

Agenda – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 15 October 2018

Meeting time: 13.00

For further information contact:

Fay Bowen

Committee Clerk

0300 200 6565

SeneddPAC@assembly.wales

(Pre-meeting)

(13.00 – 13.15)

1 Introductions, apologies, substitutions and declarations of interest

(13.15)

2 Paper(s) to note

(13.15 – 13.20)

(Pages 1 – 3)

2.1 Implementation of the NHS Finance (Wales) Act 2014: Letter from Chair of ABMUHB (3 October 2018)

(Page 4)

2.2 Governance and oversight of arms-length bodies: Update from Permanent Secretary (25 September 2018)

(Pages 5 – 11)

3 Scrutiny of Accounts 2017–18: Welsh Government

(13.20 – 15.30)

(Pages 12 – 180)

Research Briefing – Welsh Government Consolidated Accounts

Research Briefing – EU Structural Funds

PAC(5)–27–18 Paper 1 – Welsh Government Consolidated Accounts 2017–18

PAC(5)–27–18 Paper 2 – Welsh Government Annual Report on Grants

Management 2017–18

PAC(5)–27–18 Paper 3 – Letter from the Permanent Secretary (22 August 2018)



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Shan Morgan – Permanent Secretary, Welsh Government

Gawain Evans – Director of Finance, Welsh Government

David Richards – Director of Governance, Welsh Government

Peter Kennedy – HR Director, Welsh Government

Peter Ryland – Deputy Director, Programme Performance & Finance, Welsh
European Funding Office (WEFO)

**4 Motion under Standing Order 17.42 to resolve to exclude the
public from the meeting for the following business:**

(15.30)

Items 5, 6 & 7

5 Scrutiny of Accounts 2017–18: Consideration of evidence received

(15.30 – 15.45)

6 NHS Wales Informatics Services: Consideration of draft report

(15.45 – 16.15)

(Pages 181 – 198)

PAC(5)–27–18 Paper 4 – Draft report

7 Forward Work Programme

(16.15 – 16.30)

(Pages 199 – 214)

PAC(5)–27–18 Paper 5 – Forward Work Programme

Concise Minutes – Public Accounts Committee

Meeting Venue:	This meeting can be viewed
Committee Room 3 – Senedd	on Senedd TV at:
Meeting date: Monday, 8 October 2018	http://senedd.tv/en/5034
Meeting time: 13.17 – 16.18	

Attendance

Category	Names
Assembly Members:	Nick Ramsay AM (Chair) Mohammad Asghar (Oscar) AM Rhianon Passmore AM Jenny Rathbone AM Jack Sargeant AM
Witnesses:	Manon Antoniazzi, Chief Executive & Clerk of the Assembly Suzy Davies AM, Commissioner Nia Morgan, Director of Finance Nick Bennett, Public Services Ombudsman for Wales Katrin Shaw, Public Services Ombudsman for Wales David Meaden, Public Services Ombudsman for Wales Office
Wales Audit Office:	Anthony Barrett – Assistant Auditor General for Wales Matthew Mortlock Ann-Marie Harkin
Committee Staff:	Meriel Singleton (Second Clerk) Claire Griffiths (Deputy Clerk)



	Martin Jennings (Researcher) Joanne McCarthy (Researcher)
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1 Introductions, apologies, substitutions and declarations of interest

- 1.1. The Chair welcomed Members to the Committee.
- 1.2. Apologies were received from Neil Hamilton AM and Adam Price AM. There were no substitutes.

2 Paper(s) to note

- 2.1 The papers were noted.
- 2.1 The Welsh Government's Funding of Kancoat Ltd: Correspondence from the Welsh Government (6 September 2018)
- 2.2 Scrutiny of Accounts 2016–17: Correspondence from the National Library of Wales (6 September 2018)
- 2.3 Inquiry into Regulatory oversight of Housing Associations: Update from the Welsh Government (20 September 2018)
- 2.4 The Welsh Government's relationship with Pinewood: Correspondence from Bethan Sayed AM, Chair of Culture, Welsh Language & Communications Committee (28 September 2018)

3 Housing Adaptations: Welsh Government response to the Committees Report

- 3.1 Members considered the response and agreed that the Chair would seek a further update on the implementation of the recommendations in spring 2019.

4 Public Procurement in Wales and the National Procurement Service

- 4.1 Members considered the letter from the Cabinet Secretary for Finance and agreed to hold an evidence session with the Welsh Government later this term.

5 Scrutiny of Accounts 2017–18: Assembly Commission

5.1 Members scrutinised Manon Antoniazzi, Chief Executive and Clerk of the Assembly, Nia Morgan, Director of Finance, National Assembly for Wales, and Suzy Davies AM, Commissioner with responsibility for Budget and Governance on the Assembly Commission's Annual Report and Accounts 2017–18.

5.2 Manon Antoniazzi agreed to write to the Chair with the Assembly Commission's views once they had considered the paper at their November meeting regarding the new contract KPI for procurement.

6 Scrutiny of Accounts 2017–18: Public Services Ombudsman for Wales

6.1 Members scrutinised Nick Bennett, Public Services Ombudsman for Wales, Katrin Shaw, Director of Policy, Legal and Governance and David Meaden, Financial Accountant, Public Services Ombudsman for Wales, on the Public Services Ombudsman for Wales' Annual Report and Accounts 2017–18.

7 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

7.1 The motion was agreed.

8 Scrutiny of Accounts 2017–18: Consideration of evidence received

8.1 Members considered the evidence received.

Agenda Item 2.1



GIG
CYMRU
NHS
WALES

Bwrdd Iechyd Prifysgol
Abertawe Bro Morgannwg
University Health Board

Our Ref: AD/DE/cw

Date: 3rd October 2018

ABMU Health Board
Headquarters
One Talbot Gateway, Seaway Parade,
Port Talbot
SA12 7BR

01639 683302
WHTN: 1787 3302

Nick Ramsay AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Dear Mr Ramsay

I am writing further to my letter dated 20th July 2018.

I recognise that my earlier correspondence was not as clear as it could have been in confirming the value of the payment made to the former Chief Executive of the Health Board who left the organisation in March 2017. The Chief Executive's annual salary for the year April 2016 to March 2017 was £187,096.81 and on leaving the organisation a payment of £3,452.06 was made in lieu of annual leave. The value of the payment made under the Compromise Agreement was £113,213 which reflected an ex gratia payment and £50,000 in lieu of notice, which totals £163,213. These payments are set out within our annual accounts.

Please accept my apologies for any confusion caused.

Yours sincerely

A handwritten signature in black ink, reading 'Andrew Davies'.

ANDREW DAVIES
CHAIRMAN

• Chairman/Cadeirydd: **Andrew Davies**

• Chief Executive/Prif Weithredwr: **Tracy Myhill**

ABM Headquarters/ Pencadlys ABM, One Talbot Gateway, Seaway Parade, Baglan Energy Park, Port Talbot. SA12 7BR.
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Bwrdd Iechyd ABM yw enw gweithredu Bwrdd Iechyd Prifysgol Abertawe Bro Morgannwg

ABM University Health Board is the operational name of Abertawe Bro Morgannwg University Local Health Board

www.abm.wales.nhs.uk

Agenda Item 2.2

Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Mr Nick Ramsay AM
Public Accounts Committee Chair
National Assembly for Wales
Cardiff Bay
CF99 1NA

25 September 2018

Dear Mr Ramsay,

I wrote to you on 17 January this year to tell you about the work which we were taking forward around the relationship between the Welsh Government and its Arm's-length Bodies, following our review "Delivering Together". As you requested in your letter of 2 February this year, I am now writing to give the Committee the autumn update which you requested.

I suggest that it might be most helpful to the Committee for me to group my update around the eight key recommendations in our review which I picked out in my earlier letter since together they encompass the thrust of the work. The headings below are therefore taken from the bullet points which appeared in my previous correspondence.

Recommendation 1 - "To establish greater central capacity, via a Public Bodies Unit which would take over some sponsorship functions, act as a centre of excellence, a source of consistent advice and provide greater transparency and assurance to me. This will be cost-neutral and funded through a re-alignment of resources from sponsor teams which will enable us to do the things we do now better and also give some capacity to undertake new functions"



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The Public Bodies Unit has been established and is operating its role as recommended. It is located within the Permanent Secretary's Group and reports to the Director of Corporate Services who in turn reports to me. It is now fully staffed with officials taken from across the organisation through a realignment of resources. All of these were previously carrying out a sponsorship or relevant policy function in relation to an Arm's-length Body and, as envisaged, this has been a cost-neutral exercise. We have been able to build in some capacity to undertake functions better and more cost-effectively, so the Unit also has responsibility for the Welsh Government's oversight of pay and conditions of Arm's-length Bodies and also incorporates the operation of the honours system in the Welsh Government. New arrangements in hand include:

- The removal of 'Calling-in Procedures' i.e. a requirement for our Arm's-length Bodies to refer to us for approval for particular categories of decision, such as single tenders above a specified threshold or issues which are novel and contentious. This will result in an efficiency saving to the Welsh Government in time spent providing advice and approvals and allow Chief Executives to take decisions which are properly their responsibility in their roles as Accounting Officers.
- The development of an induction arrangement for Boards of public bodies. This is being rolled out across our public bodies to coincide with their board meetings. In addition, it forms a part of induction training of new Accounting Officers. Recent sessions have included Social Care Wales, Sport Wales, RCAHM and the National Council for Educational Leadership.
- The design of a Tailored Review process for use with our Arm's-length Bodies to provide assurance to Ministers, the Principal Accounting Officer and Leaders of the bodies themselves on whether our bodies remain fit for purpose and are well governed and properly accountable. The review process will be proportionate to the size of the Arm's-length Body and flexible in terms of timing and approach. We have developed a risk tool, which we will refine with the Leaders of our Public Bodies, to identify when a review of an Arm's-length Body would be beneficial. That tool will be used by the Welsh Government in conjunction with Arm's-length Bodies to agree the risk profile of the organisation and help inform discussions with Ministers as to the timing of the review of the organisation. I hope that the review process will be in place by April next year.
- Public bodies' pay, reward and recognition. I saw this as an opportunity to align arrangements across the public service and provide a single 'go-to' point for these bodies. The aim is to provide advice on best practice across the sector, recognising that while consistency is important, one size does not necessarily fit all. We are currently developing proposals on Arm's-length Bodies' pay remit guidance and on pay systems, reward and severance advice. Moving this work



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into a dedicated unit is already enabling a greater focus on gathering intelligence and understanding the issues; Senior Pay Transparency and Gender Pay Gap reporting requirements; Welsh public sector pay policy; and pension changes.

- We are establishing a Sponsor network for Welsh Government officials to meet regularly and share best practice. This will be managed and led by the Public Bodies Unit. This will be in place by November. I have agreed that lead sponsors must be at least Deputy Director level and that they will perform an enhanced relationship role. This relationship management role is now being built into the competency and performance framework for the Senior Civil Service. The Public Bodies Unit is developing with Academi a learning and development programme on Building Effective Relationships for our new relationship managers

Recommendation 2 - “To develop proposals with our Arm’s-length Bodies to join up the provision of the back office functions of the Welsh Government Arm’s-length Bodies and making better use of large framework contracts to drive out efficiency savings.”

We are making some progress with this recommendation although implementation will take some time and will probably need to be spread over a number of years. Arm’s-length Bodies are generally locked-into contracts of their own in the short term which could not be set aside without incurring significant penalties. But we have begun a dialogue with our bodies about where the best and quickest opportunities might be for achieving efficiency savings through framework contracts.

The Chief Executives collectively are keen to focus on the efficiency agenda and had started to look at their activities and resources - people, energy and commitment not just money - and how, working together, they could liberate these to increase public value. There have been very positive discussions and a general agreement that we will continue to work together on the shared services agenda on a ‘pick and mix’ evolutionary basis. I recognise that we might need different models and approaches across Wales, depending upon individual circumstances.

An early opportunity is the provision of internal audit services. Most of our Arm’s-length Bodies do not operate their own internal audit services, but instead contract out individually, mostly to the private sector. There are models in the NHS in Wales, and Government Departments in Whitehall, which demonstrate that a shared internal audit service can be delivered both effectively and efficiently across a range of participating bodies. The Head of Internal Audit for the Welsh Government is leading on this particular aspect of the proposals for us though we are treating it as a joint project with



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the Arm's-length Bodies themselves. I would hope that by April next year we would have concrete plans for implementation.

Recommendation 3 - "To assess the cost effectiveness of Welsh Government officials providing 'secretariat' services to the 16 committees, appeals panels and tribunals and make proposals to consolidate this resource".

I have established a common secretariat, overseen in my own office, for the major internal Welsh Government official committees which operate underneath my Executive Committee. I am expecting these new arrangements to lead to efficiency savings and to the more effective operation of the key decision-making groups supporting me in the running of the Welsh Government. Once this has bedded in we will take the learning from it and seek to apply it to consolidating secretariat services on a wider scale across the Welsh Government.

Recommendation 4 - "To streamline the administration of the payment of grant-in-aid whilst maintaining rigorous scrutiny".

I have put in place a Grants and Assurance work-stream to identify grants which have similar or overlapping remits or responsibilities, and/or other grounds for consolidation, rationalisation or cessation of work if appropriate. The work is being led by the Grants Centre of Excellence supported by a Grants Working Group. The Grants Working Group have developed a Target Operating Model which reflects the end to end processes of applying for and managing a grant.

Good Progress has been made in developing a Grants Assurance Panel which is now implemented. The Panel has been established to provide advice, challenge and assurance to grant managers when setting up their grant schemes. The first meeting of that panel took place in September.

I have agreed to the establishment shortly of a Central Due Diligence Team to provide a corporate "health check" on the organisations that we fund with the aim of improving consistency, delivering greater support to policy areas and to providing more uniformity in how Welsh Government deals with external bodies.

We are currently looking to improve consistency, compliance, reduce the administrative burden for stakeholders and to improve the audit trail throughout. My grants team are investigating an ICT solution which would be suitable as a digital application.

Recommendation 5 - "To move away from 'annual' remit letters, budget awards and business plans to a 'Term of Government' approach that will facilitate longer



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term planning and provide greater stability for our Arm's-length Bodies, improve efficiency and effectiveness of the oversight arrangements".

This move to a more strategic relationship, which will link the activities of each individual body to the contribution which it can make to the Government's Programme and encourages more joined-up working between bodies, has been widely welcome by Chairs and Boards as a positive step forward. The aim is to have first round of Term of Government letters being issued by the end of the financial year.

Recommendation 6 - "To establish a Public Leaders Forum (networks for Chairs, Chief Executives and sponsors and policy leads) to facilitate improved communication and sharing of information that will lead to more efficient planning and better decision making".

The first meeting of the Public Leaders Forum, attended by Chairs and CEOs of most of the Welsh Government's Arm's-length Bodies, took place in March. I was very pleased to be able to be there myself and to be one of the contributors to the event, since I regard this as a very welcome and important development. Some consistent themes emerged for us to collectively think further about:

- respecting each organisation's 'independence' while also recognising our mutual interdependence;
- improving two-way communication;
- mutual support – a true partnership;
- collective working – "Team Wales";
- sharing resources for both back office and front line staff;
- individual, board induction and governance awareness sessions;
- understanding the Welsh Government Delivery Model for Prosperity for All;
- diversity; and
- sharing problems, solutions and best practice.

Feedback from the attendees was very enthusiastic and positive and the next Public Leaders Forum meeting is scheduled to take place in Aberystwyth later this year where we will discuss some of these issues in more detail.

Recommendation 7 - "To develop a Welsh Government 'Governance Portal' to facilitate opportunities for cross-sector working by providing a platform on which to share Arm's-length Bodies' business plans and remit letters, and to provide an on-line discussion forum".



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The Public Bodies Unit is exploring with sponsors, the Cabinet Office and the Public Leaders what information would be useful to share to enable the Welsh Government to facilitate improved cross-sector working. Once this work has been completed we will develop the platform to enable this to take place – “form follows function”. I will aim to get this in place by the start of the next financial year.

Recommendation 8 - “To build in additional capacity in the Public Appointments Unit to enable the development of a ‘talent pipeline’ of potential candidates for appointments to boards, improving succession planning and diversity in appointments”.

The Public Appointments Unit has been strengthened and is now part of the Public Bodies Unit. We have developed the capacity for managing public appointments centrally within the Public Bodies Unit and from 1 November we will be running all campaigns from within the team.

We have moved 6 appointment campaigns into the Public Bodies Unit, as a soft launch, to test our resource resilience and to ensure that we have the capacity and capability to run these appointments effectively and efficiently when we take them all over.

Its first priority, requested by Ministers, is to put work in hand to increase the diversity of the pool of candidates coming forward for public appointments. I have appointed an ‘Outreach’ manager who has the responsibility for creating a pipeline of diverse applicants for future appointments and to develop coaching and mentoring arrangements for current appointees and those who wish to be considered for appointments in the future.

The Public Bodies Unit is devising an action plan which will include wider communication of opportunities on Boards, greater emphasis on encouraging people from diverse backgrounds to apply and following-up “near misses” of appointments. As one of its first activities the Public Appointments Unit has arranged a seminar on 24th September to which it has invited members of Public Boards who have disclosed disabilities through the appointments process to discuss their experiences of applying for their roles and taking up the appointments.

The Unit will also be concentrating on seeking to get a more equitable diversity balance of public appointments in Wales and will be advised in this work by Kathryn Bishop, the Chair of the Welsh Revenue Authority and also a former Civil Service Commissioner.



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I hope that this update serves to give the Committee a flavour of the progress which we are making. I will, of course, be very happy to go into each of the recommendations in the report in more detail when I appear before you on 15 October if the Committee would find that helpful.

Yours sincerely,

Shan Morgan

Shan Morgan
Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government



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Agenda Item 3

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

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Llywodraeth Cymru
Welsh Government

Welsh Government Consolidated Accounts 2017-2018



Overview from the Permanent Secretary



Shan Morgan

I'm pleased to be presenting my second consolidated accounts on behalf of the Welsh Government. Having joined the organisation towards the end of the 2016-17 financial year,

this is my first full year in post and, looking back, it's been a busy and challenging year with much to report on.

Our priorities

My main priority during this reporting period has been ensuring the organisation is equipped to respond quickly and effectively to Welsh Government priorities as well as continuing to deliver our statutory obligations effectively and within budget.

In September 2017, the First Minister published Prosperity for All: the national strategy alongside our revised objectives under the Wellbeing of Future Generations Act. For the first time, our Government's vision and purpose, as well as our key priorities and ways of working to implement them, are set out clearly and consistently in one document. For the organisation, it means we have a blueprint to drive our work for the rest of the administration. This helped me to clarify what I expect from

everyone who works in Welsh Government – we all need to deliver high standards of performance underpinned by a strong appetite for improvement, learning and development. I set up the Future-proofing initiative to support us in achieving this and it's already delivering improvements.

Brexit continues to be a major focus for the Welsh Government and a number of publications have been produced to address the key issues raised. You can read more about these in the annual report. I've also included details about another priority, the new Welsh Revenue Authority, which launched successfully in April. The launch marked an important milestone in the story of Welsh devolution with the introduction of the first home-grown taxes in Wales in 800 years.

Our people

As well as undertaking a successful recruitment campaign to fill two existing Director General posts, I have also reinforced our senior leadership structure with the creation of an additional Director General role focusing on the major strategic and constitutional challenges facing us. This strengthened leadership team will help me to lead the organisation through the challenges we will undoubtedly face in the coming years.

I was able to visit many of our offices to talk to people directly about ‘Future-proofing’ and to hear their suggestions about how we can improve our performance. As well as receiving this face-to-face feedback, I found the results of the annual People Survey very enlightening. I am really pleased that our engagement score remains above the benchmark for the Civil Service as a whole, but I recognise that there’s still room for improvement and this is something we’ll be working on throughout the coming year.

Our inclusion and fair treatment scores are also well above the UK benchmark but nonetheless there are still too many people who are not

convinced that inappropriate behaviour can be challenged or will be tackled effectively. I set up a review to make sure we have an inclusive workplace where everyone feels supported to do their best – this is something that is very important to me.

I’m proud of what has been achieved by the Civil Service of the Welsh Government. I’m grateful to all my colleagues for their hard work and professionalism over the past 12 months. I’m confident that we can continue to build on this during the next reporting period and beyond.

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Financial Report

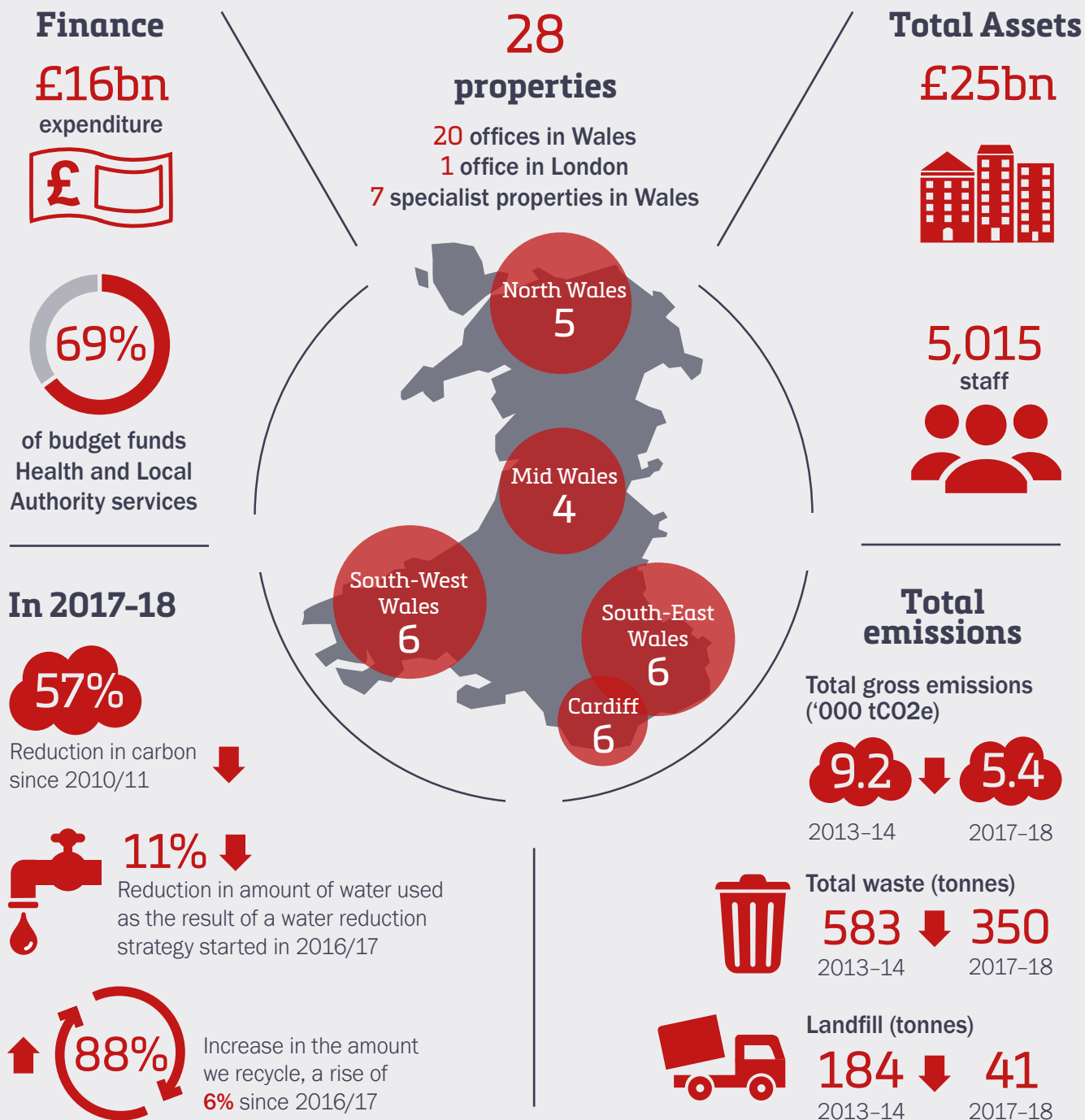
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Government of Wales Act 2006

Accounts of the Welsh Government are prepared pursuant to Section 131 of the Government of Wales Act 2006 for the year to 31 March 2018, together with the Certificate and Report of the Auditor General for Wales thereon.

Laid before the Assembly pursuant to the Government of Wales Act Section 131

The Welsh Government in numbers



Key achievements

12th
(out of 434 companies) –
Stonewall UK Top 100 Employers Index
(rose by 13 places)



Gold status
in a:gender awards
Level 3 ‘Leader’
Disability Confident

The Welsh Government at a glance

Overview

The Welsh Government is the devolved government for Wales which works across key areas of public life such as health, education, the economy, agriculture and the environment. It was formally created in 2007 under the Government of Wales Act, which established a division of functions between the National Assembly for Wales (the legislature) and the Welsh Assembly Government (the executive). The Wales Act 2014 has since legally changed the name to the Welsh Government. The Welsh devolution settlement has evolved dramatically since the establishment of the Assembly in 1999 and continues to expand as new powers are devolved.

Led by the First Minister, the Welsh Government makes decisions and is responsible for delivery in the areas devolved to it, as set out in the Government of Wales Act 2006 and the Wales Acts 2014 and 2017. This involves developing

and implementing policies; setting up and directing delivery and governance; proposing Welsh Laws (Assembly Bills); and making subordinate legislation, such as regulations and statutory guidance. It also directly funds Welsh Government Sponsored Bodies.

On 1 April 2018, a new reserved powers model of devolution in Wales came into force, putting more decisions into the hands of Welsh Ministers. The new model makes clear what is devolved, and the responsibility of the National Assembly for Wales, and what is reserved – and the responsibility of Parliament.

The regulations also bring into force many of the further powers being devolved to the Assembly and Welsh Ministers under the Wales Act 2017, including powers over elections, transport and the environment.

Prosperity for All

The Welsh Government's cross-cutting national strategy, 'Prosperity for All' published on 19 September 2017, sets out the Government's priorities for this government term, and lays the foundations for further action over the longer term.

The strategy is framed around twelve whole of government objectives under four themes: prosperous and secure, healthy and active, ambitious and learning, and united and connected. These twelve objectives at the heart of the strategy are the Government's revised well-being objectives, setting out its contribution to the well-being goals set out in the Well-being of Future Generations Act.

The strategy also sets out five priority areas: early years, housing, mental health, skills and

social care, as areas where a whole-Government approach could deliver the greatest contribution to people's long term prosperity and well-being.

The First Minister has been clear that a different approach is needed during this administration, to really make a difference to the lives of the people in Wales. Delivery will only be possible if all parts of government work together and focus on the areas where government can make a difference.

Annual reporting against progress made towards delivery of the Government's objectives, as a matter for Welsh Ministers, will be reported separately and in accordance with requirements under the Well-being of Future Generations Act. The Annual Report will be published in autumn 2018.

Well-being of Future Generations

The Well-being of Future Generations Act was passed in 2015 and came into effect in April 2016. During the period of this report, much has been done on implementation by the Welsh Government in partnership with other bodies and working with the Future Generations Commissioner and Auditor General for Wales. The Welsh Government has played a leadership role across Wales and beyond.

Actions have been taken in the following areas:

- Within the Welsh Government civil service, each policy and portfolio area is responsible for embedding the Act into its activities, policies and programmes. This also means working collaboratively across portfolios in order to achieve the multiple objectives of the seven Well-being Goals and the five Ways of Working from the Sustainable Development Principle within the Act.
- The national strategy, Prosperity for All, also sets out five priority areas. Early years, housing, mental health, skills and social care emerged in multiple contexts, during development of the Strategy, as areas where a whole-Government approach could deliver the greatest contribution to people's long term prosperity and well-being. Through delivery of these priority areas we are considering how we can best work across government to improve how we join up services, focus our efforts on the things that matter and work differently with our partners to have a greater impact.
- A Well-being of Future Generations (WFG) Champion has been appointed to lead WFG considerations on the Welsh Government Board. The Champion also leads the WFG Assurance Group, a cross government group comprising those responsible for statutory or operationally important elements of Welsh Government duties and responsibilities under the Act. This group will be a force for integration, collaboration, change and monitoring progress across government as well as driving change in other areas such as policy development and integration. A small central team now supports the organisation's WFG work.
- The organisation has worked with the Future Generations Commissioner to develop and adopt a strengthened assurance process. A process has been put in place for key Cabinet papers with "challenge sessions" held with Welsh Government officials as papers are developed to ensure a cross government approach to policy making.
- A major piece of work has been carried out developing a new Integrated Impact Assessment Framework and guidance which takes into account WFG requirements together with a rationalised approach to impact assessment for other statutory obligations such as Equalities and UN Rights of the Child duties.
- A package of support has also been provided to the Public Services Boards (PSBs) which were set up under the Act to collectively improve the well-being of a local authority area. The support in 2018-19 focusses on supporting PSBs to complete their well-being plan and then deliver against it.
- The Welsh Government is actively involved in the WFG Public Bodies Sharing Group. The Group enables public bodies that are subject to the duties to come together to discuss common approaches, opportunities for collaboration and share best practice

on delivery of obligations. This includes areas of organisational strategy; exploration of synergies across public bodies and well-being objectives; training and governance; co-production and working with third sector; procurement pilots; working with the Wales Audit Office on a common approach to Wales Audit Office pilot work; the sharing of case studies; and common research needs and evidence gaps.

- Direct support has also been provided to each of the Public Services Boards that were set up under the Act to look at well-being objectives and delivery at local level.
- The Welsh Government has worked closely with both the Future Generations Commissioner and the Auditor General for Wales throughout the year on work such as the development of a common audit approach and methodology to WFG audits across public sector bodies, and the “One Year On” submission to the Auditor General for Wales as part of the reporting of progress to date.
- The first Well-being of Wales report was published by the Chief Statistician in September 2017, using the 46 statutory national indicators as a basis. This first annual report is not about the performance of any organisation but reflects the collective changes seen in Wales as a whole.
- The Future Trends Report was published in May 2017 and a Welsh Government-led Future Trends Wales Steering Group convenes regularly. It includes representatives from the Future Generations Commissioner’s office and Welsh Local Government Association. The report seeks to change thinking about long term planning and takes a wider view across government portfolios, bringing diverse trends together and examining interconnections between them.
- A series of workshops on WFG have been co-developed and jointly delivered by Welsh Government and WWF Cymru, part of the world’s leading independent conservation organisation. The workshops brought together senior Welsh Government officials with senior representatives from third sector and non governmental organisations (NGOs). The workshops identified a number of key areas for progress including procurement, capacity building and development and a range of other factors key to how systemic ‘whole Government’ change might be achieved in response to the Act. A report is being produced covering the outcomes from these workshops to form the basis for future action.
- The Cabinet Secretary for Finance has been driving a more collaborative approach to delivering WFG through the strategic budgeting and prioritisation process and has held meetings with cabinet colleagues to emphasise its cross-government importance. This is helping to strengthen collaboration, engagement and involvement across portfolio areas.
- The new draft version of Planning Policy Wales (PPW) puts the concept of ‘placemaking’ at the heart of national planning policy and focuses on how the planning system can help improve the well-being of people in Wales and deliver the ethos of WFG within the built environment. In addition, the National Development Framework (NDF) will be a national land use plan and will have an important role in contributing to the achievement of the well-being goals over a 20-year period.

The Cabinet



Before November 2017, the Cabinet and Ministers were:

Rt. Hon Carwyn Jones	First Minister
Jane Hutt	Leader of the House and Chief Whip
Mark Drakeford	Cabinet Secretary for Finance and Local Government
Vaughan Gething	Cabinet Secretary for Health, Well-being and Sport
Lesley Griffiths	Cabinet Secretary for Environment and Rural Affairs
Carl Sargeant	Cabinet Secretary for Communities and Children
Ken Skates	Cabinet Secretary for Economy and Infrastructure
Kirsty Williams	Cabinet Secretary for Education
Alun Davies	Minister for Lifelong Learning and Welsh Language
Rebecca Evans	Minister for Social Services and Public Health
Julie James	Minister for Skills and Science
Mick Antoniw	Counsel General

From November 2017 the Cabinet and Ministers are:

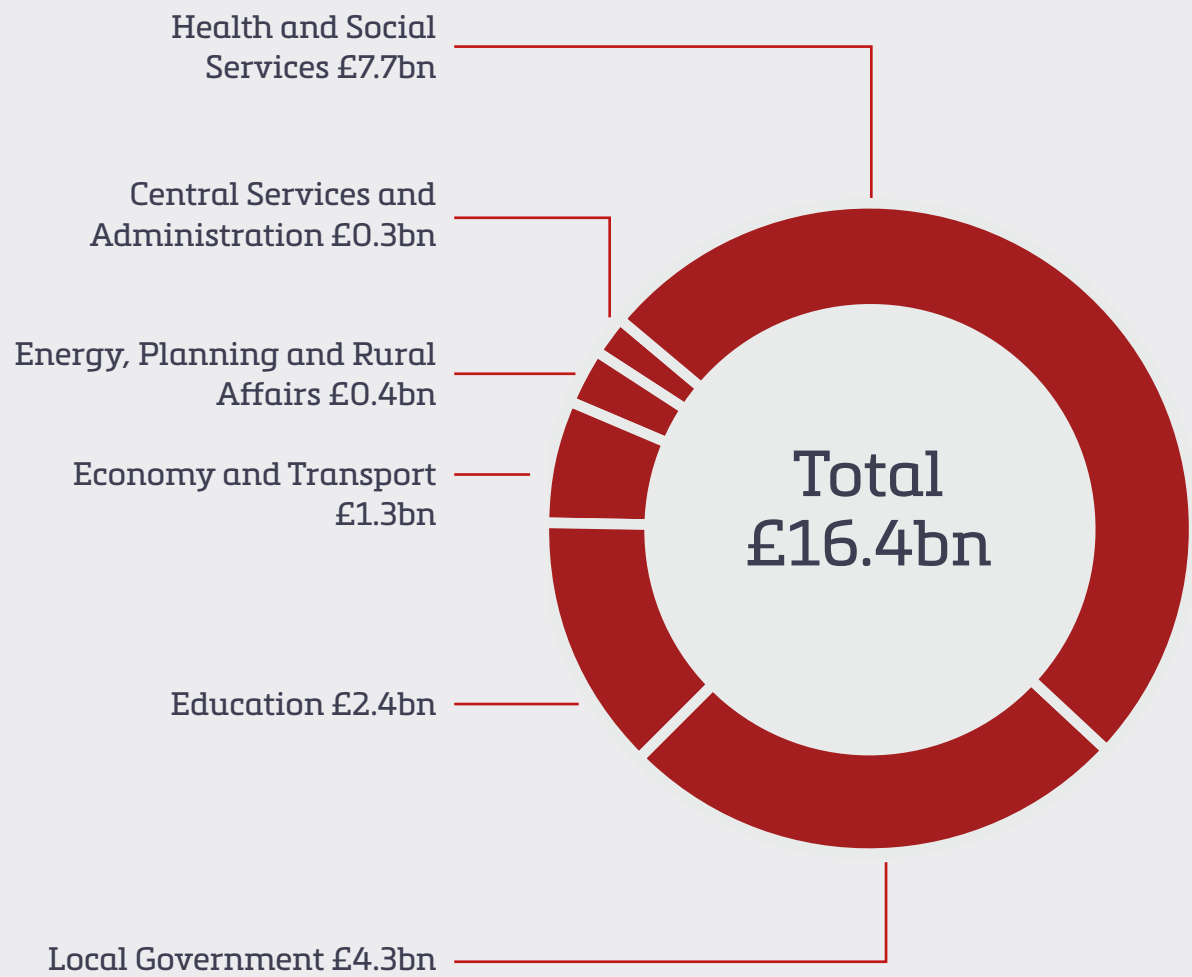
Rt. Hon Carwyn Jones	First Minister
Julie James	Leader of the House and Chief Whip
Alun Davies	Cabinet Secretary for Local Government and Public Services
Mark Drakeford	Cabinet Secretary for Finance
Vaughan Gething	Cabinet Secretary for Health and Social Services
Lesley Griffiths	Cabinet Secretary for Energy, Planning and Rural Affairs
Ken Skates	Cabinet Secretary for Economy and Transport
Kirsty Williams	Cabinet Secretary for Education
Hannah Blythyn	Minister for the Environment
Huw Irranca-Davies	Minister for Children, Social Care and Older People
Rebecca Evans	Minister for Housing and Regeneration
Eluned Morgan	Minister for Welsh Language and Lifelong Learning
Dafydd Elis Thomas	Minister for Culture, Tourism and Sport
Jeremy Miles	Counsel General

What the Welsh Government spends

The level of funding available for devolved public expenditure in Wales is set through UK Government Spending Reviews. This is a Treasury-led process to allocate resources across

all UK Government Departments and Devolved Administrations. Adjustments to the level of funding for Wales – negative or positive – are determined through the Barnett Formula.

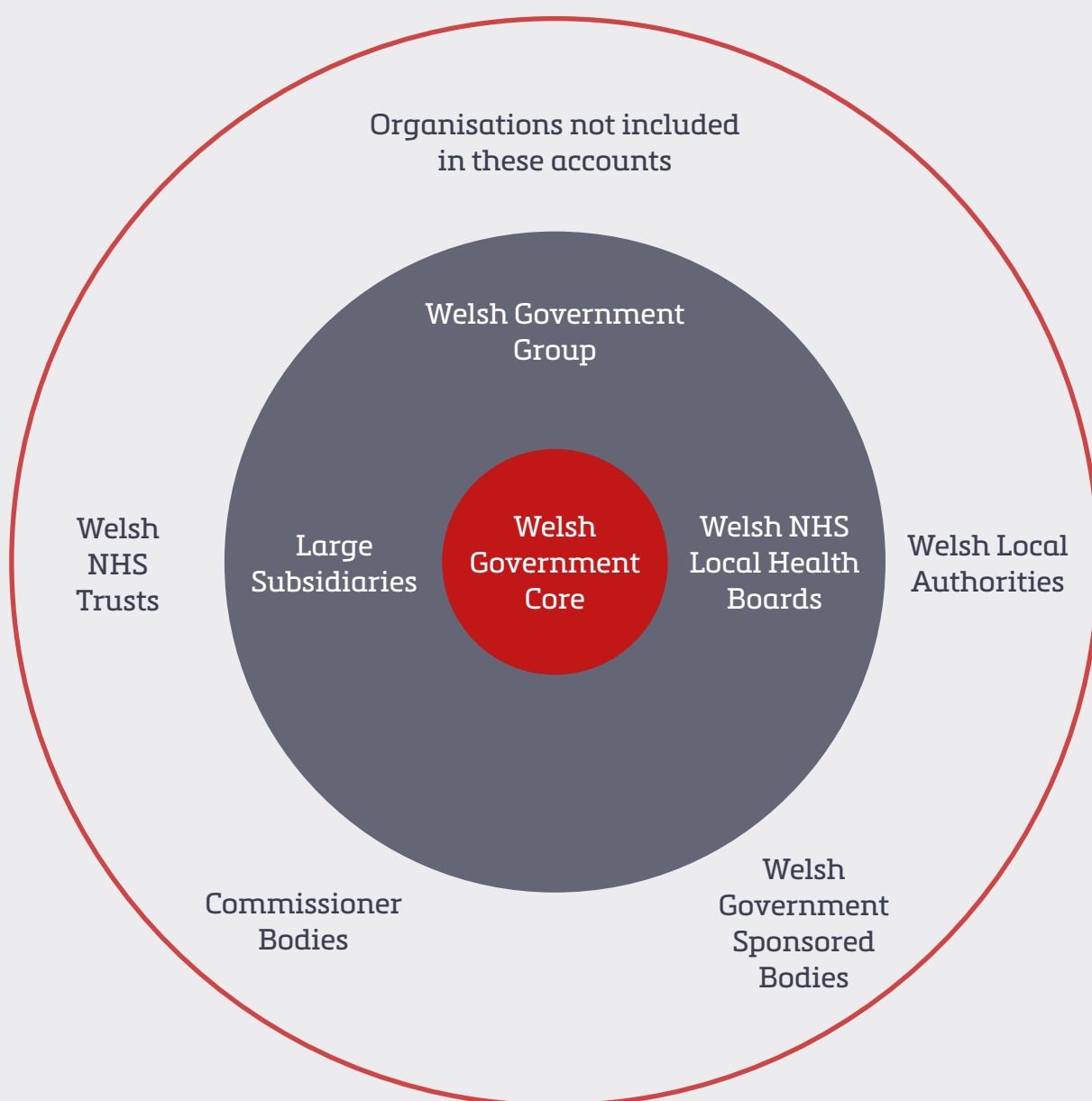
Net Expenditure in 2017-18



Welsh Government Accounting Boundaries 2017-18

Given the extent of devolved responsibilities, the Welsh Government Accounts for 2017-18 cover the Welsh Government core (the Welsh Government itself) and the Welsh Government Group (consolidation with Welsh NHS Local Health Boards, Finance Wales, Regeneration Investment

Fund for Wales LLP, WG Holdco Ltd and Careers Choices). Whilst the Welsh Government funds the Welsh NHS Trusts, Welsh Government Sponsored Bodies and Commissioner Bodies they are not consolidated into the Annual Accounts.



Welsh Government balance sheet

Described in the Accounts as the ‘Statement of Financial Position’ the Welsh Government’s Balance Sheet contains three major items:

- Property, plant and equipment – consisting primarily of the current valuation of the Road Network asset (£16bn).
- The Local Health Boards’ property portfolio (£3bn).
- Financial assets – primarily the current valuation of the Welsh Student Loans book (£3bn).

Roads Network

As the highway authority for trunk roads and motorways in Wales, the Welsh Government is directly responsible for the maintenance operation and management of this £16bn asset. There are over 75 miles of motorway and over 1,000 miles of trunk road. Key components of

the network include bridges, tunnels, retaining walls and gantries. There are over 3,700 such structures on the motorway and trunk road network across Wales with an estimated value of approximately £4.8bn. There are five road tunnels on the network across Wales.

Local Health Boards’ property portfolio

NHS infrastructure includes land and buildings, but also other significant physical assets including vehicles, medical equipment, Information Management Technology equipment and infrastructure. The estate has a combined asset value of £3.1bn and covers all healthcare settings including acute, primary and community care.

The NHS has 22 main hospital sites across Wales which are operated by the local health boards although there are around 60 other smaller hospital sites. The Local Health Board estate is mainly made up of buildings valued at over £2.3bn, land £0.3bn, equipment £0.3bn and assets under construction £0.2bn.

Student Loan Book

Welsh Ministers have a legal duty to provide financial support to students from Wales, studying higher education courses in the UK. Costs are demand-led and can be volatile. For budgeting purposes, the cost of providing student loans is estimated using

a forecasting model. Sensitivity analysis is undertaken to measure the impact of changes in key modelling assumptions (for example, student numbers). This is in line with standard HM Treasury guidance.

European transition

The European Transition team leads the development of strategic policy and co-ordinates Welsh Government work on the UK leaving the EU. The team continues to work closely with the Welsh Government team in Brussels and with Whitehall departments.

- The external European Advisory Group advises the Welsh Government on the implications for Wales of the UK's exit from the EU.
- A Cabinet Sub-Committee on European Transition provides strategic direction and ensures key policy decisions are taken to

secure the best outcome for the people of Wales as the UK leaves the EU.

- A cross-departmental Welsh Government European Transition Officials Group supports the Cabinet Sub-Committee on European Transition.
- Engagement between the UK Government and the devolved governments continues through the existing Joint Ministerial Committee (JMC) architecture and direct contact at official levels.

The European Transition team advocates strategic interests and priorities as set out in the White Paper 'Securing Wales' Future' (January 2017) and work to date culminated with the following policy documents:

- 'Brexit and Devolution' sets out a blueprint for a major constitutional renewal of the UK to meet the challenges Brexit poses for the devolved nations and the future governance of the UK as a whole (15 June 2017).
- 'Brexit and Fair Movement of People' provides further detail and evidence to support proposals for future migration policy (7 September 2017).
- Regional Investment in Wales after Brexit' developed thinking on the future of regional investment policy in Wales (14 December 2017).
- 'Trade Policy: the issues for Wales' addresses the key issues to be considered as the UK develops future trading relationships with the EU and the rest of the world (2 February 2018).

The policy statements are available on: www.beta.gov.wales/brexit

In July 2017, the UK Government published the European Union (Withdrawal) Bill (formerly known as the Great Repeal Bill), to convert EU law into domestic law at the point of EU exit. The Welsh Government made it clear the Bill as drafted was unacceptable and after months of intense talks, it was announced on 24 April 2018 that the Welsh Government had secured significant changes to the Bill that protect devolution. As part of a wider intergovernmental agreement, Welsh Ministers reached an agreement with the UK Government on their proposed EU (Withdrawal) Bill ensuring areas already devolved will remain so. Work continues with the UK Government, Northern Ireland Executive and Scottish Government to develop common frameworks for policy areas currently operating under EU regulations to ensure effective coordination across the UK on matters of mutual interest.

While talks were ongoing with the UK Government, the Welsh Government outlined plans to introduce an Emergency Bill to protect devolution, formally known as the Law Derived from the European Union (Wales) Bill. However, following amendments to the EU (Withdrawal) Bill and the intergovernmental

agreement, the Welsh Government has agreed to take steps to repeal the LDEU (Wales) Bill.

On 8 January 2018, the EU Transition Fund (ETF) was launched. Supported by an initial £50m, it will be developed in partnership with Welsh businesses, public services and other key organisations, to provide tailored support as the UK prepares to leave the EU. The ETF will provide a combination of financial support and loan funding, and will in particular support the provision of technical, commercial, export-related and sectoral-specific advice for businesses. The emphasis will be on supporting strategic and innovative projects.

Continuing to press the UK Government must be a priority to seek to avoid a poor deal for Wales, especially as the second phase of negotiations begin on the future relationship with the EU, which will involve consideration of a wide range of devolved issues.

As part of the Permanent Secretary's Future-proofing initiative, the organisation is carefully considering roles and responsibilities and the skills-set required to meet the needs of Wales as the UK leaves the EU.

The devolved landscape in Wales

The Wales Act 2017 changed the devolved landscape in Wales, most notably the move to a reserved powers model of devolution. The new devolution settlement came into effect on 1 April 2018 and the National Assembly for Wales may now legislate in relation to any subject not expressly reserved to the UK Parliament. This brings the Welsh devolution settlement into line with the systems of devolution in Scotland and Northern Ireland.

As well as amending the legislative competence of the Assembly, the Wales Act 2017 also enhances the executive powers of the

Welsh Ministers in a number of policy areas. These include new powers over elections, water, transport and energy as well as the creation of a new office of the President of Welsh Tribunals. Further executive powers have also been transferred via the Welsh Ministers (Transfer of Functions) Order 2018 and the Welsh Ministers (Transfer of Functions) (Railways) Order 2018. These accompanied the coming into force of the principal Wales Act provisions and provide the Welsh Ministers with a variety of new powers in areas such as elections, civil contingencies, teachers' pay and conditions and railways.

Assembly Bills receiving Royal Assent in 2017-18

Additional Learning Needs and Education Tribunal (Wales) Act 2018

The Additional Learning Needs and Education Tribunal (Wales) Act 2018 was introduced in December 2016 and gained Royal Assent in January 2018. It establishes the statutory system in Wales for meeting the additional learning needs (ALN) of children and young people from 0-25 by governing bodies of schools, further education institutions (FEIs) and by Local Authorities. Individual development plans for children and young people with ALN will describe the additional learning provision required, and by which provider, including by health bodies where applicable. Special provision is made for particular groups, for example looked after children. The Act and the system it creates will replace the separate legislation and arrangements which currently exist for children with special educational needs,

and young people with learning difficulties and or disabilities. The Act continues the Special Educational Needs Tribunal for Wales and renames it the Education Tribunal for Wales.

Abolition of the Right to Buy and Associated Rights (Wales) Act 2018

The Abolition of the Right to Buy and Associated Rights (Wales) Act received Royal Assent on 24 January 2018. The Right to Buy and Right to Acquire will end in Wales on 26 January 2019. These rights can be exercised currently by certain social tenants and allow such tenants to purchase their homes from their landlord at a discount. Ending the right to buy will protect social housing stock for future generations and encourage new social housing stock to be built without the risk of it being sold within a short time frame.

The following Bills have been introduced into the Assembly by the Welsh Government:

Regulation of Registered Social Landlords (Wales) Bill

The Regulation of Registered Social Landlords (Wales) Bill was introduced to the Assembly on 16 October 2017. Since the reporting period, the Act received Royal Assent on 13 June 2018. It amends or removes those powers which are deemed by the Office for National Statistics (ONS) to demonstrate central and local government control over Registered Social Landlords (RSLs). These changes enable ONS to reclassify RSLs as private sector organisations for the purpose of national accounts and other ONS economic statistics.

Public Health (Minimum Price for Alcohol) (Wales) Bill

The Public Health (Minimum Price for Alcohol) (Wales) Bill was introduced to the National Assembly for Wales on 23 October 2017 and, at time of writing, has just entered the third stage of the legislative process. The Bill would, if it is passed by the National Assembly, provide for a minimum price for the sale and supply of alcohol in Wales by alcohol retailers and make it an offence for alcohol to be sold or supplied below that price.

The aim of the Bill is to address the Welsh Government's concerns around the health harms that can be caused by the effects of excess alcohol consumption. In particular, the Bill is targeted at protecting the health of hazardous and harmful drinkers (including young people) who tend to consume greater quantities of low-cost and high-alcohol content products.

Childcare Funding (Wales) Bill

Shortly after the end of the reporting period in April 2018, the Childcare Funding (Wales) Bill was introduced. The Bill gives Welsh Ministers the power to provide funding for childcare for qualifying children of working parents and to make regulations about the arrangements for administering and operating such funding. The Bill will require applicants to provide information to enable an assessment of their eligibility for the funding to be undertaken and will make provision that will enable relevant UK Government departments to share information with the Welsh Ministers for the purposes of determining an applicant's eligibility. These data-sharing gateways are an integral part of the process whereby qualifying parents can apply for funding and provide evidence of their eligibility by way of a primarily digital system.

Considering the case for a new tax for Wales

The Wales Act 2014 devolved a range of tax and borrowing powers to the National Assembly for Wales and the Welsh Government. Included among these is the ability for the Welsh Government to create wholly new taxes for Wales, subject to the agreement of the National Assembly for Wales and both Houses of Parliament.

In summer 2017, the Cabinet Secretary for Finance announced he would be considering the case for developing a new Welsh tax. During the following weeks, the Welsh Government received dozens of letters and emails from members of the public, while hundreds of further responses were generated on social media. In October, following consideration of more than 60 proposals, the Finance Secretary announced a shortlist of four ideas from which a potential new tax would be selected:

- Longer-term challenges to finance social care: exploring potential financial levers including taxation to support social care provision in Wales.
- A national tax on vacant land: exploring the efficiency of a tax to deliver the Welsh Government's policy objective to bring land identified as suitable for development into productive use.
- A tax on disposable plastic to meet environmental objectives: exploring options for a tax or levy on disposable plastic to help the Welsh Government to achieve its waste reduction and recycling targets.
- A tourism tax to support local businesses: exploring provisions for permissive powers for local government taxation.



Vacant land tax

The Welsh Government will take this idea forward to test the Wales Act 2014 new tax powers.

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#WelshTaxes **@WelshTreasury**


Llywodraeth Cymru
Welsh Government

After further consideration of the proposals, including initial discussions with stakeholder groups and an informal poll via social media, in February 2018 the Finance Secretary announced that a vacant land tax would be taken forward with the UK Government.

The Finance Secretary also confirmed further work would continue with the other three tax ideas at different timescales. On social care, an inter-Ministerial group has been established, chaired by the Minister for Children and Social Care, to consider further the options – including taxation. On a disposable plastics tax, the Welsh Government is working with the UK Government as it considers potential UK taxation measures drawing on responses to its recent call for evidence about single-use plastics, while continuing to explore the case for a Welsh tax. On a tourism tax, the Welsh Government will

consider over the longer term whether this should be an option available to local government.

The process which has been agreed between the Welsh and UK Governments for creating a new Welsh tax is new to the UK. There will be two key stages – firstly the Houses of Parliament and the National Assembly will need to agree the devolution of competence, and secondly the Welsh Government will need to bring forward policy and legislative proposals to the National Assembly.

Thorough public consultation will be required to ensure the vacant land tax is designed to deliver what is expected, without unintended negative consequences. In the meantime, the Welsh Government will be working increasingly with stakeholders to secure their views and evidence, and to ensure they remain informed of progress.

The process of developing a new tax for Wales

Phase 1



Identify an issue affecting Wales where tax is a possible lever



Phase 2



Assess information and talk to interested people and organisations (this will continue throughout the process)



Phase 3



Secure the transfer of the necessary powers from the UK Parliament to the National Assembly, involving agreement between them



Phase 4



Design the new tax, including collection and administration arrangements, and issue a public consultation



Phase 5



Legislate for the new tax in the National Assembly



Phase 6



Develop guidance for tax payers and introduce the tax



Awdurdod Cyllid Cymru Welsh Revenue Authority

The Welsh Revenue Authority (WRA) was established in October 2017 and began collecting the devolved taxes land transaction tax (LTT) and landfill disposals tax (LDT) on 1 April 2018. The WRA is a non-ministerial department of Welsh Government and its board consists of five non-executive directors and a Chair.

- All 17 of the official registered landfill site operators located in Wales are now registered for LDT with the WRA. On 3 April 2018, the first LTT returns and payments were successfully submitted to the WRA using its online digital tax system.
- The WRA Charter was published on 29 March 2018 and its Corporate Plan was published at the end of April. Both the Charter and the Corporate Plan set out the WRA's partnership approach to working with tax payers and their representatives and how they will work together to enable people to pay the right amount of tax at the right time.
- The WRA will have around seventy staff over the course of its first operating year. Within this number there are 14 different professions including legal, tax, data, digital, financial, and communications.

In addition to collecting and administering the new Welsh taxes, the WRA will:

- provide information, advice and assistance about devolved taxes to Welsh Ministers and to taxpayers and their agents;
- enable taxpayers and their agents to pay the right amount of tax on time first time;
- work with taxpayers and their agents to resolve complaints and disputes;
- enable compliance and reduce tax evasion and tax avoidance;
- support the development of Welsh Government tax policy.

The civil service

The civil service is the non-political administration that supports the Welsh Government's First Minister, Cabinet Secretaries and Ministers. The core strengths of the civil service –

political neutrality; efficient administration; good governance and sound management of public funds – provide a solid foundation to support the Welsh Government.

Welsh Government staff

The Welsh Government civil service has 5015 staff in offices across Wales and beyond.

Welsh Government offices

As at April 2018, there are:

28 properties

comprising **21** offices and **7** non-office sites compared to 2010 when there were **75** properties with **65** offices and **10** non-office sites.

The 2015-20 Location Strategy continues to position the estate across 5 geographical areas in Wales and an additional office in London.

The Strategy provides the potential to reduce to a total of **24** properties with estimated gross savings of £3.46m and annual running cost savings of £2.52m.



Financial administration

Highlights of financial administration during the reporting period include:



90,106

invoices paid with a total value of **£897m** and **95%** were paid within **10** days.



373 grants schemes administered totalling

£14.3bn

44% of Welsh Government procurement spend in the financial year 2017-2018 was with Welsh companies.

Senior leadership team

The Permanent Secretary is the head of the organisation and the most senior civil servant in Wales. Staff work within one of five Groups headed by the Permanent Secretary and four Directors General.



Andrew Goodall

Andrew is Director General for the Health and Social Services Group and Chief Executive of NHS Wales. The Group is responsible for exercising strategic leadership and management of the NHS in Wales and is responsible for the robust stewardship of NHS funds via seven Local Health Boards and 3 NHS Trusts which are directly accountable to the Minister for Health and Social Services through the Chief Executive of NHS Wales and Director General. Andrew is also senior champion of the Minority Ethnic Staff Network (MESN) staff network.

Des Clifford

Des is Director General for the Office of the First Minister and Brexit Group which provides services to the First Minister, Cabinet Secretaries and Ministers, including communications, legal, constitutional matters and inter-governmental relationships, Wales European Funding Office, Brexit, the Cabinet Office, Cabinet and Government business and the Government's international agenda. Des is also senior champion of the Social Mobility staff network and Board Champion for the Welsh language.

Shan Morgan

Shan leads the whole organisation and the Permanent Secretary's Group which includes the Welsh Treasury, Finance, Governance and HR functions. The Group focuses on developing a confident, capable and resilient organisation as well as providing professional advice to Ministers and the rest of the organisation. Shan is also senior champion of the Disability Awareness and Support (DAAS) staff network.

Tracey Burke

Tracey is Director General for Education and Public Services Group. The Group's portfolio includes: education, local government, communities, housing and regeneration. The Group's work includes tackling poverty and homelessness, creating greater equality, community safety and cohesion, and making sure vulnerable people are safeguarded and have the support they need. As well as setting the broad policy agenda for local government authorities in Wales, the Group leads a programme of education and local government reform. Tracey is also senior champion of the Women Together staff network.

Andrew Slade

Andrew is Director General for Economy, Skills and Natural Resources Group. The Group is responsible for building a strong economy delivery of the Economic Action Plan, developing a world-class transport system and creating a highly-educated, highly skilled high employment Wales. The Group is also responsible for managing our natural resources sustainably, overseeing Wales' planning system, supporting the management and competitiveness of our agriculture and food sectors and ensuring the health and welfare of animals as well as implementing sustainable development policy. Andrew is also senior champion for PRISM, the sexual orientation and gender identity staff network.

Administrative performance

The organisation aims to be transparent, accessible and efficient in its administrative approach. Highlights of performance during the reporting period include:

- For 2017/18 there were **14032** total pieces of Ministerial correspondence (Ministerial and Treat Officials). 88.9% were answered within the 17 working day deadline.
- **932** Freedom of Information requests received with 782 (85%) responded to within the statutory deadline.
- **73,724** telephone calls were received by the First Point of Contact Centre.
- **106** complaints were handled under the Welsh Government's Complaint's policy of which 65 were not upheld, 21 were partially upheld and 20 were upheld. This is a 21% decrease on the number of complaints received the previous reporting period. 69% of responses were made within set deadlines.

The Public Services Ombudsman for Wales closed **43** complaints relating to the Welsh Government in 2016-17 – a breakdown by outcomes is below. Further details are published in their Annual Report and Accounts which is available on their website.

Out of Jurisdiction	Premature	'Other' cases closed after initial consideration	Early Resolution/ Voluntary Settlement	Other Report Upheld – in whole or in part	Total Cases Closed
9	9	20	1	4	43

Implementing the Welsh Language Standards

In the months since the Welsh Language Standards came into force in 2016 the Welsh Government has responded positively to the new framework. The requirements have become embedded in everyday working practices, and customers and stakeholders are increasingly

aware of the opportunities they have to engage with the Welsh Government bilingually. The Welsh language is increasingly heard and seen across the Welsh Government. During the next period work will continue to further promote and facilitate the language internally within the organisation.

Future-proofing our organisation

The Permanent Secretary's Future-proofing initiative is a long-term approach to build the capability and skills of the Welsh Government civil service to support the delivery of Prosperity for All.

Future-proofing is focused on four key areas:

How we work – aligning ways of working, performance and development planning to the Cabinet's priorities set out in Prosperity for All: the national strategy and the essential and statutory business of Government.

How we lead – supporting collaborative, involving and flexible leaders who can motivate, develop and empower high-performing teams and individuals.

How we learn – developing a capable, adaptable and resilient workforce that is equipped for the future as well as the roles needed today.

How we perform – creating a robust and developmental approach to performance management that helps people excel and a fair and equitable progression system that gives the organisation the leaders, managers and specialists needed for the future.



Since Future-proofing was launched in June 2017, a number of improvements have already been made including:

- Almost every team in the organisation took part in a Future-proofing development day to look at their team's priorities and what they'll need to deliver them. Feedback from these sessions has been collated and analysed to help inform corporate workforce, capability and learning and development plans.
- Over 2000 people took part in workshops and events across Wales to look at two of the key areas of Future-proofing work – managing performance and preparing and assessing people for promotion. As a result of these sessions, a new approach to performance management has been developed involving more frequent, real-time performance conversations focused on forward-looking business priorities and the strengths and development people need to deliver them. This was rolled out in July 2018. A new promotion system is also being introduced which is informed by a solid understanding of the capability and roles the organisation needs now and in the future and rewards the behaviours and skills valued by the Welsh Government.
- Since September, all senior managers have had the opportunity to be involved in Future-Engage-Deliver (FED) sessions with its creator, Steve Radcliffe. FED is a well-respected leadership approach focusing on developing greater leadership and collaboration at all levels and forms the basis of the organisation's new approach to continuous performance management.
- The Short Term Experience Programme (STEP) was launched to offer a more informal and flexible way to experience other areas of the organisation through a series of short term opportunities – such as working in another team for a limited time or helping a team to deliver a specific project. As well as providing learning experiences across the Welsh Government, later this year opportunities will be offered with other organisations from the public, third and private sectors.
- An exciting programme of internationally renowned speakers shared ideas at independent, innovative and inspiring TEDx events. Two TEDx events have been held to date – one on policy and one on digital with additional events being planned for later in the year.

Digital, Data and ICT

Improving digital leadership, skills, capability and services has been identified as a priority area for the Welsh Government.

The Leader of the House and Chief Whip, Julie James, has a portfolio covering digital infrastructure, digital inclusion and digital service transformation for the Welsh public sector. She chairs a Ministerial Digital and Data Group made up of senior officials from across Welsh Government and leads on the delivery of the actions set out in Digital First and the Welsh Government's internal Digital Action Plan. The Group enables digitisation to be considered within the context of the relevant policy area, ensuring opportunities for common developments and learning are not missed.

The Welsh Government's Chief Digital Officer is responsible for a community of digital and data leaders across the organisation who provide leadership in their own areas of policy and delivery and work together to implement common priorities. Staff are encouraged to take up training programmes which support the delivery of digital transformation and will help the profession grow. The organisation also runs a digital apprenticeship programme and is developing new digital learning content within the Learning Lab which is being designed as part of the Future-proofing initiative.

The Welsh Government provides over 20 digital services direct to the Welsh public. One of the largest is the Rural Payments Wales (RPW) Online service which enables 18,000 Welsh farmers to apply for direct agricultural payments and manage their payments online. 100% of farm businesses are now completing their forms online – the first UK Paying Agency to achieve this.

Important digital service highlights during the reporting period include:

- Improvements to our rural online services including the launch of a County Parish Holdings service in February 2018 – a land reference service which integrates with online sheep tracking and animal health services.
- Ongoing programme of enhancements to the Welsh Government's Hwb digital learning platform which continues to provide parents, teachers and learners across Wales with access to a wide range of digital tools and resources capable of supporting the transformation of classroom learning.
- Care Inspectorate Wales (CIW) launched a new online service enabling adults and children's service providers to complete either a new or a re-registration application form online.
- Preparations for and subsequent launch of the Welsh Revenue Authority in April 2018 which collects and manages land transaction and landfill taxes online.

There were also important informatics and digital developments in health during the year including two reviews. Wales Audit Office (WAO) published its review into informatics systems in NHS Wales. The Welsh Government has responded through initiating a range of actions, including reviews of governance and infrastructure across NHS Wales.

The Parliamentary Review of Health and Social Care in Wales recognised that digital is a key enabler of transformational change for the NHS and highlighted the importance of a fully integrated national digital architecture in support of this vision. Following the reviews and since the reporting period, the Cabinet Secretary for Health

and Social Care published 'A Healthier Wales' in June 2018, which described a range of actions, including establishing an NHS Executive and a commitment to increase funding for digital.

The work is supported by a new annual £100m Transformation Fund. A Task and Finish Group has been established to develop the national model and oversee the allocation of funding.

On data, the Welsh Government has taken forward the commitments outlined in the Open Data Plan, continued to develop statistical and geospatial open data platforms, StatsWales and Lle, and has also been encouraging others elsewhere in the public sector to be more open. There is ongoing work to implement new

legislation that enables greater data sharing and the organisation is supporting a pilot with local authorities enabling them to link and share anonymised data.

A major focus during the latter part of the reporting period has been the preparations for bringing some outsourced ICT services in house at the end of 2018. The organisation is following a Cloud first policy, migrating business applications to Cloud and developing in-house ICT capability and skills, supported by some external recruitment and small scale contracts for specialist technical skills. These developments will allow the Welsh Government civil service to support more flexible working practices.

Preparing for GDPR

As part of the preparations for GDPR, a 'readiness' audit for the organisation was included in the 2017-18 Welsh Government internal audit plan. The work was commissioned by an external firm and the report was completed in December 2017. As required, a Data Protection Officer was appointed in January 2018. All audit recommendations relating to guidance, training and review of processes were accepted and a Project Manager was appointed to oversee readiness in February 2018.

The Information Commissioner's Office worked alongside the Welsh Government to train senior colleagues and teams in high risk areas in order to support preparation as well as provide advice on GDPR.

To ensure Welsh Government compliance with GDPR going forwards, a GDPR assurance strategy is being developed to sit alongside an internal audit strategy, aimed at implementing an integrated assurance approach.

Becoming a Fairer Place to Work

During 2017-2018, work continued under the Welsh Government's Diversity and Inclusion Action Plan 2016-2020 and Strategic Equality Plan objective to be an exemplar. The Welsh Government has an active commitment to being a more diverse organisation with targets of 5.8% disabled staff and 2.5% Black, Asian and Minority Ethnic (BAME) staff by 2020 and a commitment to recruiting and retaining Lesbian, Gay, Bisexual and Transgender (LGBT) staff. Activities are overseen by the Diversity and Inclusion Steering Group and have included:

- Wider roll out of the reverse mentoring pilot.
- Further Stonewall training session for senior staff on being LGBT inclusive.
- Task and Finish Group set up to review Diversity & Inclusion training; pilot sessions rolled out.
- Development of an Autism awareness staff support informal network.
- Development of a Fostering and Adoption informal network.

All business groups have diversity champions to promote equality and diversity in their business area as well as sponsoring a diversity network.

Work continued to meet the target of the Senior Civil Service being 50% female by 2020. This included a review of maternity and parental policies and support, development of menopause guidance, a survey of women promoted to the SCS in the last 5 years and a survey of women who had undergone leadership training. A gender pay gap of 8.08% (based on average salaries) was identified in 2017-18. The civil service gender pay gap figure published by ONS is 12.7% (based on median salaries). The Welsh Government signed up to Chwarae Teg's Fairplay Employer benchmark to help identify how best to rectify this. This will be a priority for in 2018-19.

A number of benchmarking schemes were used to assess the diversity & inclusion work undertaken. Welsh Government rose 13 places – up to 12th in the Stonewall UK Top 100 Employers Index and achieved Disability Confident Leader Accreditation in October 2017. Since the end of the reporting period, Welsh Government has been accredited gold status in the 2018 a:gender awards, the Civil Service Support Network supporting all trans and intersex staff across Government.

Welsh Government has actively changed its approach to recruiting apprentices to encourage more candidates from all backgrounds. Two new cohorts of apprentices joined Welsh Government in this reporting year: 23% of the first tranche and 42% of the second tranche were from under-represented groups.

Diversity networks

There are currently five staff diversity networks within Welsh Government. The networks give under-represented groups a voice, enable colleagues to share experiences and support each other and also act as an advisory body to internal policy makers.

The staff networks are:

- **Disability Awareness and Support (DAAS)** – the network for disabled colleagues, carers and those with an interest in disability issues.
- **Minority Ethnic Staff Network** – the network for staff from Black, Asian and Minority Ethnic (BAME) backgrounds.
- **Women Together** – an inclusive network encouraging personal growth and mutual support of women to reach their full potential and work to achieve gender balance in the organisation.
- **PRISM** – the sexual orientation and gender identity staff network that supports staff who identify as lesbian, gay, bisexual, trans or gender variant.
- **Social Mobility** – a newly-created network to promote a greater understanding of the challenges facing people from lower socio-economic backgrounds.

Sustainability Reporting

Environmental Management on the Administrative Estate

During 2017/18 the Welsh Government has continued to improve the environmental performance of the administrative estate.

The organisation remains dedicated to developing sustainable practices by working closely with internal colleagues, core contractors and external organisations. These links have helped to expand the provision of expert advice, share best practice and connect with relevant strategies.

Energy consumption has been further cut and the 2020 carbon reduction target has been substantially exceeded, reducing emissions by 57% since 2010/11. Recycling has increased

to 88%, a rise of 6% since 2016/17. A water reduction strategy which included the installation of waterless urinals has resulted in a 11% reduction since the project began in 2016/17. The Welsh Government has taken forward biodiversity projects at many sites and endeavours to support local wildlife by enhancing the external office areas with the creation of new habitats and native planting.

Further details on greenhouse gas emissions, waste produced and water consumption on the administrative estate are shown below:

Greenhouse Gas Emissions			2013-14	2014-15	2015-16	2016-17	2017-18
Non-Financial Indicators ('000 tCO ₂ e)	Total Gross Emissions		9.2	8.4	6.9	6.3	5.4
	Gross Emissions Scope 1 (Gas)		1.5	1.3	1.1	1.1	1.1
	Gross Emissions Scope 2 (Electricity)		7.7	7.1	5.8	5.2	4.3
Related Energy Consumption (GWh)	Electricity		14.2	13.4	11.8	11.6	11.2
	Gas		8.4	7.1	5.8	5.8	6
Financial Indicators (£million)	Expenditure on Energy		2.3	2.1	2.1	2.1	2.0
	CRC Allowances Administrative estate (2012 onwards)		0.11	0.16	0.27	0.1	0.1
Waste			2013-14	2014-15	2015-16	2016-17	2017-18
Non-Financial Indicators (tonnes)	Total Waste (tonnes)		583	500	498	563	350
	Non-Hazardous Waste	Landfill	184	127	112	104	41
		Reused/ Recycled	361	314	322	396	222
		Composted (food)	38	59	64	63	87
Water			2013-14	2014-15	2015-16	2016-17	2017-18
Non-Financial Indicators (cu.m/person/yr)			10	8	8	7.1	6.3

An ethical organisation

Anti-bribery and corruption

Welsh Government has a number of policies that outline its expectations of staff when undertaking their duties. These include Terms and Conditions of Service, the Civil Service Code, Staff Code of Conduct and Managing Welsh Public Money. All of these documents focus on core concepts of integrity, honesty, objectivity and impartiality. They provide unambiguous advice that staff should not misuse their official position to further private interests or to accept gifts or hospitality or receive other benefits from anyone which might reasonably be seen to compromise judgement or integrity.

All staff are required to disclose any outside business interests that may impact on their role within Welsh Government and to have these interests approved by management. Regular communications are issued to remind staff of this requirement.

Welsh Government has also established a Counter Fraud Branch whose remit is to embed a culture of anti-fraud and corruption and to promote a zero tolerance approach to fraud and corruption through the investigation of all allegations. This Branch maintains close contact

with Welsh Police Forces and other specialist groups and participates in national data matching exercises to identify potential fraud and conflicts of interest.

The Counter Fraud Branch is also responsible for maintaining Welsh Government's Counter Fraud and Corruption Policy and the Fraud Response Plan. Welsh Government also has defined Whistle blowing Policies in place as well as a Fraud Reporting telephone number and online fraud reporting capability that allows staff and members of the public to raise any concerns.

Awareness training is provided to staff covering such areas as Fraud, Bribery and Corruption, and Money Laundering. The National Fraud Database is being implemented forming part of Welsh Government's due diligence processes relating to the provision of grants or when entering a contract.

All Groups are required to maintain a Fraud and Corruption Risk Register, which documents high risk areas and outlines the controls that have been established to mitigate these risks.

Respect for human rights

The Welsh Government is committed to ensuring workers are treated fairly and with respect and ensuring Wales is free of slavery. The Code of Practice – Ethical Employment in Supply Chains is embedded throughout the procurement process. All successful suppliers are encouraged to sign up to the Code, and as a minimum contractors/supply chain partners are required to work with the Welsh Government in order to continuously performance manage contracts to ensure that fair employment practices are observed.

All procurement processes over the value of £25k are subject to a strategy risk assessment,

which considers the sustainability of the service and the potential for specific areas of the Code to be addressed through the contract terms, for example payment of the living wage.

Internally, all procurement professionals must complete the Chartered Institute of Purchasing and Supply e-learning on Ethical Procurement. Additionally, an e-learning training module has been developed which will become mandatory for all Welsh Government contract managers to complete. This will provide them with the knowledge and understanding of fair and ethical employment practices and how they can ensure the Code is adhered to.

Keeping our staff safe and healthy

Ensuring staff are fully supported, remain healthy and have a safe environment is an important part of the Welsh Government's health and safety approach.

In 2018 the Welsh Government attained re-accreditation to Occupational Health & Safety Assessment Series 18001 – a framework designed to help organisations put in place a health and safety management system aligned to internationally recognised best practice.

The organisation has implemented several improvements including developing a suite of generic risk assessments giving staff access to safe systems of work when undertaking their duties; and providing effective and meaningful online and face-to-face training, to raise

awareness of health and safety responsibilities as well as looking at how to manage stress and the importance of wellbeing.

Continuous monitoring and review processes ensure that the systems remain compliant and effective, and any opportunities for improvement are identified and implemented.

Last year the Welsh Government Board agreed a new Wellbeing Strategy to help the organisation become a healthier workplace that supports colleagues to look after their physical and mental wellbeing. In line with the Strategy, a 'Wellbeing Hour' was introduced to give staff one hour each week (pro-rated for those who work part-time) to focus on activities that will maintain or improve their physical and mental health.

Trade Union Side

Trade Union Side (TUS) is the umbrella body that co-ordinates the views of the three trade unions recognised by Welsh Government. The organisation's management team work closely in partnership with TUS who represent their members on a wide range of conditions of service and other work-related matters.

When policy changes are proposed that will affect staff, TUS are formally consulted and liaise with members as appropriate. TUS and the Welsh Government civil service have a long-standing Partnership Agreement which provides a framework for how they work together.

Publicity and advertising

In accordance with Prosperity for All and the associated Economic Action Plan for Wales, budgets are allocated to promote Wales in key markets in the UK and internationally as a place for tourism, inward invest, trade and export. An integrated cross-sector Wales brand has been developed and detailed marketing plans are developed for relevant key sectors in target markets – to build Wales's profile, and to also drive each sector's specific performance.

In the business sphere, Welsh Government undertakes integrated marketing programmes, including print, digital and outdoor activity, aimed at key business-to-business audiences

– with a focus on the UK market. There was an increase of 60% in traffic to [tradeandinvest.wales](#) in 2017-18. This programme also includes providing support for Welsh Government to attend a wide range of trade and sector-specific events. The return of this work is carefully monitored to ensure that leads secured are measured and nurtured by Welsh Government officials.

Key priorities also include investing in new digital platforms for the future as well as in rich, engaging content to promote Wales in the UK and beyond. All of this content will be monitored to evaluate engagement levels and the return on investment generated.

Sponsorship agreements

As part of the wider approach to how Welsh Government supports businesses in Wales and promotes Wales in the world as a business destination, requests are received from external organisations to sponsor events and activities that are aligned with overall business objectives.

Requestors are asked to provide information that relates to the event, audience, benefits to Welsh Government of sponsoring the activity and the potential risks if the request is not supported. The request is then considered in the context

of how it fits with the relevant business objectives and whether the opportunity provides value for money in terms of branding, PR, communications, networking/introductions and reputation.

Any events or activities taking place in Wales would be expected to comply with the Welsh Language Act. In 2017-18 the Welsh Government sponsored a number of organisations and events including Welsh National Opera, Wales Media Awards, Digital Innovation Day and Smart Energy Wales.

Statement of Accounting Officer's Responsibilities

Under Section 131 of the Government of Wales Act 2006, the Welsh Ministers are required to prepare the annual consolidated resource accounts for the Welsh Government in accordance with directions given by HM Treasury. The Treasury directions require the detailing of the resources acquired, held, or disposed of during the period.

The consolidated resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Welsh Government and the other entities within the group at the end of the period and of their net expenditure and cash flows for the financial period.

The Principal Accounting Officer (PAO) for the Welsh Ministers has responsibility for the overall organisation, management and staffing of the Welsh Government. This includes responsibility for Welsh Government-wide systems in finance and other matters, where these are appropriate, and for the management of the Welsh Government's net cash requirement. The PAO is also responsible for preparing and signing the Welsh Government's consolidated resource account.

In preparing the accounts, the PAO is required to comply with the Financial Reporting Manual (FReM) and, in particular, to: observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis; make judgements and estimates on a reasonable basis; state whether applicable accounting standards, as set out in the FReM, have been followed and disclose and explain any material departures in the accounts; and prepare the accounts on a going concern basis.

Under Section 133(2) of the Government of Wales Act 2006 the PAO is able to designate other members of the Welsh Government staff as Additional Accounting Officers. The PAO also designates the Chief Executive of the NHS as Accounting Officer of the National Health Service in Wales. The work of the Local Health Boards in Wales is governed by separate authority and the Chief Executives of each of the Local Health Boards are appointed as Accountable Officers by the Chief Executive of the NHS in Wales. These appointments do not detract from the PAO's overall responsibility for the Welsh Government accounts.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, for safeguarding the Welsh Government's assets and for taking reasonable steps to prevent and detect fraud and other irregularities, are set out in the Welsh Government Accounting Officers' Memorandum, issued by HM Treasury. The relationship between the PAO of the Welsh Government and other Accounting Officers, as described above, and their respective responsibilities, are set out in written agreements between the officials concerned.

As Accounting Officer I can confirm that the annual report and accounts as a whole is fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Disclosure of Information to Auditors

As Principal Accounting Officer I confirm that as far as I am aware, there is no relevant audit information of which the Auditor General for Wales is unaware. I have taken all necessary steps to make myself aware of any relevant audit information and to establish that the external auditors are aware of that information.

Governance Statement

Introduction

I am responsible for ensuring high standards of probity in the management of public funds. In discharging this duty, I am responsible for maintaining a sound system of internal control that supports the achievement of the Welsh Government’s policies, aims and objectives, facilitates the effective exercise of the functions of Welsh Ministers and which includes effective arrangements for the management of risk.

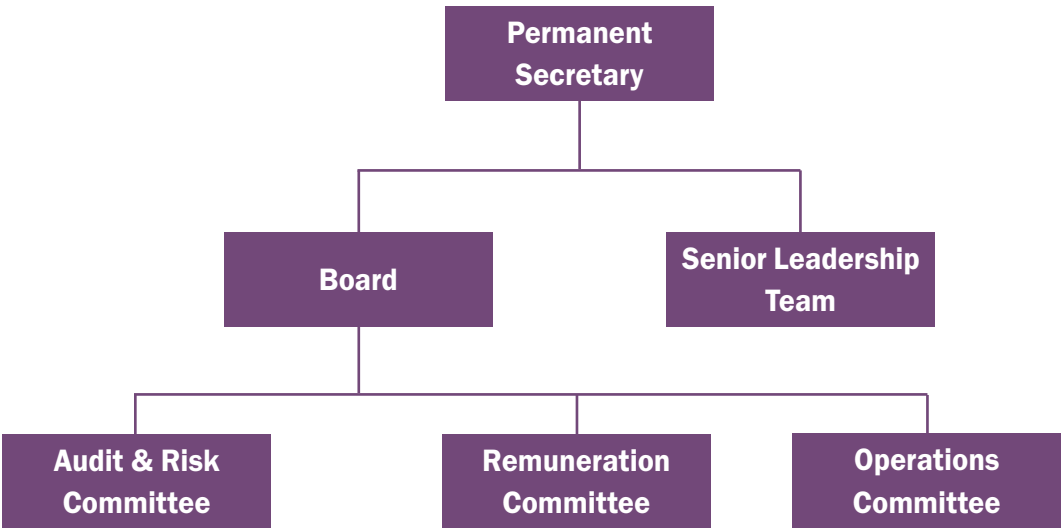
The Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Welsh Government is directed and controlled and the activities through which it accounts to the National Assembly for Wales and engages with stakeholders. It enables the organisation to monitor the achievement of its policies, aims and objectives and whether value for money has been obtained.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. The Welsh Government’s “Common Control Framework” sets out the delegations which operate consistently across all parts of the Welsh Government.

The governance framework and internal control system are also supported by an on-going process of risk management, designed to identify and prioritise the risks to the achievement of the Welsh Government’s policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and then to manage them efficiently, effectively and economically. The governance framework has been developed to comply with the requirements of good governance and is supported by “Managing Welsh Public Money”, which sets out the principles for dealing with resources in Welsh public sector organisations.

The Corporate Governance Structure:



Governance Review

Towards the end of 2017, Internal Audit undertook an exercise to base-line the governance framework within the Welsh Government, to provide an analysis of the arrangements in comparison with best practice. The resulting report identified potential areas for improvement in arrangements and an action plan has been put in place by the Director of Governance to build on these opportunities. This work also informed the review of governance arrangements which I commissioned during 2017/18, including senior decision-making structures. As a result, a new structure will be implemented during 2018/19 to aid transparency and clarity around decision-making. The decision was also taken to “pause and refresh” Audit and Risk Committee arrangements. Since February 2018, only the Welsh Government Audit & Risk Assurance Committee has met, although the Groups have convened their own assurance meetings during the period to consider the results of audit work. New Group ARAC arrangements will become operational from September 2018.

Welsh Public Bodies

The Welsh Government delivers its aims and objectives, in part, through a number of public bodies, including Welsh Government Sponsored Bodies (WGSBs), subsidiary companies and other government-funded public bodies. Accounting Officers (or Chief Executives) appointed to each body are responsible for their organisation’s management of public finances and are required to sign a governance statement which is published in their body’s annual accounts. The relationship with the Welsh Government is defined in an appropriate form of written document for each body.

The Board

As Permanent Secretary and PAO, I am supported by the Welsh Government Board, which consists of 12 Members, both Non-Executive and Executive. A number of Non-Executive Members were approaching the end of their tenure during 2017/18 and, towards the end of the year, a recruitment exercise was run to identify replacements. These new Non-Executives will be joining the Board over the course of 2018/19.

The Board advises me in taking key strategic decisions about how the Welsh Government Civil Service is developed to support the First Minister, Cabinet Secretaries and Ministers and ensures the Welsh Government delivers the objectives and strategies set out in Ministers’ programme for government “Taking Wales Forward” and the priorities identified in “Prosperity for All”. The Terms of Reference for the Board were updated in July 2017 to ensure they fully and clearly set out this purpose. I chaired the Board meetings and I also met regularly with Board members on a bilateral basis and with the Non-Executive Directors collectively on a monthly basis. I have agreed with the First Minister that he will engage with the Board at least once a year.

Board Membership and Attendance

Current Membership	Attendance at Meetings
Shan Morgan, Permanent Secretary	10/10
Elan Closs Stephens, Non-Executive Director	10/10
James Turner, Non-Executive Director	9/10
Ann Keane, Non-Executive Director	9/10
Ellen Donovan Non-Executive Director (from 27 February 2018)	1/1
Jeff Farrar Non-Executive Director (from 27 February 2018)	1/1
Andrew Slade, Director General, Economy, Skills & Natural Resources (from 1 January 2018)	2/2
Tracey Burke, Director General, Education & Public Services (from 20 November 2017)	3/4
Andrew Goodall, Director General, Health & Social Services (NHS Chief Executive)	9/10
Des Clifford, Director General, (from 29 January 2018)	1/1
David Richards, Director, Governance	9/10
Jeff Godfrey, Director, Legal Services	8/10
Peter Kennedy, Director, Human Resources & Corporate Services	9/10
Gawain Evans, Director, Finance	10/10
Gillian Baranski, Board Equality & Diversity lead	8/10
Natalie Pearson, Head of OD & Engagement	10/10

The following Board Members left during the year:

Sir Adrian Webb, Non-Executive Director (to 15 December 2017)	8/8
James Price, Deputy Permanent Secretary, Economy, Skills & Natural Resources (to 31 December 2017)	6/8
Owen Evans, Deputy Permanent Secretary, Education & Public Services (to 30 September 2017)	4/5
Sioned Evans, Chair, Operations Committee (to 30 April 2017)	1/1

Board Self-Assessment of Performance

Ordinarily, the Board would review its performance collectively over the reporting period, supported by a structured evaluation. The performance review this year has taken place throughout the year. It has resulted, so far, in revised Terms of Reference, revised frequency (6 weekly instead of monthly) and revised membership (including the appointment of three new NEDs).

Board Sub-Committees

I was also advised by two Non-Executive led Board Sub-Committees (the Audit and Risk Committee and the Remuneration Committee) and one executive Board Sub-Committee (the Operations Committee).

Board Sub Committee: Audit & Risk

The Welsh Government's Audit and Risk Committee (ARC) supports me on assurance matters. This Committee was chaired by a Non-Executive Director and advised me, throughout the year, in my capacity as PAO. ARCs also operated at Group-level during 2017/18, with their Chairs being members of the Welsh Government ARC. There were no changes in membership or structure of the Welsh Government ARC in the year although a refresh of the arrangements for Group ARCs is underway and will be finalised during 2018/19.

Board Sub Committee: Remuneration

The Board's second sub-committee is the SCS Remuneration Sub-Committee and is responsible for Senior Civil Service (SCS) pay and conditions, senior succession planning and recruitment and all SCS personal cases. A Non-Executive Director chaired the Committee. The Committee met eight times during the year and I attended all the meetings. The Remuneration Committee does not set my own pay which is dealt with by the UK Cabinet Office.

Board Sub Committee: Operations

The Operations Committee supports me and senior leaders with the internal running of the organisation on an operational level, allowing the Board to maintain a strategic focus. The Committee provided advice on, and oversight and management of, the running of the Welsh Government and operated during the whole of the year. The Committee continued in operation to the end of the year but, during 2018/19, will be replaced by three new committees, to provide better focus on specific areas of Welsh Government operations in future.

The Senior Leadership Team

Throughout 2017/18, I was supported by a leadership team of Deputy Permanent Secretaries and Directors General, each leading a Welsh Government Group. I took the opportunity afforded by the departure of two Deputy Permanent Secretaries to review the leadership of the Welsh Government at that level. As a result I have reverted to the title of “Director General” for all Group leaders. From 29 January 2018, I appointed a new Director General to lead the Office of the First Minister, a new Group created to separate the functions in the Permanent Secretary’s Group from the Office of the First Minister (combined previously as the Office of the First Minister and Cabinet Office Group). This separation, which took effect from 1 April 2018, was made to strengthen leadership at the most senior level on the delivery of the First Minister’s priorities and matters relating to European Transition. The five Groups now in place are further sub-divided into directorates which align to the areas of responsibility devolved to the Welsh Government to administer.

The Directors General in the Senior Leadership Team are designated as Additional Accounting Officers (AAOs) to give them personal responsibility and accountability for the proper and regular use of public finances and the achievement of value for money on my behalf. Certain specific Directors are also designated as AAOs to further strengthen corporate governance and accountability arrangements, both for the use of public funds and in accounting to the Public Accounts Committee. The Senior Leadership Team will, shortly, adopt a more formal role in corporate decision-making as the new Welsh Government “Executive Committee”.

I am committed to meeting the legal obligations placed upon the Welsh Government to deliver its work in line with the goals and ways of working set out in the Well-being of Future Generations (Wales) Act. I continue to encourage behaviours that build on cross-organisational working to support effective delivery of the Well-being objectives and the cross-cutting strategies adopted by the Welsh Government in “Prosperity for All”. This will help strengthen the integrated delivery of services going forwards.

The Act requires Welsh Ministers to report on progress towards their well-being objectives annually; the Welsh Government published its first set of well-being objectives in November 2016. These were reviewed and revised during the year as part of the development of *Prosperity For All: the National Strategy* which was published in September 2017, to ensure the well-being objectives remain at the heart of all government work. The Well-being Statement, published alongside *Prosperity For All* committed to communicating progress on a regular basis and to reviewing the National Strategy at mid-term. This will be delivered during the coming year.

Business Group

The Business Group exists to facilitate the sharing of information to ensure all Directors are aware of current issues across the organisation. During 2017/18, meetings were chaired by the Director of Governance and attended by staff at Director level and above, including myself, and were held regularly during the year.

Whistle-Blowing

The Whistle-Blowing Panel met regularly through the year to consider whistle-blowing cases, to ensure action was taken promptly but with great care, maintaining confidentiality. The Whistle-blowing and Civil Service Code policy explains what staff should do if they suspect a colleague of wrongdoing. Information is also published on the Intranet. I am confident our whistle-blowing arrangements are transparent, robust and in-line with good practice.

Four cases were reported to the Panel in the year:

Whistleblowing Cases	2017-18	2016-17
Not substantiated	2	2
Resolved internally (staff-related matters)	1	3
Not a matter for the Welsh Government	-	1
Advice provided to the Whistleblower	1	-
Total	4	6

In addition to the Whistle-Blowing Panel dealing with internal cases, the External Assurance Panel addresses concerns raised in relation to organisations which receive public money from the Welsh Government. It provides a consistent, proportionate and appropriate response to concerns about how Welsh Government funding has been handled by our delivery partners and the beneficiaries of our grant schemes. The Panel provides advice to officials and identifies systemic issues which need to be addressed. The Panel addressed 19 new cases in the year compared with 10 cases in 2016/17. This increase reflects better awareness and understanding of, and engagement with, the purpose of the Panel following a review of membership and the addition, alongside corporate functional leads, of representatives from the five Groups within the organisation. Eight live cases were carried over from the previous year. Ten cases remained open at the year end and will be resolved during 2018/19. None had any HR disciplinary or performance management implications.

Assurance Arrangements

As Principal Accounting Officer, I have responsibility for ensuring the effectiveness of the governance framework including the system of internal control, for which I take assurance from a wide range of activities. In this, I am informed by the work of Internal Audit and those Welsh Government officials with responsibility for the development and maintenance of the internal control framework. I take assurance from management responses to issues identified by the External Auditor (the Auditor General for Wales) in his reports and also from management responses to reports published by the Public Accounts Committee and other National Assembly for Wales Scrutiny Committees undertaking their own enquiries.

I am also advised on the effectiveness of the system of internal control by the Board and the Audit and Risk Committee. In addition, in May 2018, I attended an assurance “stock-take” with lead assurance providers from across the Welsh Government, to consider the assurances available to me in respect of 2017/18.

Led by the First Minister and the Cabinet, Cabinet Secretaries and other Ministers which he appointed, the Welsh Government’s responsibilities cover key areas of public life. A wide range of internal controls are in place to provide for the sound stewardship of resources. From the assurance I have taken from the sources above, I am satisfied risk has been well managed and systems of governance and internal control continue to operate effectively and to improve.

Internal Audit

The Welsh Government Internal Audit Service operates to Public Sector Internal Audit Standards. Internal Audit undertook a full programme of work in the year, based upon an analysis of the major risks facing the organisation. Internal Audit submitted regular reports to the Audit & Risk Committees, at both Group and Welsh Government level, on progress in implementing this audit plan. I met regularly with the Head of Internal Audit through the year to discuss audit and assurance matters.

The Internal Audit Service co-ordinates its work with that of the Wales Audit Office. A long-standing joint working protocol underpins the approach taken and periodic liaison meetings have been held to share information. Together, these two independent sources of assurance provide me with significant comfort in respect of the achievement of value for money and the reliability of the financial accounts in the case of the Wales Audit Office and on the operation of the framework of risk management, governance and control in the case of Internal Audit.

The Head of Internal Audit, in her Annual Assurance Opinion report, provided me with “reasonable” assurance on the operation of the framework of governance, control and risk management within the Welsh Government. Reasonable assurance means that, while arrangements are suitably designed and applied effectively, some matters require management attention in control design or compliance with moderate risk exposure until resolved.

The programme of audit work completed during 2017/18, which drives the overall assurance opinion given, produced the following opinions for the audit reports issued:

Assurance Opinion	2017-18	2016-17	2015-16
Substantial Assurance	16	14	24
Reasonable Assurance	38	29	37
Limited Assurance	7	9	12
No Assurance	0	0	0

Where weaknesses were identified in audit reports, appropriate observations were made to enhance the control framework and address the issue identified.

European Funds Audit Team

In February, the European Funds Audit Team (EFAT) submitted two Annual Control Reports and Opinions to the Commission with its assurance opinion on Structural Funds Programmes received by Wales for the period 1 July to 30 June 2017. The reports were based on work carried out by EFAT in accordance with its audit strategies for the Programmes. I am pleased to report that EFAT was able to provide an unqualified opinion to the Commission. The Commission formally accepted EFAT's reports and opinions in July 2018.

Audit and Risk Committee Annual Report

Based on its work over the reporting period, in the Committee's Annual Report for 2017/18, the Audit and Risk Committee provided "reasonable" assurance on the adequacy of internal audit arrangements for the Welsh Government and on the reliability, integrity and comprehensiveness of the available assurances provided to me in respect of governance, risk management and control. I am satisfied the Audit & Risk Committee has operated effectively and provided good support in monitoring and reviewing risk, control and governance processes.

Annual Internal Control Questionnaires and Assurance Statements

I also required all Directors to complete an Internal Control Questionnaire and, based on these returns, for the Directors General for each Group to prepare their own personal Statement of Assurance to provide me with their assessment of the effectiveness of their Group's frameworks of internal control.

Through the ICQ, the Directors have provided me with their self-assessments of internal control, governance and risk management and their considerations about how effectively they believe controls have operated throughout the financial year. The Directors General have provided an overview of governance, control and risk management within their respective Groups. These have included positive assurances in respect of the Business Critical Analytical Models employed across the Welsh Government, which support a range of activities such as the Help to Buy Repayment Model and the National School Categorisation Model.

Internal Control Issues

The positive assurances I have received provide me with confidence the Welsh Government has, in general, well-designed and sound frameworks of governance and internal control. However, some notable issues have been revealed in these frameworks in the course of the year which have been, or are being, addressed and improvements made, which are set out below.

Decision-Making

Reviews by the Auditor General for Wales and Public Accounts Committee have identified some improvement needed in governance in respect of financial support given to Welsh businesses, including investments in Pinewood and the Circuit of Wales. The WAO is also looking at the quality of the analysis and evidence and the validity of assumptions underpinning the “MyTravel” bus concession scheme. During the year Internal Audit has also undertaken a review of Financial Information in Ministerial Advice in which they were only able to provide limited assurance. Areas of weaknesses were identified in four areas including; process and procedure, corporate oversight, compliance and continuous improvement. I welcome this scrutiny of our processes, which is helping us to make improvements in areas such as governance and record-keeping, including the audit trail of documents supporting the rationale underpinning our decision-making, and the quality of our advice to Ministers. As well as specific business process improvements, I have implemented the “Future-Proofing” initiative which will improve training for staff in areas such as decision-making and financial management.

Write-Offs

The accounts show a significant increase in the value of debt write-offs compared with last year. However, I am confident this is not an indication of unnecessary risk-taking but, rather, a reflection of more rigorous processes being implemented in the light of reviews by Internal Audit. Whilst the level is higher, the debts written off in this period are mainly historical in nature, including the write-off of loan to G24 Innovations Limited and of loan and repayable grant to Kancoat Limited and Cardiff Aviation Limited, with further write offs in respect of McKenzie Interior and Regal Fayre UK Ltd. I am content the revised processes ensure debts are being managed in a timely manner.

Arms Length Bodies

Prompted by events at an Arms Length Body (ALB), we undertook a review of our internal sponsorship arrangements to ensure they operated effectively in support of our ALBs. These arrangements were found to be effective in general but with room for improvement to ensure a more consistent and value added approach across the Welsh Government. We have established a new public bodies unit to take forward the recommendations of the Review and deliver sponsorship activities more effectively and with better collective engagement with our ALBs, in line with our responsibilities under the Well-being of Future Generations Act.

In terms of our ALB governance, Transport for Wales (TFW) was established in the recent past to deliver a number of key transport projects on behalf of the Welsh Government. We have recognised the need to review TfW governance after the broadening of its original remit, given the priority of the projects now being delivered.

In 2015-16 and 2016-17 the Auditor General for Wales (AGW) qualified his regularity opinion for the financial statements of Natural Resources Wales (NRW) with regard to the award of timber sales contracts. In 2017-18 the regularity opinion has been qualified again with regard the award of 59 new timber contracts. NRW has accepted the AGW findings. They are fully committed to addressing the governance issues under the leadership of their new Chief Executive, who took up her role in early 2018 and a Welsh Government official has been seconded to NRW to help improve governance arrangements.

Copyright Infringement

There has been an alleged breach of copyright by Visit Wales in a photograph within Dylan Thomas's boat house which inadvertently contained a photograph on which a copyright is claimed by a third party and costs have been incurred in resolving this situation with the copyright holder.

Fraud Matters

Towards the end of 2016, the Welsh Government received anonymous correspondence alleging fraud in the use of Welsh Government grants by a charity based in Port Talbot. The Welsh Government concluded its investigation of these allegations during 2017/18 and, as a consequence, has required the repayment of a quarter of EC grant monies and a small amount of domestic Welsh Government grant by the organisation, which are being recovered through normal debt recovery procedures.

Governance Statements in previous years have included commentary on frauds identified in the Concessionary Bus Pass scheme; Police investigations remain ongoing and further prosecutions are imminent. Nevertheless, I remain assured that the steps taken to improve our capability to counter fraud, including the deployment of data analytics to interrogate management information, provide effective internal control in this area.

This confidence was confirmed in the year by an independent review of our Counter-Fraud unit, by the Government Internal Audit Agency's fraud investigation service, which was assessed as high-performing and delivering effectively given its current resourcing. For the future, we are looking at options to deliver staff awareness and training and proactive counter-fraud work and risk assessment.

Information Governance

As PAO, I am responsible for ensuring appropriate arrangements are in place to comply with the core set of mandatory minimum measures to protect information in Government Departments which require me to assess our risk and ensure appropriate mitigation strategies are in place.

Where third parties handle information for which the Welsh Government is legally responsible, it is important that advice and guidance is provided to them about how that information must be handled. IT security is assessed prior to contract award where personal information is processed by Third Parties and information assurance clauses are included as standard in requirement specifications by means of a Security Aspects Letter. We also verify that those who process our sensitive information are subject to an independent IT Health Check and meet the “Cyber Essentials” standard.

The Welsh Government’s corporate IT systems and associated security policies continue to be compliant with ISO 27001, the international standard for information security management, and are aligned with recommended practice and procedures. This was confirmed by the programme of audit work carried out by Internal Audit, an EC high-level review of ISO27001 compliance audit, and by the positive assurance I have received from the Welsh Government Senior Information Responsible Owner (SIRO).

In 2017/18, there were 40 data losses compared with 33 for 2016/17. Four data loss incidents were reported to the Information Commissioner’s Office during the year but no further action was taken because the Commissioner’s view was Welsh Government controls such as staff training, clear policies and desk instructions were already in place. Minor incidents not needing to be reported are set out below:

Summary of Other Protected Personal Data Related Incidents			
Incidents deemed by the Data Controller not to fall within the criteria for reporting to the ICO but recorded centrally are set out in the table below			
Type	Nature of incident	2016/17	2017/18
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	5	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	2	1
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0	1
IV	Unauthorised disclosure	21	34
V	Other	5	3

I take assurance from work undertaken by Internal Audit in the year which confirmed management arrangements in this area are adequate and sufficient but we continue to work to address the reasons for their occurrence.

During the year, arrangements were put in place to prepare the Welsh Government for the enforcement of General Data Protection Regulations (GDPR) from 25 May 2018. For example, the review of Information Asset Registers and Privacy (Fair Processing) Notices commenced and the reporting of all data losses within the reduced time allowed under GDPR was implemented ahead of the enforcement date. However, preparing for these new regulations has proven to be a considerable challenge for an organisation such as the Welsh Government given the spread and variety of the personal data handled. A GDPR preparedness audit in December 2017 provided a guide as to the work required to achieve compliance. Significant progress had been made by the enforcement date and work still continues to ensure all aspects of the collection, handling, processing and recording of personal data by the Welsh Government are compliant.

Local Accountability

A considerable proportion of the expenditure of the Welsh Government is distributed to Welsh Local Authorities and NHS Wales to deliver policy objectives and a range of front-line services, including health, social care and education. The Director General of the Health and Social Services Group within the Welsh Government is also Chief Executive of NHS Wales.

Local Authorities

Grant funding is provided to Unitary Authorities, Fire and Rescue Authorities, National Park Authorities and Police and Crime Commissioners in Wales. The largest single component of grant funding is the Revenue Support Grant (RSG) paid to Unitary Authorities, which may be used for any purpose in delivering the services for which those Authorities are responsible. Revenue Support Grant is distributed on the basis of a formula which reflects the factors which drive Authorities' need to spend to deliver a wide range of services, including education and social care.

Funding is also provided to Authorities through grants which can be used only for the specific purposes for which they are provided. Additionally, Unitary Authorities receive some specific grants from UK Government Departments for non-devolved functions, income from nationally-set non-domestic rates distributed by the Welsh Government, from locally-set council tax and from fees, charges and other sources of income. Unitary Authorities also receive Welsh Government grants for capital spending, which is supplemented by their own borrowing capacity.

Similar arrangements apply to the provision for Police and Crime Commissioners, who are funded through a mix of RSG and redistributed non-domestic rates from the Welsh Government and Police Grant from the Home Office, from specific grants and from council tax. Other Authorities are funded through arrangements such as levies and precepts.

Each Authority is accountable for how it uses the funding in delivering the functions for which it is responsible. Unitary Authorities have an appointed officer under section 151 of the Local Government Act 1972 who has statutory duties to ensure there is proper administration of financial affairs. Authorities are held to account by their scrutiny functions and they are also subject to annual improvement audits conducted by the Auditor General for Wales covering value for money as well as governance and capacity matters.

In respect of funding provided for specific purposes, individual grant terms and conditions are the responsibility of the relevant policy departments. It is a requirement of these terms and conditions to have due regard to the Grant Centre of Excellence Minimum Standards for Grant Funding. Adherence to these standards should ensure compliance with the Welsh Government's governance and financial arrangements, relevant law, policy and good practice. With regard to funding provided by the UK Government in respect of non-devolved functions, the arrangements for accountability will be agreed between the Local Authorities and the relevant UK Government Department.

During the year, the then Minister for Social Services and Public Health issued a warning notice to Powys Council under Part 8 of the Social Services and Well-being (Wales) Act 2014 following a critical inspection report which highlighted areas of significant concern for Powys to address in respect of its

children's services. In addition, the report raised significant issues in regard to the effectiveness of the Council's corporate services. Following the report, in November 2017, a request for formal support was made by Powys' Council Leader to the Cabinet Secretary for Local Government and Public Services.

The Cabinet Secretary accepted the request and exercised his powers under the Local Government (Wales) Measure 2009 to provide Powys with support to assist with the corporate improvement. In doing so, he amalgamated the Social Services improvement work into a single programme, overseen by an independently chaired improvement and assurance board which provides support to the Leader of the Council and the interim chief executive.

Other appointments have been made to strengthen governance and oversight at the Council and it continues to focus on the improvement of social services delivery, governance, strategy and capacity as well as performance and quality, vision, organisational change and strengthening the budget position. Powys Council has made progress in addressing these matters but still faces significant challenges in strengthening its corporate leadership and capacity.

Improvement and Support Conferences, including representatives from the WAO, Estyn, CSSIW and the WLGA, continue to be held regularly to discuss where early additional support could be offered to support Local Authority improvement.

Health

Local Health Boards (LHBs) are funded to commission and provide Hospital and Community Health Services and to meet the costs of drugs prescribed by GPs for their resident populations. Funding is also provided to cover the costs of payments to independent contractors including GPs, General Dental Practitioners and Pharmacists. Targeted funding is added to the core allocation to support the achievement of Welsh Government objectives. Capital funding is provided to LHBs to support the All Wales Capital Programme approved investments, and other Welsh Government discretionary capital funding is also provided to support locally identified priorities.

In his Governance Statement for 2017-18 the NHS Chief Executive has reported that all LHBs and NHS Trusts have declared their assessment, within their respective Annual Governance Statements, that generally sound systems of internal control were in place to support the delivery of their policy aims and objectives for 2017-18. Six LHBs and all three NHS Trusts have reported a conclusion of no significant governance issues within their Annual Governance Statements, but all have noted areas of governance where improvements are required. Betsi Cadwaladr UHB identified some significant internal control or governance issues relating to feedback from; Welsh Government including Special Measures, the WAO Structured Assessment and Joint Review with Healthcare Inspectorate Wales, Internal Audit reports and the findings of the Health and Social Care Advisory Service investigation into the care provided to patients on Tawel Fan ward at Glan Clwyd Hospital.

2017-18 is the fourth year the accounts of the LHBs & NHS Trusts have been prepared under the NHS three-year financial regime that was introduced under the NHS Finance (Wales) Act, effective from 1 April, 2014.

All NHS accounts in 2017-18 received a clean 'true and fair' audit opinion from the Auditor General for Wales. Six out of ten organisations have complied with the statutory break even duty by operating within their budgets over the three year period of assessment. Additionally Aneurin Bevan and Cwm Taf

generated surpluses in 2017-18 amounting to £5.4 million which were returned to Welsh Government for re-provision in 2018-19.

Four of the ten organisations did not achieve their financial duty to break even over three years: Abertawe Bro Morgannwg operated within allocations in 2015-16 but failed to do so in 2016-17 and 2017-18; Cardiff and Vale University Health Board operated within allocations in 2015-16 but failed to do so in 2016-17 and 2017-18; Betsi Cadwaladr and Hywel Dda University Health Boards have failed to operate within allocations in all three years. Consequently, these four organisations have failed to meet their statutory financial duty for the second three-year period and, as a result, have received qualified regularity opinions from the Auditor General for Wales on their 2017-18 accounts.

In 2017-18 these four health boards indicated they would be unable to break-even and planned for a deficit out-turn. To maintain financial discipline with these organisations, Welsh Government set maximum deficit financial control totals. Two organisations – Abertawe Bro Morgannwg and Cardiff and Vale – achieved an improved deficit position in 2017-18 compared to 2016-17, and improved upon the deficit control totals set by Welsh Government.

In 2015-16 and 2016-17 Welsh Government provided Hywel Dda with additional non-recurrent funding of £14.4m in each year as short term structural support. During 2017-18, no additional funding was provided, pending the commission by Welsh Government of a zero based review of the board's cost base. On 23 May 2018 the findings of the review were announced which partially confirmed the view that Hywel Dda faces a unique set of healthcare challenges that have contributed to the deficits incurred by the Board. In response £27m additional recurrent funding will be provided to Hywel Dda from 2018-19 onwards.

Betsi Cadwaladr remains in Special Measures, despite progress in some important areas the health board continues to face significant challenges. During 2017-18, in addition to other areas under special measures, the escalation status was raised in relation to financial management and key areas of performance. A framework setting out the expectations for the next 18 months was issued to the health board on 8 May 2018.

All local health boards reporting financial deficits in 2017-18 have received reports from independent financial governance reviews commissioned by the Welsh Government, and have developed and published action plans for implementation. Progress on delivery of these actions is being monitored through the regular Welsh Government intervention meetings with these boards. The four health boards which failed to break even in 2017/18 incurred deficits of £167.5m.

Additional cash support has continued to be provided when required to all boards in deficit to enable them to meet their normal cash commitments including payroll expenditure. This cash assistance is repayable in future financial years when appropriate and improved plans are developed and approved.

Taking account of the health board surpluses brokered during 2017-18, and the impact of changes to Hywel Dda non-recurrent structural funding, the overall net outturn for NHS Wales in 2017-18 was slightly improved on the 2016-17 position.

Actions were taken throughout 2017-18 to manage the deficits incurred within the Health and Social Services budget. Consequently, there has been no breach of the Health, and Social Services budget allocation and no breach of the Welsh Government's budget overall.

Risk Profile

The risk profile of the Welsh Government is extensive and varied, as would be expected from the broad range of different activities in which it is involved. It carries a number of contingent risks (high impact but unlikely to be realised) which arise from its regulatory responsibilities, for example its responsibilities in the event of an outbreak of human or animal disease in Wales, its responsibility for the Welsh transport infrastructure and its obligations under the guarantees it enters into from time to time to support businesses in Wales. In addition to contingent risks, the Welsh Government carries a number of long-term risks where the risk arises from uncertainties involved in the eventual outcome or cost to it, such as Student Loans and the “Help to Buy” scheme. On a day-to-day basis, operational risks arise, in general, from the challenge of ensuring sufficient capacity and capability to advise on, and to deliver, the key policy objectives of the First Minister and his Cabinet.

The most critical matter on the Corporate Risk Register remains the level of uncertainty about the timing and outcome of European Transition as well as its likely impact on Wales, which might present both threats and opportunities to the overall Welsh Economy. Whilst some matters have started to become clearer, there remain too many uncertainties to be able to assess the overall impact.

The Welsh Government Board keeps Brexit related resourcing under review. The European Transition team leads the development of strategic policy and co-ordinates Welsh Government work on the UK leaving the EU and advocates our interests and priorities, as set out in the White Paper ‘Securing Wales’ Future’ (January 2017). Further policy documents published in 2017-18 related to ‘Brexit and Devolution’, ‘Brexit and Fair Movement of People’, ‘Regional Investment in Wales after Brexit’ and ‘Trade Policy: the issues for Wales’.

A Cabinet Sub-Committee on European Transition provides strategic direction and ensures key policy decisions are taken to secure the best outcome for the people of Wales as the UK leaves the EU. A cross-departmental Welsh Government European Transition Officials Group supports the Cabinet Sub-Committee on European Transition. Sub-Groups on Legislation, Frameworks, and Economy support the work.

The team continues to work closely with the Welsh Government team in Brussels and across relevant policy departments, and make connections with the UK Government and other devolved governments through existing Joint Ministerial Committee (JMC) architecture and other channels. An external European Advisory Group advises the Welsh Government on the implications for Wales of the UK’s exit from the EU, alongside a range of other stakeholder fora.

Linked to this risk, the capability and capacity of officials in the Welsh Government to respond to the changes and workload expected following European Transition remains a concern. A significant programme to “Future-Proof” the workforce to be better able to deliver effectively and flexibly was implemented in the year and will support the reprioritisation of resources to meet future needs.

The Board has included a number of new risks over the course of the year, being:

- the risk of fire in tower blocks in Wales;
- the risks inherent in working towards the delivery of cross-cutting strategies identified within “Prosperity for All” and “Taking Wales Forward”;
- a number of major programmes singled out in Prosperity for All as priority activities critical to the delivery of the overall Welsh Government strategy, such as the Education Programme and ambitious aims for increasing numbers of Welsh speakers.

In addition, following the failure of the Carillion Group, an exercise was undertaken to assess the risk carried by the Welsh Government. Officials identified a small number of contracts let to Carillion by the Welsh Government but action taken at the time these contracts were let ensured the interests of the Welsh Government were suitably protected.

Capacity to Handle Risk

The Welsh Government's risk management policy is based on HM Treasury's "Orange Book" guidance for managing risk and has the key objective of ensuring there is a consistent process in place for measuring, controlling, monitoring and reporting risk across the organisation. Managing risk effectively should not lead the Welsh Government to be unduly risk averse and, in pursuit of its objectives, it is prepared to take risks which have been properly assessed, evaluated and managed to encourage more effective exploitation of opportunities as they arise, whilst accepting some failures may occur.

Corporately, the Board is responsible for overseeing the implementation of the risk management policy and process and for oversight and scrutiny of the mitigations for key risks facing the Welsh Government which might otherwise prevent or hinder the organisation from achieving its strategic objectives.

Principally, these are those risks which are so critical they cannot be managed at Group level together with those of a corporate nature whose impact would be felt across the whole organisation.

Corporate risks have been reviewed regularly by the Board through the year and have also been discussed at the Audit and Risk Committee

Day-to-day management and mitigation of risk is a management responsibility and each Director General has been responsible for managing risk and opportunity in respect of their Group's key objectives. Group risks were reviewed regularly by senior management teams and by the Group Audit and Risk Committees and were informed by risk registers maintained by projects and programmes and risk assessments and risk registers at Divisional level.

Ministerial Direction

My accountability requires me to ensure public money is expended in a manner consistent with the principles of regularity, propriety and value for money. If I, or my officials, are directed to undertake a course of action we believe does not meet this standard, I am expected to advise the relevant Cabinet Secretary or Minister and, if necessary, seek their formal direction to continue on that course of action. During the period covered by these accounts and their signing, no Ministerial Directions have been issued by Welsh Cabinet Secretaries or Welsh Ministers.

Conclusion

The system of internal control has been in place in the organisation for the year ending 31 March 2018 and up to the date of approval of the Annual Report and Consolidated Accounts. It accords with HM Treasury guidance. I have reviewed the evidence provided to me by my review of the effectiveness of the governance framework and can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with moderate risk exposure until resolved.

Shan Morgan

Permanent Secretary and Principal Accounting Officer

27 September 2018

Remuneration and Staff Report 2017-18

Remuneration Policy

The remuneration of senior civil servants is set at UK Government level following independent advice from the Review Body on Senior Salaries. The Welsh Government has delegated responsibility for the remuneration of non-SCS staff.

The Review Body also advises on the pay and pensions of Ministers where pay is determined by the Ministerial and Other Salaries Act 1975. Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

The Constitutional Reform and Governance Act 2010, requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Welsh Government Annual Pay Policy Statement

In line with the 'Transparency of senior remuneration in the devolved Welsh public sector' principles published on 7 December 2015 the Welsh Government has published a pay policy statement on its website.

The Pay Policy Statement covers the Welsh Governments definition of both "senior posts" and "lowest-paid employees" and the relationship between the remuneration of senior posts and that of the lowest-paid employees. It also covers:

- a) demonstrable evidence of affordability and value for money,
- b) the number of senior posts within the body with a remuneration package of more than £100,000 in bands of £5,000,
- c) the approach to internal talent management,
- d) the approach to performance related pay,
- e) the approach to providing support for lower paid staff,
- f) the highest and lowest pay points, and
- g) the severance policies operated and how and in what circumstances these can be varied.

Remuneration (including salary) and pension entitlements

This section is subject to audit and is covered by the Auditor General’s audit opinion.

The following sections provide details of the remuneration and pension interests of the Ministers and the most senior management (i.e. Board members).

Remuneration

The remuneration of the First Minister and his Cabinet team and of the members of the Board, who served during the year, is noted overleaf. These costs are reflected in the accounts of the National Assembly for Wales Commission and not the Welsh Government. Ministerial salaries include their salaries as Assembly Members of £65,344 (2016-17: £64,000). Benefits in kind related to Assembly Members responsibilities are not included in the table.

Single total figure of remuneration – Ministers

Ministers	Salary 2017-18	Salary 2016-17	Pension benefits (to nearest £1000) ¹ 2017-18	Pension benefits (to nearest £1000) ¹ 2016-17	Total (to nearest £1000) 2017-18	Total (to nearest £1000) 2016-17
	£	£	£	£	£	£
Carwyn Jones First Minister	142,940	139,319	49,000	146,000	192,000	285,000
Mark Drakeford Cabinet Secretary	102,100	99,531	42,000	69,000	144,000	169,000
Vaughan Gething Deputy Welsh Minister to 19/05/2016 then Cabinet Secretary from 20/05/2016	102,100	97,503	34,000	66,000	136,000	164,000
Lesley Griffiths Cabinet Secretary	102,100	99,531	34,000	99,000	136,000	199,000
Jane Hutt Welsh Minister to 19/05/2016 then Leader of the House and Chief Whip from 20/05/2016 to 03/11/2017	60,409	99,531	35,000	179,000	95,000	279,000
Carl Sargeant Cabinet Secretary to 03/11/2017	60,409	99,531	22,000	101,000	82,000	201,000
Ken Skates Deputy Welsh Minister to 19/05/2016 then Cabinet Secretary from 20/05/2016	102,100	97,503	32,000	42,000	134,000	140,000
Kirsty Williams Cabinet Secretary from 20/05/2016	102,100	86,559	34,000	88,000	136,000	175,000
Jeremy Miles Counsel General from 04/11/2017	41,692	–	13,000	–	55,000	–
Mick Antoniw Counsel General from 29/06/2016 to 03/11/2017	60,409	75,556	28,000	74,000	88,000	150,000
Rebecca Evans Welsh Minister	86,785	84,519	28,000	52,000	115,000	137,000
Julie James Welsh Minister to 03/11/2017 then Leader of the House and Chief Whip from 04/11/2017	93,039	84,519	29,000	51,000	122,000	136,000
Alun Davies Welsh Minister from 20/05/2016 then Cabinet Secretary from 04/11/2017	93,039	73,575	30,000	57,000	123,000	131,000
Hannah Blythyn Welsh Minister from 04/11/2017	35,437	–	12,000	–	47,000	–
Dafydd Elis-Thomas Welsh Minister from 04/11/2017	35,437	–	5,000	–	40,000	–
Huw Irranca-Davies Welsh Minister from 04/11/2017	35,437	–	11,000	–	46,000	–
Eluned Morgan Welsh Minister from 04/11/2017	35,437	–	12,000	–	47,000	–

Single total figure of remuneration – Ministers (Cont'd)

Ministers	Accrued Pension at pension age as at 31/03/18 £000	Real increase in pension at pension age £000	CETV at 31/03/18 £000	CETV at 31/03/17 £000	Real increase in CETV £000
Carwyn Jones¹ First Minister	55-60	2.5-5	745	669	18
Mark Drakeford Cabinet Secretary	15-20	2.5-5	302	241	35
Vaughan Gething Deputy Welsh Minister to 19/05/2016 then Cabinet Secretary from 20/05/2016	20-25	0-2.5	206	177	8
Lesley Griffiths Cabinet Secretary	30-35	0-2.5	472	414	20
Jane Hutt Welsh Minister to 19/05/2016 then Leader of the House and Chief Whip from 20/05/2016 to 03/11/2017	55-60	0-2.5	1,019	967	29
Carl Sargeant Cabinet Secretary to 03/11/2017	30-35	0-2.5	354	324	8
Ken Skates Deputy Welsh Minister to 19/05/2016 then Cabinet Secretary from 20/05/2016	10-15	0-2.5	98	77	5
Kirsty Williams¹ Cabinet Secretary from 20/05/2016	30-35	0-2.5	370	328	10
Jeremy Miles Counsel General from 04/11/2017	0-5	0-2.5	25	17	3
Mick Antoniw Counsel General from 29/06/2016 to 03/11/2017	25-30	0-2.5	442	392	23
Rebecca Evans Welsh Minister	10-15	0-2.5	114	95	5
Julie James Welsh Minister to 03/11/2017 then Leader of the House and Chief Whip from 04/11/2017	10-15	0-2.5	208	168	19
Alun Davies Welsh Minister from 20/05/2016 then Cabinet Secretary from 04/11/2017	20-25	0-2.5	264	227	13
Hannah Blythyn Welsh Minister from 04/11/2017	0-5	0-2.5	18	13	1
Dafydd Elis-Thomas Welsh Minister from 04/11/2017	55-60	0-2.5	912	897	4
Huw Irranca-Davies Welsh Minister from 04/11/2017	0-5	0-2.5	36	26	5
Eluned Morgan Welsh Minister from 04/11/2017	0-5	0-2.5	28	19	4

¹ The CETV at the start of the year has been restated for these members to reflect the fact that they can take their final salary pension un-reduced before age 65.

Single total figure of remuneration – Ministers

The National Assembly for Wales (the “Assembly”) provides a defined benefit scheme, governed by section 18 of the Government of Wales Act 1998. Section 20(4) of and Schedule 11 to the Government of Wales Act 2006 provides continuity for the Scheme. The Government of Wales Act 2006 has not affected the legal status of the Scheme.

The Scheme provides benefits for Assembly Members and Office Holders. All Assembly Members are members of the Scheme from the date they enter the Assembly unless they opt specifically not to be. Members do not receive an automatic lump sum, they have the option to commute part of their pension into a lump sum in exchange for a reduced pension.

A Career Average Pension Scheme was introduced from 6 May 2016. Members aged 55 or over on 1 April 2012 are subject to ‘Transitional Protection’ and continue to have their benefits calculated on a final salary basis for an additional five years until 5 May 2021.

The contribution made by the Assembly is currently 19.9% of Members aggregate salaries. Members not subject to ‘Transitional Protection’ pay contributions at the rate of 10.5%. Those members who are subject to ‘Transitional Protection’ continue to pay contributions at their existing rate of either 6% or 10% depending on whether they are accruing benefits on a 50th or 40th basis respectively.

Normal Retirement Age is linked to State Pension Age (or 65, whichever is higher). Any Final Salary pension accrued before 6 May 2021 will continue to be payable at a Normal Retirement Age of 65.

Single total figure of remuneration

The Financial Reporting Manual (FReM) requires that all central Government Departments include a Single Total Figure of Remuneration along with a prior year comparative within the remuneration report. Total remuneration includes salary, bonus payments and benefits in kind (as detailed in previous accounts) plus the addition of a pension benefit figure. Pension benefits have been calculated using the methodology used to derive pension values for tax purposes. As a result the figures can be influenced by other factors such as an individual deciding to make additional contributions or valuation factors that impact the pension scheme as a whole and are, therefore, not always a true representation of the actual amounts of pension paid or earned by an individual in any one year. Nevertheless, this methodology applies to all government departments including NHS bodies.

Single total figure of remuneration – Senior officials of the Welsh Government

Senior officials	Salary 2017-18 £000	Salary 2016-17 £000	Pension benefits (to nearest £1000) 2017-18 £000	Pension benefits (to nearest £1000) 2016-17 £000	Total (to nearest £1000) 2017-18 £000	Total (to nearest £1000) 2016-17 £000
Shan Morgan¹ Permanent Secretary from 06/02/2017	155-160	20-25 (full year equivalent 155-160)	*	85-90	155-160	110-115
Andrew Goodall² Director General	200-205	195-200	–	*	200-205	195-200
Tracey Burke Director General from 20/11/2017	40-45 (full year equivalent 115-120)	–	15-20	–	60-65	–
Des Clifford Director General from 29/01/2018	20-25 (full year equivalent 115-120)	–	20-25	–	40-45	–
Andrew Slade Director General from 01/01/2018	30-35 (full year equivalent 115-120)	–	40-45	–	70-75	–
Owen Evans Deputy Permanent Secretary to 30/09/2017	70-75 (full year equivalent 140-145)	140-145	25-30	50-55	95-100	195-200
James Price³ Deputy Permanent Secretary to 31/12/2017	110-115 (full year equivalent 140-145)	140-145	60-65	65-70	170-175	205-210
David Richards Director of Governance	100-105	100-105	10-15	10-15	115-120	110-115
Jeff Godfrey Director Legal Services	110-115	105-110	15-20	10-15	125-130	120-125
Natalie Pearson³ Head of Organisational Development and Engagement	75-80	75-80	10-15	10-15	90-95	85-90
Gillian Baranski Equality and Diversity Champion	120-125	105-110 (full year equivalent 115-120)	70-75	55-60	195-200	165-170
Sioned Evans Chair of Operations Group to 30/04/2017	5-10 (full year equivalent 85-90)	75-80	0-5	25-30	5-10	100-105
Peter Kennedy Director of HR	90-95	90-95	15-20	10-15	110-115	105-110
Gawain Evans^{1,3} Director of Finance	100-105	85-90	*	70-75	100-105	155-160

Single total figure of remuneration – Senior Officials of the Welsh Government (Cont'd)

Senior officials	Salary 2017-18 £000	Salary 2016-17 £000	Pension benefits (to nearest £1000) 2017-18 £000	Pension benefits (to nearest £1000) 2016-17 £000	Total (to nearest £1000) 2017-18 £000	Total (to nearest £1000) 2016-17 £000
Elan Closs Stephens Non-Executive Director	10-15	10-15	–	–	10-15	10-15
James Turner Non-Executive Director	10-15	10-15	–	–	10-15	10-15
Ann Keane ⁵ Non-Executive Director	30-35	20-25	–	–	30-35	20-25
Ellen Donovan ⁶ Non-Executive Director from 27/02/2018	0-5 (full year equivalent 10-15)	–	–	–	0-5	–
Jeff Farrar ⁶ Non-Executive Director from 27/02/2018	0-5 (full year equivalent 10-15)	–	–	–	0-5	–
Sir Adrian Webb ⁴ Non-Executive Director to 15/12/2017	5-10 (full year equivalent 10-15)	10-15	–	–	5-10	10-15

¹ The pension benefit for Shan Morgan and Gawain Evans has been excluded above because the arithmetic calculation £465-470,000 and £105-110,000 respectively is not indicative of the actual benefit received in year. Although the numbers presented are not indicative of the true benefit received, the format is mandatory and is subject to audit.

² Andrew Goodall is seconded from Aneurin Bevan University Health Board. For 2017-18 he chose not to be covered by the NHS pension arrangements. Pension Benefit for 2016-17 has been excluded above because the arithmetic calculation (£210-215,000) is not indicative of the actual benefit received in year. He opted out of the pension scheme during 2015-16, then back in and then out of the pension scheme during 2016-17.

³ Retrospective pay adjustments have been made to 2016-17 figures.

⁴ Sir Adrian Webb's salary for 2016-17 included additional fees of £853 paid in April 2017 but carried out in 2015-16 for commissioned work within the Welsh Government.

⁵ Ann Keane's salary includes additional fees of £19,576 (2016-17:£8,629) for commissioned work within the Welsh Government.

⁶ Ellen Donovan and Jeff Farrar attended the Board meeting in March 2018 but didn't receive payment for this until April 2018.

Single total figure of remuneration – Senior Officials of the Welsh Government (Cont'd)

Senior officials	Accrued Pension at pension age as at 31/03/18 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/18 £000	CETV at 31/03/17 £000	Real increase in CETV £000
Shan Morgan Permanent Secretary from 06/02/2017	95-100 plus lump sum of 155-160	20-22.5 plus lump sum of 32.5-35	1,953	1,492	434
Andrew Goodall Director General	-	-	-	740	-
Tracey Burke Director General (from 20/11/2017)	25-30	0-2.5	352	337	10
Des Clifford Director General (from 29/01/2018)	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 2.5-5	576	551	21
Andrew Slade Director General (from 01/01/2018)	35-40 plus lump sum of 80-85	0-2.5 plus lump sum of 2.5-5	546	512	28
Owen Evans Deputy Permanent Secretary (to 30/09/2017)	20-25	0-2.5	244	226	12
James Price ³ Deputy Permanent Secretary (to 31/12/17)	50-55	2.5-5	641	576	28
David Richards Director Governance	50-55 plus lump sum of 155-160	0-2.5 plus lump sum of 2.5-5	1,118	1,086	12
Jeff Godfrey Director Legal Services	45-50 plus lump sum of 140-145	0-2.5 plus lump sum of 2.5-5	1,029	952	15
Natalie Pearson ³ Head of Organisational Development and Engagement	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 0-2.5	522	478	10
Gillian Baranski Equality and Diversity Champion	25-30	2.5-5	509	421	72
Sioned Evans Chair of Operations Group to 30/04/2017	15-20 plus lump sum of 45-50	0-2.5 plus lump sum of 0	314	304	1
Peter Kennedy Director of HR	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 2.5-5	569	520	13
Gawain Evans ^{1,3} Director of Finance	35-40 plus lump sum of 105-110	5-7.5 plus lump sum of 7.5-10	739	616	79

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This report is based on payments made by the Welsh Government with the exception of Ministers as noted above.

Senior Civil Servants within the Welsh Government are contractually entitled to be considered for a performance related variable payment. Any payments made are paid at the end of July each year, but no payments were made. It is the role of the Senior Civil Service Remuneration Committee to apply the UK senior pay policy and approve any awards, assessing the relevant contributions and performance of Senior Civil Servants during the year. This Remuneration Committee consists of the Permanent Secretary, one Director General and the non-executive Directors.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument, is disclosed to the nearest £100. Benefits in kind assessed were nil.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in the Welsh Government in the financial year 2017-18 was £200-205,000 (2016-17: £195,000-200,000). This was 5.6 times (2016-17: 5.7) the median remuneration of the workforce, which was £35,750 (2016-17: £34,750). Based on the Permanent Secretary's banded remuneration the ratio is 4.5 (2016-17: 4.6). In 2017-18 and 2016-17 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £17,200 to £205,000 (2016-17: £17,200 to £199,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values)(Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff Numbers and Costs

The average number of full-time equivalent persons employed (including senior management and special advisers) during the period is as follows:

	Permanently employed staff	Other staff	Special Advisers	Total 2017-18	Total 2016-17
Total	75,275	1,981	9	77,265	76,178
Of which:					
Welsh Government	4,881	132	9	5,022	5,111
Local Health Boards	69,654	1,849	-	71,503	70,302
Subsidiaries	740	-	-	740	765

* Of the Welsh Government total: Regulatory & delivery bodies – 711; Tribunals – 27.

Gender Breakdown of Welsh Government staff (unaudited)

	Male	Female
Board members	62%	38%
Senior Civil Service	59%	41%
All Staff	41%	59%

* The Welsh Government aims to have a 50:50 split by 2020.

Staff costs

	Permanently employed staff	Other Staff	Year ended 31 March 2018 Total	Year ended 31 March 2017 Total
	£m	£m	£m	£m
Welsh Government				
Salaries	204	6	210	203
Social Security Costs	23	-	23	22
Other Pension Costs	53	-	53	48
Total	280	6	286	273
Recoveries from secondments	(2)	-	(2)	(1)
Net staff costs	278	6	284	272
Consolidated				
Salaries	2,777	167	2,944	2,871
Social Security Costs	271	1	272	260
Other Pension Costs	372	-	372	355
Total	3,420	168	3,588	3,486
Recoveries from secondments	(2)	-	(2)	(1)
Net staff costs	3,418	168	3,586	3,485

* Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances, and private office allowances. Special advisors were paid a total of £681,621 (Restated 2016-17 – £571,445) for the year, inclusive of pension and social security costs, and have been included within the figures above. The social security and pension costs for temporary and seconded staff under the core figures for other staff have been included in salaries as they are invoiced on a gross basis. Salaries of Welsh Ministers are paid by the National Assembly for Wales Commission and are reflected in those accounts. In respect of the number of staff whose salary is above £100k, there were 37 staff whose FTE salary was above £100k as at 31 March 2018. Of these, 3 were part-timers whose actual earnings therefore fell below the £100k threshold.

Pensions

Civil Service pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service, joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one section providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS, who were within 10 years of their normal pension age on 1 April 2012, remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 4.6% and 8.05% for members of **classic premium**, **classic plus**, **nuvos** and **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum, **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during his period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers.

Pensions (Cont'd)

The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** as appropriate. Where the official has benefits in both PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/pensions.

Employees of the Welsh Government belong to the Principal Civil Service Pension Scheme, with the exception of a small number of staff who have elected to retain membership of other public sector schemes.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Welsh Government is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office.

For 2017-18, employers contributions of £39,996,547 were payable to the PCSPS (2016-17: £39,714,603) at one of four rates in the range 20.0 to 24.5 per cent (2016-17: 20.0 to 24.5) of pensionable earnings based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £190,298 (2016-17: £184,495) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8 to 14.75 per cent of pensionable earnings. Employers also match employee contributions up to 3 per cent of earnings. In addition, employer contributions of £6,569, 0.5 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2016-17: nil). Contributions prepaid at the date were £nil (2016-17: £nil).

2 individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £13,749.

Pensions (Cont'd)

A small number of former Welsh Development Agency employees elected to retain their existing terms and conditions and pension arrangements. They participate in the Local Government Pension Scheme, which is a multi-employer funded scheme providing pension and related benefits, which is now on a career average basis rather than a final salary basis. The assets of the scheme are held separately from the assets of the Welsh Government and are administered by Rhondda Cynon Taf County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay-as-you-go basis. Details of Local Health Board Pensions are contained in their accounts.

Reporting of Civil Service and other compensation schemes – exit packages

There was no flexible early retirement, approved early retirement or flexible early severance in 2017-18 or 2016-17.

For 2017-18 156(2016-17:21) employees have left or agreed to leave between 31 March 2017 and 31 March 2018. Compensation payments are £5,894,548 (2016-17: £709,287). For each case a payback period is calculated which is then approved by the Director of HR.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Where the department has agreed early retirements, the additional costs are met by the Welsh Government and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band 2017-18	Total number of exit packages by cost band 2016-17
Exit package cost band				
<£10,000	-	9	9	1
£10,000 – £25,000	-	52	52	5
£25,000 – £50,000	-	51	51	12
£50,000 – £100,000	-	44	44	3
£100,000 – £150,000	-	-	-	-
£150,000 – £200,000	-	-	-	-
£200,000+	-	-	-	-
Total number of exit packages by type	-	156	156	21
Total resource cost £	-	5,884,548	5,884,548	709,287

The costs included in the table provide the total cost to the organisation of any exit. In some instances these are cash payments, but in other instances costs include items such as early access to pension costs, pension costs between leaving date and scheme retirement age.

Sickness absence (unaudited)

The fall in long-term sickness absence from previous years continued as the implementation of the Health and Wellbeing Strategy began to provide support and assistance for line managers and staff more generally. An increase in short-term absence in the last three months of the year, largely due to extreme weather conditions, negatively impacted the overall sickness absence levels, although the percentage of staff taking no sickness absence remained at the same level from the previous year.

Welsh Government Sickness Absence	2017-18	2016-17	2015-16	2014-15
Days Lost (short term)	17,818	17,354	18,967	20,631
Days Lost (long term)	22,627	22,876	23,977	23,161
Total Days Lost (12 month period)	40,445	40,230	42,944	43,792
Total staff years	5,035	5,155	5,307	5,519
Total staff employed in period (headcount)	5,682	5,691	5,964	6,134
Total staff employed in period with no absence (headcount)	2,490	2,529	2,479	2,500
% staff with no sick leave	44%	44%	42%	41%
Average working days lost	8.0	7.8	8.1	7.9

Accountability Disclosures

Losses Statement	2017-18	2016-17
Total number of losses	175	118
Total value of losses (£000)	8,202	2,180

Details of losses over £300,000:

Store losses	Expired drug stocks	£511,245
Claims abandoned	McKenzie Interior	£312,873
	Cardiff Aviation Ltd	£861,761
	Kancoat Ltd	£3,054,112
	G24 Innovations Ltd	£1,176,081
	Regal Fayre UK Ltd	£365,497
	Road Traffic Legal Case	£1,703,897

Special Payments	2017-18	2016-17
Total number of Special Payments	7	8
Total value of Special Payments (£000)	1,902	543

Losses for other group companies are shown in detail in their respective accounts.

Summary of Resource Outturn

	Budget 2017-18 Net Expenditure £m	Outturn 2017-18 Net Expenditure £m	Outturn compared with Budget Variance £m
AMBIT			
Health and Social Services	7,750	7,731	19
Local Government and Public Services	4,286	4,286	-
Education	2,535	2,408	127
Economy and Transport	1,298	1,268	30
Energy, Planning and Rural Affairs	377	374	3
Central Services and Administration	335	315	20
Total Resource and Capital requirements	16,581	16,382	199
Income	913	818	95
Gross expenditure	17,494	17,200	294

The above table shows the ambit format for 2017-18 following changes made in November 2017. The previous Ambit structure applied to the 2016-17 financial year shown below. The Health and Social Services Ambit for 2017-18 has changed from 2016-17 because the National Insurance contribution previously treated as Income and shown as net expenditure in 2016-17, is now treated as Funding.

AMBIT	Outturn 2016-17 Net expenditure £m
Health, Well-being and Sport	6,063
Local Government	3,340
Education	2,175
Economy and Infrastructure	823
Communities and Children	768
Environment and Rural Affairs	370
Central Services and Administration	307
Total Resource and Capital requirement	13,846
Income	1,815
Gross expenditure	15,661

Variance explanations over £10m

Health and Social Services £19m underspend

Departmental Expenditure Limit (DEL): £13.2m underspend: Of this, £10.6m relates to an underspend on optical and pharmaceutical budgets which are held centrally in the MEG rather than part of the cash limited allocation to NHS bodies. These budgets are demand led and, therefore, difficult to forecast. There was also slippage of £5.4m on childcare revenue budgets. Following a five yearly revaluation, budgets ring-fenced for depreciation on assets within the NHS estate, were £6m underspent. Capital was overspent by £9m. In order to maximise the Welsh Government's carry forward within the Wales

reserve a limited number of capital schemes were funded late in the financial year. Annually managed expenditure (AME: £9m underspend: The majority of the underspend relates to impairment of assets within the NHS estate. The remainder relates to movements on NHS provisions. Budget alignment technicality £2.6m: The variances against HM Treasury budgets in i) and ii) above currently differ from that set in the budget motion and hence the Statement of Resource Outturn. This difference represents an underspend on NHS trusts and sponsored bodies depreciation budgets.

Education £127m underspend

The underspend is mostly associated with the student loans budget which is demand led and difficult to forecast. The annual DEL impairment (write down in the expected value) of the loan book calculated by statistical modelling was £78.8m less than budgeted. In addition, the value of student loans issued and repayments made was £46.8m less than anticipated (AME). There are other small variances making up the remainder of the variance.

Economy and Transport £30m underspend

Capital was overspent by £39.5m. In order to maximise the Welsh Government's carry forward within the Wales reserve a limited number of capital schemes were funded late in the financial year. This was offset by an underspend of £34m on depreciation following the annual condition survey on the motorways and trunk roads network and underspends from a reduced requirement for provisions for liabilities against significant projects. There was also a £41.7m underspend on AME budgets, mainly from a reduced requirement for provisions and charges against significant projects. The remaining difference of £6.5m relates to alignment adjustments for the Development Bank for Wales and museums and libraries pension liabilities which are not consolidated in the Statement of Resource Outturn.

Central Services and Administration £20m underspend

The largest element of the underspend (£6.2m) relates to Invest to Save revenue and capital schemes where there were fewer good investment opportunities in 2017-18. A further proportion of the underspend relates to a provision (£5.4m) for a pension liability which is difficult to forecast (and hence treated as AME). Staff costs savings of £2.2m were generated in the year to bring budgets into line with reduced future year budgets. Other underspends included: £1.8m of savings associated with depreciation of the Welsh Government estate; £1.2m slippage on planned Wales European Funding Office IT projects; and £2m savings against the information and support services budget. There are other small variances making up the remainder of the variance.

Notes

Net Cash Requirement	Outturn 2017-18 £m	Outturn 2016-17 £m
Authorised for issue from Welsh Consolidated Fund	15,657	13,754
Funding drawn down	(15,330)	(13,507)
Undrawn funding	327	247

Reconciliation of outturn and CSoCNE	Outturn 2017-18 £m	Outturn 2016-17 £m
Net Resource Outturn	16,382	13,846
Less: Capital, loans & adjustments	(1,103)	(844)
Less Consolidation Adjustment	(154)	-
Expenditure per the CSoCNE	15,125	13,002

Reconciliation of resources to cash requirement	Budget 2017-18 £m	Outturn 2017-18 £m	Outturn compared with Budget £m	Outturn 2016-17 £m
Net resource outturn	16,581	16,382	199	13,846
Depreciation	(364)	(318)	(46)	257
Impairments	(365)	(360)	(5)	(321)
Movements in provisions	(256)	(216)	(40)	(194)
Movements in working capital	60	(146)	206	(76)
Other	-	80	(80)	43
Net cash requirement	15,656	15,422	234	13,555

Shan Morgan

Permanent Secretary and Principal Accounting Officer

27 September 2018

The Certificate and independent auditor's report of the Auditor General for Wales to the National Assembly for Wales

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of Welsh Government and the Group for the year ended 31 March 2018 under the Government of Wales Act 2006. These comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and related notes, including a summary of significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Resource Outturn, the Accountability Disclosures and the information in the Remuneration and Staff Report that is described in that report as having been audited. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of Welsh Government and the Group's affairs as at 31 March 2018 and of its net cash requirement, net resource outturn and net operating cost for the year then ended; and
- have been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Principal Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The HM Treasury Directions issued under the Government of Wales Act 2006 do not specify the content and form of other information to be presented with the financial statements. The Principal Accounting Officer is responsible for the other information in the accounts. The other information comprises the Annual Report and the Accountability Report, other than the parts of the Accountability Report described in that report as having been audited. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on regularity

In my opinion, in all material respects, the expenditure and income in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Report on other requirements

Opinion on other matters

Given that the HM Treasury Directions do not specify the form and content of the other information to be presented with the financial statements, I am not able to confirm that the Annual Report and Accountability Report have been properly prepared in accordance with those Directions.

In my opinion, based on the work undertaken in the course of my audit, the information given in the Annual Report and the Accountability Report, including the Annual Governance Statement, is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the body and its environment obtained in the course of the audit, I have not identified material misstatements in the Annual Report and Accountability Report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements, Statement of Resource Outturn, Accountability Disclosures and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns; and
- I have not received all of the information and explanations I require for my audit.

Report

I have no observations to make on these financial statements.

Responsibilities

Responsibilities of the Principal Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Principal Accounting Officer is responsible for preparing the financial statements in accordance with the Government of Wales Act 2006 and HM Treasury directions made there under, for being satisfied that they give a true and fair view and for such internal control as the Principal Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Principal Accounting Officer is responsible for assessing the body's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Responsibilities for regularity

The Principal Accounting Officer is responsible for ensuring the regularity of financial transactions.

I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

Adrian Crompton
Auditor General for Wales
28 September 2018

24 Cathedral Road
Cardiff
CF11 9LJ

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure For the year ended 31 March 2018

	Note	2017-18		2016-17	
		WG Core £m	WG Group £m	WG Core £m Restated	WG Group £m Restated
Income from sale of goods and services	2	(34)	(37)	(33)	(49)
Other operating income	2	(631)	(950)	(1,655)	(1,964)
Total operating income		(665)	(987)	(1,688)	(2,013)
Staff costs	3	284	3,586	272	3,485
Expenditure	3	15,174	12,014	13,937	10,940
Provision expense	3	332	435	262	330
Total operating expenditure		15,790	16,035	14,471	14,755
Net expenditure for the year		15,125	15,048	12,783	12,742
Other comprehensive net expenditure:					
Items which will not be reclassified to net operating costs:					
Net (gain)/loss on revaluation of property, plant and equipment		(480)	(611)	(548)	(560)
Actuarial (gain)/loss on pension scheme liabilities		9	3	(9)	(24)
Comprehensive net expenditure for the year		14,654	14,440	12,226	12,158

The Notes on pages 74 to 108 form part of these accounts

Consolidated Statement of Financial Position as at 31 March 2018

	Note	As at 31 March 2018		As at 31 March 2017	
		WG Core £m	WG Group £m	WG Core £m Restated	WG Group £m Restated
Non-current assets:					
Property, plant and equipment	4	17,021	20,142	16,484	19,387
Intangible assets	5	41	51	14	25
Financial assets	6	4,098	3,470	3,635	3,218
Trade and other receivables	8	30	397	15	301
Total non-current assets		21,190	24,060	20,148	22,931
Current assets:					
Assets classified as held for sale		-	1	-	4
Inventories	7	185	245	194	255
Trade and other receivables	8	184	316	236	380
Cash and cash equivalents	9	127	444	141	299
Total current assets		496	1,006	571	938
Total assets		21,686	25,066	20,719	23,869
Current liabilities:					
Trade and other payables	10	(935)	(1,744)	(824)	(1,592)
Provisions	11	(287)	(287)	(263)	(261)
Total current liabilities		(1,222)	(2,031)	(1,087)	(1,853)
Total assets less current liabilities		20,464	23,035	19,632	22,016
Non-current liabilities					
Trade and other payables	10	(106)	(167)	(115)	(181)
Provisions	11	(848)	(859)	(664)	(684)
Other liabilities	13	(77)	(109)	(83)	(118)
Total non current liabilities		(1,031)	(1,135)	(862)	(983)
Total assets less liabilities		19,433	21,900	18,770	21,033
Taxpayers' equity & other Reserves					
General fund		10,802	12,767	10,615	12,491
Revaluation reserve		8,631	9,133	8,155	8,542
Total equity		19,433	21,900	18,770	21,033

The Notes on pages 74 to 108 form part of these accounts

Shan Morgan

Permanent Secretary and Principal Accounting Officer

27 September 2018

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

	Note	Year ended 31 March 2018		Year ended 31 March 2017	
		WG Core £m	WG Group £m	WG Core £m Restated	WG Group £m Restated
Cash flows from operating activities:					
Net operating cost		(15,125)	(15,048)	(12,783)	(12,742)
Non-cash transactions		847	1,115	117	353
Income payable to Welsh Consolidated Fund		–	–	(1)	(1)
Movements in working capital other than cash	14	57	35	11	(97)
Use of provisions	11	(111)	(221)	(67)	(143)
Net cash outflow from operating activities		(14,332)	(14,119)	(12,723)	(12,630)
Cash flows from investing activities:					
Purchase of property, plant and equipment		(304)	(583)	(284)	(474)
Proceeds of disposal of property, plant and equipment		1	14	4	7
Purchase of intangible assets		(6)	(10)	(1)	(5)
Purchase of development assets		(35)	(35)	(39)	(39)
Proceeds of disposal of development assets		41	41	28	28
Issue of loans and investments		(816)	(597)	(582)	(533)
Repayment of loans		115	112	95	95
Net cash outflow from investing activities		(1004)	(1,058)	(779)	(921)
Cash flows from financing activities:					
From Welsh Consolidated Fund (Supply) – current year		15,330	15,330	13,507	13,507
Capital element of payments for finance leases and on balance sheet PFI contracts		(8)	(8)	(9)	(9)
Net Financing		15,322	15,322	13,498	13,498
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the WCF		(14)	145	(4)	(53)
Movements in non-operating receipts due to be surrendered to Welsh Consolidated Fund		–	-	2	2
Net decrease in cash and cash equivalent in the period after adjustment for receipts and payments to the WCF	9	(14)	145	(2)	(51)
Cash and cash equivalents at the start of the year	9	141	299	143	350
Cash and cash equivalents at the end of the year	9	127	444	141	299

The Notes on pages 74 to 108 form part of these accounts

Statement of changes in Taxpayers' Equity

Welsh Government Group

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
Balance at 31 March 2016	12,072	7,718	19,790
Welsh Consolidated fund – net funding	13,507	–	13,507
Net operating cost for the year	(12,742)	–	(12,742)
Revaluation gains and losses	–	560	560
Transfers between Reserves	(264)	264	–
Other adjustments	(84)	2	(82)
Balance at 31 March 2017 restated	12,489	8,544	21,033
Welsh Consolidated fund – net funding	15,330	–	15,330
Net operating cost for the year	(15,048)	–	(15,048)
Revaluation gains and losses	11	596	607
Transfers between Reserves	15	(15)	–
Other adjustments	(30)	8	(22)
Balance at 31 March 2018	12,767	9,133	21,900

Welsh Government Core

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
Balance at 31 March 2016 (restated)	10,234	7,335	17,569
Welsh Consolidated fund – net funding	13,507	–	13,507
Net operating cost for the year	(12,783)	–	(12,783)
Revaluation gains and losses	–	547	547
Transfers between Reserves	(273)	273	–
Other adjustments	(71)	1	(70)
Balance at 31 March 2017 (restated)	10,614	8,156	18,770
Welsh Consolidated fund – net funding	15,330	–	15,330
Net operating cost for the year	(15,125)	–	(15,125)
Revaluation gains and losses	–	480	480
Transfers between Reserves	13	(13)	–
Other adjustments	(30)	8	(22)
Balance at 31 March 2018	10,802	8,631	19,433

The Notes on pages 74 to 108 form part of these accounts

Notes to the accounts

1. Statement of accounting policies

The consolidated financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Welsh Government for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Welsh Government (for the reportable activity) are described in Appendix A or as footnotes to the relevant note. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Welsh Government to prepare additional primary statements. The summary of Outturn which shows actual outturn against budget and supporting notes which reconcile outturn to net operating cost, and resources to cash requirement.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, investment property, and certain financial assets and liabilities.

1.2 Basis of Consolidation

The accounts comprise a consolidation of the Welsh Government, the seven Local Health Boards, Development Bank of Wales plc (formerly Finance Wales plc), Regeneration Investment Fund for Wales LLP, WG Holdco Limited and Career Choices Dewis Gyrfa Limited. These consolidated organisations produce and publish their own annual reports and accounts.

Subsidiary companies are consolidated from draft accounts, apart from the Local Health Boards and WG Holdco Ltd, there being no material difference between draft and final accounts. Transactions between entities included in the consolidation are eliminated.

Prior to 2017-18 the consolidated statements were prepared on the basis of including entities which were material. From this year the basis of inclusion is whether the entities have been designated and materiality.

2. Operating Income

	Year ended 31 March 2018		Year ended 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services				
Income from property and investments	31	32	26	28
Other	3	5	7	21
	34	37	33	49
Other non-EU operating income				
Inland revenue health funding contributions	-	-	1,141	1,141
Student loans interest receivable	89	89	64	64
Health income	36	446	40	326
Other	13	(85)	26	32
	138	450	1,271	1,563
Other EU operating income:				
European Structural Funds Programme	174	181	100	118
Common Agricultural Policy	315	315	280	279
Other EU Income	4	4	4	4
	493	500	384	401
	665	987	1,688	2,013

As a result of the “ Inland Revenue health funding contributions “ being included within the 2017-18 budget motion for Welsh Government Funding, from 2017-18, the health funding contributions are accounted for as financing through the General Fund.

3. Expenditure

	Year ended 31 March 2018		Year ended 31 March 2017	
	WG Core £m	WG Group £m	WG Core (restated) £m	WG Group (restated) £m
Expenditure				
Grants ¹	14,333	7,621	13,761	7,439
Goods and Services ¹	298	3,652	296	3,415
Staff Costs	284	3,586	272	3,485
Rentals under operating leases	9	35	8	32
PFI and other service concession arrangements	19	27	16	16
Student loan book fair value	302	302	306	306
Depreciation	161	306	(481)	(341)
Amortisation	4	8	5	8
Donated and government granted assets	-	(9)	-	(9)
Impairments	58	85	15	63
Loss on disposals	(7)	(15)	15	15
Pension Finance	(2)	3	(3)	(3)
Release of EU grant	(1)	(1)	(1)	(1)
	15,458	15,600	14,209	14,425
Provisions				
Increase in provisions	332	435	262	330
	15,790	16,035	14,471	14,755

¹ Expenditure on Grants and Goods and Services reflects the Ambit Resource Outturn allocation.

Staff Costs

A full breakdown of staff costs including staff numbers and associated information, is provided within the Accountability Report of this document.

Audit Fees

The amount Payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2017-18 is £368,703 (£379,141 2016-17) and has been included within Goods and Services disclosed above. Also included above are fees levied by the Auditor General for Wales in respect of other accounts prepared by Welsh Ministers as follows:

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
NHS Summarised Account	29,770	33,716
National Non Domestic Rate Account	9,774	9,951
Whole of Government Account	32,689	36,715
Welsh Consolidated Fund	16,475	16,475

Audit fees of Consolidated bodies are disclosed within their individual accounts.

In 2017-18 there were Welsh Revenue Authority establishment costs of £6,467,782 included within Welsh Government expenditure.

	Year ended 31 March 2018
Total Implementation	4,971,251
Total Operational	1,496,531
Total	6,467,782

4. Property, Plant and Equipment

	Network Assets £m	Land £m	Buildings including Dwellings £m	Information Technology Fixtures and Fittings £m	Payments on account & Assets under construction £m	Total £m
Cost or valuation for the year ended 31 March 2017						
At 1 April 2016	17,610	403	2,515	777	511	21,816
Additions	89	-	33	90	298	510
Disposals	-	(2)	(7)	(63)	-	(72)
Transfers	(34)	-	-	(2)	-	(36)
Impairments	-	1	(46)	(4)	(15)	(64)
Revaluations	558	11	-	-	-	569
Reclassified to held for sale	-	(1)	-	-	-	(1)
Reclassification	1	1	163	11	(176)	-
As at the 31 March 2017	18,224	413	2,658	809	618	22,722
Depreciation for year ended 31 March 2017						
At 1 April 2016	2,852	-	334	541	2	3,729
Charged in year Restated	(490)	-	84	65	-	(341)
Disposals	-	-	(2)	(63)	-	(65)
Transfers	(5)	-	-	(2)	-	(7)
Impairments	-	-	3	-	-	3
Revaluations	13	-	3	-	-	16
As at 31 March 2017 (restated)	2,370	-	422	541	2	3,335
Carrying amount at 31 March 2017 (restated)	15,854	413	2,236	268	616	19,387
Carrying amount at 31 March 2016	14,758	403	2,181	236	509	18,087
Asset financing for the year ended March 2017						
Owned (restated)	15,423	401	2,143	266	616	18,849
Finance Leased	-	-	2	1	-	3
On-balance sheet PFI contracts	431	12	91	1	-	535
At 31 March 2017 (restated)	15,854	413	2,236	268	616	19,387

4. Property, Plant and Equipment (Cont'd)

	Network Assets £m	Land £m	Buildings including Dwellings £m	Information Technology Fixtures and Fittings £m	Payments on account & Assets under construction £m	Total £m
Cost or valuation for the year ended 31 March 2018						
At 1 April 2017	18,224	413	2,658	809	618	22,722
Additions	120	19	32	81	332	584
Disposals	(120)	(1)	(3)	(36)	-	(160)
Transfers	(47)	-	-	-	-	(47)
Impairments	-	(11)	(80)	(5)	(7)	(103)
Revaluations	555	(29)	(167)	-	-	359
Reclassified to held for sale	-	-	-	-	-	-
Reclassification	-	-	92	10	(127)	(25)
As at the 31 March 2018	18,732	391	2,532	859	816	23,330
Depreciation for year ended 31 March 2018						
At 1 April 2017 (restated)	2,370	-	422	541	2	3,335
Charged in year	151	-	82	72	-	305
Disposals	(120)	-	(2)	(36)	-	(158)
Transfers	(2)	-	-	-	-	(2)
Impairments	-	-	(50)	-	-	(50)
Revaluations	75	-	(317)	-	-	(242)
As at 31 March 2018	2,474	-	135	577	2	3,188
Carrying amount at 31 March 2018	16,258	391	2,397	282	814	20,142
Asset financing for the year ended March 2018						
Owned	15,852	381	2,282	281	814	19,610
Finance Leased	-	-	12	1	-	13
On-balance sheet PFI contracts	406	10	103	-	-	519
At 31 March 2018	16,258	391	2,397	282	814	20,142
Core department at 31 March 2018	16,258	46	121	30	566	17,021
LHBs and subsidiaries at 31 March 2018		345	2,276	252	248	3,121
Core department at 31 March 2017 (restated)	15,854	33	122	30	444	16,483
LHB and subsidiaries at 31 March 2017	-	380	2,113	238	172	2,903

4. Property, Plant and Equipment (Cont'd)

Network assets – restatement

The 2016-17 Consolidated Annual Accounts incorporated a change in software that is used to estimate the residual life of Network Assets. During 2017-18 valuation cycle an error was identified in the new software which meant the 2016-17 data that had been supplied to Welsh Government had been miscalculated. The error was valued at £218m, which is considered material and resulted in a prior period adjustment. The accounts have been restated to incorporate the impact of the miscalculation on data supplied to Welsh Government in respect of condition variance during 2016-17.

The change has resulted in a decrease in total operating expenditure of £219m and an increase in Net Book Value on Network Assets of £219m.

Land and Buildings, including Dwellings

Most of the Welsh Government Core freehold land and buildings were valued on 31 March 2015 by GVA Grimley, Chartered Surveyors, on the basis of open market value for existing use in accordance with the 'Appraisal and Valuation Manual', produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation. Freehold land and buildings and leasehold land and buildings, where the original lease was for greater than 100 years, have been restated at open market value for existing use using professional valuations either every five years, or annually, with appropriate indices in intervening years for non-annual valuations. Specialised properties are valued on a depreciated replacement cost basis, in accordance with the 'Appraisal and Valuation Manual'. In intervening financial years, between the formal 5 yearly valuations, freehold land and buildings are valued using the latest available indices at March in each financial year to provide a reasonable estimate of valuation.

The Welsh Government Group figures include the Local Health Board (LHB) Land and Buildings which were revalued by the District Valuation Service with an effective date of 1st April 2017. The valuation has been prepared in accordance with the terms of the Royal Institution of Chartered Surveyors' Valuation Standards, 6th edition. LHBs are required to apply the revaluation model set out in IAS 16 and value its capital assets at fair value. Fair value is defined by IAS16 as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. This has been undertaken on the assumption that the property is sold as part of the continuing enterprise in occupation.

5. Intangible Assets

	Information Technology			
	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Cost or valuation				
At 1 April	28	55	40	63
Additions	6	10	1	5
Disposals	–	(1)	(15)	(15)
Reclassifications	25	26	2	2
At 31 March	59	90	28	55
Amortisation				
At 1 April	14	31	24	38
Charged in year	4	8	5	8
Disposals	–	–	(15)	(16)
At 31 March	18	39	14	30
Net Book Value at 31 March	41	51	14	25
Net Book Value at 1 April	14	24	16	25

6. Financial Assets – Investments and loans

	Student Loans £m	NHS Trust Public Disclosed Dividend Capital £m	Other Financial Assets £m	Total £m
Balance at 31 March 2016	2,585	167	276	3,028
Additions	439	8	109	556
Loan repayments	(108)	–	(14)	(122)
Capitalised interest	65	–	–	65
Fair value adjustment	(306)	–	(3)	(309)
Balance at 31 March 2017	2,675	175	368	3,218
Additions	506	(3)	87	590
Loan repayments	(119)	–	(27)	(146)
Capitalised interest	89	–	–	89
Fair value adjustment	(302)	–	21	(281)
Balance at 31 March 2018	2,849	172	449	3,470

WG Core only				
At 31 March 2018	2,849	172	1,077	4,098
At 31 March 2017	2,675	175	785	3,635

Included within the balance carried forward is £130m (2017 – £121m) due within one year.

6. Financial Assets – Investments and loans (Cont'd)

6.1 Student Loans

Student loans are recorded within Investments and loans at amortised cost. The gross book value of the Student Loans is £4,009m (2016-17 – £3,560m), made up of the opening gross book value, plus additions and capitalised interest, and less write-offs (included within the fair value adjustment, above) and repayments. The gross book value excludes impairments of loans and effective interest. The Student Loan book is maintained by the Student Loan Company.

The running total of impairments i.e. fair value and effective interest adjustments, is £1,160m (2016-17 – £885m), giving the above carrying value of £2,849m (2016-17 – £2,675m). The impairment value is calculated by the HE Student Loan Repayment Model (the model) which calculates the net present value of loans taking into account an estimate of the value of student loans issued which will not be repaid because of policy reasons due to student death, disability, age of the student or loan, partial cancellation or other factors. The carrying value is considered to be a reasonable approximation of the fair value of student loans in the absence of an active market, readily observable market trends or similar arm's length transactions. The model is maintained by the Welsh Government.

Risk and Assumptions

The value of new loans issued is calculated using the model which uses data on the demographics of higher education students in order to predict their likely repayments of loans. There are also models adapted for borrowers taking different loan types – pre-2012 and post-2012 loans (Undergraduate, Part Time and Postgraduate Loans). The models depend on a complex set of assumptions, and particularly on borrowers' earnings. The models are long term in nature, but use the latest OBR short and long term forecasts for RPI, base rates and earnings growth. By their nature, the valuation of the student loan books is uncertain as they are highly dependent on macroeconomic circumstances and graduate earnings over the next 30 years, as well as a number of other complex assumptions. Given their newness, there is little historic repayment data available for post-2012 loans. The assumptions used in the repayment models are formally reviewed each year and the amounts currently provided reflect the estimate as at 31 March 2018.

Key assumptions used within the model are:

- **Discount rate** – The Welsh Government has considered the principles under IAS 39 and has used the rate as set out in the latest PES paper, being RPI plus 0.7%. This is HM Treasury's long term discount rate representing the Government's long term cost of borrowing. This changes infrequently, with any increase decreasing the carrying value of Student Loans.
- **RPI inflation** – The model uses RPI rates in line with OBR forecasts (received November 2017) until 2022-23. Future RPI is then assumed to follow a linear trend from 2023-24 to 2026-27, and then a step change to 3.00% from 2027-28 onwards. A higher RPI will increase interest for most loans, which will result in a reduction in carrying amount.

6. Financial Assets – Investments and loans (Cont'd)

- **Graduate earnings** – The model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2022-23. Future earnings growth is then assumed to be 4.3% from 2026-27, as this is the long-term forecast, with a linear change from the 2023-24 value each year up to 2025-26. An increase in Graduate Earnings will increase the carrying value of student loans.
- **Graduate earning threshold** – On 18 October 2017 the Welsh Government announced that the repayment threshold for all post-2012 loans would be increased from £21,000pa to £25,000pa with effect from 1 April 2018. The amount of £25,000pa has been used within the model for post-2012 loans. An increase in threshold will decrease the carrying value, as future repayments would be reduced.
- **Graduate income distribution** – The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical data for the Labour Force Survey, the British Household Panel and administrative data held by the Student Loans Company.
- **Partial cancellation** – Partial cancellation is a Welsh Government policy applicable to maintenance loans, whereby a cancellation of up to £1,500 may be applied on receipt of the first repayment against the loan if the student does not have any outstanding charges, costs, expenses or penalties in relation to the loan or if they are in breach of the loan agreement.
- **Base rates** – The model assumes that Bank of England base rates will be in line with OBR forecasts until 2036-37, and then set at 4.9%. A base rate cap is applied to the base rate from 2017-18 onwards, reducing the base rate to the cap level between 2027-28 and 2035-36. An increase in Base Rates will increase the carrying value.

There are a number of other assumptions used in the modelling, but changing these to other reasonable outcomes does not have a significant impact on the value of the loan books. Many of the assumptions are independent of each other and could change at the same time.

6.2 NHS Trusts Public Dividend Capital

The Welsh Government issues financial instruments, in particular loans, to other public sector bodies in Wales such as NHS bodies. This lending occurs as part of its normal course of activities and the Welsh Government does not undertake any trading activity in these financial instruments. The Welsh Government has taken advantage of the exemption available for not accounting for short-term debtors and creditors. For issues of public dividend capital, fair value was calculated as the net assets of the recipient body (stated after deducting any provisions for liabilities and charges) less the amount of any loan included in the Statement of Financial Position.

6.3 Other Financial Assets

Other financial assets comprise: Welsh Government financial interests in joint ventures, other loans and investments; Invest to Save loans with Local Authorities; and, assets held by Development Bank of Wales PLC.

7. Inventories

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Development Assets	157	157	165	165
Drugs	24	47	24	47
Telecommunication spares	1	1	2	2
Road salt	2	2	2	2
Other consumables	1	38	1	39
	185	245	194	255

8. Trade receivables, financial and other assets

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Amounts falling due within one year:				
Trade receivables	114	219	99	213
Other tax	24	24	16	16
Prepayments and accrued income	46	73	121	151
	184	316	236	380
Amounts falling due after more than one year:				
Trade receivables	18	381	11	19
Prepayments	12	16	4	4
Other receivables	-	-	-	278
	30	397	15	301
Total trade receivables and other current assets	214	713	251	681

9. Cash and cash equivalents

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	141	299	143	350
Net change in cash and cash equivalent balances	(14)	145	(2)	(51)
Balance at 31 March	127	444	141	299
The following balances were held at:				
Government Banking Service	126	144	139	153
Commercial banks & cash in hand	1	300	2	146

10. Trade and other payables

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Amounts falling due within one year:				
Taxation and social security	1	58	6	61
Trade and other payables	558	935	488	860
Deferred European Union Income	86	86	56	56
Other accruals and deferred income	280	646	262	599
Amounts payable to the Welsh Consolidated Fund	-	-	3	3
Obligations under finance leases and PFI contracts	10	19	9	13
	935	1,744	824	1,592
Amounts falling due after more than one year:				
Obligations under PFI	103	164	110	177
Obligations under finance leases	3	3	5	4
	106	167	115	181
Total trade payables and other current liabilities	1,041	1,911	939	1,773

11. Provisions for liabilities and charges

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	927	945	733	758
Provided in the year	319	557	284	459
Provisions not required written back	(2)	(111)	(23)	(93)
Transfer	–	(24)	–	(36)
Provisions utilised in year	(109)	(220)	(67)	(143)
Balance at 31 March	1,135	1,147	927	945
Analysis of expected timing of discounted flows:				
Not later than one year	287	287	263	261
Later than one year and not later than five years	343	354	253	322
Later than 5 years	505	506	411	362
Balance at 31 March	1,135	1,147	927	945

WG Group only

	Other £m	Health £m	Total £m
Analysis of expected timing of discounted flows:			
Not later than one year	5	282	287
Later than one year and not later than five years	–	354	354
Later than 5 years	–	506	506
	5	1,142	1,147

The above WG Group figures are not significantly different from those for the Core.

11. Provisions for liabilities and charges (Cont'd)

(i) Other Provisions

This includes various potential pension and employment liabilities in respect of previous employees and various commercially sensitive provisions which underwrite projects with the aim of improving economic growth prospects.

(ii) Health Provisions

The Welsh Government has health related provisions, for the Wales Infected Blood Support Scheme and expected future reimbursements of the Welsh Risk Pool. On 30th March 2017 the Cabinet Secretary for Health, Well-Being and Sport announced new support arrangements for individuals and their families affected by hepatitis C and HIV through treatment with contaminated blood in Wales. A single, streamlined scheme, for Wales was introduced on November 1st 2017. Claimants in the previous schemes have been migrated to the new scheme. The Wales Infected Blood Support Scheme replaces the previous Skipton and Caxton Funds and relates to provisions for ex gratia payments to those infected with hepatitis C and HIV.

The Welsh Risk Pool (WRP) assists Welsh NHS bodies with risk management and settlement of disputed claims for alleged medical or employer negligence. The Welsh Risk Pool balance as at 31 March 2018 is £1063m (2016-17: £867m).

The Welsh Risk Pool provision continues to evidence the impact of the changes in the personal injury discount rate announced by the Lord Chancellor on 27th February 2017, effective from 20th March 2017. The rate changed from 2.5% (the level maintained since 2001) to -0.75%. The rate change results in higher pay outs for the lump sum element of personal injury claims, including those affected by medical negligence.

The expected timing of discounted flows is based on best available information; but could change depending on the circumstances of the individual cases.

12. Contingent liabilities

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Legal Claims – alleged medical/employer negligence	815	849	854	891
Potential contractual obligations under the WDA Act 1975	10	10	10	10
Other legal and contractual claims	115	175	39	70
	940	1,034	903	971

(i) Legal Claims – alleged medical/employer negligence

This reflects that under the Wales Act 2006 the Welsh Government must meet the liabilities of the Welsh Risk Pool should the NHS bodies cease to exist.

(ii) Other legal and contractual claims

Details on restricted and as yet un-quantified potential liabilities are not shown due to their sensitivity to commercial and legal confidentiality.

(iii) Unquantified contingent liabilities

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations, which are at any early stage but the outcome is continually under review.

12.1 Remote Contingent Liabilities – Financial guarantees, Indemnities and Letters of Comfort

The Welsh Government has entered into the following contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Guarantees:

In special circumstances the Welsh Government acts as a guarantor for its sponsored bodies. None of these guarantees are material.

Indemnities:

The Welsh Government has indemnified the Secretary of State against all actions, proceedings, costs, claims and demands by third parties in respect of: any damage or liability caused by or arising from the Joint Parties Agreement regarding Arriva Trains Wales. The possibility of the liability maturing is assessed as remote.

The Welsh Government has committed to indemnify Housing Stock Transfer organisations against the financial consequences of any future withdrawal of, or amendment to the VAT Mitigation Scheme. The liabilities cover eleven organisations for £437 million and the period of liability varies. There are no current concerns regarding the continuation of the scheme, and the potential of the liability maturing is considered to be too remote to include as a contingent liability.

12. Contingent liabilities (Cont'd)

The Government Indemnity Scheme provides indemnities to enable the National Library of Wales, the National Museum of Wales, and other eligible institutions to borrow objects and artworks. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability. The value of these guarantees at 31 March 2018 was £46.3million.

Letters of comfort:

The Welsh Government has a maximum liability to underwrite at last resort, costs regarding contaminated land at the Brofiscin tip of £0.5 million.

Other:

Details on restricted and as yet un-quantified potential liabilities are not shown due to their sensitivity to commercial and legal confidentiality.

13. Other liabilities

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Pension fund deficits	66	98	72	107
National Loans Fund (falling due after 5 years)	11	11	11	11
	77	109	83	118

14. Movements in working capital other than cash

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
(Increase)/decrease in inventories	9	10	(3)	(3)
(Increase)/decrease in receivables:				
current	52	64	73	35
non-current	(16)	(96)	(1)	(68)
Increase/(decrease) in payables:				
current	111	152	5	44
non-current	(10)	(14)	(9)	(20)
	146	116	65	(12)
Student Loans interest	(89)	(89)	(65)	(65)
Development assets movement	(8)	(8)	5	5
Adjustments for accrual movement: fixed assets	–	8	–	(31)
PFI/Finance lease capital element	8	8	9	9
Other adjustment	–	–	–	–
Less movement in amounts payable to the Welsh Consolidated Fund and other non-operating cost balances	–	–	(3)	(3)
	57	35	11	(97)

15. Capital and other commitments

15.1 Capital commitments

Contracted capital commitments not otherwise included within these financial statements.

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Property plant and equipment	142	404	201	289
Investments and loans	181	181	264	264
	323	585	465	553

15.2 Commitments under leases

15.2.1 Commitments under operating leases

Total future minimum lease payments under operating leases are given in table below.

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Buildings				
Not later than one year	6	27	7	27
Later than one year and not later than five years	22	65	24	64
Later than five years	47	92	54	94
	75	184	85	185

15.2.2 Commitments under finance leases

Total future minimum lease payments under finance leases are given in table below.

	As at 31 March 2018		As at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	1	1	1	2
Later than one year and not later than five years	3	4	5	6
Later than five years	–	–	–	–
	4	5	6	8
Less interest element	(1)	(1)	(2)	(2)
	3	4	4	6

15.3 Commitments under PFI contracts

The local health boards have ten PFI contracts, eight of which are on the Statement of Financial Position. There are no contracts with an individual total commitment of greater than £500m. Details of the individual schemes are included in the local health board statutory accounts.

15.3.1 Off-balance sheet

Bute Avenue PFI contract

Since 2000 the Welsh Government has been committed to pay £5.1m annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. The private sector partner maintains for 25 years (from 2000/01) the Bute Avenue road network. After this time the road will be transferred to Cardiff County Council. The road is not an asset of the Welsh Government. The total charged in the Statement of Comprehensive Net Expenditure in respect of offbalance sheet PFI transactions was £8,637,765 (2016-17: £8,460,103); and the payments to which the Welsh Government is committed, are as follows:

	As at 31 March 2018 £m	As at 31 March 2017 £m
Not later than one year	19	19
Later than one year and not later than five years	69	68
Later than five years	44	64
	132	151

15.3.2 On-balance sheet

A55 PFI contract

The A55 road network is maintained by contractors for a period of 30 years (from 1998), after which time the ownership of the A55 will revert to the Welsh Government. The road is treated as an asset of the Welsh Government and unitary payments comprise of two elements – imputed finance lease charges and service charges.

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI or other service concession transactions was £10,152,153 (2016-17: £7,807,773). Total future obligations under on-balance sheet PFI and other service concession arrangements are given in the table below for each of the periods.

	As at 31 March 2018 £m	As at 31 March 2017 £m
Minimum Lease payments		
Not later than one year	12	12
Later than one year and not later than five years	48	48
Later than five years	72	83
	132	143
Less interest element	(20)	(23)
	112	120

	As at 31 March 2018 £m	As at 31 March 2017 £m
Service elements due in future periods		
Not later than one year	10	10
Later than one year and not later than five years	32	32
Later than five years	14	24
	56	66

15.4 Other Financial Commitments

The Welsh Government has entered into non-cancellable contracts (which are not leases or PFI contracts) for services. The payments to which the Welsh Government is committed, analysed by the period during which the commitment expires are as follows:

	As at 31 March 2018		Restated as at 31 March 2017	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	277	277	393	393
Later than one year and not later than five years	252	252	336	336
Later than five years	421	421	349	349
	950	950	1,078	1,078

The Welsh Government provides grant funding for a number of entities on an annual basis. These grants have been committed to within the latter part of the year ended 31 March 2018 in order to provide security to the recipient organisation. As they relate to the year ending 31 March 2019 and are funded by the Welsh Government's budget allocation for the year ending 31 March 2019 they have not been disclosed within the above commitments.

16. Related Party Transactions

The Welsh Government receives most of its funding from the Welsh Consolidated Fund.

The Welsh Government funds its Welsh Local Authorities, NHS bodies in Wales, subsidiary companies and Sponsored Bodies. These bodies are regarded as related parties with which the Welsh Government has had various material transactions during the period. In addition, the Welsh Government has had a number of transactions with other government departments and central government bodies primarily, the Welsh Office, the Rural Payments Agency and the Department for Work and Pensions.

None of the Welsh Ministers, key managerial staff or other related parties has undertaken any material transactions with the Welsh Government during the year, except as noted below:

Carwyn Jones (First Minister) is a member of the Ramblers Association and Huw Irranca-Davies (Minister for Children, Older People and Social Care) is Vice-President of Ramblers Cymru. The Ramblers Association received a grant in 2017-18 of £162,059 for Let's Walk Cymru to improve health.

Dafydd Elis-Thomas (Minister for Culture, Tourism and Sport) and Lesley Griffiths (Cabinet Secretary for Energy, Planning and Rural Affairs) are both Vice-Presidents and Ken Skates (Cabinet Secretary for Economy and Transport) is an Honorary President of Llangollen International Eisteddfod which received £4,500 grant funding in 2017-18. Dafydd Elis-Thomas (Minister for Culture, Tourism and Sport) is a steward at Llandaff Cathedral which received Heritage grant funding of £47,736; and is a member of the Welsh Academy which is administered by Literature Wales which received museum, tourism, training and Welsh language development training grant funding of £70,581 in 2017-18.

The husband of Kirsty Williams (Cabinet Secretary for Education) is a partner in a farming business which in 2017-18 received £56,672 support under the EU's Common Agriculture Policy.

Jeremy Miles (Counsel General) is a member of Neath Port Talbot Credit Union, which in 2017-18 received £47,078 of grant support funding.

James Price and Peter Kennedy (board members) are also on the board of Transport for Wales which received grant funding of £17,909,362. Sioned Evans was also a director until 28/04/17.

The husband of Gillian Baranski (board member) is a partner in the legal company Geldards LLP who competed for a procurement contract for Legal Services with the Welsh Government. The company was paid £2,822,336 in 2017-18 for these Legal services.

Elan Closs Stephens is a committee member of S4C authority which received £30,000 in 2017-18.

Sir Adrian Webb (non-executive director) is the Wales Chair of the Big Lottery Fund which received funding in 2017-18 of £3,895,245 from Communities programmes.

Ellen Donovan (non-executive director) is also a non-executive director of Qualifications Wales which received Welsh Government grant funding in 2017-18 of £7,402,433.

Related party transactions of the Local Health Boards in Wales and other subsidiary companies are disclosed in their own published accounts.

16.1 Results of consolidated wholly owned companies

	As at 31 March 2018		As at 31 March 2017	
	Profit/(Loss) £m	Share Capital and Reserves £m	Profit/(Loss) £m	Share Capital and Reserves £m
Development Bank of Wales PLC (i)	4,550,154	141,109,911	13,374,878	125,561,047
Regeneration Investment Fund for Wales LLP	1,187,931	36,353,776	5,145,738	35,165,845
WGC Holdco Limited	–	61,300,000	–	55,300,000
Careers Choices Dewis Gyrfa Limited	(2,389,000)	(24,504,000)	(1,852,000)	(27,679,000)

(i) Investment of 49,999 ordinary £1 shares, 25p part paid. These accounts have been consolidated using draft figures, being not materially different to those disclosed.

16.2 Other minor subsidiaries and interests

The Welsh Government has a number of other minor subsidiaries for which no trading results are disclosed in these consolidated accounts. These include:

- DCFW Limited – Design Commission for Wales/Comisiwn Dylunio Cymru
- Hybu Cig Cymru Cyf/Meat Promotion Wales Limited
- Sector Development Wales Partnership Limited
- Life Sciences Hub Wales Limited
- Welsh Development Management Limited
- International Business Wales Limited
- Innovation Point Limited
- Transport for Wales

The Welsh Government owns 50% of the issued share capital of the International Convention Centre Wales Limited, with the other 50% being held by The Celtic Manor Resort Limited.

Student Loans Company Limited – one share with a nominal value of £1. Joint ownership is held with the Department for Education, Scottish Government and Northern Ireland Government. The share gives the Welsh Government 5% holding in the company.

Airbus Group Endeavr Wales (formerly EADS Foundation Wales) – a joint interest in a company limited by guarantee. Joint ownership is held with Airbus Defence and Space Ltd (formerly Cassidian Holdings Limited) and Cardiff University.

Local Health Board NHS charities are not included in the consolidated accounts as they are not subject to an extant Welsh Government Designation Order.

17. Restatement of 2016-17 Comprehensive Net Expenditure and Statement of Financial Position

Prior period adjustments

Balance at 2016-17 per signed accounts incorporated a change in software that is used to estimate the residual life of Network Assets. During 2017-18 valuation cycle an error was identified in the new software which meant the 2016-17 data that had been supplied to Welsh Government had been miscalculated. The error was valued at £218m, which is considered material and resulted in a prior period adjustment. The accounts have been restated to incorporate the impact of the miscalculation on data supplied to Welsh Government in respect of condition variance during 2016-17.

The change has resulted in a decrease in total operating expenditure by £219m and an increase in Net Book Value on Network Assets by £219m.

WG Core	Balance at 31 March 2017	Changes in Accounting Policy	Other Prior Period Adjustments	Restated Balance as at 31 March 2017
	£m	£m	£m	£m
Consolidated Statement of Comprehensive Net Expenditure				
Expenditure	14,156		(219)	13,937
Total operating expenditure	14,690		(219)	14,471
Net expenditure for the year	13,002		(219)	12,783
Consolidated Statement of Comprehensive Financial Position				
Carrying amount at 31 March	15,635		219	15,854

WG Group	Balance at 31 March 2017	Changes in Accounting Policy	Other Prior Period Adjustments	Restated Balances as at 31 March 2017
	£m	£m	£m	£m
Consolidated Statement of Comprehensive Net Expenditure				
Expenditure	11,159		(219)	10,940
Total operating expenditure	14,974		(219)	14,755
Net expenditure for the year	12,961		(219)	12,742
Consolidated Statement of Comprehensive Financial Position				
Non-current assets:				
Property, plant and equipment	19,168		219	19,387

Appendix A – Accounting Policies

A.1 Property, Plant and Equipment

Land and buildings (including Dwellings)

The Welsh Government and its related bodies capitalise freehold property where it is retained for use by the organisation itself. Leased property, where the original lease was for less than 100 years, is treated as a revenue cost. Freehold land and buildings and leasehold land and buildings, where the original lease was for greater than 100 years, have been restated at open market value for existing use using professional valuations either every five years, or annually, with appropriate indices in intervening years for non-annual valuations. The exception is properties of a specialised nature held at depreciated replacement cost. The indices used were taken from the latest available Investment Property Databank (IPD) Monthly Index for Midlands and Wales.

Network Assets

The road network is valued at its depreciated replacement cost in line with the guidance in the Financial Reporting Manual for specialist assets for which market valuations are not available. To produce this valuation requires the use of assumptions, estimates and professional judgement. The model used to produce the valuation is known as the Roads Authorities' Asset Valuation Systems (RAAVS), run by external consultants W.S. Atkins. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years. This valuation was carried out in 2014-15. Interim valuations use a series of standard costs to value the individual components of the network assets and indices to revalue these on an annual basis.

The trunk road network is recognised as a single infrastructure asset in accordance with the applicable guidance outlined in the FReM. However, it comprises four distinct elements that are accounted for differently: land; the road pavement; structures (such as bridges and culverts); and communications (such as variable message signs).

The road pavement element is valued using agreed rates determined to identify the gross replacement cost of applicable types of road on the basis of new construction on a green-field site. These rates are re-valued annually using indices to reflect current prices.

Structures are valued using agreed rates determined to identify the replacement cost of applicable types of structure on the basis of new construction on a green-field site where these are available but special structures, which tend to be one off by their nature, are valued using specific costs that are updated to current prices.

Communications are valued using agreed rates determined to identify the replacement cost of applicable types of communications.

All maintenance that maintains the service potential of the road network will be capitalised. Subsequent expenditure that adds to the service or life of the road network is capitalised.

New roads are reclassified from Assets under Construction when the structural details have been provided by the Agent authority to input into model, which may be some time after the road has opened.

Transfers of the responsibility for maintaining sections of the road as part of the trunk road network from or to the local authority network are referred to as 'trunkings' or 'de-trunkings' respectively. The trunking or de-trunking of roads from or to local authorities is treated as a transfer from or to other government departments. Roads and structures de-trunked are effectively dealt with as disposals in accounting terms at nil consideration. The associated profit or loss is processed through the general fund.

The indexation factors applied are:

- Road Pavement and Structures
- Baxter Index
- Communications
- Baxter Index
- Land
- Land indices produced by Valuation Office Agency.

Upwards movements in value are taken to the revaluation reserve. Downward movements in value are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter expensed in the Statement of Comprehensive Net Expenditure.

Information Technology and Fixtures and Fittings

Information technology and fixtures and fittings (which include vehicles, plant and equipment), are at historical cost. As these asset classes have a short useful economic life, reliable revaluations of these assets could only be obtained at prohibitive cost. No significant estimation techniques are used in the valuation of these asset classes.

Heritage Assets

The Welsh Government holds a number of non-operational heritage assets where the cultural, educational and historical value is unlikely to be fully reflected in a financial value derived from a market mechanism or price. These assets are of a specialist nature and reliable valuations either cannot be obtained or could only be obtained at a prohibitive cost. The Welsh Government, therefore, does not capitalise these assets in the accounts.

The minimum level for capitalisation of individual assets and grouped assets is £5,000.

A.2 Depreciation

The depreciation charge for the roads network consists of three elements:

- i. annual maintenance charge;
- ii. an estimate of the permanent deterioration in the condition of the network in the year (which has been calculated by the computer model based on latest actual data on the condition of the network referred to in the non-current assets note above); and
- iii. calculated depreciation of the structures and communications.

Depreciation is accounted for in respect of the road pavement by reference to the service potential assessed by condition surveys that are carried out over the whole network as part of a rolling programme that covers every section of road at least every five years. The annual depreciation charge for the road surface is the value of the service potential replaced through the maintenance programme, plus or minus any adjustment resulting from the annual condition survey. The Structures and Communications elements are depreciated using the straight line method applied to the re-valued replacement costs, and also inspected every five years to identify any other changes. Land is not depreciated.

Depreciation is provided at rates calculated to write-off the value of intangible assets and other property, plant and equipment assets by equal instalments over their estimated useful lives.

Network surface:	20 to 50 years
Network structures:	20 to 120 years
Network communication:	15 years
Leasehold land & buildings:	Remaining life
Dwellings:	Remaining life
Freehold buildings up to:	60 years
Information technology:	3 to 10 years
Intangible software assets:	2 to 10 years

Freehold Land and Assets under construction are not depreciated.

Impairments of tangible fixed assets are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred.

A.3 Research and Development

Research and development expenditure is charged to the Statement of Comprehensive Net Expenditure in the year in which it is incurred, except where it relates to a clearly defined project and where the benefits can reasonably be regarded as assured. The expenditure deferred is limited to the value of future benefits expected and is amortised through the Statement of Comprehensive Net Expenditure on a systematic basis over the period expected to benefit from the project.

A.4 Financial Assets

Loans and Public Dividend Capital

Loans and Public Dividend Capital (PDC) issued to public bodies outside of the consolidated boundary are shown at historical cost less any necessary impairment to represent fair value. Other investments, in the form of joint ventures are shown at fair value.

Student Loans

The Welsh Government's accounting policy is to recognise an addition to the student loan book once the Student Loans Company (SLC) has issued the loan to the student. Student loan repayments are collected by the SLC and Her Majesty's Revenue and Customs (HMRC). For repayments made via the SLC, the Welsh Government recognises the repayment when the SLC has received the cash and updated the borrower record. For repayments collected via the tax system, this is recognised when the amounts which HMRC estimate as being due to the Welsh Government for the financial year are received. Student loans values are shown net of estimated future write-offs in respect of the non-recovery of loans and are reviewed annually.

In accordance with the FReM interpretation of IAS 39, student loans are classified as Loans and Receivables and are carried at amortised cost, with the gross value of loans issued discounted to net present value using the effective interest rate method. Disclosures relating to risk, required by IFRS 7, are made in within the Loans and Receivables note.

Non-current Assets

Non-current assets are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale and this should be expected to be completed within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A.5 Inventories

Development assets, comprising land held for future development and built properties not required for own use, which are held with the ultimate intention for resale, are shown at the lower of historic cost and professional asset valuation, any impairment on revaluation being written off to the SOCNE. Material reversals of prior year impairments are written back to the SOCNE where there is current evidence of increased value resulting from earlier year's expenditure.

Other Inventories are valued at the lower of replacement cost and net realisable value. The Welsh Government does not consider there to be a material difference between the replacement cost and historic cost of stocks. Stocks with a finite useful life are written-off at the end of their lives.

A.6 Operating Income

Operating income relates directly to the operating activities of the Welsh Government and the related bodies.

Revenue from the European Union in respect of the European programmes, funds and initiatives is brought to account in line with grants payable in respect of these amounts and is shown in Note 2. The funds are paid to the Welsh European Funding Office. These funds are then transferred to the relevant department within the Welsh Government and are accounted for within Note 3.

A.7 Value Added Tax (VAT)

The Welsh Government recovers some elements of VAT for business services and contracted out services. For other goods and services expenditure these are recorded inclusive of VAT.

A.8 Pensions

The majority of present and past employees of the Welsh Government are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described within the Accountability Report. The defined benefit elements of the scheme are unfunded. The Welsh Government recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payments to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Welsh Government recognises the contributions payable for the year. All actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised through reserves in the period in which they arise.

Some former Welsh Development Agency staff, current Finance Wales PLC staff and Career Choices staff participate in a number of Local Government Pension Schemes in Wales which are multi-employer funded schemes. Some Welsh Government staff contribute to: Department of Health and the Nurses Welfare Trust; and the West Yorkshire Pension Scheme administered by the City of Bradford Metropolitan District Council.

Employees of Local Health Boards participate in the NHS pension scheme. Information on this scheme can be found in the LHB Summarised Accounts.

A.9 Early departure costs

The Welsh Government is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Welsh Government provides in full for this cost when the early retirement programme has been announced and is binding. The Welsh Government may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Government Banking Service at the Bank of England for the credit of the Civil Superannuation Vote. Similar arrangements are in place for LHB employees who retire early.

For pre-merger employees and ex-employees of the former Welsh Development Agency in the Rhondda Cynon Taff Pension Scheme, the Welsh Government meets the additional cost of benefits beyond the scheme benefits in respect of employees who retire early.

A.10 Operating leases

Expenditure on non-capitalised operating leases, including land and buildings, is charged to the Statement of Comprehensive Net Expenditure in the period to which it relates.

A.11 Grants

Grants payable or paid are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs.

A.12 Private Finance Initiative/Public Private Partnership transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The LHB, therefore, recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- a) Payment for the fair value of services received;
- b) Payment for the PFI asset, including finance costs; and
- c) Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

The fair value of services received in the year is recorded under the relevant expenditure headings within programme costs.

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IAS 17. Subsequently the assets are measured at fair value, which is kept up to date in accordance with the principles of IAS 16.

The PFI liability is recognised at the same time as the PFI asset. This is measured at the same amount as the fair value of the PFI assets and is subsequently measured as finance lease in accordance with IAS 17. An annual finance cost is calculated by applying the implicit interest rate in the lease to the operating lease liability for the period and is charged to Income. The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

A.13 Exchange Rate Gains and Losses

The Welsh European Funding Office requests programme funding from the European Commission at the Euro equivalent level to the sterling required and pays out funds in sterling. The exchange gain or loss on these transactions is calculated and accounted for in line with IAS 21.

Other transactions in foreign currencies are translated into sterling at the rate of exchange ruling at that date. Exchange differences are taken into account in the Statement of Comprehensive Net Expenditure.

A.14 Provisions

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, provisions for liabilities and charges are made at the year-end where present legal or constructive obligation exists (i.e. a present obligation arising from past events), the outflow of resources that will be required to settle the obligation is probable and a reasonable estimate of the obligation can be made.

Where the time value of money is material, provisions are discounted to present value using HM Treasury's real discount rates.

A.15 Financial Instruments

IFRS 7: requires the disclosure of information which allows the user to evaluate the significance of financial instruments on financial performance, and the nature and extent of its exposure to risks arising from financial instruments.

As the majority of the Welsh Government's resources are met by the Welsh Consolidated Fund, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size.

Credit Risk

The Welsh Government's objective is full recovery of debt, which we actively pursue. The policy is to operate normal credit control procedures for the management of risk of default by trade debtors through the Accounts Receivable function. Due to the nature and value of debtors, the credit risk associated is deemed as minor. Provisions for doubtful debts are made once debts are over 6 months old.

The Welsh Government has a statutory obligation to issue student loans, and is not permitted to withhold loans on the basis of poor credit rating. Exposure to the risk of non-repayment of loans is managed and monitored, and the impact is accounted for via an annual impairment review.

Market Risk

Foreign Currency Risk – the Welsh Government is exposed to negligible currency risk on its foreign currency transactions, except for funds received from the European Union to the Welsh European Funding Office. Private sector mitigation options are not available. However, total funding received from the European Commission is managed to ensure the available funding is flexibly allocated to projects, enabling targeted expenditure levels to be met. Funding claims from the Commission are also prompt to limit delays between incurring expenditure and its reimbursement.

Interest Rate Risk

The amount of student loan interest repayable is subject to the fluctuations in the market interest rate and RPI. This can lead to a risk in accurately forecasting the amount of interest payable and therefore the possible impairment of future cash flows.

Liquidity Risk

The Welsh Government only borrows from the National Loans Fund, and relies primarily on funding received from Parliament via the Welsh Consolidated Fund for its cash requirements. There is no reason to believe that future funding will not be forthcoming, therefore on this basis it is not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency rate risk other than the risks arising from receipt of funds from the European Commission in Euros.

A.16 Newly issued accounting standards not yet effective

A number of revised and new accounting standards and interpretations have been issued but are not yet effective and have therefore not been adopted in these accounts, currently being considered by the Financial Reporting Advisory Board (FRAB) for inclusion within a future Financial Reporting Manual (FReM).

Standards which may have a material impact if adopted are:

IFRS 16 Leases – effective 1 January 2019. IFRS 16 will provide a single model for all leases that will bring all leases on Statement on Financial Position unless the lease term is 12 months or less or the underlying asset has a low value. HM Treasury are reviewing the implications of this amendment on the UK Public Sector with a view to include in the 2019-20 FReM.

Standards which are not considered to have a future material impact are:

- IFRS 1 First time adoption of IFRS
- IFRS 4 Insurance Contracts adapted for IFRS 9
- IAS 28 Investments in associates and joint ventures
- IFRS 2 Share based payment
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 17 Insurance Contracts to replace IFRS 4
- IAS 7 Statement of Cash Flows
- IAS 12 Income Taxes
- IAS 40 Investment Property Transfers of Investment Property
- IFRIC Interpretation: 22: Foreign Currency Transactions and Advance Consideration.



Llywodraeth Cymru
Welsh Government

Welsh Government Annual Report on Grants Management 2017–2018

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SECTION 1: INTRODUCTION

1.0 The Welsh Government's Annual Report on Grants Management sets out the progress made across the Welsh Government for the period 1st April 2017 to 31st March 2018. For the first time, the full report has been prepared to align with the publication of the Welsh Government Annual Accounts.

1.1 The Welsh Government's definition of a grant is "all non-procured payments to external bodies or individuals for activities which are linked to delivering Welsh Government policy objectives or statutory obligations". Grants are divided in to two distinct categories. Un-hypothecated grants are those payments provided to local health bodies and local government and account for £11.5Bn of the £14.3Bn total paid in grants for 2017-18. Hypothecated grants represent payments where there are clear deliverables and criteria surrounding the purpose of the grants and account for the remaining £2.8Bn of funding. As in previous years, this report concentrates on the latter.

SECTION 2: GRANTS MANAGEMENT IMPROVEMENTS

(i) Grants Centre of Excellence

2.0 The Grants Centre of Excellence was established in 2011 and has led on the development of grants management policy and skills and the adoption and embedding of best practice across the organisation. The team is available to provide direct support, guidance and training to grant Officials throughout the life cycle of a grant scheme/offer. Over the 2017/2018 period in excess of 1,637 email queries have been resolved as well as the provision of extensive face to face and telephone support provided to grant managers.

2.1 The team has continued to successfully deliver a range of policy and support related activities including a key update to the standard Award Letter Template and operation of the Due Diligence Hub, whilst ensuring Grants Minimum Standards are adhered to and grants guidance and training material remains relevant and fit for purpose.

2.2 As a result of the Improving Efficiency Board the team is currently working towards the development of a central Due Diligence Function, a Grants Assurance Panel and ensuring greater consistency and compliance for transactional activities. It is also exploring the feasibility of introducing an online application process. Further details of deliverables being led by the Improving Efficiency Board can be found in Section 4 of this report.

Communications

2.3 The 2018-19 Communications Strategy is being developed, a key aim of reflecting the priorities and actions agreed by the Improving Efficiency Board. Over the 2016-17 period the team delivered a number of activities outlined in the 2016-17 strategy. This includes:

- Issue of three Grants Bulletins, covering Hints and Tips such as 'Do's and Don'ts' on Award letter good practice, reminders of activities needing to be undertaken such as notifying 3rd Sector organisations of funding intentions in line with the Code of Practice and the importance of timely and accurate use of PayGrants.
- Undertook fourteen Award Letter 'Hot Shot' sessions and Drop In Clinics across Wales.
- Introducing new innovations to the grants management process to improve compliance and assurance, including the National Fraud Database and a Governance and Assurance statement as part of the Award letter.

2.4 An external stakeholder survey is scheduled for June 2018, in accordance with the commitment made to Public Accounts Committee to follow up with a further survey three years after the original survey was completed.

Due Diligence

2.5 The Due Diligence Hub ('the Hub') is used by officials to share information with colleagues to assist in decision making processes, aiming to ensure that funding is awarded only to external bodies that are fit to receive public money. Both the Public Accounts Committee and the Wales Audit Office have expressed support for the use of the Hub by Welsh Government staff to guard against fraud, loss of Welsh public money and reputational damage.

2.6 The Hub is well established and used by staff across Welsh Government. Circa. 5,300 records were created in 2017/18 with over 360 staff involved in undertaking due diligence activity.

2.7 During this reporting period, and in response to a commitment made to the Public Accounts Committee in 2017, Due Diligence Minimum Standards were produced. They comprise refreshed guidance and new checklists and set out the standards to be met in awarding Welsh Government funds.

National Fraud Database

2.8 During 2017, the Welsh Government became a subscribing member to the National Fraud Database (NFD) which allows access to fraudulent activity reported

by members, including banks, other financial institutions and certain public sector bodies.

2.9 The system is now actively being used within Welsh Government and there are currently over 90 staff, primarily grant managers, using it to enhance their due diligence processes. The Counter-Fraud Unit is also liaising with other parts of the organisation, procurement, debt management and WEFO to identify areas that would benefit from using the system.

Review of Counter Fraud Provisions

2.10 The Permanent Secretary commissioned an external review of the Welsh Government's counter-fraud capability, to assure herself and seek advice on whether our approach to combatting fraud in, and against, the Welsh Government is sufficient and effective within the resources available and to identify any alternative options for better delivery of Counter Fraud arrangements.

2.11 The review was undertaken by the Government Internal Audit Agency (GIAA) which has reviewed the Counter-Fraud Unit's functions, policies and working practices and assessed our performance against the benchmark of the UK Government's *Counter Fraud Framework Standards for Leadership, Management & Strategy*.

2.12 Overall, the Welsh Government counter-fraud unit was assessed as high-performing, delivering more than its resources would suggest possible by utilising an expert investigator as the Unit Head, working effectively through positive relationships with Welsh Police Forces and by leveraging additional investigation resource from elsewhere in the Welsh Government including Internal Audit. Nevertheless, the review identified mainly counter-fraud awareness and training and proactive counter-fraud work and risk assessment – which could be strengthened.

Working with others

2.13 Over the past twelve months the Centre of Excellence team have built a strong relationship with colleagues across UK Government. Welsh Government representatives have actively participated in the Grants Best Practice group facilitated by the Cabinet Office, sharing the progress achieved in Wales over the last few years including Minimum Standards and template legal documentation such as the standard grant award letter. These have been used to support the introduction of a Grants Centre of Excellence within the Cabinet Office.

2.14 In July 2017 the team hosted a successful visit from grant official colleagues from the Ministry of Justice. The visit demonstrated to colleagues how the Centre of Excellence operates, as they are interested in introducing a similar concept. In the

coming twelve months it is the intention of the team to share more ideas and information with other devolved administrations.

Training

2.15 During this reporting period training has predominantly been delivered on request. The Centre of Excellence team delivered a programme of Hot Shot sessions covering the Grant Award letter which included information on changes and additions to the template, for example the Assurance Statement. As the work of the Improving Efficiency Board progresses, a refreshed training programme will be developed.

(ii) Wales European Funding Office (WEFO)

Audit Review of Welsh Structural Funds Programme

2.16 During the period, there were no new audits by the European Court of Auditors or the European Commission (DG Regio and DG Empl) on the WEFO Programmes. The EC Auditors had started a review across the member states during the previous year into the monitoring processes in place by countries to record the outputs of Operations (Grants) and programmes. WEFO was one of the Managing Authorities selected for inclusion in the review. The report was issued during this year and the results were very positive with WEFO named by the EC in subsequent conferences as an example of good practice.

2.17 The European Funds Audit Team (EFAT), part of Welsh Governments Corporate Governance and Assurance Division, has undertaken a number of systems reviews of the programmes with generally positive results. These reviews are part of their review of the Annual Accounts and contribute toward their Annual Control Report (ACR).

2.18 EFAT Annual Control Reports are issued each January covering the Accounts for the previous EC Funding year which runs July to June. The last report, issued in January 2018 covered the accounts to June 2017. The key indicator in these reports is the error rate which represents the amount of irregular spending identified during their reviews as a percentage of the sample tested.

2.19 The error rate reported for this period was 0.05%. The EC have a threshold of 2% for this error rate and should the ACR indicate a rate at or over 2% then sanctions are imposed on the programmes. An “error” in this context means anything that was charged to EU funding which ought not to have been. This could be for any one of a wide range of technical reasons and does not imply fraud or other inappropriate expenditure.

2.20 This exceptional error rate of 0.05% has been achieved by changes to WEFO's approach to checking claims; we have brought some checks in house, allowing us to weight our checking towards the beginning of each project and enabling a focus on key areas of risk. This helps to flush out any potentially significant issues before they become something that is hard to change or wind back.

2.21 During the period, WEFO submitted the final Closure packs for the 2007 – 2013 Programme to the European Commission. Over the life of the programme £1.8bn of funding was claimed resulting in a total investment of £3.4 bn. The closure packs are in the process of being received by the EC and to date only minor queries have been raised by their Auditors.

2.22 WEFO registers all audit issues raised and monitors the work done to address them through its Programme Risk Management Committee.

2.23 The 2014 – 2020 programme is making good progress with 71% of the programme committed. Delivery is at roughly the same level as in the same period in the last programme. This can only be a rough guide, given that the programmes are quite different from one funding round to the next, but it is reassuring to know that the Welsh Government considerably exceeded its programme targets in the last round compared with from a similar point seven years ago.

2.24 The European Commission holds a formal annual review of progress in programmes in a joint meeting with other UK administrations. Across the ERDF and ESF, they made it clear that they were very pleased with progress in Wales, which was not the case for the UK as a whole.

2.25 WEFO has recently reviewed its Management and Control Systems document and this has been accepted by EFAT.

(iii) Grants Alignment – Flexible Funding

2.26 Over the past twelve months the Welsh Government has made good progress in reviewing existing grant schemes, with a particular focus on improving outcomes and reducing the administrative burden on the grant recipients.

2.27 An example of this is the Flexible Funding project, which supports and promotes joint planning and commissioning and more effective use of funding in pursuit of the constituent programme aims and objectives. The extra freedom also allows for a more strategic approach to delivering for the most vulnerable in society.

2.28 The project has aligned a number of existing funding programmes aimed at supporting vulnerable people or communities which have been established over the years by Welsh Government. Whilst these are aimed at tackling different issues such as domestic abuse, supporting families, housing related support or workless households, they also have a great deal in common as although each programme is underpinned by a specific grant, they all seek to prevent or mitigate disadvantage, facilitate early intervention, provide support and to build resilience in individuals and communities.

2.29 The greater financial freedom and flexibility allowed through the project will enable local authorities to work differently, giving more scope to design services to support the Government's drive for more preventative, long-term approaches in line with the Wellbeing of Future Generations Act.

2.30 The project supports and promotes joint planning and commissioning and more effective use of funding in pursuit of the constituent programme aims and objectives. The extra freedom also aims to allow for a more strategic approach to delivering for the most vulnerable in society. To help test if these benefits could be realised, Welsh Government has worked with stakeholders and partners to establish seven pathfinders of this new flexible approach across 10 grants and identify lessons to inform future policy decisions.

2.31 The seven pathfinder local authorities who are testing an approach in 2018-19 are Cardiff, Newport, Torfaen, Rhondda Cynon Taff and Merthyr as a Public Service Board, Conwy and Bridgend.

2.32 These pathfinders will have 100% flexibility across 10 grants. The remaining 15 local authorities will have enhanced flexibility of 15% movement across a smaller number of grants in 2018-19.

2.33 This will support the start of their journey to more innovative thinking on service delivery. Each pathfinder has submitted a single delivery plan to Welsh Government for flexible funding in 2018-19 which includes details of their vision, new approaches they will be taking to achieve better outcomes for people and any changes to the way the programmes are managed.

SECTION 3 - FUNDING

3.0 This section provides an update on the overall funding and breakdown of grants to various sectors across Wales. Funding can be direct from the Welsh Government or from WEFO. The data presented for 2016/17 is based on the system of 'industry keys', which was introduced specifically to provide a clear picture of funding by sector, and particularly the Third Sector.

(i) Funding from Welsh Government

Table 1: Total Welsh Government Grant Funding by Financial Year

	2015 / 16	2016 / 17	2017/18
Grant provided (£bn)	£13.6	£13.8	£14.3

Source: Welsh Government Finance System

3.1. The number of grant schemes which have made new offers in 2017 / 18 totalled 323,269 of which are hypothecated and 53 were un-hypothecated.

3.2. The following table illustrates the levels of hypothecated funding provided to each sector for the past three financial years.

Table 2: Hypothecated Grant Funding by Sector and Financial Year

Hypothecated funding (£m)	2015 / 16	2016 / 17	2017/18	2017-18 No of grant schemes
Local Authorities	£1,339	£1,329	£1,334	123
NHS	£14	£19	£19	15
Central Government and Public Corporations	£37	£37	£36	15
Welsh Government Sponsored Bodies	£53	£31	£36	11
Funding to Education	£448	£434	£434	41
Private Sector	£676	£689	£675	110
Third Sector	£248	£251	£270	94

Source: Welsh Government Finance System

Note: The number of grant schemes providing support to organisations across each sector does not mirror the total of grant schemes providing new offers (hypothecated) referred to in 3.1 – 269. For example, the Welsh Language Grants

scheme is reflected against four of the above sectors, Welsh Government Sponsored Bodies, Education, Private and Third Sector as it delivers funds to organisations across more than a single sector.

(ii) Funding from WEFO

Overview of the Current Programmes

3.3. The delivery of the 2014 – 2020 Structural Funds programmes is progressing well. WEFO has approved a total of 177 operations with a total EU funds value of £1,465m as at the end of March 2018. This equates to approximately 71% of the potential overall EU funds programme value, based on a planning rate of €1.17/£1. A further 71 operations are in the business planning stage with a total grant value of £346m.

Table 3: Operations approved and being developed for the 2014-2020

	West Wales ERDF (£m)	East Wales ERDF (£m)	West Wales ESF (£m)	East Wales ESF (£m)	Total (£m)
Allocation	1030.9	173.8	687.7	173.8	2066.2
Approved					
Grant Value	683.3	112.9	559.5	109.7	1465.4
Number of Operations	68	26	49	34	177
Business Planning					
Grant Value	239.98	44.98	45.66	15.38	346
Number of Operations	34	10	20	7	71

Source: WEFO

3.4. If there is a Transition deal between the UK and the EU, the current programmes will be delivered as normal. The EC has yet to publish its programme closure guidance, but under a Transition agreement, the key milestones would be:

- Last modifications to the programmes to be approved by the EC by late in 2020
- Last approval by WEFO of new projects, or of changes to existing projects, by early 2023
- Project expenditure by beneficiaries eligible to the end of 2023
- Final claims to WEFO by about April 2024
- Final audited claims by WEFO to the EC by early 2025

3.5. In the event of the UK leaving the EU in March 2019 with no Transition deal, we will have to rely on the HM Treasury guarantee. This represents a high risk to Wales as there is still little clarity about the exact terms of the guarantee, in spite of the Welsh Government pressing regularly for answers to questions such as:

- Will the guarantee allow flexibility across projects approved at 29 March 2019, or will our programmes become simply lists of unrelated projects?
- Will HMT confirm the funding for the guarantee will not come from the Welsh Block?
- What is the actual value of the guarantee? How and when will that be set?
- What are the cut-off arrangements for dovetailing EC and HMT responsibility?

3.6. However, as a strategy for maximising the HM Treasury guarantee or simply and delivering programmes to meet the urgent needs of communities across Wales, aiming for 100% programme commitment by March 2019 makes sense.

3.7. WEFO has every expectation of meeting this target, once the programme modifications being discussed with the European Commission are agreed, which is expected to be by late summer. However, it remains a challenging target. It also carries risks that WEFO can assess and monitor, mitigate through support challenge and influence, but not ultimately control. For example, some project proposals are heavily dependent on progress in their respective regulatory environments and on commercial agreements being reached across a range of potential partners.

3.8. The following table covers funding provided directly to organisations by WEFO. As at the end of March 2018 project approvals for the 2014 – 2020 programmes were at a satisfactory level, with the focus being mainly on the key projects that will provide the bulk of the outputs that we have committed to deliver in the Operational Programmes agreed with the European Commission.

Table 4: 2016-17 WEFO funding EU Grant Commitment by Sector

Sector	2017-18 £m
Local Authorities	60.2
Higher and Further Education	35.6
Private	0.6
Other Public	0
Third	7.8
Welsh Government	27.2
Total	132.4

3.9. The figure of £132.4 million brings the total EU funds committed in the 2014 – 2020 funding round to £1,465.4 million or about 71% of the estimated value of the funds allocated to Wales. A number of substantial projects remain to approve during 2019 – 20 including Metro related investments, other Capital projects such as Marine Energy and extensions to existing backbone projects that will take them toward the end of the current programming period.

SECTION 4: NEXT STEPS FOR GRANTS MANAGEMENT

(i) Welsh Government

Improving Efficiency Board – Grants and Assurance workstream

4.0. The 2016-17 Interim Annual Grants Management report highlighted the proposed work of the Improving Efficiency Board. The two workstreams outlined in the report have progressed well during the year and in April 2018, the Efficiency Board was presented with proposals relating to a revised Target Operating Model for managing grants within the Welsh Government and a pilot of an on line application and award tool.

Target Operating Model (TOM):

4.1. The proposed TOM reflects the end to end grant processes and identifies which functions could be undertaken more effectively and efficiently by a single team to ensure policy and procedures are applied in a consistent and compliant manner. The TOM has been designed to apply to hypothecated grants only.

4.2. In summary it was recommended to the Board that ownership of the grant schemes should remain with policy officials; including development of grant scheme outcomes, appraisal of applications and recommendations of who should receive grant funding. However, many of the more common processes required to create and deliver grant schemes such as advertising of grant schemes, development of application forms and processing payments could benefit from a more standardised approach using a single team.

4.3. The TOM also recommended the introduction of two new functions within the grants process:

- A Grants and Assurance Panel – This will bring together key stakeholders across the Welsh Government (including the Grants Centre of Excellence, state aid, legal, internal audit, VAT and policy teams) to provide advice, challenge and assurance at the outset of grant scheme development. The aim is to provide practical advice to the grant manager to ensure new schemes align with Ministerial priorities, add value and mitigate risks within the grant scheme processes.
- A Central Due Diligence Function - This will provide corporate due diligence and governance checks against organisations the Welsh Government is funding or is considering funding. Currently due diligence tasks are being undertaken by different officials across Government often on the same organisations. A central due diligence function would avoid

duplication and improve consistency, deliver greater support to policy areas and provide more uniformity in how Welsh Government deals with external organisations. Project due diligence (outcomes, the organisation capability to deliver the project and value for money) would remain with the policy teams.

4.4. Implementation of both the assurance panel and due diligence teams is planned for the autumn of 2018. It is anticipated that a revised operating model will be implemented in advance of the publication of the next report.

ICT Review

4.5. The purpose of the workstream is to undertake a review of ICT solutions currently in use across Welsh Government, particularly in relation to their suitability as a digital application, appraisal and claims platform. The goal is to improve consistency and compliance and reduce the administrative burden for stakeholders applying for grants and to improve the audit trail throughout.

4.6. Officials have reviewed existing tools within Welsh Government that might be utilised to support the application and award process from grants and a series of potential pilot grant schemes to begin testing the preferred application by September 2018.

4.7. The workstream is considering application and award only and not the end to end grants management process. A pilot of the on line application and award tool is planned for the autumn of 2018.

External Survey

4.8. As agreed with the Committee in the 2016-17 Interim Report on Grants Management, a follow-up external survey has been undertaken in 2018, outside of the period of this current report. The findings and any actions resulting will be included in the 2018-19 Annual Report.

(ii) WEFO: Brexit and Next Steps in Grants Management

4.9. EU funding has been a key driver of economic growth and jobs in Wales and a continued effort to build on the successes of past programmes needs to be maintained when the UK leaves the EU. The Welsh Government remains committed to ensuring that replacement funding from UK sources reflects current levels of EU funding for regional economic development in Wales.

4.10. On 14 December 2017 the First Minister launched the policy paper 'Regional Investment in Wales after Brexit'. The paper invited partner comments on principles

and proposals for regional funding in Wales post Brexit. The engagement took place between the 14 December 2017 and 23 March 2018 and overall there is a positive response to the principles set out in the paper, supporting the direction we have proposed.

4.11. Independent evaluation of responses is now underway, which will feed into the advice being prepared for the Cabinet on next steps. The Welsh Government will then begin a detailed policy development process with our partners across Wales.

4.12. In addition to this WEFO remains focussed on achieving full spend on existing EU programmes before the end of March 2019, and is liaising with the European Commission on modifications to the existing Operational Programmes, including the addition of a new ESF Priority. WEFO will also continue to support project sponsors to ensure projects are delivered to plan and that there is a smooth transition to any new regional funding arrangements. A partnership approach is vital in order for this to be achieved, and everyone involved in EU funded projects is focussed clearly on delivering this.

Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Mr Nick Ramsay AM
Public Accounts Committee Chair
National Assembly for Wales
Cardiff Bay
CF99 1NA

22 August 2018

Dear Mr Ramsay,

Scrutiny of the Accounts 2016-17

Thank you for your letter dated 1 May on the Scrutiny of the Accounts 2016-17. I attach a response to each of the items raised by the Committee at Annex A.

You subsequently also wrote to me on 31 July, following the valedictory session for the former Auditor General for Wales. I look forward to discussing the issues raised in that letter when the PAC meets in October.

I also wanted to take this opportunity to inform the committee that the Welsh Government is planning on publishing the 2017-18 annual accounts in mid September. This is later than in previous years and should committee members wish I can provide further details concerning the timetable on 15 October.

Yours,

Shan Morgan
Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government



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SCRUTINY OF ACCOUNT 2016-17 – FOLLOW UP LETTER FROM THE CHAIR OF THE PAC

Audit report on the prevention of fraud

The review carried out by the Government Internal Audit Service has been completed and the outcome is reported on in more detail in the Annual Grants Report which has been published alongside the Annual Accounts. In summary, the Welsh Government counter fraud unit was assessed as high-performing although there were a number of recommendations which will be taken forward including the need for more counter-fraud training.

Reporting of performance by the Welsh Government

I do appreciate that the Committee has made the point on a number of occasions that they feel that there is scope for the provision of more information in the Annual Accounts on progress towards delivery of the Government's objectives. However, arrangements for the way in which performance against their objectives is provided is a matter for Welsh Ministers rather than for the Permanent Secretary. Performance against the annual budget along with other non-financial indicators such as information on anti-corruption and anti-bribery and environmental matters is reported in the Annual Accounts.

Complying with the Financial Reporting Manual (FReM)

The FReM comprises technical accounting guidance on the preparation of financial statements. It also outlines the requirements for the format and content of the Annual Report and Accounts which include the performance report, the accountability report and the financial statements. The Welsh Government recognises and acknowledges that it does not follow the guidance on performance reporting as we do not publish information on delivery against the Government's objectives, as noted above. Nevertheless, we do report on performance against budget and other non-financial indicators and also highlight key deliverables over the last 12 months which for 2017-18 includes the introduction of new legislative powers in Wales and progress on tax devolution and preparation for Brexit. Welsh Ministers separately report against government objectives.



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Enabling the reader to understand how public money is spent and question whether it was spent wisely.

The Welsh Government endeavours to provide clear and transparent reporting on outturn against budget in the Statement of Reported Outturn which is a key component of the annual accounts. Although the current reporting can be complicated due to the requirement to manage within both Ambit and DEL budgets, this issue will be pursued through the alignment of Accounts and budget work which is currently in progress. Improvements to the content and format of the Annual Accounts have also resulted in the inclusion of an infographic that depicts where public money has been spent during the year. We will continue to seek developments to the presentation of information in our Annual Report so as to enable the public to understand better how public money is spent.

Guidance to sponsored bodies

The Welsh Government provides guidance to sponsored bodies on the preparation of Annual Reports and Accounts through the use of an accounts direction. The accounts direction stipulates key aspects concerning the preparation of the accounts including the need to comply in full with the FReM unless there are good reasons not to do so. It also states that any proposed departure from the FReM must in the first instance be discussed with the Welsh Government.

Reserves policy for sponsored bodies and the impact of the introduction of the Wales Reserve

The Wales Reserve is a mechanism to carry forward underspends of resource budgets. Therefore, it does not impact on the ability of sponsored bodies to carry forward unspent cash. The limit of 2% is considered to be an appropriate level of cash reserves which a sponsored body may hold within the context of public sector cash management set out in “Managing Welsh Public Money”. The flexibility of sponsored bodies to manage resource budgets over multiple years remains unchanged; budgets are managed within the limits of overall resources available within the respective MEGs.



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