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Welsh Government  
Llywodraeth Cymru  
Consolidated Accounts 2011-2012

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**Government of Wales Act 2006**

Accounts of the Welsh Assembly Government (known as Welsh Government) are prepared pursuant to Section 131 of the Government of Wales Act 2006 for the year to 31 March 2012, together with the Certificate and Report of the Auditor General for Wales thereon.

Laid before the Assembly on 26 July 2012 pursuant to the Government of Wales Act Section 131

# **Welsh Government**

## **Consolidated Annual Report and Accounts 2011-2012**

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## **Management Commentary**

The aim of the Welsh Government is very simple: to improve the lives of the people of Wales. The First Minister and Cabinet have been very clear that everything we do should be focused on better outcomes for people in Wales, improving economic, social and environmental well being and achieving a better quality of life for our own and future generations.

This last year has again been one of opportunities and challenges. The elections in May 2011 gave us a new Government and in the Programme for Government a clear direction for the rest of the Assembly term. The Programme is unashamedly focused on delivery and emphasises the outcomes we are working towards. It represents a very real opportunity to make a difference where it matters, to the people of Wales.

Sitting alongside this is the new legislative programme published in July. Between 2011 and March 2012 the Welsh Government published 108 discussion and consultation papers enabling people in Wales to contribute to building our future.

The challenges we face have not diminished. We continue to operate in a tough financial climate where we must get the very best value for money from all the resources available to us by keeping a very tight control of our finances.

I'm pleased to say we have again managed the difficult balance between managing our Treasury delegated limits extremely carefully to minimise the risk of any significant under-spend while also guarding against the risk of breaching our financial responsibilities. Our final figures show a very narrow under-spend of just 0.06% against near cash resources and 0.73% against capital budgets.

We have taken an innovative approach to cost savings through our Managing with Less programme, where everyone who works for us was asked to get involved in achieving the efficiencies needed to reduce our running costs. Managing with Less continues to deliver savings on travel, overtime, ICT, stationery and printing. We saved around £18.5 million during 2011-12. People across the organisation have worked tirelessly to make sure Managing with Less is a success.

We have also continued with our voluntary severance programme, including a further targeted tranche of exits in early 2012. We now have around 1,000 fewer people than at the beginning of 2010.

There is no doubt in my mind that the tough steps we have taken to maintain a very disciplined approach to efficiencies are paying dividends and financially we are on a better footing as a result than we may otherwise have been.

Enabling Government, our continuous improvement framework, has helped us to make further progress on improving our performance. This year we have focused on improving our delivery for Ministers, making continued improvements in our planning, financial management, programme and project management, manpower planning and career progression arrangements. Our goal remains to be one of the top-performing public sector organisations in the UK.

One of the biggest challenges we face is to support our Ministers in achieving better outcomes for people in Wales with significantly fewer people working for us. This is not just an immediate challenge but one for the next three to five years. Following the success of Managing with Less, we have taken a similar approach to achieving our vision for the organisation. Through Fit for the Future, we've given everyone who works here the opportunity to get involved in developing the workforce and workplace we will need to deliver for Wales in the long term.

This year we have continued to make real progress in creating an organisation equipped to deliver for Ministers and the people of Wales against a backdrop of fewer resources.

### **The Welsh Government at a glance**

The Welsh Government is the devolved government for Wales and, as such, has responsibility for a wide range of matters which affect people's lives including education, health, the environment, transport, the economy, culture and many local government issues.

It was formally established in 2007 under the Government of Wales Act 2006, which established a split of functions between the National Assembly for Wales (the legislature) and the Welsh Assembly Government (the executive). Ministers have since adopted the Welsh Government as its informal name to avoid confusion between the two institutions.

Led by the First Minister, Welsh Ministers are able to exercise their functions to take decisions on all areas devolved to them, developing and implementing policy, making subordinate legislation and proposing Assembly Measures (Welsh Laws). Following the Yes vote in the referendum on law making powers for the National Assembly on May 5, 2011 and the commencement of Part 4 of the Government of Wales Act, the future legislative programme will be made up of Assembly Bills.

### **Programme for Government**

The Programme for Government is the roadmap for the rest of this Assembly term. It represents a real commitment to delivery and a move away from an approach to measuring success that placed too much emphasis on the amount of money spent, or the number of policies implemented, rather than the impact government is actually having on people's lives.

It emphasises the outcomes the Welsh Government is working towards: healthy people living productive lives in a more prosperous and innovative economy; safer and more cohesive communities, with lower levels of poverty and greater equality; a resilient environment with more sustainable use of our natural resources and a society with a vital sense of its own culture and heritage.

Each of the 12 chapters of the Programme sets out:

- **The high-level aim:** what the Government is working towards.

- **Key actions to deliver improvements:** highlighting key commitments and important existing initiatives that will help make progress.
- **How we will know our actions are on track:** setting out what evidence will be used to assess whether our key commitments are on track to deliver.
- **The big long-term challenges that the actions will contribute to meeting:** outcome indicators of long-term success.
- **Which department is accountable for delivery:** listing the Ministers responsible for delivering the work that contributes to each chapter.
- **Who are the key partners:** acknowledging the fact that frontline service providers, businesses, charities, in fact everyone in Wales has a role to play in the success of this Programme.

Underpinning all of this work is our commitment to sustainable development, in terms of well-being, as our core organising principle. The key aspects of well-being, including action on social justice, poverty and equality and living within environmental limits, are woven throughout the Programme

## The Cabinet

There were 10 Cabinet Ministers and 4 Deputy Minister posts ahead of the elections to the National Assembly for Wales in May 2011:

Carwyn Jones	First Minister
Ieuan Wyn Jones	Deputy First Minister and Minister for the Economy and Transport
Leighton Andrews	Minister for Children, Education and Lifelong Learning
Jane Davidson	Minister for Environment, Sustainability and Housing
Jane Hutt	Minister for Budget and Business
Carl Sargeant	Minister for Social Justice and Local Government
Edwina Hart MBE	Minister for Health and Social Services
John Griffiths	Counsel General
Elin Jones	Minister for Rural Affairs
Alun Ffred Jones	Minister for Heritage
Jocelyn Davies	Deputy Welsh Minister for Housing and Regeneration
Huw Lewis	Deputy Welsh Minister for Children
Lesley Griffiths	Deputy Welsh Minister for Science, Innovation and Skills
Gwenda Thomas	Deputy Welsh Minister for Social Services

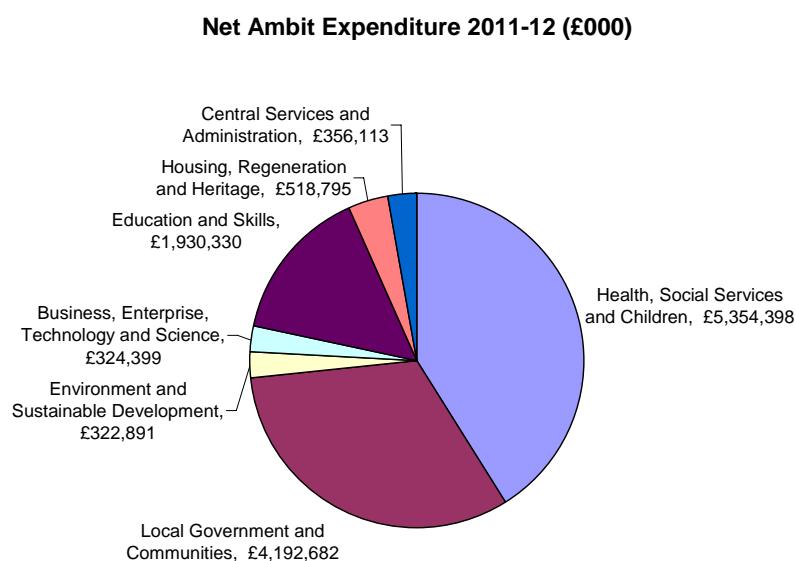
Following the elections to the National Assembly for Wales in May 2011 there are now eight Cabinet Minister and three Deputy Minister posts, plus the Counsel General:

Carwyn Jones	First Minister
Leighton Andrews	Minister for Education and Skills
John Griffiths	Minister for Environment and Sustainable Development
Lesley Griffiths	Minister for Health and Social Services
Edwina Hart MBE	Minister for Business, Enterprise, Technology and Science
Jane Hutt	Minister for Finance and Leader of the House
Huw Lewis	Minister for Housing, Regeneration and Heritage

Carl Sargeant	Minister for Local Government and Communities
Theodore Huckle	Counsel General
Alun Davies	Deputy Minister for Agriculture, Fisheries, Food and European Programmes
Jeff Cuthbert	Deputy Minister for Skills
Gwenda Thomas	Deputy Minister for Children and Social Services

## What the Welsh Government spends

In line with the approved budget the Welsh Government spent more than £13bn on behalf of people in Wales during 2011-12. Spending was broken down across key areas of responsibility as shown in the pie charts below.



All activities are continuing for financial reporting purposes up to 31 March 2012.

The outturn of £12,999,608 (2010-11: £13,514,804) compared to the Final Budget of £13,070,113 (2010-11: £13,714,642), resulting in an underspend of £70,505,000 (Page 43) which is 0.5% of the total budget. Two departments had outturn variances against budget which are above £10m. For Business, Enterprise, Technology and Science the underspend of £28,032,000 related to lower than anticipated impairment charges relating to lower market pressures in relation to property values. Local Government and Communities had an underspend of £18,877,000 which primarily related to lower than predicted road revaluation costs due to road building market pricing.

The Welsh Government reviews performance and allocates resources according to the voted budget shown on Page 43. The expenditure groupings represent the appropriate operating segments, and therefore a separate segmental report is not required.

Funding for the Welsh Government during 2011-12 was primarily provided by Parliament through the Welsh Consolidated Fund and by the European Union.

The accounts present the results of the Welsh Government for the year ending 31 March 2012 and its assets and liabilities at that date. The Welsh Government's core activities incorporated the expenditure of the Royal Commission for Ancient and Historic Monuments (Wales) (RCAHMW). The Welsh Government is responsible for operating much of the finance function of RCAHMW.

These accounts also report the assets, liabilities and the results of the Welsh Government's consolidated position. These incorporate the following:

Local Health Boards in Wales;  
Finance Wales PLC;  
Welsh Development Management Ltd;  
Ryder Cup Wales 2010 Ltd;  
Design Commission for Wales Ltd; and  
Regeneration Investment Fund for Wales LLP

The accounting policies adopted by the Local Health Boards and subsidiaries are set out in their respective financial statements. I do not consider any differences between those policies and those adopted by the Welsh Government to have a material impact on these consolidated financial statements. Accordingly, no adjustments have been made to reflect differences in accounting policies.

## **Results for the year**

The results for the period are reported in detail in the attached accounts. The Consolidated Statement of Net Expenditure (Page 44) records net comprehensive expenditure of £12,065,168 (2010-11: £11,995,482). The net assets (Page 45) have increased by £581,483,000. This is mainly due to increases in the value of the roads network and increases in student loan financial assets.

## **Movements in property, plant and equipment**

Property, plant and equipment additions in the period (Note 9) were £343,187,000. Property, plant and equipment assets were re-valued in the period, resulting in a net increase in value of £505,018,000.

## **Lending and investing activities**

As part of its normal course of business, the Welsh Government issues loans or Public Dividend Capital to other public sector bodies in Wales. The majority of these funds are issued to the National Health Service in Wales. Other loans exist with Local Authorities, Education Authorities and Housing Associations. Additionally, the Welsh Government has responsibility for managing the pre-existing National Loans Fund loans.

At 31 March 2012 the Welsh Government and its related bodies had financial assets (Note 11) totalling £1,928,195,000 comprising Public Dividend Capital of £133,311,000; Student Loans of £1,729,536,000; local authority loans of £11,022,000; investments of £18,820,000; interests in joint ventures of £16,985,000; other loans of £2,082,000; and property assets available for sale £16,439,000.

The Welsh Government loan funds are lent at a variety of interest rates, determined by HM Treasury.

### **Contingent liabilities**

Contingent liabilities that have not been provided for under IAS 37 are described in Note 23.1

### **Auditors**

The accounts of the Welsh Government are audited by the Auditor General for Wales in accordance with the Government of Wales Act 2006.

The Welsh Government also made payments to the Wales Audit Office for the external audit of grant funding and the certification of claims submitted for support under European Structural Fund Programmes, and for a range of other work conducted at the request of the Welsh Government. These charges and disclosures are included in Notes 5, 6 and 7.

### **Format of the accounts**

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury, under Section 131 of the Government of Wales Act 2006. They are a consolidation of the accounts of the Welsh Government; the Local Health Boards operating in Wales; and various subsidiary companies.

A copy of the Accounts Direction is available from the Welsh Government, Finance Department at Cathays Park, Cardiff, CF10 3NQ.

### **Our management structure and governance**

Details of the management structure and governance arrangements for the organisation are set out in the Governance Statement on page 19 of this document.

### **Senior appointments and remuneration**

The Permanent Secretary was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service.

Members of the Board at Director General level are appointed at the discretion of and by the Permanent Secretary. Civil Service Commissioners chair all openly recruited interview panels for Directors General.

All these appointments are for an indefinite period under the terms of the Senior Civil service contract. The rules for appointment are set out in chapters 5 and 11 of the Civil Service Management Code.

Appointments relating to senior managers within the Local Health Boards and subsidiary companies are detailed in their individual accounts for 2011-12.

The Permanent Secretary's remuneration is set individually by the Head of the Civil Service on the recommendation of the Permanent Secretaries' Remuneration Committee. For other members of the Board, remuneration is determined by the Senior Staff Remuneration Committee chaired by a non-Executive Director and attended by the Permanent Secretary in accordance with guidelines prescribed by the Senior Salaries Review Body and the Cabinet Office. Further details on remuneration are set out in the Remuneration Report published within these accounts.

### **Events since the end of the financial period**

Dame Gillian Morgan, Permanent Secretary and Principal Accounting Officer retires on 31 August 2012. As part of the transitional arrangement, David Richards, Director of Governance became Principal Accounting Officer from 10 July 2012.

### **Improving our performance: Enabling Government**

Our performance matters because we want to deliver better results for people in Wales. Our goal is to be one of the best performing public sector organisations in the UK.

To help us reach that goal we have developed a framework for continuously improving the organisation called Enabling Government. The framework is structured around our three organisational Values: Delivering Results, Valuing People and Achieving Excellence.

We began Enabling Government in autumn 2008 and have made substantial progress on a number of priority areas over that time. Our major improvement programmes during 2011-12:

- Introduced the Delivering Results Principles to improve the quality of the advice we put to ministers and make the steps from planning through to outcomes more rigorously embedded in the way we do things.
- Strengthened our approach to planning, financial management and programme and project management.
- Introduced a more systematic approach to performance and progression by bringing in assessment centres for promotion and a new performance and potential tool based on a 9 Box Grid.
- Started to make the organisation flatter through the process of de-layering, initially by merging grades and asking Directors General to look at their team structures

with the aim of having no more than four reporting lines between the Senior Civil Service and Team Support colleagues.

Details about Enabling Government programmes and projects can be found in the Governance Statement on page 23

### **Fit for the future**

Fit for the Future is our renewal programme for the civil service in Wales. It builds on the action we have already taken to reduce our size, maximise the use of our buildings and work together to achieve savings.

The First Minister and Cabinet have clearly set out the outcomes they want to achieve for Wales in the Programme for Government. Meeting that delivery challenge, with continued pressure on resources and fewer people means that our performance has never been more important.

We also need to do everything we can to achieve our vision of becoming one of the top performing public sector organisations in the UK so that we can do the best job possible for the people and communities we serve.

This is where Fit for the Future comes in. Launched in February 2012 we have carried out an extensive engagement exercise with everyone who works in the Welsh Government. We asked them to think about what we need to do over the next 3-5 years to renew the Welsh Government Civil Service so that we get the best from our people, our workplace and all the resources available to us.

The discussion was based around five topic areas:

- **A Dynamic and Flexible Workforce:** How can we get the right people in the right place quickly and become more agile, responsive and joined up?
- **Investing in Learning and Development:** How can we be sure people have the skills they need and get the best return on our investment in L&D?
- **A Fit for the Future Workplace:** How can we make sure we have the workspace and systems support to enable people to do the best job possible?
- **The Deal:** Being clear about what the organisation offers and what we collectively expect from our colleagues in return.
- **Valuing your Opinion:** What further opportunities can we create for people to get involved and make their voice count?

So far we have had nearly 700 team and individual responses to the engagement process.

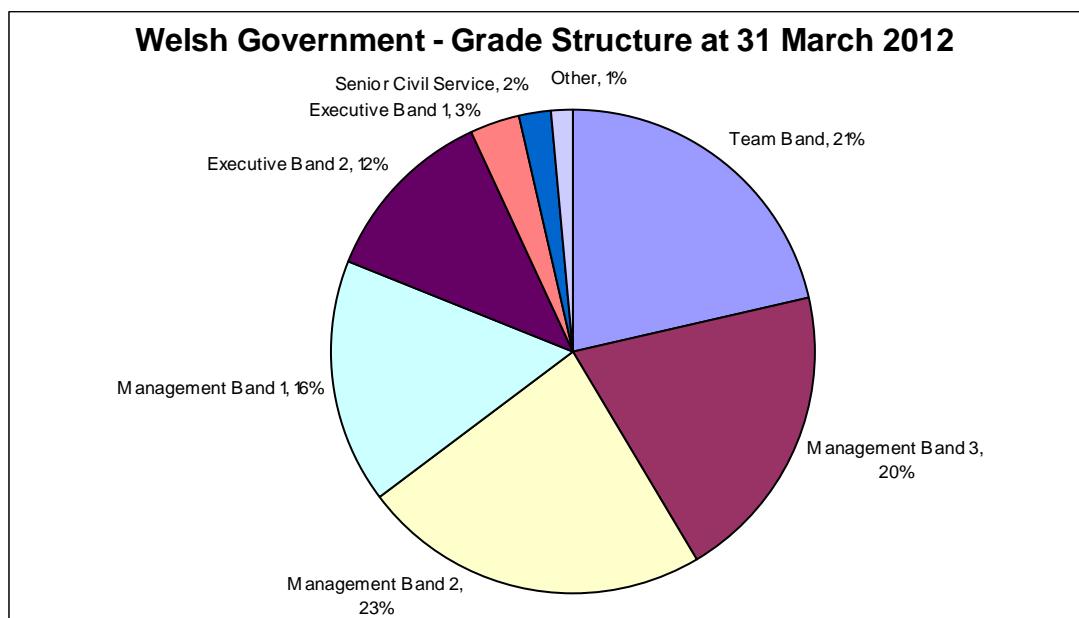
### **Our role as an employer**

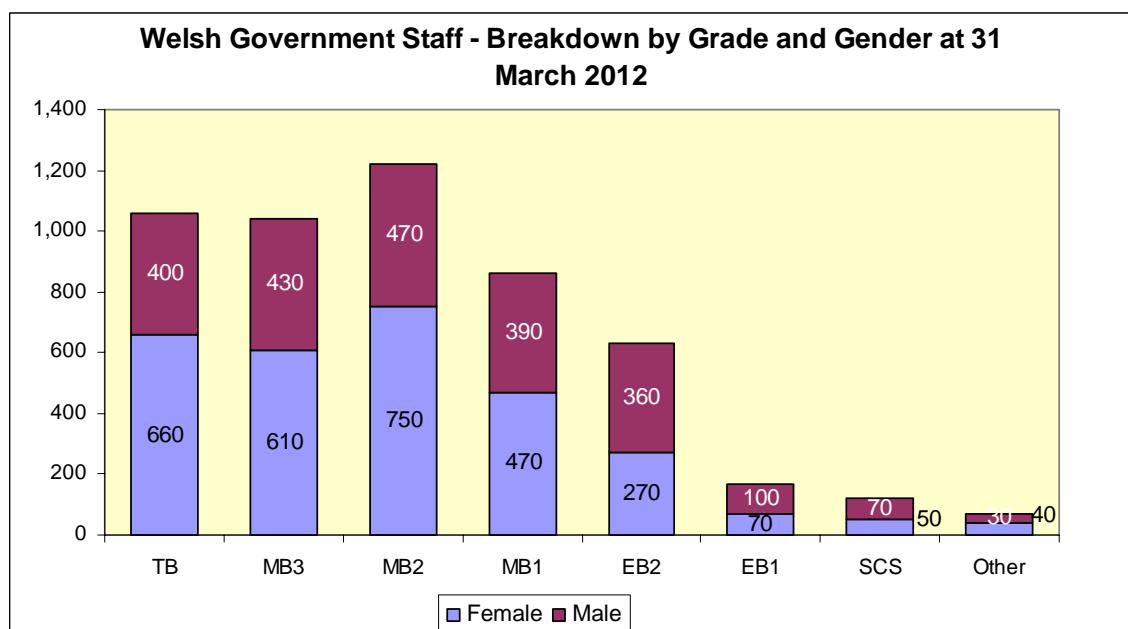
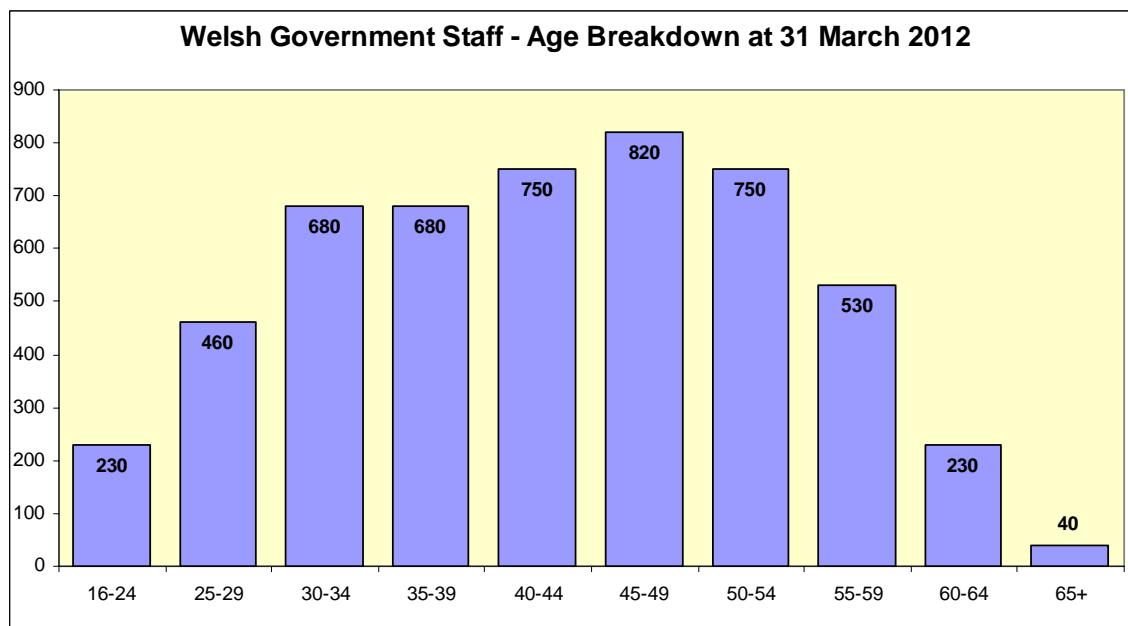
During 2011-12 we continued the exercise to reduce our staff numbers as an essential part of the action we're taking to enable us to live within reduced running cost budgets. Alongside tight controls on external recruitment, staffing levels have been reduced by a little over 300 during 2011-12, through Voluntary Exit arrangements.

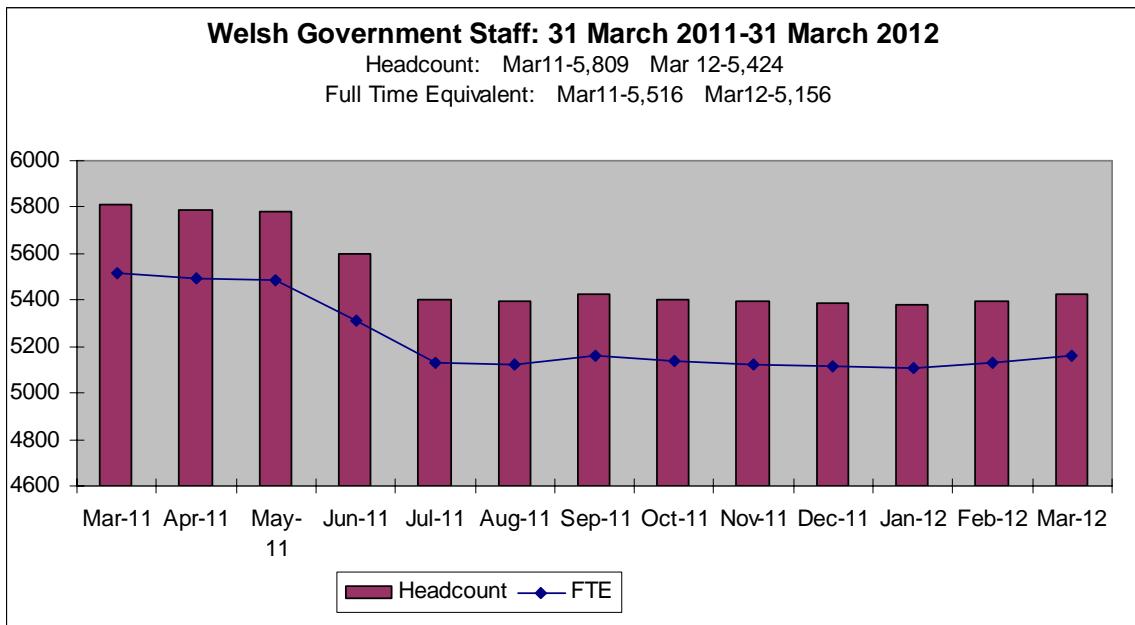
Although we are becoming a substantially smaller organisation, we maintain our commitment to Valuing People – one of our core organisational values. As a smaller and leaner organisation our people are more important than ever. Our role in delivering the Government's priorities for people in Wales over the next five years means that we need skilled, flexible and committed members of staff who can provide excellent support to Ministers and deliver effectively for people in Wales.

We make a significant investment in our learning and development programme to ensure that our employees receive the appropriate training, development and support to allow them to fulfil both their career aspirations and their responsibilities as an employee.

We also have in place an infrastructure which aims to ensure the health, safety and welfare of our staff whilst in work and provides support to them, as far as practicable, to cope with pressures both inside and outside of work.







### *Sickness Data*

#### **Welsh Government Sickness Absence**

	2010-11	2011-12
Days Lost (Short Term)	22,504	18,324
Days Lost (Long Term)	21,161	19,080
Total Days Lost (12 Month Period)	43,665	37,404
Total Staff Years	5,790	5,296
Total Staff Employed In Period (Headcount)	6,594	6,160
Total Staff Employed In Period With No Absence (Headcount)	2,711	2,735
% Staff With No Sick Leave	41%	44%
<b>Average Working Days Lost (AWDL)</b>	<b>7.5</b>	<b>7.1</b>

## Welsh Government - Staff Diversity

Breakdown at 31 March 2012

		<b>TB</b>	<b>MB 3</b>	<b>MB2</b>	<b>MB1</b>	<b>EB2</b>	<b>EB1</b>	<b>SCS</b>	<b>Other</b>	<b>Total</b>
Gender	Female	660	610	750	470	270	70	50	40	<b>2,920</b>
	Male	400	430	470	390	360	100	70	30	<b>2,240</b>
Ethnicity	Other Ethnicity	20	10	20	10	20	*	0	0	<b>80</b>
	White	940	960	1,120	780	570	160	110	40	<b>4,680</b>
	Prefer Not to Say	30	40	50	40	20	*	10	*	<b>200</b>
	No Reply	70	20	30	20	20	*	*	30	<b>190</b>
	Disabled	60	50	50	30	30	10	*	*	<b>230</b>
Disability	Non-Disabled	890	930	1,100	750	550	160	110	30	<b>4,530</b>
	Prefer Not to Say	50	30	50	50	30	*	*	*	<b>220</b>
	No Reply	70	20	20	20	10	*	*	30	<b>180</b>
	Other Belief	240	200	200	150	120	30	20	10	<b>970</b>
Belief	Christianity	450	420	550	380	270	90	50	20	<b>2,240</b>
	Prefer Not to Say	300	390	440	290	210	50	40	10	<b>1,720</b>
	No Reply	70	30	30	30	20	10	*	40	<b>230</b>
	Sexual Orientation	30	20	30	20	10	*	*	*	<b>130</b>
Sexual Orientation	Heterosexual	830	840	990	660	490	140	100	30	<b>4,070</b>
	Prefer Not To Say	130	140	170	150	100	20	10	10	<b>730</b>
	No Reply	70	30	30	30	20	10	*	40	<b>230</b>

Note: All figures rounded to preserve confidentiality. Those marked with \* are numbers less than 10.

## **Sustainability**

### **Sustainable Futures directorate**

We have continued to support organisations to adopt sustainable development as the central principle for managing their organisations, which we believe offers better outcomes for the people of Wales, now and for the long term.

The Sustainable Development Charter now has over 130 organisations working on internal sustainable development challenges, and sharing the lessons they learn with others.

The Sustainable Development Framework has provided support to local authorities across Wales to find innovative solutions to complex challenges, and is now extending this support across local service board areas.

We continue to fund Cynnal Cymru to support the Commissioner for Sustainable Futures, and to provide support and focus for sustainable development across civil society.

This year we are delivering on our commitment within the Programme of Government to legislate on sustainable development, in order to increase the scale and pace of change. The initial consultation launched in May 2012 will be followed by a White Paper consultation later in the year, with the aim of introducing legislation into the National Assembly the following year.

## **Facilities**

The Welsh Government continues to place sustainable development as its central organising principle. The organisation does everything it can to ensure that decisions are taken in an integrated, joined-up way to achieve the Government's vision of a sustainable Wales.

Our commitment to sustainability incorporates how we manage the environmental impacts of our activities. For example, the Welsh Government has committed to achieve at least a 30% reduction in our greenhouse gas emissions by 2020, and to at least a 3% per annum reduction (on a 2011 baseline). This not only ensures alignment to our Climate Change Strategy<sup>1</sup>, but also shows leadership to the public sector and more broadly, to the citizens of Wales.

A significant step was taken in July 2011 with the submission of the 1<sup>st</sup> annual report for the UK Government's Carbon Reduction Commitment Energy Efficiency (CRC) Scheme<sup>2</sup>. This involved broadening our greenhouse gas emissions monitoring from our Administrative Estate (the buildings in which we deliver Government business) to include our energy consumption responsibilities for transport infrastructure (principally trunk road lighting and communications infrastructure); our trading portfolio (buildings we make available for Welsh businesses); and historic monuments and buildings in our care. This expansion has enabled us to improve our emissions management across this wider portfolio.

On a broader front, we publish our 'State of the Estate' report<sup>3</sup> each Autumn, which contains a chapter on sustainability, demonstrating achievements across the range of environmental impacts.

Outcomes and achievements from the 2011/12 financial year are planned to be reported in the same way, later in 2012.

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<sup>1</sup> Details can be found at <http://wales.gov.uk/docs/desh/publications/101006ccestratfinalen.pdf>

<sup>2</sup> Details can be found at <http://crc.environment-agency.gov.uk/pplt/web/plt/public/2010-11/CRCPerformanceLeagueTable20102011>

<sup>3</sup> The latest version can be found at <http://wales.gov.uk/docs/hrd/publications/111213stateestate.pdf>

## **Operating fairly and transparently**

The Welsh Government has formally adopted a Code of Practice on Access to Information and a publication scheme. The Code underlines our commitment to openness, sets out the principles that we follow and also how we will respond to requests for information such as Freedom of Information requests. In 2011 the Welsh Government was monitored by the Information Commissioner and has recently signed an Undertaking to improve the timeliness of our responses.

We continue to proactively publish a wide range of information – including Ministerial Decision Reports and papers associated with the work of the Cabinet. During 2010-11, we received 853 requests for information, and information was provided in response to 66% of the resolvable requests. No information was held in relation to 34% of the resolvable requests. We have maintained a comprehensive log of responses issued on our website.

We are committed to treating our suppliers and contractors fairly. Under the Late Payment of Commercial Debts (Interest) Act 1998, we are required to pay suppliers' invoices not in dispute within 30 days of receipt of goods/services or valid invoices, whichever is the later.

Our policy is to pay purchase invoices immediately on satisfactory receipt of goods/services. During the year ending 31 March 2012, records from across Welsh Government showed that 99% of invoices were paid within 30 calendar days, and 95% were paid within 10 calendar days. The relevant percentages of invoices paid within the terms of their payment policies by the Local Health Boards, and subsidiaries are disclosed in their respective accounts.

## **Personal data**

Below is information relating to losses of personal data, including incidents reported to the Information Commissioner's Office.

<b>Table 1: Summary of Protected Personal Data related incidents formally reported to ICO in 2011-12</b>				
<b>Date of incident (month)</b>	<b>Nature of incident</b>	<b>Nature of data involved</b>	<b>Number of people potentially affected</b>	<b>Notification steps</b>
March	Loss of paper documents from secured Government premises	Bank details of 3 post offices Name, address, NI number of post office staff member	5	Post offices notified by post. Ministry of Justice, Cabinet Office and ICO notified by email
<b>Further action on information risk</b>	No further action required by ICO. The Welsh Government will continue to monitor and assess its information risk in light of these events in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

**Table 2: Summary of Other Protected Personal Data related incidents in 2011-12**

Incidents deemed by the Data Controller not to fall within the criteria for report to the ICO but recorded centrally within the Department are set out in the table below.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	4
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	2
V	Other	0

### **Our commitment to the Welsh Language**

A key development during 2011-12 was the appointment of Meri Huws as the first Welsh Language Commissioner, along with the establishment of her office. The Welsh Language Board was abolished, with most of its staff transferring to the Commissioner. However, 30 staff transferred to the Welsh Government, reflecting the Government's decision to take greater and more direct responsibility for promoting and facilitating the use of Welsh.

During 2011-12 the Welsh Government published its new Welsh Language Strategy in accordance with section 78 of the Government of Wales Act 2006. The strategy was developed following extensive public consultation and with the advice of a Ministerial Advisory Group comprising key partner organisations. The Government also conducted a public appointments process with regard to membership of the new Welsh Language Partnership Council which will advise the Welsh Ministers with regard to implementing the strategy.

The Welsh Government's revised Welsh language scheme describes how the Government will give effect, so far as is both appropriate in the circumstances and reasonably practicable, to the principle established by the Welsh Language Act 1993 that, in the conduct of business and the administration of justice in Wales, the Welsh and English languages should be treated on a basis of equality whenever we provide services to the public in Wales.

The scheme is supported by Welsh Language Action Plans, approved by each Director General. These ensure that the scheme's commitments are mainstreamed into each Directorate's work, with a focus on policy and service development, promoting the use of Welsh and including appropriate conditions with regard to the use of Welsh as grants and contracts are awarded.

### **Our commitment to Equality**

Equality, inclusion and human rights are at the heart of the Welsh Government. The core principle underpinning the Programme for Government is well being; equality and inclusion are integral to this and both are woven throughout the Programme as well as being reflected in Chapter 8, 'Standing up for Equality'.

The Welsh Government was the first administration in Britain to regulate to introduce public sector specific equality duties under the Equality Act 2010. The duties came into force in April 2011 and, in meeting them, all listed devolved public authorities in Wales must publish outcome-focused equality objectives by 2<sup>nd</sup> April 2012 as well as a Strategic Equality Plan. The duties ensure that wide

external engagement is fundamental in drawing up the equality objectives and plan, that robust evidence underpins them and that the impact of decisions on equality and good relations is built into what we do. We will ensure that our equality objectives address entrenched inequalities and that we co-ordinate action across the public sector to promote equality, tackle discrimination and foster inclusive communities.

The Equality, Diversity and Inclusion Division leads in co-ordinating the mainstreaming of equality, inclusion and human rights across the Welsh Government, working with departmental equality leads and others in each DG area.

## **Going Forward**

Looking ahead our priorities will be to follow through on Fit for the Future to renew the organisation so that we are best able to deliver for the people of Wales and support Ministers effectively and efficiently with 1,000 fewer staff.

Externally our twin focus will be to deliver the Programme for Government and the legislative programme. There is no doubt that this is an ambitious programme which will throw up some challenges but also provide opportunities to really deliver change where it is needed.

## ANNUAL GOVERNANCE STATEMENT

### Scope of Responsibility

On 10 July 2012, I took on the Principal Accounting Officer responsibility for the Welsh Government from Dame Gillian Morgan.

The following material has been provided to me by Dame Gillian Morgan, to support my consideration of the information that I am required to include within this Annual Governance Statement.

*As Principal Accounting Officer, I was responsible for ensuring that there is a high standard of probity in the management of public funds. In discharging this duty, I was 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 Welsh Ministers functions and which includes effective arrangements for the management of risk.*

*In undertaking my responsibilities, I was supported by a number of Directors General (DGs) who I have designated as Additional Accounting Officers (AAOs). Their responsibilities are set out in a formal Memorandum that strengthens corporate governance and accountability arrangements further by placing personal responsibility with them for the propriety, regularity, affordability and achievement of value for money of the public finances for which they are answerable.*

*During 2011-12, I have been keen to promote an increasing culture of openness and transparency within the organisation which I expect to result in a number of compliance issues emerging. This is reinforced by the increased status being given to whistle-blowing and the importance attached to taking seriously all concerns raised.*

*The Welsh Government delivers its aims and objectives in partnership with Welsh Government Sponsored Bodies (WGSBs), subsidiary companies and other public bodies. Accounting Officers appointed to sponsored public bodies are responsible for their organisation's management of public finances and are required to sign a governance statement which is published in the body's annual accounts. Their relationship with the Welsh Government is defined in a framework document covering each sponsored body.*

*The work on implementing the Compact for Change between the Welsh Government and local government, and improving the effectiveness and efficiency of public services is being led by the Public Service Leadership Group (PSLG). The PSLG seeks to achieve a step change in the pace of reform through harnessing both the collective leadership of members of the Group, and the wider community of public service leaders.*

*During 2011/12, Local Service Boards (LSBs) became the focal point for a significant simplification of local partnership working, with all LSBs now working towards having single integrated plans in place by April 2013. Replacing 4 previous statutory plans, these plans are outcomes focused, linking national priorities in Programme for Government with local need. They are driving more joined up commissioning of services to improve outcomes for vulnerable people and disadvantaged communities, with an explicit emphasis on sustainability through early intervention and prevention.*

## **Funding for Local Authorities**

*The Welsh Government provides most of the funding for local authorities in Wales, including unitary, police, national park and fire and rescue authorities.*

*The funding for local authorities comes from a number of sources. The largest component comes from the Welsh Government through grants that can be used by the authorities for any purpose they choose in delivering the services for which they are responsible. These grants are known as non-hypothecated grants and include the largest single grant they receive, the Revenue Support Grant.*

*The Welsh Government also provides funding to local government in the form of hypothecated grants. These grants can only be used for the specific purposes for which they are provided.*

*In addition to the funding authorities receive from the Welsh Government, they receive some hypothecated grants from other government bodies. They also receive income from nationally set non-domestic (business) rates, which is pooled centrally and redistributed in line with working age population, and from locally set council tax.*

*Local authorities also receive grants from the Welsh Government for capital spending. In addition, they can determine how much they can afford to borrow based on a prudent assessment of their finances using professional codes of practice. The primary and secondary legislation (made by the National Assembly for Wales) provides the broad framework for the 'prudential system' but the system places the emphasis on local authorities planning their needs for capital expenditure in a sensible and long term way based upon sound management of assets and finances.*

*The Revenue Support Grant is distributed on the basis of a formula which reflects the factors that drive local authorities need to spend to deliver the range of services they are responsible for delivering including education and social care.*

*Assurances around the probity in the use of these funds are through the maintenance of proper accounting and governance arrangements including the production of authorities' annual accounts in keeping with the statutory requirements set out in the accounting and audit regulations and in line with proper accounting practices. There is then a full audit of these accounts by the authority's auditors appointed by the Wales Audit Office and they are scrutinised through the individual bodies' governance arrangements.*

*Specific grants will also fall under these arrangements, however they can, when sufficiently material, have in addition specific audit arrangements in place to provide the grant provider with specific assurances around the use of the specific funding in line with the terms and conditions set for the specific grant.*

*Each local authority has an appointed officer under section 151 of the Local Government Act 1972 who has statutory duties to ensure that there is proper administration of financial affairs. This includes ensuring that the authority has internal audit arrangements in place to provide internal assurances that processes are operating appropriately and delivering services. The council will also be held to account by the scrutiny functions within the council and they are also subject to annual improvement audits conducted by the Wales Audit Office covering value for money as well as governance and capacity.*

## **Funding for Health Bodies**

*Unhypothecated revenue funding is provided to Local Health Boards (LHBs) to commission and provide Hospital and Community health services, and to meet the costs of drugs prescribed by GPs for their resident populations. In addition there are funding streams to cover the costs of payments to independent contractors (including GP's, General Dental Practitioners and Pharmacists). This funding is currently distributed in accordance with a formula which takes account of population and needs. Additional targeted funding is also issued to support the achievement of Welsh Government objectives which is added to the core allocation.*

*Capital funding is provided to Local Health Boards to support the All Wales Capital Programme and other Welsh Government objectives on the basis of business cases submitted for approval. Discretionary capital funding is also provided to support locally identified priorities.*

*The Chief Executives of the LHBs are designated as Accountable Officers to ensure there is an effective system of internal control within their individual organisation. Each LHB has its own Board charged with steering, monitoring and overseeing performance, and ensuring good governance and risk management. To support the Chief Executives and the Boards each LHB has an Audit Committee and Internal Audit arrangements, in addition to the work of external auditors.*

*LHBs are required to produce annual balanced financial plans setting out how they will operate within the funding made available to them to achieve effective service delivery, quality and safety standards and service change for the creation of sustainable high quality patient services.*

*Monthly detailed financial information is received from the LHBs detailing expenditure to date, forecast outturn and identifying significant risks and issues. Progress against the Core Delivery performance targets is also reported either on a weekly or quarterly basis, depending on the type of indicator.*

*Regular meetings are held by the NHS Accounting Officer and his officials with LHB Directors of Finance, Chief Executives and Joint Executive Teams to consider all aspects of reported performance, and to provide a regular interface for the explanation by LHBs of results achieved through the handling of emergent risks and current issues.*

## **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 achieved.*

*The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process 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 the to manage them efficiently, effectively and economically.*

*This framework has been developed to comply with good governance principles and we are planning to encompass these principles within our own Corporate Governance Code during the course of the year.*

*I chair the Board, made up of seven people at Director General (DG) level, each leading major areas of Government responsibility in support of Ministers. The Board also includes three Non Executive Directors who bring a wide range of experience and external scrutiny to its work.*

*The Board meets on a monthly basis to set strategic direction and ensure the organisation is performing effectively. The Board takes particular responsibility for assessing and mitigating the highest level corporate risks, supporting me in my role as Principal Accounting Officer and overseeing major organisational improvement and investment programmes.*

*The Board regularly reviews its effectiveness and Board members have participated in a number of development sessions over the period to further the effectiveness of individuals and the Board collectively. I also meet regularly with Board members on a bilateral basis. The First Minister attends Board meetings twice a year providing a further opportunity for challenge. During the period covered by these accounts and their signing, no Ministerial directions have been issued.*

*Board membership details for the year are provided below.*

<b>Member</b>	<b>Position</b>		<b>Meetings Attended</b>
Gillian Morgan	Permanent Secretary		8/9
Clive Bates	DG, SF	Until end Feb 2012	8/8
Bernard Galton	DG, PPCS		7/9
Michael Hearty	DG, SPFP		8/9
Gareth Jones	DG, SF	From March 2012	1/1
June Milligan	DG, LGC		9/9
James Price	DG, BETS		9/9
Emyr Roberts	DG, DfES		9/9
David Sissling	DG, HSSC	From May 2011	8/9
Paul Williams	DG, HSCC	Until May 2011	1/1
Elan Closs Stephens	Non-Exec. Director		7/9
James Turner	Non-Exec. Director		9/9
Adrian Webb	Non-Exec. Director	From January 2012	3/3

*The Board has two sub-committees to deal with key aspects of organisational business. The Corporate Governance Sub-Committee advises me in my capacity as Accounting Officer and, in particular, my responsibilities for risk management, audit, internal controls and corporate governance. This sub-committee is chaired by a Non-Executive Director and attended by me.*

*Non- executive presence on the Board and Corporate Governance Committee has been increased to three with effect from January 2012 to provide greater challenge and support.*

*The Remuneration Sub-Committee is responsible for Senior Civil Service (SCS) pay and conditions, senior succession planning and recruitment, and all SCS personal cases. The sub-committee is chaired by a Non-Executive Director and attended by me.*

*The Board also establishes ad-hoc groups to deliver key corporate priorities.*

*The Operations Group was set up to ensure the strategic decisions made by the Board are managed on a day-to-day basis across the organisation. The Group is chaired at Director level on a fixed term*

*basis. It includes senior representatives from every DG area to ensure that the organisation is able to take joined up action to improve the way we operate.*

*The Group commissions and monitors a range of management information and data on aspects of our organisational performance, including data on issues such as staffing levels, sickness absence, security and efficiency savings. It also has an important role in ensuring that organisational improvement and change are well planned and implemented.*

### ***The Risk and Control Framework***

*The Board is responsible for overseeing the implementation of the risk management policy and process. The risk management policy has been reviewed during the year and has the key objective of ensuring that the Welsh Government has a consistent process in place for measuring, controlling, monitoring and reporting risk across the whole of the organisation. It aims to promote a more innovative, less risk averse culture in which the taking of appropriate risks in pursuit of opportunities to benefit the Welsh Government is encouraged. It is important that the Welsh Government is not unduly risk averse and, in pursuit of its objectives, is prepared to take risks which have been properly assessed, evaluated and managed. This will ensure more effective exploitation of opportunities as they arise whilst accepting that some failures might occur.*

*Our approach to risk management is set out in our framework document, “Risk Essentials”, which details the processes by which risks are identified and managed within the Welsh Government. This is currently being reviewed by the Board alongside work being undertaken on developing a stronger and more effective approach to corporate business planning and performance reporting. The intention is to more closely align both processes.*

*Under this framework, risks are identified, evaluated and managed at a number of different levels:*

- *The Board is responsible for managing corporate risks which may prevent or hinder the organisation from achieving its strategic objectives. The corporate risk register is reviewed on a quarterly basis by the Board taking into account the views of the Corporate Governance Committee.*
- *Each Director General/Director is responsible for managing their departmental risks which may prevent or hinder them from achieving their objectives and outcomes set out in their departmental plans. These are reviewed on a regular basis by their senior management teams and by their own departmental Corporate Governance Committees and are underpinned by lower level risk registers.*
- *Risk registers are in place for major projects managed through approved programme and project management methodology eg Managing Successful Programmes (MSP) and Projects in Controlled Environments (PRINCE). Project risk is assessed using the Cabinet Office Gateway Risk Potential Assessment model and are reviewed on a regular basis by each project board.*

*Our awareness and management of risk is embedded in policymaking, planning and delivery. In particular, training modules have been developed on risk management for all staff and on project management for programme and project managers with our external training provider.*

*To review the control environment, I required Directors General/Directors within the Welsh Government to complete an internal control questionnaire and Statement of Assurance to provide me*

*with an assessment of how effectively their internal controls framework is operating within each of their departments.*

### ***Developments to improve the Control Framework***

*The Welsh Government aims to be one of the top performing public sector organisations in the UK. Enabling Government is a simple framework which sets out what we are doing to help us achieve this vision. It is based on three values: valuing people, delivering results and achieving excellence. The framework shows our top priorities for improving the organisation in the next 3-5 years. Behind the framework we have developed an action plan that outlines the key activities across the organisation which contribute to those improvements. This involves investing in a portfolio of projects designed to improve process, achieve efficiencies, achieve compliance and deliver better value for money.*

*Additionally we have translated our values into principles to guide the delivery of results. The Delivering Results principles provide a framework for policy development, and delivery, which ensure suitable consideration is given to the business case supporting Ministerial advice. The principles are embedded through a system of Additional Accounting Officer assurance.*

*Our approach in the management of the Enabling Government projects has been further strengthened by the creation of a Portfolio Management Office. The office ensures all corporate change initiatives are prioritised in line with organisational strategic objectives, delivered efficiently and cost effectively and the potential benefits are realised.*

*There are currently a number of corporate change projects funded through the Enabling Government Portfolio. They are:*

- *the Improving Financial Management Programme whose objective is to continually improve financial management capabilities, skills, systems and processes to be in line with current best practice. The programme has built on previous initiatives to continue to deliver better forecasting and financial control to meet the increasing financial pressures and challenges. The impact of these measures is reflected in the outturn performance set out in the management commentary and accounts. In 2011/12 this included the introduction of new budgetary legal arrangements agreed with Ministers that have led to better forecasting and financial management arrangements within an overall ambit;*
- *the Consolidation project which is making improvements to our SAP business system and through improved system performance and operational standards it is ensuring that our business system creates further opportunities and benefits in support of key business processes;*
- *the roll out of IShare, our electronic records and document management system which is now available to all staff;*
- *the Grants Management project to establish an effective and sustainable grant management framework for the future management of grants and funding;*
- *the Delivering Better Outcomes Project which supports WG staff to understand what outcomes are and how their work should contribute to delivering them;*

- *the People project which will deliver a new system bringing together HR, payroll, performance and skills data and be linked with our financial system;*
- *the Online Information and Services project to transform the way we deliver services to, and interact with, citizens and businesses online;*
- *The Fit for the Future Toolkit project which will provide an intranet-based support and guidance resource for everyone working within WG, bringing together in an accessible way the tools, guidance, support, best practice and training that people need to do their jobs well.*

*The Grants Centre of Excellence team has continued its work on the development of an effective and sustainable framework for the future management of grants. It is nearing completion of its benchmarking exercise which has involved an assessment of all Welsh Government funding programmes against a set of minimum standards to identify good practice and areas for improvement. Detailed guidance covering all stages of the funding process has been produced to help embed consistent and compliant practices across all grant funding schemes. A suite of training courses is also being developed. This will help ensure that we have an effective system in place to manage grants appropriately and provide value for money from our investment in them.*

*Our Counter Fraud capability has developed further in the past year. The Head of Counter Fraud, in addition to advising and strengthening our policies and procedures in relation to fraud prevention, has been busy raising the profile and awareness of counter fraud; both internally and externally with our stakeholders and partners. He has completed several presentations and updates at several Corporate Governance Committees, business groups, Wales Audit Office, police forces, CIPFA and the Welsh Fraud Forum. A number of local authorities in Wales have also requested and received advice from our Head of Counter Fraud on suspected fraud involving Welsh Government funded schemes. The Head of Governance and Assurance represents the Welsh Government at the Cabinet Office Fraud Error and Debt Champions and Fraud Alert Coordinator Events. We are also working closely with the National Fraud Authority on a number of fraud awareness initiatives and have been recognised for some of our own initiatives and counter fraud practices. The Head of Counter Fraud is linking in with the Grants Management Project to develop our controls and due diligence checks.*

*The counter fraud branch has a number of areas and initiatives to introduce in 2012-13 to ensure we continue to improve our counter fraud capability further.*

*Last year, I reported that the focus of our risk management centred on the requirement to make reductions in our budget whilst still delivering the key objectives and priorities of the Welsh Government. During 2011-12 the organisation continued to reduce its headcount substantially through voluntary severance schemes and tight controls on external recruitment in order to meet the £42m reduction in our running cost budgets over three years. The risks inherent in this major downsizing were managed through an increased focus on workforce planning and organisational development, both corporately and in individual DG areas. During the year, we also launched Fit for the Future – a major organisational engagement exercise which gave everyone who works for Welsh Government the opportunity to get involved in determining the workforce and workplace we need to be able to deliver for Ministers in the medium to long term with over 1,000 fewer people.*

*Other initiatives designed to develop and improve our governance framework include:*

- *A more consistent approach to business planning, clearly linked to delivery of the Programme for Government published in September 2011. This document sets out the strategic vision for the organisation and outlines how the Welsh Government will focus our*

*resources on improving twelve cross cutting outcomes. These twelve outcomes are the twelve conditions of wellbeing, or quality of life conditions that we are seeking to improve for the people of Wales. Our planning work for the remainder of 2011-12 has focussed on embedding an outcomes focussed approach to planning and reporting, based around Results Based Accountability. This work has resulted in a Welsh Government Corporate Plan for 2012-13 that allows the organisation to track our progress in delivering the improvements in outcomes set out in the Programme for Government.*

- *The development of the Wales Infrastructure Investment Plan to prioritise, scope, and coordinate delivery of our major infrastructure investments. It sets out our 7 high level infrastructure investment priorities, the tools and processes we will be using to prioritise and improve the efficiency, economy and effectiveness of our investments and our policy on Innovative Finance and how we will deploy it to supplement infrastructure investment. It also sets out a detailed view of sectoral plans with a pipeline of projects to support our delivery partners develop key infrastructure - providing one point of reference for all strategic infrastructure activity and encouraging the private sector to invest in Wales by providing greater clarity and certainty for our medium and longer-term investment priorities. The tools and processes include the introduction of a high-level Committee for Strategic Investments to prioritise nationally significant schemes and advise ministers on the allocation of central reserves. We have also established a Welsh major projects authority to oversee the delivery of high risk, high value programmes and projects*
- *The Welsh Government is currently discussing with HM Treasury the case for reforming the means by which its block grant is calculated and for giving Welsh Ministers access to borrowing powers to fund capital investment. In parallel, the UK Government has established the Silk Commission to consider the case for wider fiscal devolution, including the possibility of devolving certain tax-varying powers to Wales. While the financial reform process clearly offers significant potential benefits to the Welsh Government, any change to the current funding system is likely to create risks for the organisation. It is not possible to quantify those risks with confidence ahead of the outcome of the process being known.*
- *The introduction of Principal Accounting Officer notices which provide guidance to accounting officers and staff on particular circumstances, drawing on the learning from recent cases, and are intended to supplement existing guidance. Two notices have been issued on i) attendance at external boards by officials and ii) delegation of financial responsibility 2012-13 and the exercise of ministerial functions by officials.*
- *Building upon the current arrangements in place, we are developing a Welsh Government Programme and Project methodology for use across the organisation using best practice from MSP and Prince 2 and putting them into a Welsh Government context. This is expected to be launched later this year. Gateway Reviews provide independent assurance of programmes and projects at specific points in their lifecycles and are mandatory for all mission critical and high value programmes and projects.*
- *The Welsh Government continues to play an important role in emergencies in or affecting Wales. Three dedicated Strategic Co-ordination Centres were opened during the year across Wales to enable the emergency services, local government and other responders to co-ordinate their response to emergencies and provide training facilities. These link into the Emergency Co-ordination Centre which supports the Wales Civil Contingencies Committee and Welsh Ministers in their duties and, in turn, links into the UK Government Departments and other devolved administrations to provide a robust communication process during an emergency.*

- *We continue to develop our business continuity arrangements. Each department has a business continuity plan in place containing a register of critical business activities and related dependencies, along with guidance on recovery needs should disruption occur. Each Directorate Senior Management Team is required to provide a signed Statement of Assurance every 6 months confirming that the plans continue to be relevant, contain adequate control measures and are up-to-date.*

### ***Review of Effectiveness***

*As Principal Accounting Officer, I had responsibility for reviewing the effectiveness of the governance framework including the system of internal control. I took assurance from a wide spectrum of activities and my review of the effectiveness of the system of internal control was informed by the work of the internal auditors; and the executive managers within the Welsh Government who have responsibility for the development and maintenance of the internal control framework, and for acting on comments made by the external auditors in their management letter and other reports. I have been advised on the implications of my review of the effectiveness of the system of internal control by the Board and the Corporate Governance Committee and all of the key development improvements are outlined in this statement.*

*The Welsh Government has an Internal Audit Service, which operates to standards defined in the Government's Internal Audit Standards. They undertake a full programme of work based upon an analysis of the major risks facing the organisation. The Head of Internal Audit submits regular reports to the Corporate Governance Committee on progress in implementing the plan. He also prepares an annual independent opinion on the adequacy and effectiveness of the system of internal control. I regularly meet with him to discuss the current activity and specific internal control issues.*

*Internal Audit Service continues to co-ordinate their work with that of WAO. Co-ordination of audit plans has progressed significantly this year with planned assignments and special investigations being successfully undertaken. An updated joint working protocol underpins the approach taken and quarterly liaison meetings are held to share information and agree joint assignments.*

*The opinion of the Head of Internal Audit, set out in his annual assurance report, is that overall the Welsh Government has a sound framework of control which provides substantial assurance regarding the effective and efficient achievement of its objectives.*

*He has provided a substantial assurance opinion for each of the Director Generals with the exception of the Department for Business, Enterprise, Technology and Science (BETS) which was provided with an overall limited opinion. This was due to the control weaknesses found in business critical parts of the Department. It should be noted that there were significant changes within the Department following the Assembly election and the resulting changes to Ministerial portfolios, which resulted in the creation of a new BETS portfolio. I am encouraged by the fact that BETS have recently strengthened the central finance and governance functions within the new BETS structure. It has also developed a more robust and integrated planning and in-year performance monitoring system which will address a number of key recommendations made in audit reports, particularly relating to business finance.*

*As detailed in the Annual Control Report and Opinion 2011, the European Funds Audit Team (EFAT) submitted an Unqualified Opinion on the four Structural Funds Operational Programmes in December 2011. The work of EFAT was reviewed by the EC auditors in 2011 to obtain assurance on the effective functioning of Wales Audit Authority. The Head of Corporate Governance and Assurance has received their interim report and their provisional conclusion on the Wales Audit*

*Authority is Category 2 – Works - but Some Improvements are Needed. The report includes recommendations relating to the systems audits of the Welsh European Funding Office and the audits of projects funded by the EC which have been implemented by EFAT.*

*Based on its work over this reporting period, in the Chair's Annual Report for 2011-12, the Corporate Governance Committee has provided substantial assurance on the adequacy of audit arrangements for the Welsh Government and on the assurances provided to me as Principal Accounting Officer in respect of the governance, risk management and control arrangements operated within the organisation.*

*In addition to the main CGC, all parts of the organisation are covered by a Departmental CGC. All CGCs have met regularly to advise the Accounting Officer and DGs throughout the year. I am satisfied that these committees are operating in an effective manner and provide good support to both me and DGs in the monitoring and review of risk, control and governance processes.*

*Based on my review of internal controls and all other information available to me, I am satisfied that, subject to the issues raised in the following paragraphs, the Welsh Government had in place during the year appropriate controls to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.*

### ***Information Governance***

*As Principal Accounting Officer I was responsible for ensuring that 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.*

*Information risk continues to have a high priority throughout the Welsh Government featuring in both corporate and departmental risk registers. Throughout the year there have been some important enhancements to information security governance and processes:*

- *Privacy Impact Assessments have been introduced to ensure compliance with the mandatory requirement that government departments carry out formal assessments for all new activities which involve the use of personal data.*
- *The introduction of the Knowledge and Information Management Security Group which replaced a number of other groups will ensure visible and effective leadership for setting and overseeing the corporate strategic direction of knowledge, information management and information security. This group will support my Senior Information Risk Owner in discharging his duties and complying with appropriate legislation.*

*In line with Cabinet Office requirements, the Welsh Government has participated fully in the government departments' Information Risk Return. This process has a particular emphasis on information governance within the Welsh Government and instances where personal information is shared with third parties. The process will allow my Senior Information risk Owner to provide the Cabinet Office with high level summaries of our information risks and examples of best practice as well demonstrating continuous improvement against the Information Security Maturity Model.*

*Information risk continues to be supported by the Welsh Government's accreditation against ISO 27001 – the international standard for information security management. This provides assurances that the corporate IT system and associated security policies comply with the requirements of the standard and are aligned with recommended procedures. The Internal Compliance Programme for*

2010-11, conducted by Internal Audit Services, and the external accreditation inspections concluded that the Welsh Government has robust processes in place and has met its commitments under the standard.

Information on significant lapses of protective security is provided in the management commentary section of these resource accounts.

### **Significant Internal Control Issues**

In previous years I have reported on some specific internal control issues. The following paragraphs set out progress made in these areas.

Last year I reported that a significant amount of audit attention had been focussed on visits to Communities First Partnerships and Grant Recipient Bodies. During 2011-12 we reduced the number of these visits and concentrated our efforts on several key areas, namely; where the organisation acted as Grant Recipient Body for a large number of Partnerships or in areas where there continued to be management concerns.

During 2011-12 we continued to work with North Wales Police in respect of the issue regarding Plas Madoc Communities First. This culminated in the former Plas Madoc Communities First Coordinator appearing in Mold Crown Court in November 2011, to face charges of fraud and theft. During the trial she pleaded guilty to nine charges of fraud and was sentenced to 32 months imprisonment. We continue to liaise with the Police in respect of the Proceeds of Crime and the confiscation of assets regarding this matter.

In my report last year I referred to the independent review of corporate governance arrangements which I commissioned in the then Department for the Economy and Transport. The report made a number of recommendations which have led to the implementation of strengthened robust governance processes and systems within the (now) Department for Business, Economy, Technology and Science (BETS). I feel that this Department is in a much stronger position from a governance perspective now than it was at the time of the review.

One of the significant internal control issues I brought to attention in my Report last year related to a conflict of interest matter involving a member of staff in regard to the acquisition and disposal of a property in North Wales, within the then Department for the Economy and Transport. Issues associated with the property transaction and the value for money obtained have subsequently been reviewed by the Auditor General for Wales and his report was published in June and is currently being considered by the Public Accounts Committee.

On cost pressures in the NHS, all Local Health Boards (LHBs) were provided with additional recurrent funding for the first time in 2011-12, in order to place them on a more sustainable financial footing going forward. I am pleased to report that all LHBs met their financial targets for 2011-12 although three organisations required a small level of additional funding in March, drawn down as an advance of their 2012-13 allocation. For those organisations that required an advance of their 2012-13 allocation an external review of their financial management arrangements has taken place. Whilst strong and robust financial monitoring arrangements remain in place, further improvements in the accountability and responsibility arrangements within the NHS will be introduced later this year following the conclusion of work on a 'New Financial regime'.

Three significant internal control issues have been identified by my 2011-12 review. I have acted swiftly to investigate all such cases and address any identified weaknesses. The first relates to the management of a number of grant schemes across the organisation where weaknesses in financial and performance monitoring arrangements have been identified. Grants management remains an

area of key concern, particularly with regard to ensuring the right funding route is chosen and that appropriate processes are in place to monitor value for money is being achieved.

*The most publicised incident involved the All Wales Ethnic Minority Association (AWEMA). A joint investigation with the Big Lottery Fund concluded that that there were significant and fundamental failures in the control and governance framework within AWEMA. Following the issue of the report all grant funding to the organisation was terminated. A task and finish group was set up to deal with on-going issues, in particular the recovery of WEFO and Welsh Government funding. I have also asked the AGW to undertake a full investigation of our involvement with AWEMA going back over 10 years to ensure any lessons identified can be taken on board. I expect the work being taken forward by the Grants Centre of Excellence will help to ensure that internal controls are strengthened in this area in the future.*

*The second relates to governance issues which emerged during the course of the year around the need for more effective programme management and coordination of the Works, a major cross departmental programme of work in Ebbw Vale which is receiving funding from the Welsh Government. Shortcomings were identified about the previous handling of this project which related to inadequate accountability, poor documentation of decisions and insufficient attention being paid to ensuring that financial commitments which had been made by the Welsh Government were completely affordable within the then existing budgets. Once I became aware of the issues and concerns I intervened to commission a full review of the programme to put it onto a sound and joined-up programme management footing. There is now a Steering Board chaired at DG level which has representation from all the relevant parts of the office and the issues around documentation and budgetary cover have been addressed. I also commissioned a lessons learned report to ensure that we learn from this experience for the future and the recommendations from that report are being implemented as well.*

*The third relates to the Local Government Boundary Commission for Wales (LGBCW). An independent review of the Commission found it to be 'not fit for purpose'. As a result the Minister for Local Government and Communities removed the existing Commissioners and appointed an interim Commission. During this period the Secretary also left the organisation. This resulted in the Director General for Local Government and Communities taking on the role of Accounting Officer for the Commission. In this role she commissioned a review from Internal Audit to strengthen the corporate governance arrangements of the LGBCW. This work has now been completed and Internal Audit has recently confirmed that the recommendations made have been satisfactorily implemented. A new Commission is now in place and arrangements are in hand for the recruitment of a new Secretary. This will enable the progress made in 2011-12 to be consolidated and built upon in 2012-13.*

*The underpinning themes arising from these recent investigations include the need for:*

- *Good and appropriate record keeping;*
- *Due diligence*
- *Following up information the organisation has in its possession; and*
- *Improving the organisation's ability to learn lessons.*

*I am satisfied that risks are generally well managed and that our internal controls are improving significantly and, where there are weaknesses, action is in place to tackle them.*

**Dame Gillian Morgan  
Permanent Secretary  
18 July 2012**

Based on the above assurances from the former Principal Accounting Officer, which I have discussed with her, and from my own review of the matters required to be included within this Governance Statement, I am satisfied that for the 2011-12 financial year a sound governance framework and system of internal control were in place. They supported the achievement of the Welsh Government policies, aims and objectives; facilitated effective exercise of Welsh Ministers' functions; and safeguarded public funds and assets for which the former Principal Accounting Officer was personally responsible. These matters of governance and control are in accordance with the responsibilities that had been assigned to the former Principal Accounting Officer, and now to me, in HM Treasury's Welsh Government Accounting Officers' Memorandum.

David Richards  
Director of Governance and Principal Accounting Officer  
23 July 2012

## **REMUNERATION REPORT 2011-12**

### *Remuneration Policy*

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. For further information see the Annual Report.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Ministers and others whose 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](http://www.ome.uk.com)

The Remuneration Board established by the National Assembly for Wales Remuneration Measure 2010 has responsibility for setting Assembly Members' pay and allowances. The Remuneration Board's report, 'Fit for Purpose' published in March 2011 concluded that the 2010-11 salary should be fixed for four years from the start of the 4<sup>th</sup> Assembly. This was confirmed in the Determination on Members' Pay and allowances (No 2) published in July 2011.

### **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 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](http://www.civilservicecommission.org.uk)

### **Remuneration (including salary) and pension entitlements \***

\*This section is subject to audit.

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 below.

	2011-12	2010-11
Ministers	Salary £	Salary £
Carwyn Jones <i>First Minister</i>	132,402	132,298
Edwina Hart <i>Welsh Minister</i>	94,598	94,544
Lesley Griffiths <i>Deputy Welsh Minister (to 12/05/2011) then Welsh Minister (from 13/05/2011)</i>	92,855	79,448
Jane Hutt <i>Welsh Minister</i>	94,598	94,544
Carl Sargeant <i>Welsh Minister</i>	94,598	94,544
Leighton Andrews <i>Welsh Minister</i>	94,598	94,544
John Griffiths <i>Counsel General (to 11/05/2011) then Welsh Minister (from 13/05/2011)</i>	94,344	94,544
Huw Lewis <sup>2</sup> <i>Deputy Welsh Minister (to 12/05/2011) then Welsh Minister from 13/05/2011</i>	92,855	79,448
Theodore Huckle <i>Counsel General (from 27/05/2011)</i>	81,122	-
Jane Davidson <i>Welsh Minister (to 05/05/2011)</i>	3,933	94,544
Ieuan Wyn Jones <i>Deputy First Minister (to 12/05/2011)</i>	10,923	94,544
Elin Jones <i>Welsh Minister (to 12/05/2011)</i>	10,923	94,544
Alun Ffred Jones <sup>1</sup> <i>Welsh Minister (to 12/05/2011)</i>	10,294	89,063
Jocelyn Davies <sup>1</sup> <i>Deputy Welsh Minister (to 12/05/2011)</i>	8,910	77,081
Alun Davies <i>Deputy Welsh Minister</i>	70,301	-
Jeff Cuthbert <i>Deputy Welsh Minister</i>	70,301	-
Gwenda Thomas <sup>1</sup> <i>Deputy Welsh Minister</i>	78,255	78,222

<sup>1</sup> Did not draw full Members Salary

<sup>2</sup> Includes £2,916 salary sacrificed in respect of childcare vouchers

The salary and benefits in kind of the Welsh Ministers which are reflected in the accounts of the National Assembly for Wales Commission are shown in the table above. Ministerial salaries are in addition to their salaries and entitlements (including pension entitlements) as Assembly Members.

	<b>2011-12</b>		<b>2010-11</b>	
Officials	Salary	Bonus payments	Salary	Bonus payments <sup>6</sup>
	£000	£000	£000	£000
Dame Gillian Morgan <sup>1</sup> <i>Permanent Secretary</i>	160-165	-	160-165	-
Paul Williams <sup>2</sup> <i>Director General (to 30/04/2011)</i>	10-15 (125-130 full year equivalent)	-	190-195	-
David Sissling <sup>3</sup> <i>Director General (from 09/05/2011)</i>	175-180 (195-200 full year equivalent)	-	-	-
Bernard Galton <i>Director General</i>	130-135	5-10	130-135	5-10
Emyr Roberts <i>Director General</i>	125-130	5-10	130-135	-
June Milligan <i>Director General</i>	130-135	-	50-55 (130-135 full year equivalent)	-
James Price <i>Director General</i>	120-125	5-10	25-30 (100-105 full year equivalent)	-
Michael Hearty <sup>4</sup> <i>Director General</i>	145-150	-	80-85 (130-135 full year equivalent)	-
Clive Bates <i>Director General (to 29/02/2012)</i>	115-120 (130-135 full year equivalent)	-	130-135	-
Gareth Jones <i>Director General (from 01/03/2012)</i>	5-10 (110-115 full year equivalent)	-	-	-

	<b>2011-12</b>		<b>2010-11</b>	
Officials	Salary	Bonus payments	Salary	Bonus payments <sup>6</sup>
Elan Closs Stephens <sup>5</sup> <i>Non-Executive Director</i>	10-15	-	10-15 <sup>5</sup>	-
James Turner <i>Non-Executive Director</i>	10-15	-	10-15	-
Sir Adrian Webb <sup>7</sup> <i>Non-Executive Director (from January 2012)</i>	0-5	-	-	-
Band of Highest Paid Director's Total Remuneration (£'000)	195-200		190-195	
Median Total Remuneration (£)	31,800		30,300	
Ratio	6.2		6.3	

<sup>1</sup> Permanent Secretaries decided not to accept individual non-consolidated performance related pay awards (bonuses) in relation to the 2010-11 and the 2011-12 performance years.

<sup>2</sup> Paul Williams was seconded until 01/2/11 from Abertawe Bro Morgannwg University LHB. He was then employed by Welsh Government from 01/2/11 until 30/04/11.

<sup>3</sup> David Sissling is seconded from Abertawe Bro Morgannwg University LHB.

<sup>4</sup> Michael Hearty's salary includes £15,192 of taxable travel allowances under the relocation policy.

<sup>5</sup> Elan Closs Stephens received separate payment of £10,175 in 2012-13 in respect of services in 2011-12 as Chair of the Anglesey Recovery Board .

<sup>6</sup> Figures in this column relate to Senior Civil Service variable payments. These are contractual performance related variable pay.

<sup>7</sup> Adrian Webb received separate payment of £24,938 in respect of the Wales Skills and Employment Board

## 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. 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, two Director General's and the three non-executive Directors. Variable payments are based on performance levels attained and are made as part of the appraisal process. The variable payments reported in 2011-12 relate to performance in 2010-11.

## 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, and is disclosed to the nearest £100. The only benefits in kind assessed were for Michael Hearty 2011-12: £nil (2010-11: £4,683).

## 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 2011-12 was £195,000-200,000 (2010-11: £190,000-195,000). This was 6.2 times (2010-11: 6.3) the median remuneration of the workforce, which was £31,800 (2010-11: £30,300). Based on the Permanent Secretary's banded remuneration the ratio is 5.1 (2010-11: 5.3). In 2011-12 and 2010-11 no employees received remuneration in excess of the highest paid director.

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

The ratio has reduced because the median remuneration has increased 5% whereas the highest paid director's remuneration has increased by the lower amount of 2.6%.

## Pension Benefits

Ministers	Accrued pension at age 65 as at 31/3/12	Real increase in pension at age 65	CETV at 31/3/12	CETV at 31/3/11	Real increase in CETV
	£000	£000	£000	£000	£000
Carwyn Jones <i>First Minister</i>	30-35	0-2.5	383	314	9
Edwina Hart <i>Welsh Minister</i>	30-35	0-2.5	607	517	4
Jane Hutt <i>Welsh Minister</i>	35-40	0-2.5	762	647	3
Elin Jones <i>Welsh Minister (to 12/05/2011)</i>	20-25	0-2.5	245	241	1
Carl Sargeant <i>Welsh Minister</i>	15-20	0-2.5	176	135	11
Leighton Andrews <i>Welsh Minister</i>	25-30	0-2.5	532	448	8
Jocelyn Davies <i>Deputy Welsh Minister (to 12/05/2011)</i>	15-20	0-2.5	264	258	4
John Griffiths <i>Counsel General (to 12/05/11 then Welsh Minister from 13/05/11)</i>	20-25	0-2.5	321	264	11
Gwenda Thomas <i>Deputy Welsh Minister</i>	15-20	0-2.5	294	258	13

	Accrued pension at pension age as at 31/3/12 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/12	CETV at 31/3/11	Real increase in CETV
	£000	£000	£000	£000	£000
Huw Lewis <i>Deputy Welsh Minister (to 12/05/2011 then Welsh Minister from 13/05/2011)</i>	20-25	0-2.5	318	263	8
Lesley Griffiths <i>Deputy Welsh Minister (to 12/05/2011) then Welsh Minister from 13/05/2011)</i>	10-15	0-2.5	174	135	11
Theodore Huckle <i>Counsel General (from 13/06/2011)</i>	0-5	0-2.5	21	0	14
Jeff Cuthbert <i>Deputy Welsh Minister (from 13/05/2011)</i>	10-15	0-2.5	238	188	17
Alun Davies <i>Deputy Welsh Minister (from 13/05/2011)</i>	5-10	0-2.5	77	53	9
Ieuan Wyn Jones <i>Welsh Minister (to 12/05/2011)</i>	25-30	0-2.5	550	543	2
Alun Ffred Jones <i>Welsh Minister (to 12/05/2011)</i>	10-15	0-2.5	202	183	17
Jane Davidson <i>Welsh Minister (to 05/05/2011)</i>	25-30	0-2.5	343	338	2
<b>Officials</b>					
Dame Gillian Morgan <i>Permanent Secretary</i>	105-110	0-2.5	1,555	1,467	-38
Bernard Galton <i>Director General</i>	55-60 plus lump sum of 175-180	0-2.5 plus lump sum of 0-2.5	1,195	1,129	-30
David Sissling <i>Director General (from 09/05/2011)</i>	30-35 plus lump sum of 100-105	5-7.5 plus lump sum of 15-17.5	688	540	147
Emyr Roberts <i>Director General</i>	45-50 plus lump sum of 145-150	0-2.5 plus lump sum of 2.5-5	930	831	27

	Accrued pension at pension age as at 31/3/12 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/12	CETV at 31/3/11	Real increase in CETV
	£000	£000	£000	£000	£000
<b>Officials</b>					
June Milligan <i>Director General</i>	45-50 plus lump sum of 135-140	2.5-5 plus lump sum of 7.5-10	830	714	55
James Price <i>Director General</i>	25-30	5-7.5	297	224	51
Michael Hearty <i>Director General</i>	45-50 plus lump sum of 140-145	2.5-5 plus lump sum of 7.5-10	858	745	50
Clive Bates <i>Director General (to 29/02/2012)</i>	5-10	2.5-5	78	51	19
Gareth Jones <i>Director General (from 01/03/2012 )</i>	40-45 plus lump sum of 125-130	0-2.5 plus lump sum of 0-2.5	819	810	5

The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

### Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (Classic, Premium, or Classic Plus); or a 'whole career' scheme (Nuvos). 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 and Nuvos are increased annually in line with Pensions Increase legislation. 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 set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2012. 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' 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 in respect of service before 1 October 2002 calculated broadly as per Classic and benefits 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. 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. 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 0.8% 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 and 65 for members of Nuvos.

Further details about the Civil Service pension arrangements can be found at the website  
[www.civilservice.gov.uk/my-civil-service/pensions](http://www.civilservice.gov.uk/my-civil-service/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 members 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 individual 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 worked out 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.

**David Richards**  
**Director of Governance and Principal Accounting Officer**  
**23 July 2012**

## STATEMENT OF ACCOUNTING OFFICERS' RESPONSIBILITIES

- 1 For the 2011-12 financial year and until 10 July 2012, Dame Gillian Morgan was the Principal Accounting Officer for the Welsh Government. The relevant responsibilities of the Principal Accounting Officer are set out within this Statement. On 10 July 2012, David Richards, Director of Governance, took on the Principal Accounting Officer responsibilities for the Welsh Government.
- 2 Under Section 131 of the Government of Wales Act 2006, the Welsh Ministers are required to prepare the consolidated resource account for the Welsh Government for the year ended 31 March 2012 in accordance with directions given to it by the Treasury. The Treasury direction requires the detailing of the resources acquired, held, or disposed of during the period.
- 2 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.
- 3 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.
- 4 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.
- 5 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 designated the Director 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 Director of the NHS in Wales.
- 6 These appointments do not detract from the PAO's overall responsibility as PAO for the Welsh Government accounts.
- 7 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' 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 the Treasury.
- 8 The relationship between the PAO of the Welsh Government, and other Accounting Officers, as described in paragraphs 5 and 6 above, and their respective responsibilities, are set out in written agreements between the officials concerned.

## **The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales**

I certify that I have audited the financial statements of the Welsh Government and the Group for the year ended 31 March 2012 under the Government of Wales Act 2006. These comprise the Summary of Resource Outturn, Consolidated Statement of Comprehensive Net Expenditure, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Taxpayers' Equity and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Principal Accounting Officer and auditor**

As explained more fully in the Statement of the Accounting Officers' Responsibilities, the Principal Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report and the financial statements, in accordance with the Government of Wales Act 2006 and HM Treasury directions made there under and for ensuring the regularity of financial transactions.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Auditing Practice Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Welsh Government and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Welsh Government; and the overall presentation of the financial statements. In addition, I am required to obtain evidence sufficient 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. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on the Financial Statements**

In my opinion the financial statements:

- give a true and fair view of the state of the Welsh Government and the Group's affairs as at 31 March 2012 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.

### **Opinion on Regularity**

In my opinion, in all material respects, 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.

## **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government of Wales Act 2006; and
- the information which comprises the Management Commentary and the unaudited part of the Remuneration Report included within the Annual Report is consistent with the financial statements.

## **Matters on which I report by exception**

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

- the Annual Governance Statement does not reflect compliance with HM Treasury guidance;
- proper accounting records have not been kept;
- information specified by HM Treasury regarding the remuneration and other transactions is not disclosed; or
- 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.

Huw Vaughan Thomas  
Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ  
23 July 2012

**Welsh Government**  
**Summary of Resource Outturn**  
**For the year ended 31 March 2012**

<b>PROGRAMME RESOURCES</b>	<b>Budget</b> <b>2011-12</b>	<b>Outturn</b> <b>2011-12</b>	<b>Outturn</b> <b>compared</b> <b>with</b> <b>Budget</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Health, Social Services and Children	5,355,832	5,354,398	1,434
Local Government and Communities	4,211,559	4,192,682	18,877
Environment and Sustainable Development	323,256	322,891	365
Business, Enterprise, Technology & Science	352,431	324,399	28,032
Education & Skills	1,939,698	1,930,330	9,368
Housing, Regeneration and Heritage	521,239	518,795	2,444
Central Services and Administration	366,098	356,113	9,985
<b>Total Resource and Capital requirements</b>	<b>13,070,113</b>	<b>12,999,608</b>	<b>70,505</b>

In May 2011 the Welsh Government voted budgets were restructured following the election, to reflect the new Ministerial portfolios. In the prior year the budgets were structured and voted as follows:

<b>PROGRAMME RESOURCES</b>	<b>Budget</b> <b>2010-11</b>	<b>Outturn</b> <b>2010-11</b>	<b>Outturn</b> <b>compared</b> <b>with</b> <b>Budget</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Health and Social Services	5,404,266	5,321,316	82,950
Social Justice & Local Government	3,596,665	3,566,965	29,700
Environment, Sustainability & Housing	796,029	794,438	1,591
Economy and Transport	1,035,269	975,472	59,797
Children, Education, Lifelong Learning & Skills	2,139,815	2,137,586	2,229
Rural Affairs	133,899	133,649	250
Heritage	176,268	176,050	218
Public Services and Performance	59,243	56,928	2,315
Central Administration	373,188	352,400	20,788
<b>Total Resource and Capital requirements</b>	<b>13,714,642</b>	<b>13,514,804</b>	<b>199,838</b>

**Welsh Government**  
**Net Cash Requirement 2011-12**

	<b>2011-12</b>	<b>2010-11</b>
	<b>£000</b>	<b>£000</b>
Authorised for issue from Welsh Consolidated Fund	12,743,795	13,395,939
Funding drawn down	(12,702,691)	(13,167,759)
<b>Undrawn funding</b>	<b>41,104</b>	<b>228,180</b>

The Notes on pages 51 to 100 form part of these accounts.

**Consolidated Statement of Comprehensive Net Expenditure**  
**For the year ended 31 March 2012**

	Note	Year ended 31 March 2012		Restated Year ended 31 March 2011	
		WG £000	Consolidated £000	WG £000	Consolidated £000
<b>PROGRAMME COSTS</b>					
Expenditure	6	<b>13,725,766</b>	<b>14,007,669</b>	14,304,700	14,557,150
Income					
Non EU Income	8	<b>(1,028,858)</b>	<b>(1,256,864)</b>	(1,113,956)	(1,472,871)
EU Income	8	<b>(500,217)</b>	<b>(504,986)</b>	(494,034)	(494,394)
		<b>(1,529,075)</b>	<b>(1,761,850)</b>	(1,607,990)	(1,967,265)
<b>Net Programme Costs</b>		<b>12,196,691</b>	<b>12,245,819</b>	12,696,710	12,589,885
<b>ADMINISTRATION COSTS</b>					
Staff Costs	4	<b>201,719</b>	<b>208,043</b>	254,408	260,284
Other Administration Costs	5	<b>98,370</b>	<b>105,829</b>	95,977	104,786
<b>Gross Administration Costs</b>		<b>300,089</b>	<b>313,872</b>	350,385	365,070
Administration Income	8	<b>(1,165)</b>	<b>(1,170)</b>	(1,881)	(1,884)
<b>Net Administration Cost</b>		<b>298,924</b>	<b>312,702</b>	348,504	363,186
<b>NET OPERATING COST</b>		<b>12,495,615</b>	<b>12,558,521</b>	13,045,214	12,953,071
<b>OTHER COMPREHENSIVE EXPENDITURE</b>					
Net gain on revaluation of Property, Plant and Equipment		<b>(443,070)</b>	<b>(511,179)</b>	(987,289)	(969,668)
Net (gain)/loss on Available-for-sale investments taken to equity		-	<b>(1,924)</b>	-	(166)
Actuarial (gain)/loss pension		<b>18,640</b>	<b>19,750</b>	13,330	12,245
<b>Total Comprehensive Net Expenditure for the year ended 31 March 2012</b>		<b>12,071,185</b>	<b>12,065,168</b>	12,071,255	11,995,482

The Notes on pages 51 to 100 form part of these accounts.

## Consolidated Statement of Financial Position as at 31 March 2012

		As at 31 March 2012 WG	As at 31 March 2012 Consolidated	As at 31 March 2011 WG	Restated As at 31 March 2011 Consolidated
<b>Non-current assets:</b>	Note				
Property, plant and equipment	9	<b>13,648,016</b>	<b>16,382,694</b>	13,272,089	16,003,487
Intangible Assets	10	<b>11,116</b>	<b>16,119</b>	7,265	12,503
Financial assets	11	<b>2,068,828</b>	<b>1,928,195</b>	1,749,928	1,695,853
Trade and other receivables	15	-	<b>43,141</b>	-	44,803
<b>Total non current assets</b>		<b>15,727,960</b>	<b>18,370,149</b>	15,029,282	17,756,646
<b>Current Assets:</b>					
Assets classified as held for sale	9.1	-	<b>8,282</b>	-	1,590
Development Asset Inventories	13	<b>147,603</b>	<b>152,213</b>	153,521	171,161
Inventories	14	<b>37,662</b>	<b>90,784</b>	36,070	85,234
Trade and other receivables	15	<b>163,406</b>	<b>270,489</b>	177,974	272,282
Other Financial assets	11	-	<b>74</b>	-	176
Cash & cash equivalents	16	<b>147,655</b>	<b>348,556</b>	60,584	193,730
<b>Total current assets</b>		<b>496,326</b>	<b>870,398</b>	428,149	724,173
<b>Total assets</b>		<b>16,224,286</b>	<b>19,240,547</b>	15,457,431	18,480,819
<b>Current liabilities:</b>					
Trade and other payables	17	<b>(831,495)</b>	<b>(1,412,216)</b>	(659,163)	(1,231,736)
Other liabilities	19	-	<b>(13,645)</b>	-	(11,027)
<b>Total current liabilities</b>		<b>(831,495)</b>	<b>(1,425,861)</b>	(659,163)	(1,242,763)
Non-current assets plus/less net current assets/liabilities		<b>15,392,791</b>	<b>17,814,686</b>	14,798,268	17,238,056
<b>Non-current liabilities</b>					
Provisions	18	<b>(459,117)</b>	<b>(540,363)</b>	(443,625)	(531,113)
Other payables	17	<b>(158,633)</b>	<b>(241,833)</b>	(166,429)	(252,746)
Pension fund deficits	33b	<b>(88,210)</b>	<b>(91,010)</b>	(76,240)	(78,213)
National Loans Fund	26	<b>(11,665)</b>	<b>(11,665)</b>	(11,710)	(11,710)
Other liabilities	19	-	<b>(65,278)</b>	-	(81,220)
<b>Total non current liabilities</b>		<b>(717,625)</b>	<b>(950,149)</b>	(698,004)	(955,002)
<b>Total Assets less liabilities</b>		<b>14,675,166</b>	<b>16,864,537</b>	14,100,264	16,283,054
<b>Taxpayers' Equity &amp; other Reserves</b>					
General Fund		<b>8,792,384</b>	<b>10,539,102</b>	8,638,457	10,448,677
Revaluation Reserve		<b>5,957,948</b>	<b>6,403,401</b>	5,523,840	5,898,383
EU Deferred Grant Reserve		<b>13,044</b>	<b>13,044</b>	14,207	14,207
Pension Fund Reserve		<b>(88,210)</b>	<b>(91,010)</b>	(76,240)	(78,213)
<b>Total equity</b>		<b>14,675,166</b>	<b>16,864,537</b>	14,100,264	16,283,054

**David Richards**  
**Director of Governance and Principal Accounting Officer**  
**Date: 23 July 2012**

The Notes on pages 51 to 100 form part of these account

## Consolidated Statement of Cash Flows for the year ended 31 March 2012

	Note	Year ended 31 March 2012		Restated Year ended 31 March 2011	
		WG	Consolidated	WG	Consolidated
		£000	£000	£000	£000
<b>Cash flows from operating activities</b>					
Net operating cost		(12,495,615)	(12,558,521)	(13,045,214)	(12,953,071)
Provisions utilised	18	(62,462)	(131,580)	(55,071)	(144,236)
Non – cash transactions:					
Administrative costs	5	14,754	14,110	1,795	3,092
Programme costs	6	186,793	581,729	201,714	541,255
Debtor/Creditor adjustment		-	-	(370)	(370)
Income payable to Welsh Consolidated Fund		(12,549)	(12,549)	(5,343)	(5,343)
Movements in working capital other than cash	12	187, 282	183,196	103,092	77,562
<b>Net cash outflow from operating activities</b>		<b>(12,181,797)</b>	<b>(11,923,615)</b>	(12,799,397)	(12,481,111)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(78,393)	(356,660)	(129,625)	(474,807)
Purchase of intangible assets		(4,570)	(5,734)	(4,004)	(5,121)
Proceeds of disposal of property, plant and equipment		3,465	8,670	713	6,833
Proceeds of disposal of development assets		5,369	18,399	15,738	15,738
Proceeds of disposal of financial assets		-	498	-	-
Purchase of development assets		(5,760)	(5,760)	(20,172)	(30,142)
Issue of loans		(395,054)	(311,878)	(299,358)	(296,609)
Movement in bank loan		-	(12,905)	-	(9,898)
Repayment of loans		48,808	48,808	58,928	58,928
<b>Net cash outflow from investing activities</b>		<b>(426,135)</b>	<b>(616,562)</b>	(377,780)	(735,078)
<b>Cash flows from financing activities</b>					
From Welsh Consolidated Fund (Supply) – current year		12,702,691	12,702,691	13,167,759	13,167,759
EU Deferral		-	-	285	285
Non operating receipts due to be surrendered to Welsh Consolidated Fund		(7,688)	(7,688)	3,838	3,838
<b>Net financing</b>		<b>12,695,003</b>	<b>12,695,003</b>	13,171,882	13,171,882
<b>Net increase/(decrease) in cash and cash equivalent in period</b>	16	<b>87,071</b>	<b>154,826</b>	(5,295)	(44,307)
<b>Cash and cash equivalents at the beginning of the period</b>	16	<b>60,584</b>	<b>193,730</b>	65,879	238,037
<b>Cash and cash equivalents at the end of the period</b>	16	<b>147,655</b>	<b>348,556</b>	60,584	193,730

The Notes on pages 51 to 100 form part of these accounts.

**Consolidated Statement of changes in Taxpayers' Equity**  
**For the year ended 31 March 2012**

**Consolidated**

	General Fund	Donated Asset reserve	European Deferred Grant Reserve	Revaluation Reserve	Pension Fund Reserve	Total Reserves
	£000		£000	£000	£000	£000
<b>Balance at 1 April 2010</b>	<b>9,646,548</b>	<b>41,606</b>	<b>15,085</b>	<b>5,551,782</b>	<b>(87,631)</b>	<b>15,167,390</b>
<b>Changes in accounting policy</b>	<b>39,435</b>	<b>(41,606)</b>	<b>-</b>	<b>2,026</b>	<b>-</b>	<b>(145)</b>
<b>Restated balance at 1 April 2010</b>	<b>9,685,983</b>	<b>-</b>	<b>15,085</b>	<b>5,553,808</b>	<b>(87,631)</b>	<b>15,167,245</b>
Welsh Consolidated fund - drawn down	13,167,759	-	-	-	-	13,167,759
Welsh Consolidated fund - to surrender	(5,056)	-	-	-	-	(5,056)
Net operating cost for the year	(12,953,071)	-	-	-	-	(12,953,071)
<b><i>Non-cash adjustments</i></b>						
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	969,668	-	969,668
Net gain/(loss) on revaluation of investments	166	-	-	-	-	166
<b>Debtor/creditor adjustments</b>	<b>530</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>530</b>
In year additions	-	-	285	-	-	285
Actuarial loss on pension scheme	1,085	-	-	-	-	1,085
PDC Investment net re-issue	961	-	-	-	-	961
Student loan adjustment	(19,210)	-	-	-	-	(19,210)
CFER income	(179)	-	-	-	-	(179)
Loan repayments to consolidated fund	(108)	-	-	-	-	(108)
<b><i>Movements in Reserves</i></b>						
Release of reserves to Statement of Comprehensive Expenditure	-	-	(1,163)	-	-	(1,163)
Transfers of assets	(19,282)	-	-	-	-	(19,282)
Transfers between reserves	625,093	-	-	(625,093)	-	-
Transfers within boundary	(13,246)	-	-	-	-	(13,246)
In year pension movement	(22,748)	-	-	-	9,418	(13,330)
<b>Balance at 31 March 2011</b>	<b>10,448,677</b>	<b>-</b>	<b>14,207</b>	<b>5,898,383</b>	<b>(78,213)</b>	<b>16,283,054</b>

The Notes on pages 51 to 100 form part of these accounts

## Consolidated Statement of changes in Taxpayers' Equity continued

Consolidated	General Fund	European Deferred Grant Reserve	Revaluation Reserve	Pension Fund Reserve	Total Reserves
	£000	£000	£000	£000	£000
<b>Balance at 31 March 2011</b>	<b>10,448,677</b>	<b>14,207</b>	<b>5,898,383</b>	<b>(78,213)</b>	<b>16,283,054</b>
Welsh Consolidated fund – drawn down	12,702,691	-	-	-	12,702,691
Welsh Consolidated Fund - deemed	(12,356)	-	-	-	(12,356)
Net operating cost for the year	(12,558,521)	-	-	-	(12,558,521)
<b><i>Non-cash adjustments</i></b>					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	511,179	-	511,179
Net gain/(loss) on revaluation of investments	1,924	-	-	-	1,924
Debtor/creditor adjustments	1	-	-	-	1
Impairment	563	-	-	-	563
Actuarial gain/(loss) on pension scheme	(1,110)	-	-	-	(1,110)
Student Loans non cash element	(14,519)	-	-	-	(14,519)
CFER income	(86)	-	-	-	(86)
Loan repayments to Consolidated Fund	(108)	-	-	-	(108)
<b><i>Movements in reserves</i></b>					
Release of reserves to statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers of assets	(28,372)	-	-	-	(28,372)
Transfers between reserves	6,161	-	(6,161)	-	-
In year pension movement	(5,843)	-	-	(12,797)	(18,640)
<b>Balance at 31 March 2012</b>	<b>10,539,102</b>	<b>13,044</b>	<b>6,403,401</b>	<b>(91,010)</b>	<b>16,864,537</b>

The Notes on pages 51 to 100 form part of these accounts

## Consolidated Statement of changes in Taxpayers' Equity continued

WG only	General Fund £000	European Deferred Grant Reserve £000	Revaluation Reserve £000	Pension Fund Reserve £000	Total Reserves £000
<b>Restated balance at 31 March 2010</b>	<b>7,958,228</b>	<b>15,085</b>	<b>5,158,309</b>	<b>(84,640)</b>	<b>13,046,982</b>
Welsh Consolidated fund – drawn down	13,167,759	-	-	-	13,167,759
Welsh Consolidated fund – to surrender	(5,056)	-	-	-	(5,056)
Net operating cost for the year	(13,045,214)	-	-	-	(13,045,214)
<i>Non-cash adjustments</i>					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	987,289	-	987,289
PDC	961	-	-	-	961
Student Loans non cash element	(19,210)	-	-	-	(19,210)
CFER income	(179)	-	-	-	(179)
Loan repayments payable to Consolidated Fund	(108)	-	-	-	(108)
Debtor/Creditor adjustment	530	-	-	-	530
<i>Movements in Reserves</i>					
Additions	-	285	-	-	285
Release of reserves to Statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers of assets	(19,282)	-	-	-	(19,282)
Transfers between Reserves	621,758	-	(621,758)	-	-
In year pension movement	(21,730)	-	-	8,400	(13,330)
<b>Balance at 31 March 2011</b>	<b>8,638,457</b>	<b>14,207</b>	<b>5,523,840</b>	<b>(76,240)</b>	<b>14,100,264</b>

Of the £621m revaluation reserve transfer, £614m is in respect of a reconciling adjustment following the implementation of improved reporting processes in 2010-11 to facilitate the reconciliation of the revaluation reserve to the network asset valuation model.

The Notes on pages 51 to 100 form part of these accounts.

## Consolidated Statement of changes in Taxpayers' Equity continued

WG only	General Fund £000	European Deferred Grant Reserve £000	Revaluation Reserve £000	Pension Fund Reserve £000	Total Reserves £000
<b>Balance at 31 March 2011</b>	<b>8,638,457</b>	<b>14,207</b>	<b>5,523,840</b>	<b>(76,240)</b>	<b>14,100,264</b>
Welsh Consolidated fund – drawn down	12,702,691	-	-	-	12,702,691
Welsh Consolidated fund – to surrender	(12,356)	-	-	-	(12,356)
Net operating cost for the year	(12,495,615)	-	-	-	(12,495,615)
<b><i>Non-cash adjustments</i></b>					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	443,070	-	443,070
Student Loans non cash element	(14,519)	-	-	-	(14,519)
CFER income	(86)	-	-	-	(86)
Loan repayments payable to Consolidated Fund	(108)	-	-	-	(108)
<b><i>Movements in Reserves</i></b>					
Release of reserves to Statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers of assets	(28,372)	-	-	-	(28,372)
Transfers between Reserves	8,962	-	(8,962)	-	-
In year pension movement	(6,670)	-	-	(11,970)	(18,640)
<b>Balance at 31 March 2012</b>	<b>8,792,384</b>	<b>13,044</b>	<b>5,957,948</b>	<b>(88,210)</b>	<b>14,675,166</b>

The Notes on pages 51 to 100 form part of these accounts.

## Notes to the Welsh Government Resource Accounts

### 1. Statement of accounting policies

These 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 below. 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 Resource 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 investment property, property, plant and equipment, and certain financial assets and liabilities.

#### 1.2 Basis of Consolidation

These accounts comprise a consolidation of the core department, the 7 Local Health Boards, Design Commission for Wales (a Welsh Government owned company limited by guarantee), Finance Wales PLC, Welsh Development Management Ltd, Ryder Cup Wales 2010 Ltd and Regeneration Investment Fund for Wales LLP. These consolidated companies produce and publish their own annual reports and accounts. Newport Unlimited (a company limited by guarantee in which the Welsh Government has a two-third share) is not consolidated within these financial statements. Hybu Cig Cymru – Meat Promotion Wales (a company limited by guarantee in which the Welsh Government is the sole member) and International Business Wales Ltd have not been consolidated on grounds of materiality. Transactions between entities included in the consolidation are eliminated.

#### 1.3 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. The Welsh Government capitalises leasehold property where the original lease was for greater than 100 years and land & buildings surplus to requirements. 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 current cost 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 for 2011-12 were taken from the Investment Property Databank (IPD) UK Annual Index (2012).

## Network Assets

The road network is valued at its depreciated replacement cost in terms of the guidance in the Financial Reporting Manual for specialist assets for which market valuations are not available. Land is valued by rates supplied by the Valuation Office Agency (VOA).

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 greenfield site. These rates are re-valued annually using indices to reflect current prices and are also updated when new construction costs become available as comparators to the costs previously identified for specific road types.

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 greenfield 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.

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 Structures and Communications elements are depreciated using the straight line method applied to the revalued replacement costs, and also inspected every five years to identify any other changes. Land is not depreciated.

The indexation factors applied are:

Road Pavement and Structures	Baxter Index, published quarterly by the Department for Business, Innovation and Skills
Communications	Baxter Index, published quarterly by the Department for Business, Innovation and Skills
Land	Land indices produced by VOA

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.

## Vehicles, Information Technology, Plant and Equipment and Fixtures and Fittings

Plant and equipment, information technology, fixtures and fittings, and vehicles are at cost.

## 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. Further information on the non-operational heritage assets owned by the Welsh Government can be found at note 32 to the consolidated financial statements.

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

## **1.4 Intangible Assets**

Local Health Boards capitalise computer software licences as intangible fixed assets, where expenditure of at least £5,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic life.

The Welsh Government capitalises computer software licenses where expenditure of at least £5,000 has occurred. Website development costs are not capitalised as the website is not capable of directly generating income or delivering services.

## 1.5 Depreciation

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

- annual maintenance charge;
- 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
- calculated depreciation of the structures and communications.

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 an annual condition survey. Structures and communications assets are depreciated on a straight line basis over the expected useful life of the asset.

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.

Lives are in the following ranges:

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	3 to 5 years
Plant & equipment	3 to 20 years
Fixtures & fittings	5 to 10 years
Motor vehicles	3 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 occurred.

## 1.6 Donated Assets

Following the accounting policy change outlined in the FReM for 2011-12, a donated asset reserve is no longer maintained. Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is only recognised where conditions attached to the donation preclude immediate recognition of the gain. This accounting policy change has been applied retrospectively and the 2010-11 results have been restated.

## **1.7 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. Expenditure so 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.

## **1.8 Works to Properties in Care**

Expenditure on the fabric of properties in the care but not ownership of the Welsh Government is charged to the Statement of Comprehensive Net Expenditure as it is incurred. Subsequent expenditure on the fabric of ancillary structures at properties in care is treated in the same manner.

## **1.9 Investments and Interests in Joint Ventures**

Loans and Public Dividend Capital (PDC) issued to public bodies outside of the consolidated boundary are shown at historical cost less any necessary impairment.

Investments are shown at fair value. Interests in unincorporated joint ventures are shown at fair value.

Short term investments are shown as current assets, and are valued at the lower of cost and net realisable value.

Student loans values are shown net of estimated future write-offs in respect of the non-recovery of loans.

## **1.10 Development Assets**

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 Comprehensive Net Expenditure Statement.

## **1.11 Inventories**

Inventories are valued at the lower of replacement cost and net realisable value, with the exception of oak wood, which is valued at current replacement cost. 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.

## **1.12 Non-current Assets Held for Sale**

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.

## **1.13 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 8. These funds are paid to the Welsh European Funding Office (which is part of the Department for Economy and Transport). These funds are then transferred to the relevant department within the Welsh Government. These transfers are between departments and are accounted for within Note 6.

Additionally, revenue comprises the amounts, excluding VAT, receivable from monument shop sales of publications and souvenirs.

Health revenue includes Health Funding Contributions paid over by HM Revenue and Customs which are subject to audit by the National Audit Office. The audit of these transactions had not been completed by the time these accounts were produced. Any adjustments arising from the audit will therefore be made in future accounting periods. These are not likely to be material.

## **1.14 Administration & Programme expenditure**

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Administration costs reflect the cost of running the Welsh Government, with associated operating income. Programme costs reflect all expenditure by the Local Health Boards and non-administration costs, (including payments of grants and other disbursements) by the Welsh Government.

## **1.15 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

## **1.16 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 in Note 33a. 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.

Some former Welsh Development Agency staff and current Finance Wales PLC staff participate in the Local Government Pension Scheme administered by Rhondda Cynon Taf County Borough Council, which is a multi-employer funded scheme. Further information regarding this pension scheme is provided in Note 33b.

Former Wales Tourist Board staff contributed to the British Tourist Boards' Pension Scheme. This is a funded defined benefit scheme based on final pensionable pay. The assets are held by the Pension Scheme under a cash accumulation contract with the Prudential Assurance Company Ltd. Further information is provided in Note 33 and 33c.

Some former Health Professions Wales staff participate in a joint superannuation scheme (FPS 1655), together with the Nursing and Midwifery Council, NHS Education for Scotland, Department of Health and the Nurses Welfare Trust.

Some former CAFCASS staff participate in 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. The NHS pension scheme is a multi employer, unfunded, defined benefit scheme. As its share of underlying scheme assets and liabilities cannot be identified, it is accounted for as a defined contribution scheme, with the costs equal to contributions payable to the scheme for the accounting period. The provisions of this Scheme are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). The employer contribution rate for 2011-12 was 14% (2010-11: 14%). These costs are included in Note 6 – Programme costs.

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The change from RPI to CPI for the purpose of up-rating index-linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

### **1.17 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. No provision had been made by the Welsh Development Agency for these future costs.

### **1.18 The Royal Commission for Ancient and Historical Monuments (Wales)**

The Royal Commission is an executive non-departmental public body empowered by Royal Warrant to maintain a national record of ancient and historical sites in Wales. The Welsh Government, under directions from Treasury, operates the finance function of the Commission and consequently includes its expenditure in these accounts.

### **1.19 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.

## **1.20 Grants payable and recoverable**

The Welsh Government provides grants to sponsored bodies and external organisations. In accordance with the Financial Reporting Manual, matters such as the period covered by the claims, the timing of the submission of the claims and the timing of the payments were taken into consideration when establishing the entitlement to grant and the basis for the creditor and debtor calculations.

Certain grant claim expenditure may be subject to scrutiny by local authority auditors. Audit of the majority of these claims had not been completed by the time these accounts were produced. Any adjustments arising from the audit will therefore be made in future accounting periods. These are not likely to be material.

The Single Payment Scheme (Common Agriculture Policy payments to farmers) expenditure has been accounted for in the year in which payments were made. Creditors have been included based on an estimate of payments still to be made at 31 March 2012, with an equal amount of debtor reflecting the value to be reimbursed by the European Commission.

## **1.21 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.

## **1.22 Provision for Doubtful Debts**

The Welsh Government provides in full for doubtful debts after 6 months unless there is reasonable certainty that the debt will be paid. For Regional Selective Assistance grants provisions are made on receipt of notification that the company assisted is unlikely to meet its repayment commitment.

### **1.23 Exchange Rate Gains and Losses**

The Welsh European Funding Office, which is part of the Department for Business, Enterprise, Technology & Science, 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 only at the end of each Programme period.

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.

### **1.24 Losses and Special Payments (NHS)**

The cost of clinical negligence cases and other losses and special payments are brought to account when there is reasonable expectation of settlement. Disputed cases are recorded as contingent liabilities.

### **1.25 Provisions**

#### **Staff 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. Ex-chairs of ex-Assembly Sponsored Public Bodies had pension liabilities which transferred from the merger, and are fully provided for.

The Welsh Government has a liability for the resolution of employment tribunal cases referred to as the 'Astley' case. Some of the cases were resolved in April 2008, and the remaining unresolved cases are included on the basis of the best estimate of expenditure required to settle the obligations.

#### **NHS and LHB Provisions**

The Local Health Boards provide for legal or constructive obligations that are of uncertain timing or amount at the year end date on the basis of the best estimate of the expenditure required to settle the obligation. Where the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

The liability for the Welsh Risk Pool within the Department for Health, Social Services & Children is treated as a provision.

### **1.26 Deferred Income**

Deferred Income is recognised where income has been received with an obligation to use the monies for a specific purpose, but these monies have not yet been spent as at the balance sheet date.

### **1.27 National Non-Domestic Rating**

To avoid the need for transfers of National Non-Domestic Rating (NNDR) monies between local authorities and the Welsh Government (and between the Welsh Government and the Welsh Consolidated Fund), the Welsh Government takes account of the NNDR entitlement of each local

authority and nets the Revenue Support Grant (RSG) payable when calculating the actual RSG payments. The RSG payments are then treated as grant-in-aid and are accounted for on a cash basis.

## **1.28 Financial Instruments**

See Note 34.

## 2. Prior year adjustments

Animal Health Budgets have been transferred to the Welsh Government from DEFRA from 1 April 2011, as a machinery of government change. The prior year has been restated by £18,266,000 for both income and expenditure, to provide a comparative figure.

The accounting treatment for donated assets and government grants has been revised, and as a result the donated assets reserve and the government grant reserve have been removed, and income received is accounted for in the year of receipt. The consolidated accounts have been restated accordingly.

### 3a. Reconciliation of outturn to net operating cost

	<b>Outturn 2011-12</b> £000	<b>Outturn 2010-11</b> £000
Net resource outturn	<b>12,999,608</b>	13,514,804
less Capital, Loans & adjustments	(503,993)	(469,590)
<b>Net operating cost</b>	<b>12,495,615</b>	13,045,214

### 3b. Reconciliation of resources to cash requirement

	<b>Budget 2011-12</b> £000	<b>Outturn 2011-12</b> £000	<b>Outturn compared with Budget</b> £000	<b>Outturn 2010-11</b> £000
<b>Net resource outturn</b>	<b>13,070,113</b>	<b>12,999,608</b>	70,505	13,514,804
Depreciation	(127,408)	(139,172)	11,764	(95,594)
Impairments	(105,227)	(58,129)	(47,098)	(50,251)
Student loans	(41,873)	(12,637)	(29,236)	(61,126)
Movements in provisions	(39,055)	(15,492)	(23,563)	(44,632)
Movements in working capital	(12,755)	(187,594)	174,839	(103,092)
Removal of amounts not part of resource outturn	-	15,913	(15,913)	2,661
Other	-	13,123	(13,123)	10,284
<b>Net cash requirement</b>	<b>12,743,795</b>	<b>12,615,620</b>	128,175	13,173,054

#### 4. Staff Numbers and Costs

The average number of whole-time equivalent persons employed (including senior management and special advisers) during the period was 72,235 (2010-11: 73,362).

The breakdown of this figure is as follows:

	Special Advisers	Permanently employed staff	Other staff	Total
<b>Total</b>	5	71,256	974	<b>72,235</b>
Of which:				
Welsh Government	5	4,839	367	<b>5,211</b>
Local Health Boards	-	66,318	607	<b>66,925</b>
Subsidiaries	-	99	-	<b>99</b>

The costs of LHB staff included above, are contained within Note 6 - Programme costs.

The aggregate payroll costs for staff were as follows (the cost of LHB staff is included within Note 6 – Programme Costs):

#### Administration Staff costs

	Permanently employed staff	Special Advisers	*Other Staff	Year ended	Year ended
				31 March	31 March
				2012	2011
				£000	£000
Salaries	183,131	284	14,339	<b>197,754</b>	217,230
Social Security Costs	16,163	34	508	<b>16,705</b>	17,536
Other Pension Costs	34,673	68	781	<b>35,522</b>	37,863
Pension liabilities	16,515			<b>16,515</b>	19,154
<b>Total</b>	<b>250,482</b>	<b>386</b>	<b>15,628</b>	<b>266,496</b>	291,783
Less:					
Recoveries in Respect of Outward Secondments	(1,415)	-	-	(1,415)	(1,772)
Recharged to programme costs	(57,038)	-	-	(57,038)	(29,727)
<b>Net administration staff costs</b>	<b>192,029</b>	<b>386</b>	<b>15,628</b>	<b>208,043</b>	<b>260,284</b>
Of which:	192,029	386	9,304	201,719	254,408
Core department					

\*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 include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances, and private office allowances.

Salaries of Welsh Ministers are paid by the National Assembly for Wales Commission and are reflected in those accounts.

Pension information for the three main schemes covering employees is provided in Note 33.

Similar information for Local Health Boards and subsidiary companies is disclosed in their respective accounts.

#### **4.1 Reporting of Civil Service and other compensation schemes – exit packages**

There were no compulsory redundancies in 2011-12 or 2010-11.

For 2011-12 nil left (2010-11:305) under Flexible Early Retirement or Approved Early Retirement terms between 1 April 2011 and 31 March 2012. The capitalised cost of the package they received was £nil (£16,518,316) accrued in 2010-11.

For 2011-12 nil left (2010-11:78) under Flexible Early Severance terms between 1 April 2011 and 31 March 2012. They received compensation payments totalling £nil (£2,795,969) accrued in 2010-11.

For 2011-12 333 (2010-11:254) have agreed to leave on Voluntary Exit terms between 31 March 2012 and 31 March 2013. They will receive compensation payments totalling £18,260,569 (£10,631,236) accrued in 2011-12.

<b>Exit package cost band</b>	<b>Total number of exit packages by cost band</b>	<b>Total number of exit packages by cost band</b>
	<b>2011-12</b>	<b>2010-11</b>
<£10,000	6	58
£10,000 - £25,000	32	173
£25,000 - £50,000	124	191
£50,000 - £100,000	151	148
£100,000 - £150,000	19	46
£150,000 - £200,000	1	14
£200,000+	-	7
Total number of exit packages by type	333	637
Total resource cost £	18,260,569	29,945,521

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. Exit costs are accounted for in full in the year of departure. 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.

The costs included in the table above 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.

The breakdown of this resource cost by note is:

Note 4 Staff costs - £nil (13,481,871)

Note 5 Other Admin costs - £18,260,569 (15,335,958)

Note 6 Programme costs - £nil (1,127,692)

## 5. Other Administration Costs

	Year ended 31 March 2012		Year ended 31 March 2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Goods and Services	<b>13,534</b>	<b>20,064</b>	25,145	31,283
IT & Telecommunications	<b>25,974</b>	<b>26,372</b>	29,226	29,229
Accommodation	<b>15,032</b>	<b>15,825</b>	14,695	15,734
Early retirement costs	<b>18,442</b>	<b>18,442</b>	11,514	11,514
Rentals under operating leases				
- accommodation	<b>5,436</b>	<b>5,436</b>	6,792	6,792
- hire of vehicles and office equipment	<b>359</b>	<b>359</b>	421	421
Travel, subsistence and hospitality	<b>3,785</b>	<b>4,049</b>	4,700	4,933
Audit Fees	<b>432</b>	<b>550</b>	446	545
Relocation costs*	<b>578</b>	<b>578</b>	1,122	1,122
Gain on exchange rate	<b>44</b>	<b>44</b>	121	121
	<b>83,616</b>	<b>91,719</b>	94,182	101,694
Non Cash Items:				
Depreciation	<b>9,562</b>	<b>9,610</b>	10,566	10,617
Amortisation	<b>2,844</b>	<b>2,844</b>	2,993	2,993
Impairment of property, plant and equipment	<b>9,136</b>	<b>9,136</b>	4,957	4,957
(Gain)/loss on disposal of property, plant and equipment	<b>(4)</b>	<b>(1,503)</b>	(14)	(14)
Impairment on Finance Wales other	-	<b>1,090</b>	-	1,179
(Gain)/loss from fair value of investments	<b>28</b>	<b>28</b>	(45)	(45)
Provision for early retirement and pension costs	<b>(142)</b>	<b>(142)</b>	5,068	5,068
Pension RPI/CPI policy change	-	-	(19,160)	(19,160)
Pension finance*	<b>(6,670)</b>	<b>(6,953)</b>	(2,570)	(2,503)
	<b>14,754</b>	<b>14,110</b>	1,795	3,092
<b>Total Other Administration Costs</b>	<b>98,370</b>	<b>105,829</b>	95,977	104,786

\* these costs are subject to UK taxation

## 6. Programme Costs

	Year ended 31 March 2012		Restated Year ended 31 March 2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
<b><u>Programme expenditure:</u></b>				
Grants/funding to public bodies	<b>11,127,189</b>	<b>5,353,163</b>	11,486,858	5,879,390
Grants/funding to private sector	<b>1,418,041</b>	<b>1,418,041</b>	1,550,284	1,537,285
Grant in aid to WGSB's	<b>562,742</b>	<b>562,742</b>	655,627	655,627
Programme delivery costs (a)	<b>201,119</b>	<b>193,179</b>	183,875	183,875
Staff costs (b)	<b>57,033</b>	<b>2,804,911</b>	29,675	2,736,904
IT & Telecommunications	<b>43,302</b>	<b>43,302</b>	50,113	50,113
Goods and services	<b>46,260</b>	<b>2,934,351</b>	56,422	2,845,493
Research & statistics	<b>31,422</b>	<b>31,976</b>	39,798	40,179
Marketing, events & sponsorship	<b>30,844</b>	<b>31,002</b>	29,017	32,889
Travel costs	<b>2,787</b>	<b>14,187</b>	2,618	13,499
Rentals under operating leases	<b>6,430</b>	<b>27,282</b>	6,018	27,960
PFI and other service concession arrangements service charges (c)	<b>11,804</b>	<b>11,804</b>	12,681	12,681
	<b>13,538,973</b>	<b>13,425,940</b>	14,102,986	14,015,895
<b><u>Non-cash costs:</u></b>				
Depreciation	<b>49,680</b>	<b>184,491</b>	3,048	132,443
Amortisation	-	<b>1,640</b>	-	1,448
Government granted assets	-	<b>(329)</b>	-	(982)
Donated assets	-	<b>(2,833)</b>	-	(5,084)
Impairment of property, plant and equipment	<b>41,333</b>	<b>229,292</b>	13,259	116,348
Impairment of development assets	<b>7,469</b>	<b>7,469</b>	28,095	28,095
Impairment of investments	<b>1,028</b>	<b>1,028</b>	3,985	3,985
Profit on disposal of development assets	<b>(1,160)</b>	<b>(1,160)</b>	(1,379)	(1,379)
(Profit)/loss on disposal of property, plant and equipment	<b>(261)</b>	<b>(302)</b>	108	208
Surplus on revaluation of JV's	<b>(865)</b>	<b>(865)</b>	-	-
Investment diminution Finance Wales	-	<b>13,617</b>	-	17,019
Student loans non cash charges	<b>12,636</b>	<b>12,636</b>	61,126	61,126
Increase/ (Decrease) in Provisions	<b>78,096</b>	<b>138,500</b>	94,635	187,708
LHB other finance costs	-	-	-	1,775
Release of PFI deferred credits	-	<b>(292)</b>	-	(292)
Release of EU Grant	<b>(1,163)</b>	<b>(1,163)</b>	(1,163)	(1,163)
	<b>186,793</b>	<b>581,729</b>	201,714	541,255
	<b>13,725,766</b>	<b>14,007,669</b>	14,304,700	14,557,150

- a. Includes £77,086,000 (2010-11: £78,994,000) classed as capital maintenance depreciation
- b. Following the Ministerial restructure some administrative staff costs were reclassified as departmental programme costs in 2011-12.
- c. Welsh government figures only

## 7. Audit fees payable to the Auditor General for Wales

The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2011-12 is £431,700 (2010-11: £445,640) and has been included in the audit fees disclosed at Note 5.

Also included within the consolidated financial statements are fees levied by the Auditor General for Wales in respect of other accounts prepared by Welsh Ministers.

Account	2011-12	2010-11
	£	£
NHS Trust Summarised Account	7,250	7,000
NHS Local Health Board Summarised Account	32,500	32,000
National Non Domestic Rate Account	10,300	10,000
Whole of Government Account	40,000	30,000
Welsh Consolidated Fund	16,750	16,500

An additional £30,000 was levied for commissioned work on Student Loans and Education Maintenance Allowance in 2011-12.

## 8. Income

	Year ended 31 March 2012		Restated Year ended 31 March 2011	
	WG	Consolidated £000	WG	Consolidated £000
	£000	£000	£000	£000
<b>Programme Income</b>				
Non-EU Income:				
National Insurance health funding contribution	878,323	878,323	932,699	932,699
Housing Revenue Account	74,005	74,005	80,966	80,966
Student loans interest receivable	23,015	23,015	15,592	15,592
Health income	21,147	242,724	27,631	376,793
Property & investment income	21,474	21,680	23,769	24,345
Animal Health Defra income	-	-	18,266	18,266
Income from monuments	4,460	4,460	4,145	4,145
Higher Education Research Capital Fund	2,113	2,113	6,031	6,031
Interest receivable	-	1,320	-	6,592
Other programme income	4,236	9,139	4,678	7,263
	1,028,773	1,256,779	1,113,777	1,472,692
<b>Income outside the supply process</b>				
Consolidated Fund Extra Receipts	85	85	179	179
	1,028,858	1,256,864	1,113,956	1,472,871
<b>EU Income:</b>				
Common Agricultural Policy	296,264	296,264	309,415	309,415
European Structural Funds Programmes	203,953	208,722	184,619	184,979
	500,217	504,986	494,034	494,394
	1,529,075	1,761,850	1,607,990	1,967,265
<b>Administration Income</b>				
External rents	327	327	159	159
Income from other government departments	285	285	-	-
Fees & charges	553	558	1,722	1,725
	1,165	1,170	1,881	1,884
	1,530,240	1,763,020	1,609,871	1,969,149

## 9. Property, plant and equipment

	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Vehicles	Information Technology	Plant & Equipment	Fixtures & Fittings	Payments on Account & Assets under Construction	Total
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2011	14,895,093	418,329	2,048,388	56,622	8,252	142,467	472,497	33,734	650,694	18,726,076
Additions	426	235	40,407	111	424	16,993	32,489	14,112	237,990	343,187
Additions – donated	-	21	226	-	-	69	2,449	6	30	2,801
Additions - government granted	-	-	-	-	-	26	-	-	303	329
Transfers	(31,390)	-	-	-	-	-	-	-	-	(31,390)
Disposals/write-offs	-	(528)	(10,254)	-	(388)	(6,805)	(33,618)	(196)	-	(51,789)
Impairments	(36,389)	(3,821)	(173,471)	(193)	-	(9)	(91)	(7,390)	-	(221,364)
Revaluation/Indexation	552,816	1,047	75,291	2,158	-	-	-	-	1	631,313
Reclassified to held for sale	-	(13,219)	(28,031)	(892)	-	-	-	-	-	(42,142)
Reclassification	110,064	(216)	394,534	(44)	67	290	16,492	407	(523,935)	(2,341)
<b>At 31 March 2012</b>	<b>15,490,620</b>	<b>401,848</b>	<b>2,347,090</b>	<b>57,762</b>	<b>8,355</b>	<b>153,031</b>	<b>490,218</b>	<b>40,673</b>	<b>365,083</b>	<b>19,354,680</b>
<b>Depreciation</b>										
At 1 April 2011	2,014,360	-	259,796	3,913	5,433	87,536	309,760	13,213	28,578	2,722,589
Charged in year	124,365	-	80,595	1,824	804	18,436	41,712	3,451	-	271,187
Disposals	-	-	(7,606)	-	(380)	(6,731)	(33,371)	(190)	-	(48,278)
Transfers	(3,019)	-	-	-	-	-	-	-	-	(3,019)
Impairments	3,568	-	9,444	(22)	-	(2)	(25)	-	-	12,963
Revaluations	32,972	-	9,959	118	-	-	-	-	-	43,049
Reclassified to held for sale	-	-	(26,450)	(48)	-	-	-	-	-	(26,498)
Reclassification	-	-	26,959	(224)	(51)	(341)	278	62	(26,690)	(7)
<b>At 31 March 2012</b>	<b>2,172,246</b>	<b>-</b>	<b>352,697</b>	<b>5,561</b>	<b>5,806</b>	<b>98,898</b>	<b>318,354</b>	<b>16,536</b>	<b>1,888</b>	<b>2,971,986</b>
<b>Carrying amount at 31 March 2012</b>	<b>13,318,374</b>	<b>401,848</b>	<b>1,994,393</b>	<b>52,201</b>	<b>2,549</b>	<b>54,133</b>	<b>171,864</b>	<b>24,137</b>	<b>363,195</b>	<b>16,382,694</b>
Carrying amount At 31 March 2011	12,880,733	418,329	1,788,592	52,709	2,819	54,931	162,737	20,521	622,116	16,003,487

## 9. Property, plant and equipment

	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Vehicles	Information Technology	Plant & Equipment	Fixtures & Fittings	Payments on Account & Assets under Construction	Total
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2010	13,695,434	416,939	1,922,965	55,824	7,458	132,379	460,908	26,540	590,559	17,309,006
Additions	-	43	30,919	206	612	14,219	43,698	10,974	390,948	491,619
Additions – donated	-	2,550	389	-	-	111	1,817	80	129	5,076
Additions - government granted	-	-	-	-	-	106	-	9	866	981
Transfers	(16,238)	-	(14)	-	643	(1,394)	(6,277)	(158)	-	(23,438)
Disposals/write-offs	-	(116)	(715)	(24)	(463)	(2,433)	(25,637)	(674)	-	(30,062)
Impairments	(11,232)	(1,103)	(61,015)	-	-	(1,309)	(1,489)	(3,165)	(6,700)	(86,013)
Revaluation/Indexation	1,117,400	(246)	(46,726)	(2,032)	-	-	(2,047)	-	742	1,067,091
Reclassified to held for sale	-	(1,927)	(3,496)	-	-	-	(55)	-	-	(5,478)
Reclassification	109,729	2,189	206,081	2,648	2	788	1,579	128	(325,850)	(2,706)
<b>At 31 March 2011</b>	<b>14,895,093</b>	<b>418,329</b>	<b>2,048,388</b>	<b>56,622</b>	<b>8,252</b>	<b>142,467</b>	<b>472,497</b>	<b>33,734</b>	<b>650,694</b>	<b>18,726,076</b>
<b>Depreciation</b>										
At 1 April 2010	1,881,125	-	205,106	3,488	5,109	74,870	300,170	11,766	1,793	2,483,427
Charged in year	81,231	-	79,846	1,629	746	17,051	38,977	2,574	-	222,054
Disposals	-	-	(38)	(24)	(423)	(2,393)	(25,066)	(668)	-	(28,612)
Transfers	(1,399)	-	(2)	-	-	(680)	(2,090)	(105)	-	(4,276)
Impairments	(235)	-	7,849	102	-	(711)	(354)	(352)	26,775	33,074
Revaluations	53,638	-	(31,348)	(1,360)	-	-	(2,408)	-	-	18,522
Reclassified to held for sale	-	-	(1,532)	-	-	-	-	-	-	(1,532)
Reclassification	-	-	(85)	78	1	(601)	531	(2)	10	(68)
<b>At 31 March 2011</b>	<b>2,014,360</b>	<b>-</b>	<b>259,796</b>	<b>3,913</b>	<b>5,433</b>	<b>87,536</b>	<b>309,760</b>	<b>13,213</b>	<b>28,578</b>	<b>2,722,589</b>
<b>Carrying amount at 31 March 2011</b>	<b>12,880,733</b>	<b>418,329</b>	<b>1,788,592</b>	<b>52,709</b>	<b>2,819</b>	<b>54,931</b>	<b>162,737</b>	<b>20,521</b>	<b>622,116</b>	<b>16,003,487</b>
Carrying amount at 31 March 2010	11,814,309	416,939	1,717,859	52,336	2,349	57,509	160,738	14,774	588,766	14,825,579

## 9. Property, plant and equipment continued

	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Vehicles	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Asset financing:</b>										
Owned	12,996,137	388,512	1,876,854	47,989	2,549	54,131	170,423	24,137	363,195	15,923,927
Finance Leased	-	1	12,010	-	-	2	713	-	-	12,726
On-balance sheet PFI contracts	322,237	13,335	105,529	4,212	-	-	728	-	-	446,041
<b>Carrying amount at 31 March 2012</b>	<b>13,318,374</b>	<b>401,848</b>	<b>1,994,393</b>	<b>52,201</b>	<b>2,549</b>	<b>54,133</b>	<b>171,864</b>	<b>24,137</b>	<b>363,195</b>	<b>16,382,694</b>

	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Vehicles	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Asset financing:</b>										
Owned	12,577,199	26,605	114,196	1,860	688	22,888	1,906	10,081	202,543	12,957,966
Finance Leased	-	-	10,589	-	-	-	-	-	-	10,589
On-balance sheet PFI contracts	303,534	-	-	-	-	-	-	-	-	303,534
<b>Carrying amount at 31 March 2011</b>	<b>12,880,733</b>	<b>26,605</b>	<b>124,785</b>	<b>1,860</b>	<b>688</b>	<b>22,888</b>	<b>1,906</b>	<b>10,081</b>	<b>202,543</b>	<b>13,272,089</b>

## 9. Property, plant and equipment continued

Analysis of property, plant and equipment	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Vehicles	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Core department at 31 March 2012</b>	13,318,374	25,969	118,507	1,827	602	19,903	2,009	10,951	149,874	13,648,016
<b>Agencies/LHB's and subsidiaries at 31 March 2012</b>	-	375,879	1,875,886	50,374	1,947	34,230	169,855	13,186	213,321	2,734,678
<b>Core department at 31 March 2011</b>	12,880,733	26,605	124,785	1,860	688	22,888	1,906	10,081	202,543	13,272,089
<b>Agencies/LHB's and subsidiaries at 31 March 2011</b>	-	391,724	1,663,807	50,849	2,131	32,043	160,831	10,440	419,573	2,731,398

### 9.1 Assets 'held for sale'

Consolidated only

	As at 31 Mar 2012			As at 31 Mar 2011		
	Land	Buildings	Total	Land	Buildings	Total
	£000	£000	£000	£000	£000	£000
<b>Balance at the end of the year</b>	-	8,282	8,282	-	1,590	1,590

Most of the freehold land and buildings (with exceptions noted at 1) and 2) below) were valued on 31 March 2010 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. Long leaseholds (over 100 years) are capitalised on the same basis as above. Specialised properties are valued on a depreciated replacement cost basis, 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.

- 1) Properties and land managed by the Department for Business, Enterprise, Technology & Science were valued on an annual basis by Jones Lang La Salle, Chartered Surveyors during 2011-12.
- 2) In intervening financial years, between formal 5 yearly valuations, freehold land and buildings are valued using latest available indices at February in each financial year to provide a reasonable estimate of valuation.

## 10. Intangible assets

	Information Technology £000
<b>Cost or valuation</b>	
At 1 April 2011	23,272
Additions	5,734
Additions –donated	32
Additions – government grant	-
Disposals	(91)
Reclassifications	2,341
<b>At 31 March 2012</b>	<b>31,288</b>
 <b>Amortisation</b>	
At 1 April 2011	10,769
Charged in year	4,484
Disposals	(91)
Write-off	-
Reclassification	7
<b>At 31 March 2012</b>	<b>15,169</b>
 <b>Net Book Value at 31 March 2012</b>	<b>16,119</b>
 Net Book Value at 1 April 2011	12,503
 <b>Cost or valuation</b>	
At 1 April 2010	17,872
Additions	5,113
Additions –donated	8
Additions – government grant	-
Disposals	(78)
Reclassifications	356
<b>At 31 March 2011</b>	<b>23,271</b>
 <b>Amortisation</b>	
At 1 April 2010	6,337
Charged in year	4,441
Disposals	(78)
Reclassification	68
<b>At 31 March 2011</b>	<b>10,768</b>
 <b>Net Book Value at 31 March 2011</b>	<b>12,503</b>
 Net Book Value at 1 April 2010	11,535

### Analysis of intangible assets

Core at 31 March 2012	11,116
Core at 31 March 2011	7,265

## 11. Financial Assets

Investments and Loans in other Public bodies	NHS Trusts Public Dividend Capital £000	Student Loans £000	<sup>1</sup> Invest to Save loans £000	Total £000
Balance at 1 April 2010	<b>107,021</b>	<b>1,383,993</b>	<b>7,195</b>	<b>1,498,209</b>
Additions	15,238	251,177	3,406	269,821
Loan repayments	-	(77,418)	(96)	(77,514)
Re-issued	961	-	-	961
Effective interest	-	84,233	-	84,233
Fair value adjustment	-	(80,539)	-	(80,539)
Capitalised interest	-	15,592	-	15,592
Policy write-off	-	(57,216)	-	(57,216)
Adjustment	-	(7,461)	-	(7,461)
<b>Balance at 31 March 2011</b>	<b>123,220</b>	<b>1,512,361</b>	<b>10,505</b>	<b>1,646,086</b>
Additions	10,834	264,743	2,486	278,063
Loan repayments	(743)	(57,904)	(1,969)	(60,616)
Effective interest	-	96,813	-	96,813
Fair value adjustment	-	(53,412)	-	(53,412)
Capitalised interest	-	23,014	-	23,014
Policy write-off	-	(56,037)	-	(56,037)
Adjustment	-	(42)	-	(42)
<b>Balance at 31 March 2012</b>	<b>133,311</b>	<b>1,729,536</b>	<b>11,022</b>	<b>1,873,869</b>

<sup>1</sup> Repayable loans to Local Authorities

Other Investments and Loans	Investments £000	Interests in Joint Ventures £000	Mortgages and other loans £000	Available for sale assets carried at fair value £000	Available for sale assets carried at cost £000	Total £000
Balance at 1 April 2010	<b>16,624</b>	<b>18,665</b>	<b>3,037</b>	<b>6,306</b>	<b>7,780</b>	<b>52,412</b>
Additions	-	1,893	411	4,130	4,762	11,196
Repayments	-	(50)	(718)	-	-	(768)
Fair value adjustment	(3,510)	(1,715)	26	(491)	(100)	(5,790)
Adjustment	-	(2,074)	(26)	(2,432)	(2,751)	(7,283)
<b>Balance at 31 March 2011</b>	<b>13,114</b>	<b>16,719</b>	<b>2,730</b>	<b>7,513</b>	<b>9,691</b>	<b>49,767</b>
Additions	6,170	1,142	46	(14)	3,457	10,801
Repayments	-	(2,431)	(638)	(888)	(300)	(4,257)
Fair value adjustment	1	2,244	-	1,924	(50)	4,119
Adjustment	(465)	(689)	(56)	(5,255)	361	(6,104)
<b>Balance at 31 March 2012</b>	<b>18,820</b>	<b>16,985</b>	<b>2,082</b>	<b>3,280</b>	<b>13,159</b>	<b>54,326</b>

Analysis of financial assets	WG £000	Consolidated £000
<b>As at 31 March 2012</b>	<b>2,068,828</b>	<b>1,928,195</b>
<b>As at 31 March 2011</b>	<b>1,749,928</b>	<b>1,695,853</b>

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 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 balance sheet. Other loans

were discounted over their remaining life using the National Loans Fund rate applicable to the terms of the repayment (between 1.67% and 3.1%).

The student loans are shown net of a fair value adjustment which is calculated using the Student Loans Repayment Model (SLRM). Taking into account a number of factors the SLRM provides an estimate for the cost of issuing loans by modelling future cash flows and discounting those to present values. The SLRM takes into account the interest subsidy inherent in the loans issued. The interest subsidy is the difference between the interest paid by students and the long term cost of borrowing set by HM Treasury.

The interest in joint venture projects values in the table above have been independently assessed by Jones Lang La Salle Chartered Surveyors. The joint venture projects included in the above valuation have been undertaken in the following locations:

Cleppa Park Phase II  
 Hawtin Business Park, Blackwood  
 MediCentre, Heath Hospital  
 Parc Hendre  
 Parc Hendre, Ammanford (Spec Units)  
 Barry Waterfront  
 Llanelli Gate, Dafen  
 Cross Hands West  
 Swansea Vale  
 Cleddau Reach  
 Rhyd-y-car, Merthyr  
 Royal Dockyard, Pembroke Dock  
 Baglan Energy Park Phase I  
 Baglan Energy Park Phase II  
 Former Coal Stoking Depot, Mountain Ash  
 Station Yard, Aberdare  
 53 Margaret St, Abercynon  
 Phonetronics, Bridgend Science Park  
 Clynnogfawr, Caernarfon  
 Oakdale, Blackwood  
 Palace Cinema, Treharris  
 Pare Amanwy, Ammanford  
 Cooke's Site, Penrhyneddraeth  
 Withybush, Haverfordwest  
 National Botanic Garden of Wales  
 Harbour View, Porthcawl  
 Canal Side, Neath  
 Llanhilleth Industrial Estate, Llanhilleth  
 Wales International Business Park, Jt33 M4  
 Beechwood Industrial Estate, Llandeilo

## Other financial assets

	As at 31 March 2012		As at 31 March 2011	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
LHB Loans carried at amortised cost	-	74	-	176
	-	74	-	176

## 12. Movements in working capital other than cash

	Year ended 31 March 2012		Year ended 31 March 2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Increase/(decrease) in inventories	(4,326)	(13,398)	(23,258)	(10,629)
Increase/(decrease) in receivables: non current	-	(1,662)	-	5,585
: current	(14,568)	(1,793)	(29,534)	(33,807)
(Increase)/decrease in payables: current	(172,332)	(180,480)	(81,288)	(106,141)
: non-current	7,796	10,913	8,673	13,647
Increase/(decrease) in other current assets	-	(102)	-	1
(Increase)/decrease in other liabilities	-	(2,618)	-	(3,153)
National Loans Fund	45	45	39	39
	(183,385)	(189,095)	(125,368)	(134,458)
Development assets movement	5,918	18,948	19,933	9,963
Adjustments for accrual movement fixed assets	(2,127)	(13,473)	(1,495)	22,868
Finance Wales – movement in loan provisions	-	7,984	-	9,005
Adjustment for capital provision	-	(2,472)	-	-
Other investments held as current assets	-	2,625	-	2,929
(Decrease)/Increase in Financial Assets Long Term	-	(27)	-	(26)
Decrease/(increase) in Financial liabilities Long Term	-	292	-	291
LHB working capital adjustment	-	(290)	-	8,028
Less movement in amounts payable to the Welsh Consolidated Fund and other non-operating cost balances	(7,688)	(7,688)	3,838	3,838
	(187,282)	(183,196)	(103,092)	(77,562)

## 13. Inventories - Development Assets

	As at 31 March 2012		As at 31 March 2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
As at 1 April	153,521	171,161	173,454	181,124
Additions	5,760	5,760	20,172	30,142
Disposals	(4,209)	(17,239)	(14,360)	(14,360)
Transfers	-	-	2,350	2,350
Impairment on revaluation	(7,469)	(7,469)	(28,095)	(28,095)
<b>As at 31 March</b>	<b>147,603</b>	<b>152,213</b>	<b>153,521</b>	<b>171,161</b>

Development assets include certain land and buildings at a value where tenants have been provided with options to purchase within certain limited time periods.

## 14. Inventories

	31 March 2012		31 March 2011	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
Road salt	924	924	455	455
Cadw/LHB raw materials and consumables	134	36,015	123	31,909
Cadw goods for resale	562	562	671	671
Telecommunication spares	3,136	3,136	3,212	3,212
Drugs	32,906	50,147	31,609	48,987
	<b>37,662</b>	<b>90,784</b>	<b>36,070</b>	<b>85,234</b>

## 15. Trade receivables and other current assets

	31-Mar-2012		Restated 31-Mar-2011	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
Trade receivables	51,172	103,224	84,379	135,033
Deposits & advances	89	89	112	112
NHS Trusts	9,447	19,427	-	9,674
Other tax	11,319	11,319	10,510	10,643
Prepayments and accrued income	26,584	55,233	13,635	33,915
Welsh Consolidated Fund	431	431	1,095	1,095
Loans receivable within one year	-	16,402	-	13,567
Accrued income relating to EU	64,364	64,364	68,243	68,243
	<b>163,406</b>	<b>270,489</b>	<b>177,974</b>	<b>272,282</b>
<b>Amounts falling due after more than one year:</b>				
Finance Wales loans	-	36,652	-	37,040
Prepayments	-	1,415	-	1,854
Other receivables	-	5,074	-	5,909
	<b>-</b>	<b>43,141</b>	<b>-</b>	<b>44,803</b>
<b>Total trade receivables and other current assets</b>	<b>163,406</b>	<b>313,630</b>	<b>177,974</b>	<b>317,085</b>

## 15. Trade receivables and other current assets continued

### Intra-Government Balances

Consolidated figures only required	Amounts falling due within one year		Amounts falling due after more than one year	
	31 Mar 2012 £000	31 Mar 2011 £000	31 Mar 2012 £000	31 Mar 2011 £000
<b>Amounts falling due within one year:</b>				
Balances with other central government bodies	36,032	89	-	-
Balances with local authorities	16,328	9,537	-	-
Balances with NHS Trusts	19,427	13,602	-	-
Balances with public corporations and trading funds	-	-	-	-
<b><i>Subtotal: intra-government balances</i></b>	<b>71,787</b>	<b>23,228</b>	-	-
Balances with bodies external to government	198,702	249,054	43,141	44,803
<b>Total Trade receivables</b>	<b>270,489</b>	<b>272,282</b>	<b>43,141</b>	<b>44,803</b>

## 16. Cash and cash equivalents

	WG £000	Consolidated £000		WG As at 31 March 2012	Consolidated As at 31 March 2012	WG As at 31 March 2011	Consolidated As at 31 March 2011
	£000	£000		£000	£000	£000	£000
Balance at 1 April 2010	65,879	238,037					
Net change in cash and cash equivalent balances	(5,295)	(44,307)					
<b>Balance at 31 March 2011</b>	<b>60,584</b>	<b>193,730</b>					
Net change in cash and cash equivalent balances	87,071	154,826					
<b>Balance at 31 March 2012</b>	<b>147,655</b>	<b>348,556</b>					
The following balances were held at:							
Government Banking Service	143,701	152,463					
Commercial banks & cash in hand	3,954	196,093					
<b>Total</b>	<b>147,655</b>	<b>348,556</b>					
				60,584	193,730		

## 17. Trade payables and other current liabilities

	As at 31-Mar-2012		As at 31-Mar-2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
	<b>Amounts falling due within one year:</b>			
Other taxation and social security	<b>5,135</b>	<b>59,142</b>	5,348	52,455
Trade and other payables	<b>447,073</b>	<b>592,254</b>	263,613	391,922
Accruals & deferred income:				
European Union	<b>181,629</b>	<b>181,629</b>	103,883	103,883
Other accruals and deferred income	<b>171,999</b>	<b>435,498</b>	254,335	531,406
Amounts payable to the Welsh Consolidated Fund	<b>17,863</b>	<b>17,863</b>	24,437	24,437
NHS Trusts	-	<b>8,819</b>	-	5,647
Primary Care Trusts	-	<b>44,460</b>	-	33,133
Capital Creditors	-	<b>43,915</b>	-	57,857
Rebates	-	-	-	61
Obligations under finance leases and PFI contracts	<b>7,796</b>	<b>11,054</b>	7,547	13,071
Staff Pensions	-	<b>17,582</b>	-	17,864
	<b>831,495</b>	<b>1,412,216</b>	659,163	1,231,736
<b>Amounts falling due after more than one year</b>				
Obligations under finance leases and PFI contracts	<b>158,633</b>	<b>241,832</b>	166,429	252,718
Other payables, accruals & deferred income	-	-	-	4
Finance Wales - rebates	-	<b>1</b>	-	24
	<b>158,633</b>	<b>241,833</b>	166,429	252,746
<b>Total trade payables and other current liabilities</b>	<b>990,128</b>	<b>1,654,049</b>	825,592	1,484,482

## 17.1 Trade payables and other current liabilities continued

### Intra-Government Balances

Consolidated figures only required	Amounts falling due within one year		Amounts falling due after more than one year	
	31 Mar 2012	31 Mar 2011	31 Mar 2012	31 Mar 2011
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
Balances with other central government bodies	29,700	1,428	-	-
Balances with local authorities	113,286	72,258	-	-
Balances with NHS Trusts	54,110	49,571	-	-
Balances with public corporations and trading funds	-	-	-	-
<b>Subtotal: intra-government balances</b>	<b>197,096</b>	<b>123,257</b>	-	-
Balances with bodies external to government	1,215,120	1,108,479	241,833	252,746
<b>Total Trade payables</b>	<b>1,412,216</b>	<b>1,231,736</b>	<b>241,833</b>	<b>252,746</b>

## 18. Provisions for liabilities and charges

	Staff	WG	Total	Staff	Consolidated	Total
	Costs	NHS			NHS/LHB	
	£000	£000			Provisions	
<b>Restated balance at 1 April 2010</b>	<b>3,894</b>	<b>395,099</b>	<b>398,993</b>	<b>3,894</b>	<b>478,679</b>	<b>482,573</b>
Provided in the year	5,068	94,635	<b>99,703</b>	5,068	285,104	<b>290,172</b>
Provisions not required written back	-	-	-	-	(99,227)	<b>(99,227)</b>
Borrowing costs	-	-	-	-	1,771	<b>1,771</b>
Transfer	-	-	-	-	60	<b>60</b>
Provisions utilised in year	(1,019)	(54,052)	<b>(55,071)</b>	(1,019)	(143,217)	<b>(144,236)</b>
<b>Balance at 31 March 2011</b>	<b>7,943</b>	<b>435,682</b>	<b>443,625</b>	<b>7,943</b>	<b>523,170</b>	<b>531,113</b>
Provided in the year	104	79,701	<b>79,805</b>	104	274,794	<b>274,898</b>
Provisions not required written back	(246)	(1,605)	<b>(1,851)</b>	(246)	(129,691)	<b>(129,937)</b>
Borrowing costs	-	-	-	-	2,190	<b>2,190</b>
Transfer	-	-	-	-	(6,321)	<b>(6,321)</b>
Provisions utilised in year	(2,458)	(60,004)	<b>(62,462)</b>	(2,458)	(129,122)	<b>(131,580)</b>
<b>Balance at 31 March 2012</b>	<b>5,343</b>	<b>453,774</b>	<b>459,117</b>	<b>5,343</b>	<b>535,020</b>	<b>540,363</b>

## 18. Provisions for liabilities and charges continued

Analysis of expected timing of discounted flows

	WG			Consolidated		
	Staff Costs	NHS Provisions	Total	Staff Costs	NHS/LHB Provisions	Total
	£000	£000	£000	£000	£000	£000
In the remainder of the Spending Review period (to 2013)	2,822	211,764	<b>214,586</b>	2,822	211,764	<b>214,586</b>
Between 2014 and 2018	2,394	116,734	<b>119,128</b>	2,394	174,359	<b>176,753</b>
Between 2019 and 2023	69	31,291	<b>31,360</b>	69	47,481	<b>47,550</b>
Thereafter	58	93,985	<b>94,043</b>	58	101,416	<b>101,474</b>
<b>Balance at 31 March 2012</b>	<b>5,343</b>	<b>453,774</b>	<b>459,117</b>	<b>5,343</b>	<b>535,020</b>	<b>540,363</b>

Included in the amounts not expected to be called until after 2024 are: Nil

### Staff Costs

#### **(i) Early retirement provision – balance at 31 March 2012: £4,115,000**

The Welsh Government meets the additional costs of benefits for employees in PCSPS, beyond the normal PCSPS benefits in respect of employees who retire early, by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Welsh Government provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

#### **(ii) Pension commitment provision – balance at 31 March 2012: £ 284,000**

Pension commitments have arisen from the mergers of former Assembly Sponsored Public Bodies for unfunded commitments to ex- Chairs. These provisions have been transferred to the Welsh Government.

#### **(iii) Astley case provision – balance at 31 March 2012: £944,000**

The Welsh Government has liabilities for the Astley case regarding redundancy payments to former subsidiary employees. Some claims arising from this case have been settled, but there remains uncertainty as to the amount of the remaining liability.

### NHS Provisions

#### **(iv) Continuing Care provision – balance at 31 March 2012: £12,293,000**

In February 2003, the Health Services Ombudsman concluded that efforts should be made to remedy any financial injustice to patients where the criteria for access to continuing NHS funded care, or the way they were applied, were not clearly appropriate or fair. The costs prior to 1<sup>st</sup> April 2003 (i.e. former Health Authority liabilities) are the responsibility of the Welsh Government. All costs and provisions post 1<sup>st</sup> April 2003 are the responsibility of the Local Health Boards. The deadline for retrospective claims was 4 December 2009.

#### **(v) Hepatitis C provision – balance at 31 March 2012: £1,145,000**

The Skipton Fund is a body set up to manage the UK wide ex-gratia payments to individuals infected with hepatitis C from NHS blood products. The fund was opened on 5 July 2004. Lump sums of £20k are paid out in general cases and a figure of £25k is paid for those with an advanced illness. Additional support was agreed in March 2011.

**(vi) Agenda for Change provision –balance at 31 March 2012: £149,000**

The provision is for the expected reimbursement of salary costs resulting from the Agenda for Change assimilation of NHS staff for Health Care students for the period 1 October 2004 to 31 March 2007.

**(vii) Electronic Staff Records provision – balance at 31 March 2012: £948,000**

The provision is for the Welsh share of the overall Department of Health liability, in accordance with the contract with McKesson to 2015, for IT hardware and maintenance of the NHS Electronic Staff Records system.

**(viii) Welsh Risk Pool provision – balance at 31 March 2012: £439,239,000**

This provision is for the expected future reimbursements of the Welsh Risk Pool.

**LHB Provisions**

See accounting policy note 1.25. Details of the LHB provisions are provided in the LHB Summarised Account.

**19. Other liabilities**

	31-Mar-2012		Restated 31-Mar-2011	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
<b>Current:</b>				
Finance Wales borrowings	-	<b>10,159</b>	-	7,534
LHB other liabilities	-	<b>3,486</b>	-	3,493
	-	<b>13,645</b>	-	11,027
<b>Non-current:</b>				
Finance Wales borrowings	-	<b>63,800</b>	-	79,450
LHB other liabilities	-	<b>1,478</b>	-	1,770
	-	<b>65,278</b>	-	81,220

**20. Capital Commitments**

	31-Mar-2012		31-Mar-2011	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
Contracted capital commitments not otherwise included within these financial statements				
<b>Property, plant and equipment</b>				
Network Asset Construction	<b>100,539</b>	<b>100,539</b>	35,882	35,882
Local Health Boards	-	<b>166,308</b>	-	91,274
Development assets	<b>7,607</b>	<b>7,607</b>	5,321	5,321
ICT assets	<b>228</b>	<b>228</b>	2,323	2,323
	<b>108,374</b>	<b>274,682</b>	43,526	134,800

## 21. Commitments under leases

### 21.1 Commitments under operating leases

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

	31-Mar-2012		31-Mar-2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
<b>Land</b>				
Not later than one year	9	9	6	6
Later than one year and not later than five years	38	38	26	26
Later than five years	230	230	480	480
	<b>277</b>	<b>277</b>	<b>512</b>	<b>512</b>
<b>Buildings</b>				
Not later than one year	9,159	25,123	8,478	22,387
Later than one year and not later than five years	30,237	60,907	27,578	51,596
Later than five years	77,075	112,149	51,728	79,176
	<b>116,471</b>	<b>198,179</b>	<b>87,784</b>	<b>153,159</b>
<b>Other:</b>				
Not later than one year	108	108	205	205
Later than one year and not later than five years	250	250	140	140
Later than five years	-	-	-	-
	<b>358</b>	<b>358</b>	<b>345</b>	<b>345</b>
	<b>117,106</b>	<b>198,814</b>	<b>88,641</b>	<b>154,016</b>

### 21.2 Commitments under finance leases

At 31 March 2012 the Welsh Government was committed to making the following minimum lease payments:

	31-Mar-2012	31-Mar-2011
	£000	£000
<b>Buildings</b>		
Not later than one year	1,254	1,254
Later than one year and not later than five years	5,016	5,016
Later than five years	7,187	8,441
	<b>13,457</b>	<b>14,711</b>
Less interest element	(6,171)	(7,062)
	<b>7,286</b>	<b>7,649</b>

Details of LHB finance leases are held within the LHB summarised account.

## 22. Commitments under PFI contracts

### 22.1 Off-balance sheet

#### Bute Avenue PFI contract

From 2000/01 the Welsh Development Agency had been contractually committed to pay £5.1m annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. This scheme was transferred from the Cardiff Bay Development Corporation in April 2000, and was transferred to the Welsh Government in April 2006. The private sector partner is required to design, construct and maintain for 25 years a road network known as Bute Avenue, the completion of associated works and to secure and or undertake the provision of specified residential and commercial developments. After 25 years the road will be transferred to Cardiff County Council. The road is not an asset of the Welsh Government and it is not possible to assign a capital value of the scheme at this time.

### 22.2 On balance sheet

#### A55 PFI contract

Contractors were commissioned by the Welsh Government to build and maintain a carriageway across Anglesey. The contract commenced in December 1998 and is for a period of 30 years, after which time the ownership of the A55 will revert to the Welsh Government. Under IFRIC 12, the road is treated as an asset of the Welsh Government. Unitary payments comprise of two elements – imputed finance lease charges and service charges.

Under the terms of the contract, at the date the road reverts to the Welsh Government it will have a ten year residual life. The depreciation charge for the road is an estimate of the deterioration in the condition of the road, however, the depreciated value will be based on the road always having a ten year residual life until the reversion date.

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#### Total obligations under on balance sheet PFI contracts for the following periods:

Welsh Government only	31 March 2012	31 March 2011
Not later than one year	<b>18,000</b>	17,000
Later than one year and not later than five years	<b>71,000</b>	69,000
Later than five years	<b>210,000</b>	230,000
	<b>299,000</b>	316,000
Less interest element	<b>(44,557)</b>	(49,366)
	<b>254,443</b>	266,634

Details of LHB PFI contracts are held within the LHB summarised account.

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### 22.3 Charges to the Statement of Comprehensive Net Expenditure and future commitments

The total charged in the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £11,804,315 (2010-11: £11,517,555); and the payments to which the Welsh Government is committed, is as follows:

Welsh Government only	Restated	
	31 Mar 2012 £000	31 Mar 2011 £000
Not later than one year	<b>13,792</b>	12,344
Later than one year and not later than five years	<b>55,827</b>	51,942
Later than five years	<b>150,720</b>	163,669
	<b>220,339</b>	227,955

### 23. Other Financial Commitments

The Welsh Government and its related bodies 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:

	31-Mar-2012		31-Mar-2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Not later than one year	<b>18,205</b>	<b>18,205</b>	17,468	17,468
Later than one year and not later than five years	<b>80,525</b>	<b>80,525</b>	40,455	40,455
Later than five years	<b>11,670</b>	<b>11,670</b>	-	-
	<b>110,400</b>	<b>110,400</b>	57,923	57,923

ATOS provide information technology hardware, software and support services, to the Welsh Government. The original contract began on 1 May 2004, covering a period of 10 years, and this has been extended this year for a further period to January 2019.

This note does not contain any grant commitments as the Welsh Government does not accrue for grant funding commitments.

In addition, in March 2007 the (then) National Assembly for Wales entered into a commitment (revocable only by legislation) with Cardiff City Council to provide funding in respect of the Council's obligations under the Cardiff Bay Barrage Act 1993 for maintenance and operation of the Cardiff Bay Barrage.

### **23.1 Financial guarantees, Indemnities and Letters of Comfort**

The Welsh Government has entered into the following unquantifiable 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: nil

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 eight organisations for £411.7 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.

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 2012 was £108.5 million.

Letters of comfort:

The Welsh Government has a maximum liability to underwrite at last resort, costs regarding contaminated land at the Brofiscin tip of £4 million. The Environment Agency is assessing who is responsible for costs which will impact on the likelihood and magnitude of the costs to be incurred.

The Welsh Government has a contingent liability to underwrite the costs to secure a lease for Estyn. The liabilities would arise if Estyn could no longer fulfil its obligations under the lease. The lease is for 5 years at a cost of £143,000 per annum.

Other:

A potential disallowance of EU Agriculture funding has been identified relating to the dual use of land. The probability of the actual liability being incurred is currently unknown and the costs are unquantifiable at this time.

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

## 24. Contingent Liabilities disclosed under IAS 37

	Year ended 31 March 2012		Year ended 31 March 2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Legal Claims – alleged medical or employer negligence	-	(94,106)	-	(108,872)
Potential contractual obligations under the WDA Act 1975	(17,000)	(17,000)	(17,135)	(17,135)
Other legal claims	(2,970)	(4,941)	(3,485)	(3,485)
	<b>(19,970)</b>	<b>(116,047)</b>	<b>(20,620)</b>	<b>(129,492)</b>

## 25. Interest

	Year ended 31 March 2012		Year ended 31 March 2011	
	WG £000	Consolidated £000	WG £000	Consolidated £000
<b>Interest Payable</b>	-	<b>13,632</b>	-	10,808
	<b>-</b>	<b>13,632</b>	<b>-</b>	<b>10,808</b>
<b>Interest Receivable:</b>				
Loan interest (including Health and Student loans)	(14,488)	(15,807)	(19,392)	(20,911)
	<b>(14,488)</b>	<b>(15,807)</b>	<b>(19,392)</b>	<b>(20,911)</b>

## 26 National Loans Fund

	<b>National Loans Fund</b>	£000
Balance at 1 April 2011		11,710
Repayments during year		(45)
<b>Balance at 31 March 2012</b>		<b>11,665</b>
Amounts falling due within 1 year		52
Amounts falling due between 1 and 5 years		297
Amounts falling due after 5 years		11,316
<b>Total</b>		<b>11,665</b>

The National Loans Fund loans are repayable over periods of up to 60 years from the Welsh Consolidated Fund. They bear interest rates between 13.5% and 17.25%.

## 27. Un-hypothesized Supported Borrowing

The Welsh Government provides Un-hypothesized Supported Borrowing to local authorities for the purposes of capital expenditure. This funding is paid as part of the annual local authority revenue settlement, and takes into account both capital and interest repayments.

Un-hypothesized Supported Borrowing issued for Ministerial portfolios to Local Authorities during the year was as follows:

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Health & Social Services	<b>4,570</b>	5,388
Housing, Regeneration and Heritage	<b>48,388</b>	77,945
Environment and Sustainability Development	<b>11,441</b>	16,606
Local Government and Communities	<b>13,152</b>	16,478
Education and Skills	<b>42,660</b>	45,699
<b>Total Unhypothesized Supported Borrowing</b>	<b>120,211</b>	162,116

## 28. Losses and Special Payments

### a) Losses (Excluding Local Health Boards)

	Year ended 31 March 2012			
	WG No of Cases	£000	Consolidated No of Cases	£000
Cash Losses	<b>49</b>	<b>165</b>	<b>49</b>	<b>165</b>
Claims Abandoned	<b>185</b>	<b>1,116</b>	<b>185</b>	<b>1,116</b>
Administrative write-offs	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Fruitless Payments	<b>2</b>	<b>25</b>	<b>2</b>	<b>25</b>
Ex gratia	<b>8</b>	<b>27</b>	<b>8</b>	<b>27</b>
	<b>245</b>	<b>1,334</b>	<b>245</b>	<b>1,334</b>

	Year ended 31 March 2011			
	WG No of Cases	£000	Consolidated No of Cases	£000
Cash Losses	<b>45</b>	<b>86</b>	<b>45</b>	<b>86</b>
Claims Abandoned	<b>251</b>	<b>14,399</b>	<b>251</b>	<b>14,399</b>
Fruitless Payments	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Store Losses	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>296</b>	<b>14,485</b>	<b>296</b>	<b>14,485</b>

**b) Special Payments (Excluding Local Health Boards)**

	Year ended 31 March 2012			
	WG No of Cases	£000	Consolidated No of Cases	£000
Special Payments	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>
	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>

	Year ended 31 March 2011			
	WG No of Cases	£000	Consolidated No of Cases	£000
Special Payments	10	225	10	225
	10	225	10	225

**Details on losses that exceed £250,000: Nil**

**c) Local Health Boards: Losses and Special Payments**

	Year ended 31 March 2012		Year ended 31 March 2011	
	No of Cases	£000	No of cases	£000
Medical Negligence	<b>552</b>	<b>46,624</b>	534	64,208
Personal Injury	<b>433</b>	<b>5,736</b>	502	6,751
Other losses	<b>1,493</b>	<b>8,188</b>	1,430	6,789
	<b>2,478</b>	<b>60,548</b>	2,466	<b>77,748</b>

## **29. Related Party Transactions**

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

The Welsh Government funds its Welsh Government Sponsored Bodies. These bodies are regarded as related parties with which the Welsh Government has had various material transactions during the period.

Arts Council of Wales  
Care Council for Wales  
Countryside Council for Wales  
Higher Education Funding Council for Wales  
Local Government Boundary Commission for Wales  
National Library of Wales  
National Museums & Galleries of Wales  
Sports Council for Wales  
Welsh Language Board

In addition, the Welsh Government has had a number of material transactions with other government departments and central government bodies.

Cabinet Office  
Children's Commissioner for Wales  
Department for Communities and Local Government  
Department for Culture, Media and Sport  
Department for Education  
Department for Energy and Climate Change  
Department for Environment, Food and Rural Affairs  
Department for Health  
Department for Transport  
Department for Work and Pensions  
Department for Business, Innovation and Skills  
Environment Agency Wales  
Estyn: Her Majesty's Inspectorate of Education & Training in Wales  
Food Standards Agency  
Foreign and Commonwealth Office  
Forestry Commission  
Further and Higher Education Bodies  
General Social Care Council  
General Teaching Council for Wales  
Health Protection Agency  
HM Treasury  
Local Authorities in Wales  
Ministry of Justice  
NHS Bodies in Wales  
Office of Government Commerce  
Older Peoples Commissioner  
Planning Inspectorate  
Police Authorities in Wales  
Public Health Laboratory Service  
Public Services Ombudsman  
Rural Payment Agency  
Treasury Solicitors Department  
Trunk Road Agencies in Wales  
Valuation Office Agency  
Wales Office

## The National Fallen Stock Company

During the year the Welsh Government had a number of subsidiary companies:

- Newport Unlimited, which is a company limited by guarantee. The Welsh Government has a two-thirds share with Newport County Council having a one third share.
- Finance Wales PLC which is included in the consolidated account
- The Design Commission for Wales, which is a Welsh Government owned 'not-for-profit' company limited by guarantee. It is a registered company with a board of Directors having been given the powers of management to run the company, with the Welsh Government retaining overall control of its affairs.
- Welsh Development Management Ltd - included in the consolidated account
- International Business Wales Ltd – not consolidated on materiality grounds
- Ryder Cup Wales 2010 Ltd – included in the consolidated account.
- Hybu Cig Cymru – Meat Promotion Wales not consolidated on materiality grounds
- Regeneration Investment Fund for Wales LLP – included in the consolidated account

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.

James Turner (non-executive director) is also a non-executive director of Aber Instruments Ltd which received business support grants of £2,128 during the year.

Details of positions held by ministers are disclosed on the National Assembly for Wales' website. No direct material transactions were conducted with these bodies, except as noted below:

Lesley Griffiths, (Minister for Health and Social Services) is Vice President of the Llangollen International Music Eisteddfod which received £6,432 in the financial year for the rental of a stand.

The husband of Jane Hutt, (Minister for Finance and Leader of the House) is Chair, Trustee and Director of St Donat's Arts Centre which received £10,000 of sponsorship from the department of Business, Enterprise, Technology and Science.

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

### 30. Interreg

#### a) Interreg III

Interreg III is a community initiative, which promotes inter-regional co-operation in the EU. The Ireland/Wales Interreg IIIA programme is monitored by a committee made up of partnership interests in Ireland and Wales. The scheme is administered by the Welsh Government, which holds a separate Euro bank account for this purpose.

The grant payments and income for the Welsh element of the scheme are included in the main account. The Welsh element of the bank balance has not been included because an auditable split between Irish and Welsh balances is not possible. Balances have been converted into sterling at the relevant balance sheet date exchange rate.

#### Income and Expenditure

		Year Ended 31 March 2012 €000	Year Ended 31 March 2011 €000
Income	EU Funding	7	-
Grant Expenditure	Ireland	(7)	-
	Wales	-	-
		<u>(7)</u>	<u>-</u>
Other Expenditure	Bank Charges	(1)	1
	Exchange Gain	52	(21)
Total Expenditure		<u>44</u>	<u>(20)</u>
Net		<u><u>51</u></u>	<u><u>(20)</u></u>

#### Balance Sheet as at 31 March 2011

	Year Ended 31 March 2012 £000	Year Ended 31 March 2011 £000
Trade and other receivables	552	579
Cash	1,093	1,137
Trade and other payables	(1,250)	(1,255)
	<u>395</u>	<u>461</u>
Assets less liabilities	<u><u>459</u></u>	<u><u>510</u></u>
General Fund	<u><u>395</u></u>	<u><u>461</u></u>
	<u><u>459</u></u>	<u><u>510</u></u>

#### b) Interreg DE-LAN

Interreg De-Lan (Digital Ecosystems-Learning Applications Network) is a project to improve the effectiveness of regional development policies for the knowledge economy. Income and expenditure of £295,000 was received and spent in 2011-12 on this project.

### 31. Results of related companies

The Welsh Government has interests in related UK registered companies, and where this exceeds 30% of the issued ordinary shares and convertible preference shares of a company and £100,000, the following information taken from the latest audited annual accounts is given.

Welsh Government holding at 31 March 2012

Name of company	Description of investment	Proportion held %	Share capital and reserves £	Profit/(Loss) for the year £
Welsh Development Management Ltd	1 ordinary £1 share	100	1	Nil
Finance Wales PLC	12,500 ordinary £1 shares	100	12,500	(8,954,976)

Finance Wales plc was a wholly owned subsidiary company of the Welsh Government. The results for the year show a loss of £8,954,976 (2010-11 – profit £4,617,146) and share capital and reserves of £126,950,827 (2010-11 £50,521,691), incorporates the results of its wholly owned subsidiary companies, Finance Wales Investments Ltd, Finance Wales Investments (2) Ltd, Finance Wales Investments (3) Ltd, Finance Wales Investments (4) Ltd, Finance Wales Investments (5) Ltd, Finance Wales Investments (6) Ltd, FW Capital Ltd, NE Growth 500 LP Ltd, NW Loans Ltd, Finance Wales Investments (8) Ltd, Finance Wales Investments (9) Ltd, Finance Wales Investments (10) Ltd, Xenos – the Business Angel Network Ltd and also its share of the loss of Wales Innovation Fund Ltd, an incorporated joint venture.

The Regeneration Investment Fund for Wales LLP was a wholly owned subsidiary company of the Welsh Government. The results for the year are an unaudited loss of £354,373 (16 months ended 31 March 2011 - loss £108,590) and members interests of £29,460,037 (31 March 2011 - £26,884,410). The company's legal form is a limited partnership.

The Welsh Government had a 49% interest in an associated undertaking known as Welsh Industrial Partnership LLP. The value of the interest, shown at fair value is £7,750,000 and is included in financial assets at note 11. The management structure is such that the Welsh Government does not have significant influence. The company's legal form is a limited partnership.

The Welsh Government had a 50% interest in an associated undertaking known as Dragon 24 LLP. The value of the interest, shown at fair value is £4,900,000, and is included in financial assets at Note 11. The management structure is such that the Welsh Government does not have significant influence. The company's legal form is a limited partnership.

Newport Unlimited is a private company limited by guarantee with financial backing and Board member support from the Welsh Government and Newport City Council. The objectives of the company are to develop and secure the regeneration in the physical environment and to strengthen the economy of specific areas of the city and other locations in Newport. The company sets a strategic policy for the regeneration of Newport but does not enter into transactions on its own behalf.

The Welsh Government had a joint interest, with Cassidian Limited and Cardiff University, in EADS Foundation Wales, a company limited by guarantee. The business of the company is the commissioning of early stage R&D. It directly supports businesses and research establishments to drive the commercial exploitation of IP for economic growth in Wales. As EADS Foundation Wales progressed from its pilot phase into the current joint venture company an Asset Transfer Agreement was drawn up and signed by all

parties. The assets take the form of potential IP (from R&D projects in progress) which is valued as the projects mature. The long term nature of R&D projects means that since the launch of the joint venture none of the projects yet have agreed IP valuations.

The Welsh Government also had an interest in a "not for profit" development company known as the Ely Bridge Development Company Ltd. The value of the interest, shown at fair value, is £6,000,000 and is included in the financial assets at Note 11. The management structure is such that the Welsh Government does not have significant influence. The company's legal form is a company limited by guarantee.

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## **32. Heritage Assets**

In accordance with the Welsh Government's accounting policy a number of non operational heritage assets have not been valued for inclusion in the Balance Sheet. These assets are managed by two departments in the Welsh Government: Cadw; and the Royal Commission for Ancient and Historic Monuments in Wales (RCAHMW).

Cadw is the Welsh Government's historic environment service and discharges the Welsh Government's statutory responsibilities relating to the historic environment. Its mission is to protect, conserve and to promote an appreciation of the built heritage of Wales. It defines built heritage as 'the physical remains of people's activities within the Welsh landscape' and these remains include a large variety of sites, monuments, architectural ruins and historic buildings.

The Cadw estate in care is held in 3 ways:

- 'Guardianship' – where the freeholder places a monument in the guardianship of the state in perpetuity, the state takes full responsibility for the conservation, management and public accessibility. The freeholder retains ownership of the site and any contents unless a separate agreement is reached. These monuments can not be disposed of without agreement of the freeholder.
- By deed or gift or very rarely compulsory purchase – for their preservation and display to the public. Welsh Government would be the owners in this instance and can dispose of the assets if it chooses.
- Cadw can be managers – where monuments are placed into its care by other government departments or the Crown Estate. This is equivalent to guardianship.

There are currently 127 monuments in the guardianship of the Welsh Government, only 10 of which are roofed buildings. These monuments include:-

castles and medieval houses;  
religious sites;  
roman sites;  
post medieval sites and industrial sites; and  
prehistoric sites.

Of these the Castles and Town Walls built by King Edward I in Gwynedd and the Blaenavon Industrial Landscape are listed as World Heritage Sites.

A full list and information on all the sites in the guardianship of the Welsh Government can be found on the Cadw website: [www.cadw.wales.gov.uk](http://www.cadw.wales.gov.uk)

The RCAHMW has a national role to provide for the survey and recording of ancient and historical monuments and constructions connected with, or illustrative of, the contemporary culture, civilisation and conditions of the life of the people in Wales from the earliest times (including the ancient and historical monuments and constructions in, on or under, the sea bed within the United Kingdom territorial sea adjacent to Wales) by compiling, maintaining and curating the National Monuments Record of Wales (NMRW).

The NMRW comprises information gathered from RCAHM survey programmes and from donations of material from other organisations including Cadw and private individuals. According to an audit of collections carried out in 2002, which used sampling to estimate the general extent of NMRW's holdings, heritage assets comprise of over 1.25 million photographs, over 70,000 plans and drawings and 50,000 historic maps in addition to thousands of surveys and reports.

Further details can be found in Coflein, an online interactive mapping and database for the NMRW which can be found at [www.coflein.gov.uk](http://www.coflein.gov.uk).

### **33 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 retained membership of their pre-merger schemes. The material scheme disclosures are shown below.

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#### **33a. Principal Civil Service Pension Scheme**

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 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservice.gov.uk/pensions>).

For 2011-12, employers contributions of £32,063,095 were payable to the PCSPS (2010-11: £34,654,127) at one of four rates in the range 16.7 to 24.3 per cent (2010-11: 16.7 to 24.3) based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2011-12, the rates will be in the range 16.7 to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £129,713 (2010-11: £138,091) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable earnings. Employers also match employee contributions up to 3 per cent of earnings (which are included in the pension figures in Note 4). In addition, employer contributions of £8,489, 0.8 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 (2010-11: £nil). Contributions prepaid at the date were £nil (2010-11: £nil).

2 individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £4,835.

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### **33b. Former Welsh Development Agency Employees**

Former Welsh Development Agency employees transferred to the Welsh Government on 1 April 2006 but remained on their existing terms and conditions and pension arrangements, until new arrangements could be agreed. In 2008-09 some Welsh Government employees opted to transfer to the PCSPS Nuvos scheme and some opted to remain in the previous scheme.

The Welsh Development Agency participated in the Local Government Pension Scheme, which is a multi-employer funded scheme providing pension and related benefits on 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.

A full actuarial valuation of the fund was carried out at 31 March 2010 and the principal assumptions used by the independent qualified actuaries in updating the latest valuations of the fund for IAS 19 purposes, together with the funding position in respect of the staff of the former Welsh Development Agency are shown. Corresponding valuations and principal assumptions have also been obtained in respect of staff of Finance Wales Plc. These are disclosed within the financial statements of Finance Wales Plc and have been reflected in the financial results and balances for the consolidated position of the Assembly Government. The agreed employer's contribution rate was 17.7% of pensionable earnings.

## **FUNDED BENEFITS**

### **Main financial assumptions used**

	<b>At 31 March 2012</b>	<b>At 31 March 2011</b>	<b>At 31 March 2010</b>
Rate of increase in Salaries	5.00%	5.20%	4.25%
Rate of increase in Pensions in payment	2.50%	2.80%	2.75%
Rate of increase to deferred pensions	2.50%	2.80%	2.75%
Discount rate	4.70%	5.4%	4.6%
RPI Inflation assumption	3.50%	3.70%	2.75%
CPI Inflation assumption	2.50%	2.80%	n/a

**The expected rate of return on assets were:**

	Long-term rate of return expected at 31 March 2012	Asset split at 31 March 2012	Long-term rate of return expected at 31 March 2011	Asset split at 31 March 2011	Long-term rate of return expected at 31 March 2010	Asset split at 31 March 2010
	% pa	%	% pa	%	% pa	%
Equities	<b>8.1</b>	<b>65.6</b>	8.4	68.0	8.0	66.8
Property	<b>7.6</b>	<b>6.8</b>	7.9	6.8	8.5	5.9
Government bonds	<b>3.1</b>	<b>10.5</b>	4.4	10.4	4.5	14.1
Corporate bonds	<b>3.7</b>	<b>13.3</b>	5.1	12.9	5.5	10.1
Cash	<b>1.8</b>	<b>3.8</b>	1.5	1.9	0.7	3.1
Other	<b>8.1</b>	-	8.4	-	8.0	-
<b>Total</b>	<b>6.7</b>	<b>100</b>	7.4	100	7.1	100

The Welsh Government employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2012.

#### **Reconciliation of funded status to balance sheet**

	Value as at 31 March 2012 £000	Value as at 31 March 2011 £000	Value as at 31 March 2010 £000
Fair value of assets	<b>98,950</b>	91,570	87,070
Present value of funded defined benefit obligation	<b>(177,170)</b>	(159,530)	(163,090)
Asset/(liability) recognised on statement of financial position	<b>(78,220)</b>	(67,960)	(76,020)

#### **Analysis of income and expenditure/profit and loss charge**

	2011-12 £000	2010-11 £000
Current service cost	<b>1,870</b>	2,250
Past service cost	<b>270</b>	(18,450)
Interest cost	<b>8,530</b>	6,800
Expected return on assets	<b>(6,700)</b>	(6,140)
Curtailment cost	-	-
Settlement cost	-	-
Expense recognised	<b>3,970</b>	(15,540)

### Changes to the present value of liabilities during the accounting period

	2011-12 £000	2010-11 £000
Opening present value of defined benefit obligation	<b>159,530</b>	163,090
Current service cost	1,870	2,250
Interest cost	8,530	6,800
Contributions by participants	680	880
Actuarial (gains)/losses on liabilities*	<b>12,450</b>	9,600
Net benefits paid out	(6,160)	(4,640)
Past service cost	270	(18,450)
 Closing present value of defined benefit obligation	 <b>177,170</b>	 159,530

\*Includes changes to the actuarial assumptions  
Consists of net cash flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

### Changes to the fair value of assets during the accounting period

	2011-12 £000	2010-11 £000
Opening fair value of assets	91,570	87,070
Expected return on assets	6,700	6,140
Actuarial gains/(losses) on assets	(4,270)	(3,050)
Contributions by the employer	10,430	5,170
Contributions by participants	680	880
Net benefits paid out	(6,160)	(4,640)
 Closing fair of assets	 <b>98,950</b>	 91,570

Consists of net cash flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

### Actual return on assets

	2011-12 £000	2010-11 £000
Expected return on assets	6,700	6,140
Actuarial gain/(loss) on assets	(4,270)	(3,050)
Actual return on assets	<b>2,430</b>	3,090

### History of asset values, present value of defined benefit obligation and surplus/deficit

	2011-12 £000	2010-11 £000
Fair value of assets	98,950	91,570
Present value of defined benefit obligation	(177,170)	(159,530)
Deficit	<b>(78,220)</b>	(67,960)

## History of experience gains and losses

	<b>2011-12</b> £000	2010-11 £000
Experience gains/(losses) on assets	(4,270)	(3,050)
Experience gains/(losses) on liabilities	(1,060)	(1,570)

## UNFUNDED BENEFITS

### Main financial assumptions used

	<b>At 31 March 2012</b>	<b>At 31 March 2011</b>	<b>At 31 March 2010</b>
Rate of increase in Pensions in payment	2.4%	2.7%	2.75%
Discount rate	4.6%	5.5%	4.6%
RPI Inflation assumption	3.4%	3.6%	2.75%
CPI Inflation	2.4%	2.7%	n/a

### Reconciliation of funded status to balance sheet

	<b>2011-12</b> £000	2010-11 £000	2009-10 £000
Present value of liabilities	<b>9,990</b>	8,280	8,620
Net pension asset(liability)	<b>(9,990)</b>	(8,280)	(8,620)

### Analysis of income and expenditure/profit and loss charge

	<b>2011-12</b> £000	2010-11 £000
Current service cost	-	-
Past service cost	20	(710)
Interest cost	440	360
Expense recognised	<b>460</b>	(350)

### Changes to the present value of liabilities during the accounting period

	<b>2011-12</b> £000	2010-11 £000
Opening present value of liabilities	<b>8,280</b>	8,620
Current service cost	-	-
Interest cost	440	360
Actuarial (gains)/losses on liabilities*	<b>1,920</b>	680
Net benefits paid out	(670)	(670)
Past service cost	20	(710)
 Closing present value of liabilities	 <b>9,990</b>	 8,280

\*Includes changes to the actuarial assumptions

### History of present value of liabilities and surplus/deficit

	2011-12 £000	2010-11 £000
Present value of liabilities	<b>9,990</b>	8,280
Surplus/(deficit)	<b>(9,990)</b>	(8,280)

### History of experience gains and losses

	2011-12 £000	2010-11 £000
Experience gains (losses)	<b>1,280</b>	(180)

### 33c. Former Wales Tourist Board employees

Wales Tourist Board employees transferred to the Welsh Government on 1 April 2006 but remained on their existing terms and conditions and pension arrangements with the British Tourist Boards' (BTB) Staff Pension and Life Assurance Scheme.

Following discussions between Welsh Government and the BTB Scheme Trustees in respect of these members' existing rights in the BTB Scheme, it was agreed that the members would become entitled to deferred pensions in the Scheme based on service up to 31 January 2009 but with the link of their deferred benefits to their current salary levels maintained. The Welsh Government has agreed to meet the cost of any increases to members' deferred benefits to the extent that their salaries have increased by more than assumed in the most recent valuation of the BTB Scheme.

The BTB Scheme is a multi-employer defined benefit scheme including other tourist boards where the employers' contributions are affected by a surplus or deficit in the scheme, but each employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. As a consequence the Board has accounted for its contributions to the scheme as if it were a defined contributions scheme in accordance with Non-Departmental Public Body guidance.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases to salaries and pension in payment. It was assumed for the interim valuation that investment returns in the long term would be 5.12% per annum; that salary increases would average 2.85% per annum; and that pensions would increase in payment at 2.85% per annum.

The interim valuation showed that the value of the scheme's assets was £219 million and that the actuarial value of those assets represented 92% of the benefits that had accrued to members at that date, after allowing for expected future increases in earnings. The basis of valuation of the scheme's assets and liabilities for transfer purposes is not the same as that for IAS 19 purposes, and this is one of the topics under discussion with BTB scheme trustees.

A provision has been made in these accounts for the accruing costs of the previous Chairman's future pension entitlement (Note 18).

## **34. Financial Instruments**

IFRS 7 Financial Instruments: the standard requires the Welsh Government to disclose information which will allow users of these financial statements to evaluate the significance of financial instruments on financial performance and position, 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.

The Welsh Government is however exposed to some forms of credit, liquidity and market risk via specific programmes/activities undertaken in pursuance of its aims. Details of risks associated with Student Loans are outlined in Note .

### **Credit Risk**

The Welsh Government's objective is full recovery of debt and we actively pursue this recovery. 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 Welsh Government views the credit risk associated with most of these debtors as minor. Provisions for doubtful debts are made once debts are over 6 months old.

The Welsh Government issues and seeks repayments of student loans via the Student Loans Company, and is therefore exposed to the risk that some student loans will not be repaid. It works in conjunction with the Student Loans Company and Her Majesty's Revenue and Customs to manage the collection of student loan repayments and to manage the associated credit risks. It also estimates the future write-offs when loans are issued using a model, and provides for this on an annual basis.

### **Market risk**

Market risk is the risk that the fair value of future cash-flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk and interest rate risk.

#### **Development Assets Valuation Movements**

The Department is able to mitigate against possible reductions in valuation by proactive planning and management of the sites. However, movements in market fluctuations are not possible to control. The Department also ensures that the expenditure budgets for the portfolio are managed carefully to take in to account any reductions which result in reduced income availability from planned sales.

#### **Investment Risk**

Constant monitoring of the portfolio of investments allows for early identification of risks of non-recovery, allowing relevant provisions to be made accordingly. The investment in the subsidiary is considered on a much longer term basis, reflecting the fact that the investment is not expected to be repaid in the short to medium term, as reflected in the accounts of the subsidiary where the financing is shown as public equity and not as creditors.

## Foreign Currency risk

Currency risk is the risk that the fair values or future cash-flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Welsh Government is exposed to negligible currency risk on its foreign currency transactions, except for funds received from the European Union to the Wales European Funding Office which is part of the Department of Business, Enterprise, Technology & Science.

As a Government Department, options open to the private sector to mitigate risk in this area are not available. However, total funding received through the European Commission is carefully managed to ensure that the available funding is flexibly allocated to projects to ensure that the targeted expenditure levels are met. In addition, claims for funding from the Commission are made promptly to limit any delays between the incurring of the expenditure and its re-imbursement.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

### Student loans interest rate risk

To value the future cash flows of Student Loans, the Welsh Government has used the Treasury's long term discount rate of 2.2%. If an active market existed for student loans, the discount rate applied by potential buyers may be different from the Treasury's 2.2% - reflecting the buyers' cost of capital and assessment of risk. If the discount rate applied was greater than 2.2%, the fair value of the student loans would be lower than the values calculated on the basis applied here. The relationship between the discount rate and the carrying value of the loan book is not linear, and further increases in the discount rate would have smaller additional impacts.

For graduate earnings, the Student Loan Repayment Model estimates graduate earnings growth and this is factored into the calculations for future cash flows. 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 book.

### Subsidiary interest rate risk

Finance Wales plc, a subsidiary company of the Welsh Government, is exposed to interest rate risk arising from borrowing at a margin over variable LIBOR (London inter bank offered rate) and lending to SME's at fixed rates. As tranches of lending accumulate, this risk is being hedged using fixed interest rate contracts known as interest rate swaps.

## 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.