enhancement of political accountability, but this claim merits further attention as there is more to it than immediately meets the eye. Accountability to the relevant Minister does not take into account the wider dimensions of accountability. The narrow and self-referential definition of accountability often adhered to by politicians fails to give consideration to the need for the electorate to hold politicians to account.

Real accountability relies on real scrutiny, which must be rigorous and searching. The vision detailed in the WAG consultation document is of clearer accountability to Ministers, but also claims that 'publication of information about plans and outcomes' will allow 'wider scrutiny by Assembly Committees and civil society' (WAG 2005: 3). This implies that the Assembly Government recognises the narrowness of accountability solely to Ministers. However, the mere publication of *information about* plans and outcomes will not permit the rigorous scrutiny necessary to ensure true accountability. A scrutiny system relying on ministerial scrutiny also risks being open to abuse, as the comments of some members of the business community about manipulating Ministers behind closed doors have already demonstrated (Wigley 2004). Furthermore, a scrutiny deficit is liable to occur as a result of a lack of time and competence within the existing committee system. Dafydd Wigley's concerns in this regard demonstrate that the committees are already stretched with regard to the time available for scrutiny. In addition, committee members lack the time to develop the detailed expertise necessary to scrutinise the work of the incorporated bodies.

5.1.2 Customer Service

The Assembly Government's conception of customer and stakeholder service within the newly merged organisations is based on the notion of 'joined-up delivery', or the 'one-stop shop'. Learners and business customers, says the consultation document, want a single point of contact. Yet the WDA in particular already delivered this to its customers, and the sentiment in parts of the CBI is that the centralising tendencies of Graham Hawker, and attendant criticism from the regions, were in part responsible for the Agency's abolition.

The real question is whether the Assembly has the commercial acumen to fulfil the role of the ASPBs. The compliance culture of the civil service is onerous, and raises the question of whether the Assembly Government should be trying to engage with businesses in rapidly changing industries. The chapter devoted to customer service under the new arrangements concludes:

'although all of this may not happen overnight, the direction of travel must be clear' (WAG 2005: 7).

The very fact that the Assembly Government recognises that changes will not happen overnight demonstrates the gulf between public service and private sector approaches. Fast moving sectors such as the media and high-tech industry cannot afford to engage with an organisation characterised by slow decision-making processes and response times. The uncertainty introduced because of unanswered questions stemming from the merger is further likely to complicate relations between the Assembly and its customers and stakeholders.

5.1.3 Demonstrating Results and Applying Best Practice

The Assembly Government's consultation document recognises that there is 'currently a lack of benchmarking data' against which performance can be measured (WAG 2005: 8). This is in marked contrast to Andrew Davies' claims that the new organisation formed from the merger of the WDA would be the best in Europe, the implication of which was that some form of benchmarking data existed. There is also anxiety that a current lack of knowledge of existing systems elsewhere will result in the creation of a new merged organisation that is not as well designed as it could potentially be. ELWa's consultation response (ELWa 2005a), for example, expresses concern that the advisory boards that could replace the current quango boards have not been clearly defined. The meaning of 'advisory' is unclear, and there are no widely known examples of where advisory functions have been shown to work effectively.

With respect to the application of 'best practice', several further points can be raised. Firstly, it is important to note that 'best practice' is a somewhat presumptuous concept, which suggests that there is only one best way of proceeding. Seeking out and applying good practice, on the other hand, can be an important means of improving performance. Development of peer-to-peer information sharing is one of the best ways of spreading good practice. Determining the indicators that inform an understanding of good practice is an important process. These indicators can be related to inputs, outputs, or outcomes, and the choice between them can affect how the quality of practices is viewed. The CBI is keen that performance measures are outcome based. Basing targets on inputs often occurs because the results are more straightforward to measure, and inputs are often chosen somewhat arbitrarily for their ease of measurement; however, processes and outcomes are more important to customers and hence are more appropriate measures of performance. The newly merged organisations should be able to demonstrate that they have added value by affecting outcomes for the better.

5.1.4 Streamlining Delivery

According to the consultation document, an important benefit of the new organisations is that the dual decision-making process, involving the Assembly and the ASPBs, will be removed. Streamlining will contribute to the eradication of the silo mentality of different departments within the Assembly, and will introduce savings in both time and money. This process also highlights the tension between those who seek further centralisation of power and those who seek decentralisation, a tension best demonstrated through reference to the contrasting views of the WLGA and the CBI.

The WLGA wants as many quango functions as possible devolved to its twenty-two members, with the business support, property, and regeneration functions of the WDA being among its highest priorities. The unified front presented by the CBI and Wales' three other premier business associations - the Federation of Small Businesses, the Institute of Directors, and Cardiff Chamber of Commerce - is evidence that decentralisation of functions is not without its critics. The CBI argues that there is insufficient expertise at local authority level, and particularly in the smaller authorities, to carry out the functions required by the business community.

In allowing the development of a strategic approach to problem-solving, the recognition of shared problems between localities and regions is undoubtedly positive, and it is essential that a macro-scale vision is maintained in the apportioning of funds. Whilst problems can be conceived of as nationwide, however, the solutions to them are very often local in nature. Partly because of this, critics of the Assembly often argue that the local authorities are an adequate means of ensuring both local voice and accountability. Yet the powers of local government are profoundly limited, and consequently many authorities lack sufficient expertise. Moreover, the somewhat arbitrary boundaries between authorities lead to fragmentation of service delivery. Although the problem of expertise could potentially be solved, in giving local authorities greater power and autonomy the problems of fragmentation would be exacerbated. In reality the current threat is of over-centralisation of functions within the Assembly Government, a situation that risks undoing the positive outcomes achieved through the present, more pluralist, system.

5.1.5 Creating Opportunities for Staff

It is accepted in the consultation document that the changes wrought by the merger will create uncertainty and concern amongst Assembly and ASPB staff. It is also claimed that, in the longer term, staff will have access to a wider job range and will be able to progress as much for their delivery as for their policy skills. Stating that 'the majority of staff will take their current responsibilities into the new Departments and will not have to compete for posts' (WAG 2005: 12), however, nowhere is there any recognition that staff may choose not to continue working for the newly merged organisations. Moreover, three questions that might have given insight into staff attitudes to the merger were recently withdrawn from the WDA's annual staff survey. Whilst it had initially been intended to allow staff to respond to the statements 'I believe that the merger offers opportunities for me', 'I feel optimistic about the merger', and 'I can see myself working in the new organisation', it was ultimately agreed that 'it was more valuable for staff to use the freestyle area of the survey to make their views known' (WDA spokesman, quoted by Shipton 2005b). Transferring existing, and attracting new, expertise is essential to the success of the merger. Thought needs to be given to the nature of the new organisations, since this

transfer cannot be taken for granted: direct control by politicians will reduce employees' scope for making a difference, a state of affairs that may prove unappealing for a significant number.

Ultimately, the nature of the merged bodies will depend largely on who is handed responsibility for their day-to-day operation, and what protocols are employed in the new organisations. Placing ASPB executives in powerful positions would contribute in part to maintaining the benefits inherent in the current arm's-length system; sadly, the fact that all of the sub-projects encompassed by the merger project are chaired by civil servants suggests that this may not occur. Yet even if ASPB employees find themselves in positions of power, so long as the structures within which they operate remain those of the civil service, the newly merged organisations are likely to display more of the characteristics of the civil service - including a compliance culture and risk-aversity - than of the arm's-length public bodies.

In its section on accountability, the Assembly Government's consultation document also addresses the issue of external advice. The future of the non-executive function of the ASPBs is of particular concern, as it is this independent expertise that constitutes the outward-looking nature of the agencies. In future, 'advisory panels' will inform the decision-makers, but will have no formal decision-making powers themselves. As with members of the executive, there is a real chance that non-executive board members will choose not to submit to the political control of the Assembly Government. It has further been suggested that advisors would be appointed on a project by project basis. This has serious implications for the accountability of the new organisations. Panel members brought in effectively in a consultancy role would not have the same impartiality as a full-time non-executive panel. By blurring the distinction between executive and non-executive functions, a loss of scrutiny would occur.

5.1.6 Organising to Deliver

Organisational restructuring is the final beneficial outcome discussed in the mergers consultation document. According to the Assembly Government, 'new structures will provide opportunities for the better delivery of functions at reduced cost' (WAG 2005: 14). This expectation, based on Rhodri Morgan's co-operative model of public service delivery, relies on the integration of functions, notably of back-office activity, in Departments across the Government to deliver efficiency savings.

The key question here is whether these savings are both real and sustainable. Drawing on the principle of 'invest to save', one can question what constitutes an actual saving. If economies are achieved through the merging of the ASPBs and subsequent organisational restructuring, a net saving is made only if the costs of the merger elsewhere are lower than these savings, both in the short and long term. It

can be the case that higher spending leads to a greater saving than lower spending, because of hidden costs. Thus if, for example, business investment in Wales suffers as a result of the merger of the WDA, the apparent efficiency gain would be offset by wider economic losses. It is imperative that the apparent benefit of cost efficiencies is not taken at face value; only by addressing the question directly can we guard against the pitfalls of hidden costs.

5.2 Consultation Responses

From the consultation responses of organisations directly and indirectly affected by the merger process, it is apparent that four principal themes recur, and that these themes concur in large measure with points raised above.

Firstly, there is widespread concern that the level of scrutiny of the new Departments of Education & Lifelong Learning (ELL) and Economic Development & Transport (EDT) will be insufficient, and that the Departments will consequently be insufficiently accountable. Fforwm, for example, questions whether the new strategic advisory panels will be able to provide 'the same degree of scrutiny, robustness and rigour' (Fforwm 2005:2), whilst the Trade Union response argues that making the new external advisory panels responsible not only for policy advice but also for scrutiny may produce 'tensions or incompatibilities' (UNISON, PCS and Prospect 2005: 4). A further conflict of interest is highlighted by ELWa (2005), which recognises that, whilst at present appeals over decisions made by ELWa are made to the Minister, under the new system the Minister would hold ultimate responsibility for both making the original decision and hearing any subsequent appeal. This represents a significant loss of impartial scrutiny. Ensuring an adequate breadth of accountability is a further issue addressed in the consultation responses. The Confederation of British Industry contends that 'there should not be just political accountability, but also accountability to the customer' (CBI Wales 2005: 2).

This need for accountability to the 'customer' points to a second important issue discussed in the consultation responses, namely the extent to which the customer will remain the focus throughout the merger and under the subsequent system. The Trade Union response claims that the merger proposals have placed too great an emphasis on rationalisation and too little on the customer. It is critical that politicians, civil servants and delivery agency staff do not lose sight of the fact that the end user, and not the Minister, is the customer. End user satisfaction is the ultimate measure of success and, as ELWa have acknowledged, insufficient attention to customer needs generates dissatisfaction with public services (ELWa 2005b).

Thirdly, it is apparent that the WAG has been unable to allay fears regarding its ability to successfully merge the civil service and delivery agency cultures. Doubts remain about the ability of the civil service to emulate the flexible, entrepreneurial,

risk-taking approach of the private sector. Whilst the Trade Unions appreciate that it might be possible for the public sector to create a suitable environment, they note that there is no evidence that best practice in this regard has been examined by the WAG.

The fourth criticism of the merger proposals is that they fail to adequately set out how the silo mentality currently prevalent in the public sector will be overcome. ELWa calls for future proposals to contain 'greater detail on how the links between different policy and delivery areas will be strengthened' (ELWa 2005b: 2), whilst the CBI (2005) criticises the WAG for replicating existing structures in the new EDT and ELL departments, without first exploring the possibilities of interlinking functions.

From the consultation responses it is also clear that the WAG's presentation of the merger as a *fait accompli* 'without offering any real choices to the way it intends to proceed' (UNISON, PCS and Prospect 2005: 6) has been highly unpopular. This notwithstanding, the volume of recommendations made by the organisations implicated in the merger suggests that there is also a desire to see the creation of a successful new structure for the delivery of services. To this end, the CBI has expressed a desire for ongoing dialogue with the WAG. In spite of the manner in which the merger was announced, there is now an opportunity for the WAG to become responsive to external input; by taking into account the previous experience and future requirements of all interested parties, the WAG will increase the chances of making the merger process a success.

5.3 ELL and EDT: Key Issues

As the merger process continues, it is important that the Assembly does not lose sight of the key issues in sectors falling under the remit of the Department of Education and Lifelong Learning and the Department of Economic Development and Transport. Some are directly related to the merger, others are not, but all are critical to their respective sectors and thus to the social and economic success of Wales. Some of the most pivotal issues are detailed below.

5.3.1 Education and Lifelong Learning

Although the Welsh higher education quango, the Higher Education Funding Council for Wales (HEFCW), survived the quango cull of 2004, the political climate prevailing in the wake of the bonfire is nevertheless having an impact on Welsh higher education. Three principal issues are affecting the HE sector, each with serious implications in the immediate and longer term. Firstly, there is an apparent tightening of control by the WAG over HEFCW. Secondly, the reconfiguration and collaboration agenda being pursued by the WAG is of some considerable concern to Welsh HEIs. Finally, and most critically, there is a growing funding gap in the Welsh HE sector.

Tightening of control by the WAG over HEFCW's activities is becoming increasingly apparent. Evidence of this is provided by the current political preoccupation with a reconfiguration and collaboration agenda. At present the only substantial additional funding for Welsh HEIs is made available solely for projects deemed to conform to this agenda. By demanding that funds are hypothecated in this way, the WAG is limiting HEFCW's autonomy in the assignment of funds to its HEIs. This shortening of the arms in the HE sector closely mirrors the experiences documented in other delivery agencies. This is of particular concern when one considers the importance of freedom of expression within academe. The academic tradition, stretching back centuries, has clearly outlived myriad government agendas; to subject universities to direct political regulation would be to stifle the independence that fosters this tradition.

The critical importance of the reconfiguration and collaboration agenda to the WAG's vision for HE not only demonstrates the tightening of control by the Assembly, but also represents a second issue of considerable concern to Welsh HEIs. Financially, the lack of availability of funding for projects not related to reconfiguration or collaboration is less of a problem for larger institutions, of which Cardiff University is the notable example. Excluding income from tuition fees, Cardiff receives only approximately 30-40% of its income from the Assembly. Its ability to call on alternative funding sources should reduce the impact of the WAG policy. For smaller HEIs, however, HEFCW-administered funds from the Assembly comprise the largest part of their income. The non-availability of funds for projects not involving reconfiguration or collaboration risks limiting the internal development of these institutions. The reconfiguration agenda will also have a direct impact where institutions are encouraged to merge for reasons of academic and economic performance. Already this impact is beginning to be felt. A recent report by independent consultants for HEFCW proposed that the three principal post-1992 HEIs in southeast Wales – the University of Glamorgan, the University of Wales Institute, Cardiff (UWIC), and the University of Wales, Newport – be merged (Bull and Cooke 2005). How this recommendation is met will be critical to future policy determination.

For higher education in Wales the third, and key, issue is funding. The Rees Review group suggests that the funding gap in Wales in the three-year period 2005/6 to 2007/8 is £300 million, over three times the previous estimate of £50 million per annum. With the forthcoming introduction of variable tuition fees for undergraduates in England, the pressure on the Assembly Government's budget will only increase, since the WAG has pledged to meet the shortfall caused by its decision, valid at least until 2007, not to implement variable fees. A decision over the longer term not to allow HEIs to charge variable fees will divert funds away from narrowing the funding gap into providing a supplementary income stream (SIS).

Moreover, if the £3000 cap on variable fees is lifted in England, there will be insufficient money in the Welsh HE budget to continue providing a sufficient SIS.

Among the recommendations in the Rees Review it is suggested that deferred variable fees of up to £3000 be introduced from 2007/8, along with means-tested bursaries, top-sliced from the additional fee income, for both Welsh domiciled and non-Welsh domiciled students. It is also recommended that the WAG investigates the implications of offering incentives to Welsh domiciled students to study in Wales. Whatever the outcome of such investigations, it seems certain that the decision not to implement variable fees in 2006/7 in line with the English system will have certain interesting implications. Wales is already a net importer of students: 37% of Welsh domiciled students study in England and 44% of students in Welsh HEIs are from England (Rees 2005). In 2006/7, cheaper higher education in Wales is likely to attract more English applicants, particularly those from middle income families that are not eligible for support but cannot readily afford to pay the greater fees. Conversely, Welsh domiciled students from lower income families that are eligible for support will be attracted to those English universities that offer generous bursary schemes. This would have an effect not least on the WAG's commitment to increase the number of new entrants from Communities First areas entering Welsh HEIs.

Equally difficult issues will have to be resolved in the post-16 education and lifelong learning sector, not least the challenge of creating an equitable and responsive funding system. The National Planning and Funding System was the Education and Training Action Group (ETAG)'s response to this challenge, and it was designed to put the funding of the sector – composed of FE colleges, school sixth forms and work-based learning providers – on a fairer footing. The FE sector has long argued for a more level playing field because it maintains that it cannot be right that funding for a student doing three 'A' levels at a school sixth form should be so much higher than for a student taking the same subjects in a College. Although the FE sector continues to labour under a Cinderella status, it is now the main provider of full-time courses, including 'AS/A' levels, for 16-19 year olds; it delivers at least one-third of work-based learning funded by ELWa; and it provides at least 6% of higher education in Wales (Fforwm 2004). Fforwm, which represents the FE sector in Wales, wants to see a transparent policy-making system for the post-16 sector after the merger because it fears that FE will not command the same level of support, from either politicians or civil servants, as the well-connected school sixth form sector.

ELWa came under a lot of unwarranted criticism for the new funding system, largely because it was perceived to be inimical to school sixth forms, when it was merely implementing the policy of the Welsh Assembly Government. Politicians have been conspicuous by their absence in defending ELWa even though it was trying its best to implement the principles of the widely accepted Education and Training Action

Plan. As one respondent told us: 'when ELW is no longer around to blame, the Minister will have to do her own dirty work'.

5.3.2 Economic Development and Transport

As the key economic development issues of the merger are addressed elsewhere in this report, the main issues we want to highlight here are: (a) the dangers of creating a low trust environment in the new EDT and (b) the need to design more relevant and more robust key performance indicators for the new economic department.

In recent years theorists and practitioners alike have woken up to the fact that trust is a major asset to organizations *if* it can be realised. The main commercial benefits of trust are threefold: first, it saves time and money to be able to rely on the word of one's partner; second, it reduces uncertainty; and third, high trust environments help individuals and organizations to learn faster than low trust environments because they generate richer and thicker information flows for the simple reason that people divulge more to those they trust (Cooke and Morgan 2000). The unique nature of trust as an asset lies in the fact that it has a value but no price – in other words it cannot be bought and sold like conventional assets. Consequently, the only way to acquire trust is to earn it by discharging one's promises and commitments to one's partners in a manner that builds mutual confidence and eschews opportunism. The innovative organization, be it a private business or a public body, needs to think more carefully about how it fosters (or frustrates) the delicate fabric of trust because, without it, there can be no effective teamwork.

If trust and teamwork are becoming ever more important elements of a successful organization, as we believe they are, it is a cause for concern that the merger process is jeopardising these intangible assets. In short supply at the beginning, because the merger was announced in a unilateral manner, the mutual trust between the WAG and the ASPBs has been progressively eroded as the process has unfolded. Although the uncertainty about posts and jobs is bad enough, the most corrosive part of the process is the perception that the WAG is at best less than transparent, and at worst less than honest, about redundancies. When the merger is complete the new EDT department will have some 2011 staff on its payroll. The unions expect this figure to decrease in the immediate aftermath of the merger, not least because the WAG is pursuing the efficiency savings promised in *Making the Connections*. As staff consultation workshops at the WDA have found (WDA 2005a), staff are above all concerned to know whether or not their jobs are safe, but the WAG has thus far not publicly committed itself to any decision on future staff numbers. As well as laying itself open to the charge of dissembling, the WAG is making it more difficult to design suitable redundancy packages since it refuses to acknowledge the real scale of the redundancies involved, perhaps because the redundancy bill is going to be enormous. The refusal to put its real personnel policy into print, or even into the

minutes of Programme Board meetings, could eventually destroy what little trust currently exists between the two sides, and this low trust environment will not suddenly disappear when EDT opens its doors for business in April 2006. Quango staff are asking themselves how the end product can be sound when the process which fashioned it leaves so much to be desired?

With personnel issues and new structures absorbing so much time in merger meetings, it is hardly surprising that little or no progress has been made in defining a new set of key performance indicators (KPIs). Far from being a purely technical matter, performance indicators are one of the ways through which EDT can be held accountable. As CBI Wales rightly says, accountability for service standards and delivery should be not just to politicians, but also to the customer (CBI Wales 2005). KPIs will be an important means of monitoring improvements in service delivery to customers, which will itself be a measure of the success of the merger (WDA 2005b). Whatever KPIs are chosen to hold the new department to account, there is a clear and urgent need to jettison the misleading performance indicators through which the WAG sought to monitor and evaluate the WDA. Conveyed through the annual remit letter from the Minister, these performance indicators were as undemanding as they were unimaginative, a legacy from the Welsh Office era which sadly continues to this day. The key performance indicator was 'number of jobs created or safeguarded', a measure which conceals far more than it reveals, prompting one WDA Board member to say that it was as illuminating as 'smoke and mirrors'. Here, as with so many other indicators, quantity was extolled over quality; this philosophy reached its crudest expression in the targets given to the WDA's North American offices, where each office had to deliver 1000 jobs apiece regardless of quality or fit.

The new performance indicators should set a higher premium on the quality of the project and not on the number of jobs involved, because poor quality jobs tend to be the least secure jobs. To target quality projects the EDT department will have to calibrate its grants to quality-based criteria, like the level of research, design or development spending attached to a project, or the number of apprentices, technicians or technologists generated by the investment in question. These indicators have the merit of helping to build a new trajectory of economic development, one that is oriented to the future rather than tethered to the past, one that is also more consistent with the WAG's stated ambition of creating a more innovative and sustainable model of development in Wales.

The new KPIs should cover two main types of performance – service delivery to the customer and the wider contribution to the Welsh economy. In the former, a simple but fundamentally important set of response times should be established. For example: an application for a grant should be acknowledged within a set number of days; a decision should be given within a guaranteed number of weeks; and completion should occur within a defined period. On the wider front the WAG

should assess its performance in terms of wage levels and quality jobs, and should refer to the targets in *A Winning Wales* and the *Wales Spatial Plan*, for example improving GDP/GVA levels, reducing economic inactivity, and enhancing the R&D base (CBI Wales 2005). The common threads running through all these different indicators should be to render the new EDT as accountable to as many stakeholders as possible, and to make outcome rather than process the litmus test of everything it does. Modest as they seem, these two changes amount to nothing less than a cultural revolution for a civil service system in which the principal customer is the Minister and where process is king.

5.4 Two Final Concerns: The Great Imponderables

We conclude with reference to two final concerns, or what we call the great imponderables because they deal with questions that cannot be answered in advance of the merger. If the merger is successful – as we sincerely hope it is – it will be a boon to all concerned, and the best way to ensure its success is to eschew group-think, the uncritical affirmation of official mantras, and try to identify potential problems before they arise. To this end the first of our two final concerns can be succinctly expressed as follows:

- *Does the WAG have the internal management capacity to digest six quangos and to substantially improve on their performance?*

Although civil servant numbers have increased substantially in recent years, largely as a response to the additional functions that the Assembly has assumed since the Welsh Office era, the pressure on the service is greater today than at any time in the past. Civil servant numbers may have increased, but their work load has increased even faster, raising serious concerns about an over-stretched, over-stressed and unsustainable work culture, a problem that is particularly acute at grade five and grade seven, respectively head of division and head of branch levels. It is into this fraught and fragile context that six quangos are being merged, three of which are extremely large and complex organisations with very different work cultures. It is a naive and fatal conceit to imagine that the physical co-location of functions will of itself deliver joined-up policy for either economic development or post-16 education and training.

The new departments that are currently being designed – Economic Development and Transport on the one hand and Education and Lifelong Learning on the other – will be large and unwieldy departments, affording plenty of scope for turf fights and silo working. One thing seems sure: the structures that will be put in place for the official opening in April 2006 are unlikely to be the end of the story of structural change. In Wales we are prone to think that old problems are solved simply by creating new structures – a strategy that clearly hasn't worked in the past, especially

in vocational education and training, a sector which has undergone three major structural upheavals since 1999, and as many as five changes in as many years if we include the two debilitating internal changes within ELWa. In spite of these structural changes, we have a skills profile in Wales today that would shame a developing country - with 24% of adults officially classed as functionally illiterate and 53% functionally innumerate.

Structural change induces enormous institutional upheaval and imposes huge hidden costs, not least in terms of the internal networks that are broken up and the external networks that are disrupted, both of which take time to renew. Within this context the staff would be less than human if their first concerns were not with the security of their jobs and their career prospects, hardly the environment in which to deliver a 'business as usual' service to clients and customers. Although the WAG aspires to become a best in class service provider, the question that needs to be asked is how would it know? The truth of the matter is that there is an alarming lack of benchmarking data inside the WAG, and one might have expected this knowledge gap to be filled before the merger not after it. For all these reasons it is difficult to imagine the new departments out-performing the quangos whilst so much of their energy is absorbed in recalibrating their internal affairs.

The second concern relates to the external implications of the merger, and can be summarised in the following question:

- *Will Wales become a less pluralist, more state-centric country in which the political realm embraces ever more aspects of our social and economic life?*

The encroachment of the political realm into civil society is being accompanied by a command and control approach, as a result of which politicians are seeking to exert ever-increasing authority. This approach is characterised by more stringent control over access to information, which in turn limits society's capacity for effective scrutiny of political actions. The Culture Minister's behaviour during the selection of Meri Huws as Chair of the Welsh Language Board bears witness to the type of political mentality that scrutiny exists to keep in check. This mentality is perhaps nowhere more apparent than in documents obtained under the Freedom of Information Act. In September 2004, with funding problems marring the progress of proposals to build an Autotechnium in Llanelli, an Assembly Government official wrote to a colleague, saying:

'With the Wales GB rally only some three months away, there is an urgent need to sound some optimistic notes for public consumption on the Autotechnium developments. We need a positive line for the Minister. I should, therefore, be grateful if you would agree some 'optimistic' 'lines to take'...that I may convey to the Minister asap' (WAG official 2004, quoted in Shipton 2005c).

The challenge is creating a public service system that is both efficient and accountable. What is more, this must be achieved in the context of political openness to debate. Unfortunately, the secretive manner in which the 'bonfire' process has been conducted has left the Assembly Government open to the charge that it is not interested in fostering free and frank debate. As the quangos are brought in-house, so public life will increasingly revolve around the Assembly, and secrecy and spin will be more readily rationalised. Already fewer people seem willing to speak openly against this receding pluralism for fear of alienating their patrons in the Assembly; consequently, the centres of independent thought and research are becoming confined to the media and academia. Surely no civil society can be content with this state of affairs.

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