



Llywodraeth Cymru  
Welsh Government



Welsh Government  
Consolidated Accounts | 2015-2016

# Overview from the Permanent Secretary



Derek Jones

Each year, just before completing the serious and sobering task of signing the Welsh Government's Annual Accounts, I like to take some time to reflect on the financial year just gone - what has been achieved and what could have been done better - it's an opportunity I value enormously.

As I write this year, it's just a few weeks after the outcome of the EU Referendum, when questions about what fast action needs to be taken to ensure Wales is fully involved in the forthcoming negotiations are burning, both inside and outside of Government – it doesn't feel quite right to spend time looking back. But I do want to pause for a moment because while there are many uncertainties and challenges ahead, 2015-16 has itself been a very important year for the Welsh Government.

Not least, the Government of the 4th Assembly reached the end of a five year term, with – as reported in the last Programme for Government Annual Report published in June 2015 – more than 95% of the Cabinet's commitments delivered or on track for delivery, and 28 pieces of legislation on the statute book. In May 2016, after an eventful beginning to the new 5th Assembly term, the Welsh Government's First Minister Carwyn Jones announced his new team of Cabinet Secretaries and Ministers. Now developing a programme of government focused on building a united, connected and sustainable Wales, the First Minister has committed both Ministers and

the Welsh Government Civil Service to working in a more collaborative way, building consensus across divides to deliver for Wales.

Throughout the year, the Welsh Government also put much thought and energy into preparing for the implementation of two pieces of unique Welsh legislation – the Well-being of Future Generations Act and the Welsh Language Standards - both of which will change the way the Welsh Government and wider public services in Wales work, now and in the future. This is an important opportunity to take a fresh look at ways of working, to improve customer service, and to increase the quality and the long-term gaze of the advice put to Ministers.

And with the demands of the future firmly in mind, including a tough financial outlook coupled with taking on new responsibilities, I have been working to make sure that the Civil Service itself is as agile, flexible, capable, affordable – and as diverse and fair - as it can be.

Lastly, I announced in April my intention to stand down from the role of Permanent Secretary at the turn of this calendar year; so this will be my last Annual Accounts. I am extremely proud to have led the Civil Service through some very exciting times, and have had the pleasure of working with talented, committed and ambitious colleagues. I wish everyone the best of luck for the future.

**Derek**

**OGL**

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# Contents

## Annual Report

Permanent Secretary's overview	2
The Welsh Government at a glance	4

## Accountability Report

Statement of Accounting Officer's responsibilities	19
Governance Statement	20
Remuneration and staff report	33
Losses statement	45
Summary of Resource Outturn	46
Certificate and Report of the Auditor General for Wales	48

## Financial Report

Financial Statements	51
Notes to the Accounts	55
Appendix A – Accounting Policies	73
Appendix B – Glossary	82

### Government of Wales Act 2006

Accounts of the Welsh Government are prepared pursuant to Section 131 of the Government of Wales Act 2006 for the year to 31 March 2016, together with the Certificate and Report of the Auditor General for Wales thereon.

Laid before the Assembly on 19 August 2016 pursuant to the Government of Wales Act Section 131

# Annual Report

## The Welsh Government at a glance

### Overview

The Welsh Government is the devolved government for Wales and has responsibility for a wide range of matters which affect people's lives.

The Welsh Government was formally created in 2007 under the Government of Wales Act, which established a division of functions between the National Assembly for Wales (the legislature) and the Welsh Assembly Government (the executive). The Wales Act 2014 has since legally changed the name to the Welsh Government.

Led by the First Minister, the Welsh Government makes decisions and is responsible for delivery in the areas devolved to it, as set out in the Government of Wales Act 2006 and 2014. This involves developing and implementing policies; setting up and directing delivery and governance; proposing Welsh Laws (Assembly Bills); and making subordinate legislation, such as regulations and statutory guidance. It also directly funds Welsh Government Sponsored Bodies.

### Programme for Government

The Programme for Government was the Welsh Government's plan for action for the 4th Assembly and the final annual report was published in June 2015. The report showed the progress made in the delivery of the Cabinet's commitments and was aligned to the First Minister's four key priorities:

- Growth and Jobs
- Health and Health Services
- Educational Attainment
- Supporting Children, Families and Deprived Communities

In May this year, the new Cabinet was formed with a new programme which will focus on taking Wales forward due for publication in September 2016.

In his statement to the Assembly at the start of the current term, the First Minister said:



"This will be an open, inclusive, and transparent administration, ready to work with others where it is in the national interest. A critical 5 years lie ahead. My relentless focus, and that of my Cabinet and Ministers, will be on driving improvement in our economy and the vital public services that the people of Wales rely on every day"

## The Cabinet

During the financial year 2015-16 the Cabinet consisted of eight Ministers and four Deputy Minister posts, plus the Counsel General and

there were no changes to Cabinet responsibilities during the 2015-16 financial year:

Rt. Hon Carwyn Jones	First Minister
Leighton Andrews	Minister for Public Services
Mark Drakeford	Minister for Health and Social Services
Lesley Griffiths	Minister for Communities and Tackling Poverty
Edwina Hart MBE CStJ	Minister for Economy, Science and Transport
Jane Hutt	Minister for Finance and Government Business
Huw Lewis	Minister for Education and Skills
Carl Sargeant	Minister for Natural Resources
Rebecca Evans	Deputy Minister for Farming and Food
Vaughan Gething	Deputy Minister for Health
Julie James	Deputy Minister for Skills and Technology
Ken Skates	Deputy Minister for Culture, Sport and Tourism
Theodore Huckle	Counsel General



Following the election in May, 2016, Carwyn Jones was reappointed as First Minister of Wales and he announced his new Cabinet and Ministers.

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



## What the Welsh Government spends

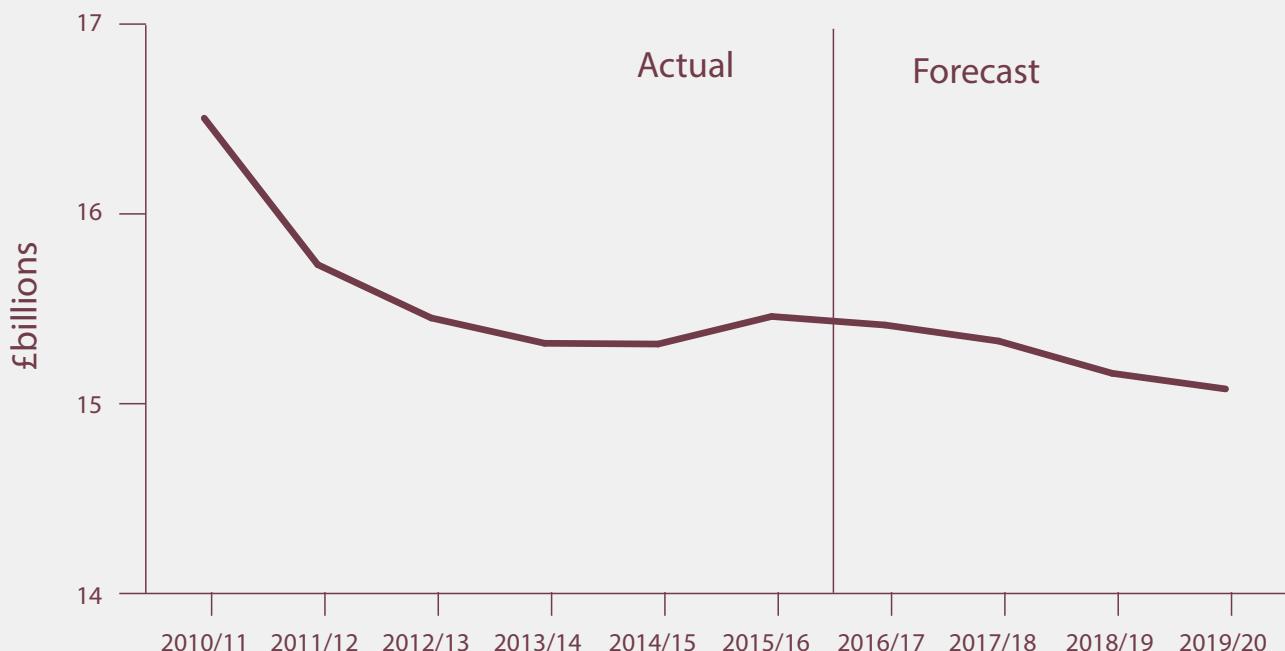
The level of funding available for devolved public expenditure in Wales is set through UK Government Spending Reviews. This is a Treasury-led process to allocate resources across all UK Government Departments and Devolved Administrations. Adjustments to the level of funding for Wales – negative or positive – are determined through the Barnett Formula.

The Welsh Government's Budget from 2016-17 to 2019-20 was set by the UK Government in its recent Spending Review, which concluded

on 25 November 2015. Overall the budget increases in cash terms in each year of the settlement. By 2019-20 it will be approximately 4 per cent higher than in this year, with an increase of a little under £400m in revenue and £200m in capital.

However, as shown in the graph, after taking inflation into account, the Budget will decline by 3.6 per cent in real terms, representing a reduction of approximately £432 million. The settlement therefore remains exceptionally challenging.

Budget - Real Terms (2015-2016 prices)

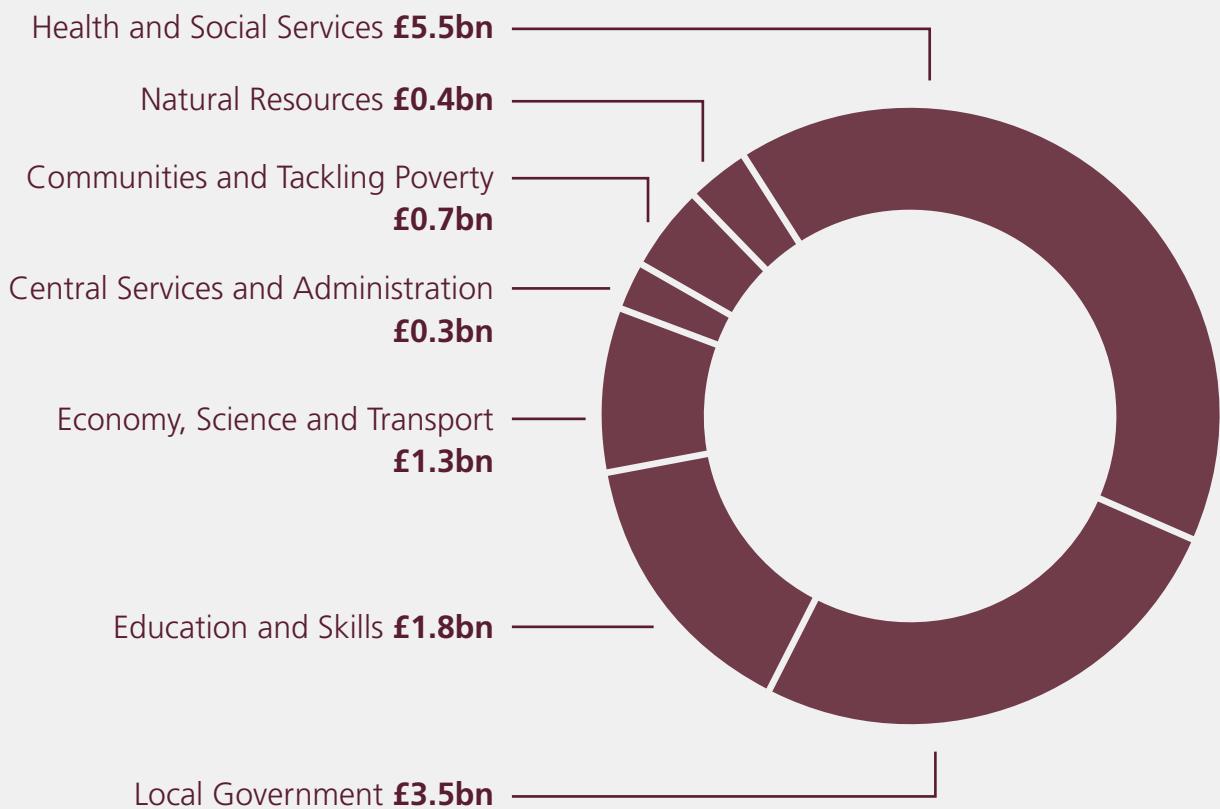


## Expenditure in 2015-16

Expenditure is £13.5 billion which is net of £1.8 billion income. The majority of this income – £1.1 billion is funding from the National Insurance for Health and

Social Services. A further £0.5 billion is funding from the European Union.

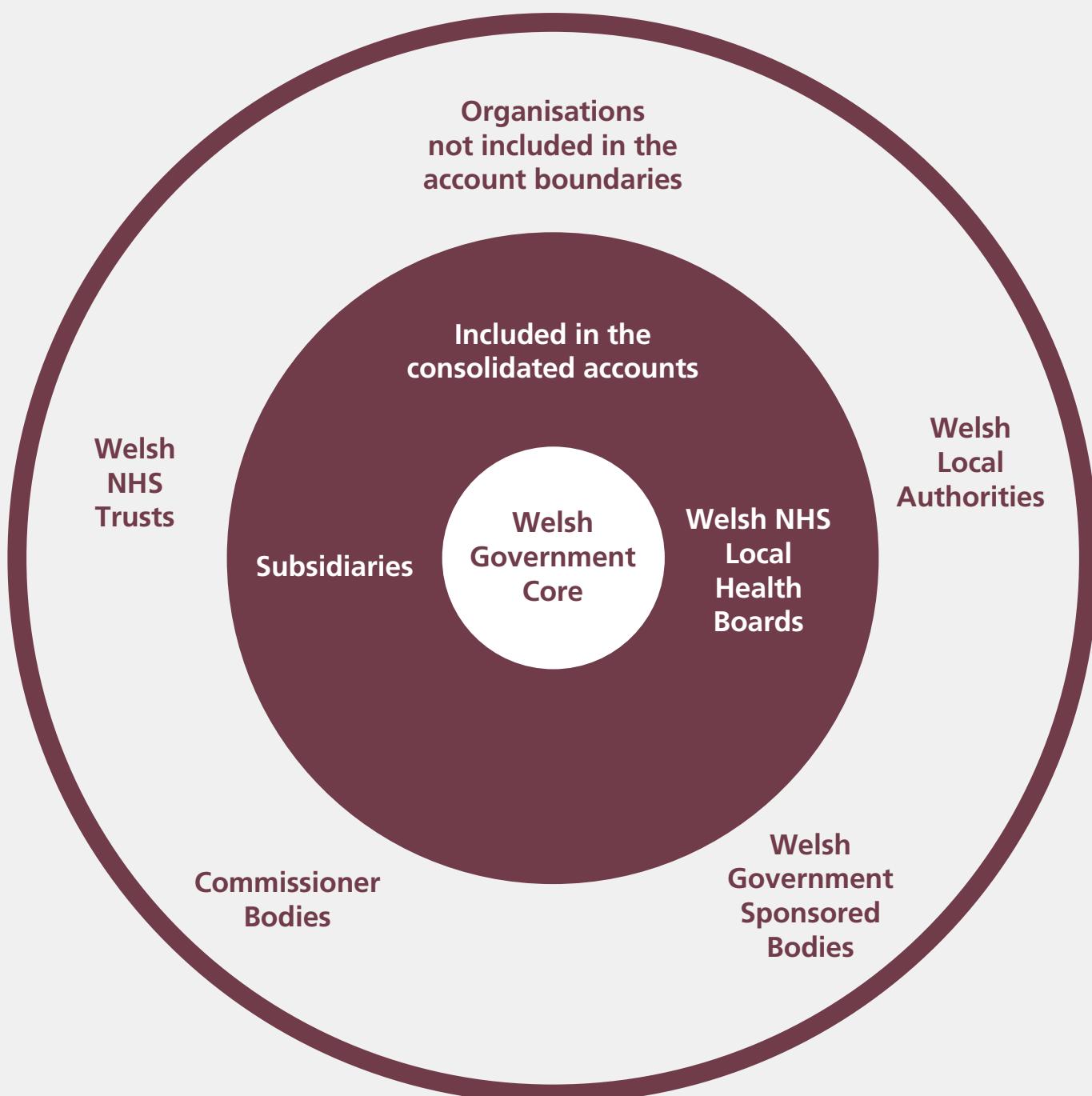
The net expenditure as authorised by Welsh Ministers, is shown below:



# Welsh Government Accounting Boundaries 2015-16

Given the extent of devolved responsibilities, the Welsh Government Accounts for 2015-16 cover the Welsh Government core (the Welsh Government itself) and the Welsh Government Group (consolidation with Welsh NHS Local Health Boards, Finance Wales, Regeneration Investment

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



## Delivering for Ministers

In June 2015, the Welsh Government's last Programme for Government Annual Report was published setting out the Government's achievements across four themes: educational attainment; growth and jobs; health and health services; and supporting children, families and deprived communities. As the remainder of the year running up to the 5th Assembly elections unfolded, the organisation maintained its focus on delivering the final stages of the Government's Programme.

A critical part of this work was the completion of the Government's legislative programme. Starting the financial year with 17 Acts on the statute book, during the year a further ten Bills received Royal Assent to become Acts of the Assembly, including the Well-being of Future Generations Act (Wales) Act 2015. July 2015 saw the introduction into the Assembly of the first Welsh tax legislation – the Tax Collection and Management (Wales) Bill. The Bill received Royal Assent in April 2016, and will establish the Welsh Revenue Authority, which will be responsible for collecting and managing devolved taxes, and places duties on Welsh tax payers. Further legislation is due later in 2016.

Indeed, 2015 -16 was punctuated by important developments in the Devolution settlement for Wales. Just before the start of the year, the outcome of the UK Government's

'St David's Day Process', begun following the result of the Scottish Referendum in summer 2014, was published. A draft Wales Bill followed, and throughout the year the Welsh Government civil service has been in close contact with Whitehall counterparts on the content of the Bill. During a pause in the process, in March 2016 the Welsh Government published its own alternative Bill, setting out the Welsh Government's conclusions on how to make a reserved powers model work for Wales. And on 7 June 2016, the UK Government introduced a revised Wales Bill into Parliament; discussions on the detail of the Bill are continuing.

In contrast to work on the long-term future of the UK constitution, emergency situations inevitably arise. While work to support the steel industry in Wales has been in hand for some time, towards the end of this financial year the situation in the Welsh steel industry reached crisis point, with the future of the TATA Steel works in Port Talbot in doubt. In April 2016, the First Minister committed to the Welsh Government doing whatever it can within its powers and resources to support the industry in Wales.

During the last financial year, the following Bills received Royal Assent, becoming Acts of the Assembly:

Well-being of Future Generations (Wales) Act 2015

Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act 2015

Planning (Wales) Act 2015

Qualifications Wales Act 2015

Local Government (Wales) Act 2015

Renting Homes (Wales) Act 2016

Regulation and Inspection of Social Care (Wales) Act 2016

Environment (Wales) Act 2016

Historic Environment (Wales) Act 2016

Nurse Staffing Levels (Wales) Act 2016



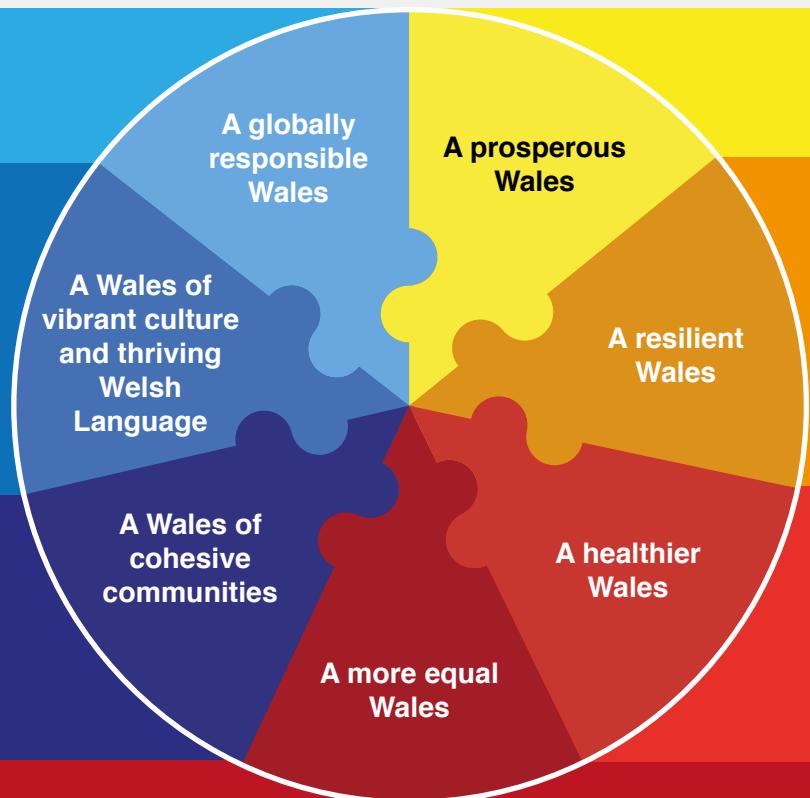
## Well-being of Future Generations Goals and Principles

Coming into effect from April 2016, the Act provides a framework for the way in which the objectives of the next Welsh Government programme will be delivered and also of the wider public service. Work is in hand to this effect, including:

- adopting a common business planning system which enables more effective joint planning and working in support of the well-being goals
- undertaking awareness and engagement activity to

help people understand the requirements of the Act and how it will support more effective delivery

- revising key business processes and guidance to ensure that they support implementation of the Act
- improving policy capacity and skills to enable colleagues to provide better support to Ministers and to put the focus on impact and effectiveness of interventions aimed at addressing the big challenges.



## Implementing the Welsh Language Standards

In March 2016, the first tranche of the new Welsh Language Standards for the organisation came into force.

Over the past year improvements have been made to the way the organisation interacts with citizens and other organisations as well

as the way colleagues work with each other.



# The Civil Service

The civil service is the non-political administration that supports Welsh Government ministers. The core strengths of the civil service provide a solid foundation for the organisation – political neutrality; efficient administration; good governance, sound management of public funds.

In September 2015 I introduced some significant changes to the management structure of the organisation. Staff now work within one of four Groups – headed by the Permanent Secretary, two Deputy Permanent Secretaries,

and the Director General for the Health and Social Services Group (also Chief Executive of NHS Wales). The smaller number of groups is more economical, provides clearer direction and enables more collaborative working on Government priorities. Each Head of Group also has a number of corporate responsibilities for leading and developing the organisation as a whole.

Over £15 million of staff resource has been realigned across the organisation to support Ministerial priorities.

## Overview of Group Structure

**Derek Jones**, Permanent Secretary

### Office of the First Minister and Cabinet

#### Owen Evans

Deputy Permanent Secretary, Education and Public Services Group

- Local Government
- Communities & Tackling Poverty
- Housing & Regeneration
- Education Directorate
- Office of the Chief Digital Officer
- Care and Social Services Inspectorate Wales
- Healthcare Inspectorate Wales
- Welsh language
- Operations Directorate

- Welsh Treasury
- Governance and Performance
- Legal Services
- Constitutional Affairs and Inter-Governmental Relations
- Corporate Services
- Finance
- Wales European Funding Office
- Office of the First Minister

#### Andrew Goodall

Director General, Health and Social Services Group, Chief Executive NHS Wales

- NHS Delivery & Performance
- Workforce & Organisational Development
- NHS Finance
- Digital, Change & Innovation
- Mental Health & NHS Governance
- Social Services & Innovation
- Chief Medical Officer
- Chief Nursing Officer
- Knowledge & Analytical Services

As part of the restructuring work the Welsh Government Board was also refreshed with the organisation's HR Director and Finance Director becoming full members of the Board and members representing employee engagement and equality and diversity were also added.

#### James Price

Deputy Permanent Secretary, Economy, Skills and Natural Resources

- Agriculture, Food & Marine
- Environment & Sustainable Development
- Chief Veterinary Officer
- Economic Strategy
- Sectors and Business
- Transport
- Planning
- Skills, Higher Education & Lifelong Learning
- Finance & Operations
- Chief Scientific Adviser
- Tourism, Heritage & Sport
- National Procurement Service & Value Wales

More details on the Board can be found on page 22.

## Preparing for the Future

Preparing for the Future is the Welsh Government's business improvement programme with the primary aim of developing a Welsh Government civil service that better meets the needs of Ministers and provides excellent leadership of Welsh public services. Commencing in February 2015, the programme identified ways for the organisation to be agile, flexible, capable and affordable.

The programme is supported by four workstreams:

The **Leadership and Capability Workstream** has been focussed on developing the leadership capability and the skills and support needed across the organisation.

The **Business and Common Corporate Services Improvement workstream**, is focusing on developing an effective and efficient model for providing common services across the organisation to make them more streamlined, efficient and responsive to Ministers and business needs. One area that is currently being examined is improving the efficiency and

effectiveness of our grants practice. This is building on the work of the Grants Improvement Project with a focus on making improvements within the new Group structures.

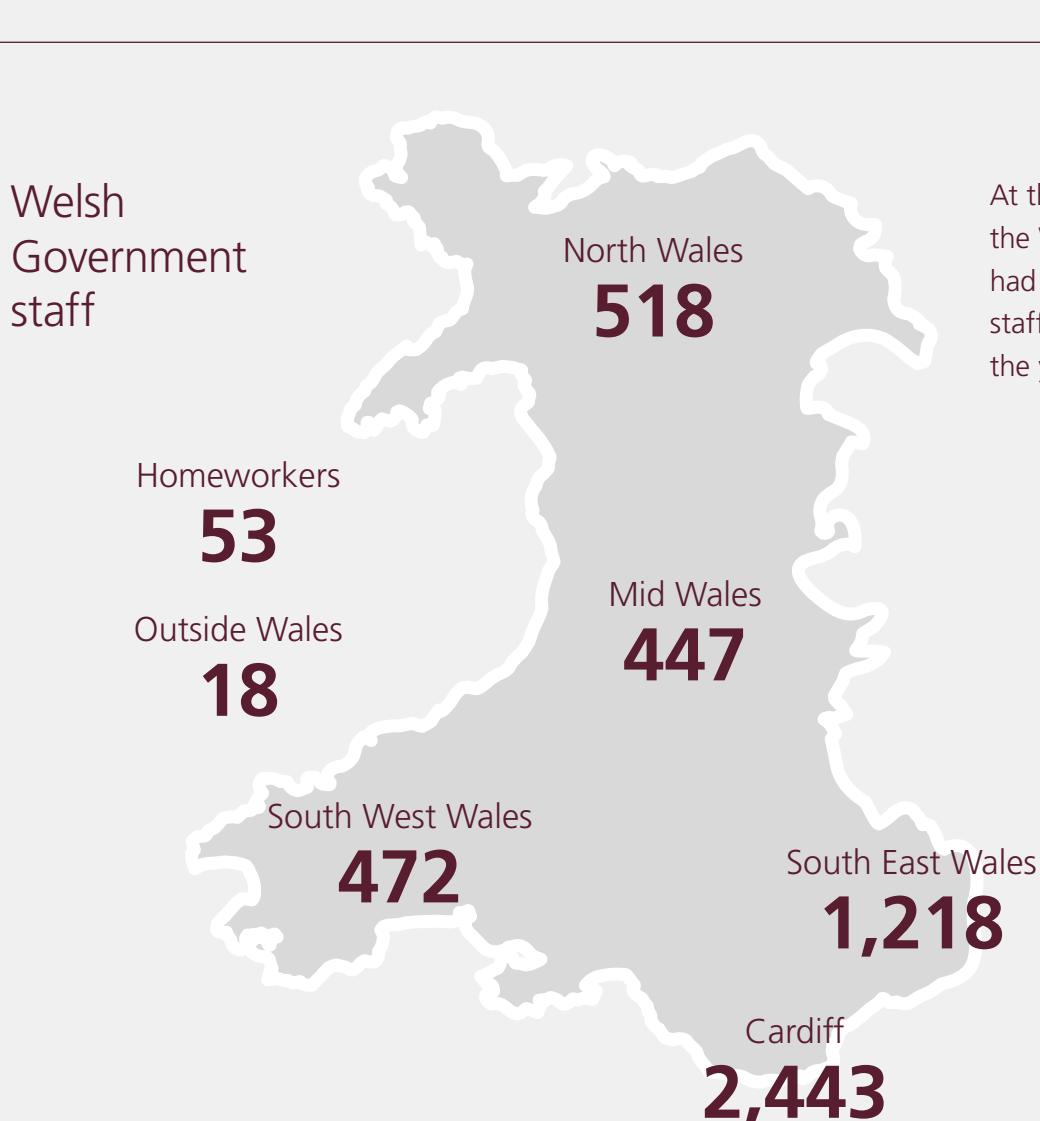
The **Flexible and Productive Working workstream** has undertaken a range of activities to lay the foundations to enable more agile working. In July 2016 this resulted in the start of a 6 month pilot at the Merthyr office with staff exploring different ways of working including spaces, work-styles and the introduction of new communication tools.

The **Commercial Governance workstream** is looking at new approaches to procurement and payment alongside strengthening our contract management skills and capability. Commercial Governance is an important area for the Welsh Government which currently spends half-a-billion pounds annually on goods and services. In the first half of last year, the workstream reported over £7m of procurement savings.

## Reducing Complexity

Creating more capacity to meet the challenges ahead by reducing unnecessary complexity has continued to be a theme. This year there was a focus on improving how e-mail is used, on record keeping and improving how advice is

provided to Ministers. Ongoing work for the next financial year includes a Public Policy Institute for Wales study on the organisation's approach to impact assessments, aligned to the well-being goals.



At the end of the financial year, the Welsh Government civil service had 5,169 full time equivalent staff, a fall of over 300 staff during the year.

## Welsh Government offices

As at April 2016 there are

### 30 properties



with 23 offices and 7 non-office sites compared to 2010 when there were

### 75 properties

with 65 offices and 10 non-office sites.

The 2015-20 Location Strategy published this financial year continues to position the estate across 5 geographical areas in Wales, and a small but important office in London.

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

Capital receipts from freehold disposals are estimated at between £6.25m and £7.8m.



## Sustainability reporting

The organisation continues to improve its environmental performance by taking a proactive approach, working closely with technical specialists in order to meet Government targets and enhance energy, water and waste management.

In 2015/16 carbon emissions were reduced by a significant 18% on the previous year. The 2020 emissions target of 30% has been exceeded by reaching a 45% carbon saving on the 2010/11 baseline. There has also been a year on year increase in

recycling rates and reduction in the amount of waste we produce. In 2015/16 the five year Carbon Management Strategy and associated action plan for the organisation was concluded. During 2016/17 a new strategy will be created that will ensure the estate operates in an increasingly sustainable and efficient manner. Further details on greenhouse gas emissions, waste produced and water consumption on the Administrative Estate are shown below:

Greenhouse Gas Emissions		2011-12	2012-13	2013-14	2014-15	2015-16
Non-Financial Indicators ('000 tCO <sub>2</sub> e)	Total Gross Emissions	10.7	10.4	9.2	8.4	6.9
	Gross Emissions Scope 1 (Gas)	1.9	1.9	1.5	1.3	1.1
	Gross Emissions Scope 2 (Electricity)	8.8	8.5	7.7	7.1	5.8
Related Energy Consumption (GWh)	Electricity	16.0	15.9	14.2	13.4	11.8
	Gas	8.6	10.2	8.4	7.1	5.8
Financial Indicators (£million)	Expenditure on Energy	2.0	2.3	2.3	2.1	2.1
	CRC Allowances (2012 onwards)	0.18	0.10	0.11	0.16	0.27
	Expenditure on official business travel	-	-	4.3	4.5	4.7

Waste		2011-12	2012-13	2013-14	2014-15	2015-16
Non-Financial Indicators (tonnes)	Total Waste (tonnes)	665	609	583	500	498
	Hazardous Waste	Total	1	1	-	-
	Non-Hazardous Waste	Landfill	268	202	184	127
		Reused/Recycled	448	365	361	314
		Composted (food)	76	42	38	64

Water		2011-12	2012-13	2013-14	2014-15	2015-16
Non-Financial Indicators (cu.m/person/yr)		10	8	10	8	8

## Developing Welsh Government staff

The organisation continues to provide staff with 5 days of learning and development each year. A new 2015-18 learning and development strategy was developed, aligned to organisational priorities and including new courses for managers.

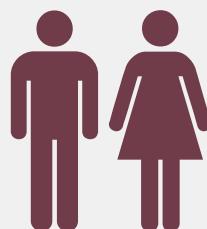
In 2015-16...



with **4320** delegates across Welsh Government offices. Opportunities for e-learning were increased with modules including 'Unconscious Bias' and 'Attendance Management'.

174 colleagues applied for Welsh language training in 2015-16 and exams took place in June. This is supplemented with 'Coffi a Chlonc' drop-in sessions, mentoring, intensive classes for proficiency level and e-learning for complete beginners.

A 'Women as Leaders' programme was designed for women at Executive band level to support the pledge of...



**50:50 equal gender balance in the Senior Civil Service by 2020**

Development programmes were introduced for individuals with protected characteristics, working with our 4 diversity networks.

The organisation re-confirmed its silver Investors in People accreditation. The approach to learning and development recorded the biggest improvement across the areas assessed.

"An extremely comprehensive, extensive and easily accessible offering of learning, training and development opportunities is available to all employees".

*LiP assessment report, June 2015*

## Becoming a fairer place to work



Creating a fairer organisation for everyone who works here has been one of this year's priorities. The Welsh Government was ranked the

- **17th** top UK employer in the Stonewall Workplace Equality Index, a rise of 17 places on last year's index. We were voted the
- **2nd** top Government organisation in the UK and
- **4th** top employer in Wales. PRISM, the sexual orientation and gender identity staff network, took Stonewall's Best Performing Network Award.

## Listening and responding to feedback

Involving staff and listening to their feedback has been key to the organisations business improvement approach, with an ongoing programme of engagement opportunities.

The People Survey provides the opportunity for staff to provide feedback on what it's like to work in the Welsh Government Civil Service. Held in January this time, the results have identified where the organisation is doing well and the areas in need of action to ensure continual improvement.

71% of staff responded with a positive employee engagement score of 62% which has held steady since the last survey. Results were above the Civil Service average in nine out of the ten survey themes.

The lowest scoring area was in leadership and managing change. Whilst that is to be expected to some degree given the amount of business improvement and development work underway, addressing this will be an important focus for the year ahead.

## Overview of administrative performance



**99,319** invoices paid with a total value of **£1,827m** and **96%** were paid within 10 days



**432** grants schemes administered totalling **£13.6billion**

**898** Freedom of Information requests received with 766 (85%) responded to within the statutory deadline.

**28,713** telephone calls were received by the First Point of Contact Centre.

The organisation operates a customer complaints procedure which the Public Services Ombudsman for Wales has approved and urged all other public service providers in Wales to adopt within their organisations. Information relating to complaints about all public service providers is published by the Ombudsman in his Annual Report and the number of complaints about the organisation which led to an investigation is consistently low each year.

# Accountability Report

## Statement of Accounting Officer's Responsibilities

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

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

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

In preparing the accounts, the PAO is required to comply with the Financial Reporting Manual (FReM) and, in particular, to: observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis; make judgements and estimates on a reasonable basis; state whether

applicable accounting standards, as set out in the FReM, have been followed and disclose and explain any material departures in the accounts; and prepare the accounts on a going concern basis.

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

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

# Governance Statement

## Introduction

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

The Welsh Government delivers its aims and objectives in part

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

## The Governance Framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. From 1 July 2015, a new "Common Control Framework" was implemented to support a major internal reorganisation of the Welsh Government from seven Departments into four Groups; this more robust framework operates consistently across all parts of the Welsh Government.

The governance framework and internal control system are also supported by an on-going process

of risk management, designed to identify and prioritise the risks to the achievement of the Welsh Government's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and then to manage them efficiently, effectively and economically.

The governance framework has been developed to comply with good governance and is supported by Managing Welsh Public Money which sets out the principles for dealing with resources in Welsh public sector organisations. This publication was updated and the new edition of Managing Welsh Public Money published in January 2016. While the update made no material changes to the principles underpinning the management of Welsh public money, the new edition is better presented and organised to be more readable and accessible and also sets out the Welsh context more clearly.

## The Board

I am supported by the Welsh Government Board, which consists of both Non-Executive and Executive members. The Board takes the key strategic decisions about how the Welsh Government Civil Service is developed to support the Cabinet and Ministers and ensures that we deliver what Ministers expect.

I chaired the Board throughout the year, which met nine times in the year to set direction and monitor the organisation's performance. It has taken particular responsibility for assessing and mitigating the highest level corporate risks, supporting me in my role as Principal Accounting Officer. In particular, I am advised by two non-executive led Board Sub-Committees (the Audit & Risk Assurance Committee and

the Remuneration Committee) and one executive sub-committee (the Operations Committee).

I have met regularly with Board members on a bilateral basis and with the Non-Executive Directors collectively on a monthly basis. One of the Non-Executive Directors provided a report as part of my annual performance review, which incorporated comments from representatives from the Board as well as external contributions. The First Minister also contributed to the review of my performance as Permanent Secretary. All the Board Members took part in an exercise at the end of the year to assess the Board's performance since the reorganisation in July 2015.

## Board Membership and Attendance

### From 1 April to 30 June 2015

Up to 30 June, the Board Membership reflected the internal structure of the Welsh Government.

The Lead Non-Executive Director (NED) was Elan Clos-Stephens and the Board members were:

Name	Attendance
Sir Adrian Webb (NED)	2/2
Andrew Goodall (Director General)	2/2
David Richards (Director)	2/2
Sir Derek Jones	2/2
Elan Clos-Stephens (NED)	1/2
Gareth Jones (Director General)	2/2
James Price (Director General)	2/2
James Turner (NED)	2/2
Jeff Godfrey (Director)	2/2
June Milligan (Director General)	2/2
Michael Hearty (Director General)	2/2
Owen Evans (Director General)	1/2

**From 1 July 2015 to 31 March 2016**

From 1 July, the new Board formed and the membership was refined over the remainder of the year,

to provide me with robust advice and support. Elan Clos-Stephens remained the lead NED and the Board membership now is:

Name	Attendance
Sir Adrian Webb (NED)	7/7
Andrew Goodall (Director General)	7/7
Ann Keane (NED)	2/2
David Richards (Director)	6/7
Sir Derek Jones	7/7
Elan Clos-Stephens (NED)	7/7
Gawain Evans (Director)	3/5
Gillian Baranski (Director)	6/6
James Price (Deputy PS)	6/7
James Turner (NED)	7/7
Jeff Godfrey (Director)	4/7
Natalie Pearson (Deputy Director)	6/6
Owen Evans (Deputy PS)	7/7
Peter Kennedy (Director)	6/6
Sioned Evans (Deputy Director)	3/3

## Board Self-Assessment of Performance

At its meeting on 4 March 2016, the Board engaged in a workshop to consider its performance since the reorganisation of the Welsh Government from 1 July 2015, supported by a structured evaluation

of performance. The overall view was that the new Board was working effectively and delivering the appropriate support and oversight to the Permanent Secretary.

## Board Sub Committee: Audit & Risk

I was supported by the Corporate Governance Committee (CGC) up to June 2015 and, following the reorganisation in July, this Committee became the Audit and Risk Committee (ARC). The Committee was chaired by a Non-Executive Director and advised me in my capacity as Principal Accounting Officer

throughout the year. CGCs also operated at Department-level until June, becoming ARCs operating at Group-level thereafter. Oversight of governance was strengthened and made more effective by bringing the Chairs of the new Group ARCs onto the Welsh Government ARC from July.

## Board Sub Committee: Remuneration

The Board's second sub-committee is the Remuneration Sub-Committee, which has been responsible for Senior Civil Service (SCS) pay and conditions, senior succession planning and recruitment,

and all SCS personal cases. A Non-Executive Director chaired the Committee and I attended. The Remuneration Committee does not set my own pay which is dealt with by the Cabinet Office.

## The Senior Leadership Team

During the first quarter of the year, I was supported by a leadership team of six Directors General, each leading a Welsh Government department. I designated these officials as "Additional Accounting Officers" (AAOs) to give them personal responsibility and accountability for the proper and regular use of public finances and for the achievement of value for money. I then introduced management changes to create a more economical civil service structure and to facilitate

cross-government working. From 1 July I have, therefore, been supported by a leadership team of two Deputy Permanent Secretaries and a Director General, each leading a Welsh Government Group. These officials remain as Additional Accounting Officers (AAOs) and I have also designated a number of specific Directors as AAOs to further strengthen corporate governance and accountability arrangements, both for the use of public funds and in accounting to the Public Accounts Committee.

## Board Sub Committee: Operations

The Operations Committee (formerly the "Operations Group") supports me and senior leaders with the internal running of the organisation on an operational level, allowing the Board to maintain its strategic

focus. The Committee provides advice on, and oversight and management of, the running of Welsh Government operations and is constituted as the third, and final, of the Board's sub-committees.

## Business Group

The Business Group continues to focus on sharing information to ensure that all Directors are aware of the current issues from across the

organisation. Meetings are chaired by the Director of Governance and attended by staff at Director level and above.

## Whistle Blowing

Using the UK Public Accounts Committee's report into Whistleblowing as a guide, we reviewed and strengthened our whistleblowing arrangements in the year. The Chair of the Trade Union Side has now been appointed to our Whistleblowing Panel and the Panel will be reporting to the Board twice a year. All cases are considered by the Panel and agreed action is taken as swiftly as possible. Great care is taken to maintain confidentiality for those involved.

The Whistleblowing and Civil Service Code policy, which was updated in the year, explains what staff need to do if they suspect a colleague of wrongdoing. Information is published on the Intranet and a programme of awareness raising has been undertaken.

Four cases were reported to the Panel in the year, covering a range of different concerns. One case was unfounded, two founded

and one investigation is currently ongoing. The founded concerns were about process and procedure in two discrete staff teams without broader implications for the wider Welsh Government. Appropriate remedial actions have been taken in response.

The External Assurance Panel addresses concerns raised by external individuals, providing a consistent, proportionate and appropriate response to their concerns about how Welsh Government funding has been handled by our delivery partners and the beneficiaries of our grant schemes. The Panel provides advice to officials and identifies any systemic issues which need to be addressed. Nine cases were considered by the Panel in the year. Eight cases were investigated and closed as unfounded. One case was referred to the Police and remains a live investigation.

## Principal Accounting Officer's Annual Review of Effectiveness

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework including the system of internal control. I take assurance from a wide spectrum of activities and my review of the effectiveness of the system of internal control is informed by the work of Internal Audit and those Welsh Government officials with responsibility for the development and maintenance of the internal control framework. I also take assurance from management responses to issues identified by the External Auditor (the Auditor General for Wales)

in his management letter and other reports. I have been advised on the effectiveness of the system of internal control by the Board and the Audit and Risk Committee; their advice has informed my review and all of the key improvements are outlined in this statement.

Led by the First Minister and the Cabinet and other Ministers which he appointed, the Welsh Government's responsibilities cover key areas of public life. A wide range of internal controls are in place to provide for the sound stewardship of resources. From my review of the effectiveness of the governance

framework, I am satisfied that risk has been generally well managed and that our systems of internal control continue to improve.

## Internal Audit

The Welsh Government Internal Audit Service operates to Public Sector Internal Audit Standards. The Internal Audit Service was subject to a five-yearly independent External Quality Assessment in the year. This was carried out by the Institute of Internal Auditors and I can report the Service was found to be compliant with those Standards. Internal Audit undertook a full programme of work in the year based upon an analysis of the major risks facing the organisation. The Head of Internal Audit submitted regular reports to the Corporate Governance Committees and then Audit & Risk Committees on progress in implementing this audit plan and I met regularly with her through the year to discuss audit matters.

The Head of Internal Audit, in her Annual Assurance report, provided me with “reasonable assurance” on the operation of the framework of governance, control and risk management within the Welsh Government. This was supported by the provision of “reasonable” assurances by each of the Senior Leaders in respect of their Groups. The Internal Audit Service co-ordinates its work with that of the Wales Audit Office. Co-ordination of audit plans has progressed significantly this year with planned assignments and special investigations being successfully undertaken. A joint

This year, I have been particularly pleased with the progress made in meeting our diversity objectives.

working protocol underpins the approach taken and quarterly liaison meetings have been held to share information and agree joint assignments.

The Welsh Government’s European Funds Audit Team (EFAT) submitted an “Unqualified Opinion” on the four Structural Funds Operational Programmes in December 2015 in their Annual Control Report and Opinion for that year. This report has since been accepted by European Commission auditors.

Based on its work over this reporting period, in the Chair’s Annual Report for 2015/16, the Audit & Risk Committee provided reasonable assurance on the adequacy of audit arrangements for the Welsh Government and on the assurances provided to the Principal Accounting Officer in respect of governance, risk management and control.

In addition, Departmental Corporate Governance Committees, succeeded by Group Audit & Risk Committees, met during the year to advise the senior leadership team. I am satisfied these committees operated effectively and provided good support in monitoring and reviewing risk, control and governance processes. I also required the senior leaders to complete an internal control questionnaire and a personal Statement of Assurance to provide me with their assessment of the effectiveness of their Group’s frameworks of internal control.

## Internal Control

The positive assurances I have received provide me with confidence that the Welsh Government has, in general, well designed and sound frameworks of governance and internal control. However, some matters arising in the year showed that staff are not all fully aware of, or do not always comply properly with, corporate policies and procedures within the framework of internal control. I will address these issues through the coming year by continuing to revise and simplify procedures; making guidance simpler and more accessible; clarifying delegations and authorities; and continuing with a programme of face-to-face governance training across the organisation.

**Information Technology**  
 Despite the low level of reported data losses, I became aware in the year of risks to the resilience of Welsh Government information technology systems following a systems resilience review. As a consequence, I have asked the Director of Corporate Services to establish a formal programme to improve the resilience of our IT systems and key business applications, improve our ability to respond to IT recovery situations and inform the development and readiness to move to identified solutions that better meet our future needs.

## Fraud in Concessionary Bus Passes

In early 2016, two Directors of a north Wales bus company were convicted of fraudulently claiming around £900,000 in concessionary travel payments, which are funded by the Welsh Government, but administered by Welsh local authorities in accordance with the relevant legislation. The fraud highlighted the need to improve the controls and oversight operated by local authorities. My officials have taken steps to improve our capability to counter fraud more readily and effectively. We are working with Local Authorities to assist them in their duty to identify fraud to prevent its recurrence.

## Procurement Practice

In response to some poor procurement practices, steps are being taken to revise delegated authorities for taking procurement decisions so that procurement professionals are involved in, and sanction, procurement decisions within a stronger, more robust commercial governance regime.

## Analytical Models

As last year, I asked Senior Leaders to provide me with assurance in respect of their assessment of the reliability and robustness of the analytical models on which they rely to make critical business decisions. I have been assured that the analytical models used by the Welsh Government are sound and are subject to adequate validation and review. Nevertheless, an audit of arrangements in year identified improvements required in the quality assurance of analytical models.

## Legacy Issues

In addition to the issues identified in year, two long-running matters reached their conclusion during 2015/16: the AGW published his report and then the PAC heard evidence and published its own report into the Regeneration Investment Fund for Wales and

the Auditor General for Wales issued his report on the Wales Life Sciences Investment Fund. In both cases, the Welsh Government has already implemented various improvements to processes, procedures and guidance to strengthen governance and control in the relevant areas, but also recognises there are wider aspects of governance that require further attention, in particular:

- greater clarity about standards of ethical conduct required of organisations funded by the Welsh Government;
- greater clarity about oversight of, and governance relationship between, the Welsh Government and “arms length bodies” acting on its behalf;
- better, more transparent management of perceived conflicts of interest.

## Information Governance

As Principal Accounting Officer, I am 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.

Where third parties handle information for which the Welsh Government is legally responsible, it is important that advice and guidance is provided to them about how that information must be handled. Information assurance clauses are included as standard in requirement specifications by means of a Security Aspects Letter. We also verify that those who process our sensitive information meet the "Cyber Essentials" standard.

Up to July 2015, the Welsh Government maintained its formal certification to ISO 27001, the international standard for information security management. EC regulations require the Welsh Government to be compliant with

the Standard but do not require formal certification; for reasons of cost effectiveness, a decision was taken not to maintain formal certification from this time. However, the Welsh Government's corporate IT systems and associated security polices continue to be compliant with the requirements of the Standard and are aligned with recommended practice and procedures. This was confirmed by the programme of audit work carried out by Internal Audit, the positive conclusion of an inspection of our cryptographic handling arrangements by the Communications Electronics Security Group (the UK National Technical Authority for Information Assurance) and by the positive assurance I have received from the Welsh Government Senior Information Responsible Owner (SIRO).

I am pleased to report there have been no data loss incidents reported to the Information Commissioner's Office in the year. Minor incidents not needing to be reported are set out below.

### Summary of Other Protected Personal Data Related Incidents

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

Type	Nature of incident	2015-16
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	5
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	1
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	33*
V	Other	3

\* Last year there were 18 equivalent incidents. These are immaterial breaches where data has been "lost", for example, sent to the wrong person, but the "loss" has been contained and the data shared no further. Most losses were via email and represent only a tiny proportion of the 345,000 external emails we sent each month.

## Local Accountability

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

### Local Authorities

The Welsh Government provides grant funding for local authorities in Wales, which include unitary, fire and rescue, national park authorities, and police and crime commissioners. The largest single component of grant funding is the Revenue Support Grant paid to unitary authorities which may be used for any purpose those authorities choose in delivering the services for which they are responsible. Revenue Support Grant is distributed on the basis of a formula which reflects the factors that drive authorities' need to spend to deliver a wide range of services, including education and social care.

The Welsh Government also provides funding to authorities through grants that can be used only for the specific purposes for which they are provided. In addition, unitary authorities receive some specific grants from UK Government Departments for non-devolved functions, income from nationally-set non-domestic rates distributed by the Welsh Government, from locally-set council tax and from fees, charges and other income. Unitary authorities also receive Welsh Government grants for capital spending, which is supplemented by

their own borrowing capacity.

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

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

In respect of funding provided for specific purposes, individual grant terms and conditions are the responsibility of the relevant policy departments. It is a requirement that these terms and conditions have due regard to the Grant Centre of Excellence Minimum Standards for Grant Funding. Adherence to these standards should ensure compliance with the Welsh Government's governance and financial arrangements, relevant law, policy and good practice. With regard to funding provided by the

## Local Accountability (continued)

UK Government in respect of non devolved functions, the arrangements for accountability will be agreed between the Local Authorities and the relevant UK Government Department.

Under the Local Government Support and Intervention Protocol, no Local Authorities were offered new support packages and four Local Authorities were removed from “special measures” with regards to their education services. Thus, at the end of 2015/16, no Local Authorities were classed as being in “special measures”. Improvement and Support Conferences, including representatives from the WAO, Estyn, CSSIW and the WLGA, continue to be held regularly to discuss where early additional support could be offered to support Local Authority improvement.

### Health

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. Funding is also provided to cover the costs of payments to independent contractors (including GPs, General Dental Practitioners and Pharmacists). Additional targeted funding is added to the core allocation and used to support the achievement of Welsh Government objectives. Capital funding is provided to LHBs to support the All Wales Capital Programme and other Welsh Government discretionary capital funding is also provided to support locally identified priorities.

In his Governance Statement for 2015/16, the NHS Chief Executive has reported that all Local Health Boards (LHBs) and NHS trusts have declared their assessment within their respective Annual Governance Statements that generally sound systems of internal control were in place to support the delivery of their policy aims and objectives for 2015/16. All three NHS trusts have reported a conclusion of no significant governance issues within their Annual Governance Statements. Five of the seven LHBs have concluded that there are no significant internal control or governance issues. The two exceptions are as follows. Betsi Cadwaladr University Health Board has concluded that, whilst there has been evidence of progress in improving internal control and governance during 2015/16, there remain a number of significant issues which have been identified and account for the Board entering into, and remaining in, special measures during the year. Powys Local Health Board has highlighted weaknesses in their control arrangements and non-compliance with Standing Financial Instructions in respect of matters relating to capital and estates expenditure.

In addition, in accordance with the Welsh Government NHS Escalation and Intervention Arrangements, a number of NHS Wales organisations have been on escalated monitoring arrangements in the 2015/16 financial year, being Abertawe Bro Morganwwg University Health Board, Cardiff and Vale University Health Board, Hywel Dda University Health Board and Welsh Ambulance Services NHS Trust.

## Risk Profile

The risk profile of the Welsh Government is extensive and varied, as would be expected from the broad range of different activities in which the Welsh Government is involved. It carries a number of contingent risks (high impact but highly unlikely to be realised) which arise from its regulatory responsibilities, for example its responsibilities in the event of an outbreak of human or animal disease in Wales, its responsibility for the Welsh transport infrastructure and its obligations under the guarantees that it enters

into from time to time to support businesses in Wales.

In addition to contingent risks, the Welsh Government carries a number of long-term risks where the risk arises from uncertainties involved in the eventual outcome or cost to the Welsh Government, such as Student Loans and the "Help to Buy" scheme. On a day-to-day basis, operational risks arise, in general, from challenges of ensuring sufficient capacity and capability to advise on and to deliver the key policy objectives of the First Minister and his Cabinet.

## Capacity to Handle Risk

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

Corporately, the Board is responsible for overseeing the implementation of the risk management policy and process and for oversight of the key risks facing the Welsh Government that might prevent or hinder the organisation from achieving its strategic objectives, or may be

necessary in order to achieve its objectives, principally, those that cannot be managed at Group level and those of a corporate nature which could have an impact across the whole organisation.

Corporate risks have been reviewed regularly by the Board through the year and have been discussed periodically at the Corporate Governance/Audit & Risk Committee. Mitigating risk is a management responsibility and each Director General/Deputy Permanent Secretary was responsible for managing risk and opportunity at the Department, and then Group level in respect of their key objectives. Department, and then Group, risks were reviewed regularly by senior management teams and by the Departmental Corporate Governance Committees, who were succeeded by Group Audit & Risk Committees. This oversight was underpinned by risk registers at each level of organisation within each Department and Group.

## Ministerial Direction

My accountability requires me to ensure that public money is expended in a manner consistent with the principles of regularity, propriety and value for money. If I, or my officials, are directed to undertake a course of action that we believe does not meet this

standard, I am expected to advise the relevant Minister and seek their formal direction to continue on that course of action. During the period covered by these accounts and their signing, no Ministerial Directions have been issued by Welsh Ministers.

## Conclusion

The system of internal control has been in place in the organisation for the year ending 31 March 2016 and up to the date of approval of the Annual Report and Consolidated Accounts. It accords with HM Treasury guidance. I have reviewed the evidence provided to me by my review of the effectiveness of

the governance framework and am satisfied that the organisation has maintained a sound system of internal control during this time, that action is being taken to further improve internal controls and to tackle weaknesses where they have been identified.

**Sir Derek Jones KCB  
Permanent Secretary and Principal Accounting Officer**

**Date: 3 August 2016**

# Remuneration and Staff Report 2015-2016

## Remuneration Policy

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

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

## Service Contracts

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

appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

## Welsh Government Annual Pay Policy Statement

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

The Pay Policy Statement will cover the Welsh Government's definition of both "senior posts" and "lowest-paid employees" and the relationship between the remuneration of senior posts and that of the lowest-paid employees. It will also cover:

a) demonstrable evidence of affordability and value for money

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

## Remuneration (including salary) and pension entitlements

This section is subject to audit and is covered by the Auditor General's audit opinion, with the exception of sickness absence data.

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, who served during the year, is noted below. These costs are reflected in the accounts of the National Assembly for Wales Commission and not the Welsh Government.

Ministerial salaries include their salaries and entitlements (including pension entitlements) as Assembly Members. Benefits in kind related to Assembly Members responsibilities are not included in the table below.

### Single total figure of remuneration

Ministers	Salary 2015-16 £	Salary 2014-15 £	Pension benefits (to nearest £1000) <sup>1</sup> 2015-16 £	Pension benefits (to nearest £1000) <sup>1</sup> 2014-15 £	Total (to nearest £1000) 2015-16 £	Total (to nearest £1000) 2014-15 £
Rt. Hon Carwyn Jones, First Minister	132,965	132,427	59,000	46,000	192,000	178,000
Leighton Andrews, Welsh Minister (from 12/09/14)	95,149	52,299	44,000	16,000	139,000	68,000
Edwina Hart MBE CStJ, Welsh Minister	95,149	94,611	46,000	29,000	141,000	124,000
Lesley Griffiths, Welsh Minister	95,149	94,611	42,000	34,000	137,000	129,000
Jane Hutt, Welsh Minister	95,149	94,611	47,000	28,000	142,000	123,000
Carl Sargeant, Welsh Minister	95,149	94,611	42,000	33,000	137,000	127,000
Huw Lewis, Welsh Minister	95,149	94,611	44,000	32,000	139,000	127,000
Mark Drakeford, Welsh Minister	95,149	94,611	40,000	37,000	135,000	132,000
Theodore Huckle, Counsel General	96,340	95,801	40,000	37,000	136,000	133,000
Rebecca Evans, Deputy Welsh Minister (from 09/07/14 )	80,027	57,907	33,000	26,000	113,000	84,000
Julie James, Deputy Welsh Minister (from 12/09/14)	80,027	43,940	33,000	17,000	113,000	61,000
Vaughan Gething, Deputy Welsh Minister	80,027	79,489	35,000	29,000	115,000	108,000
Ken Skates, Deputy Welsh Minister	80,027	79,489	28,000	26,000	108,000	105,000

<sup>1</sup> Pension benefits are calculated on a formula basis which can create year on year variations

Ministers	Accrued Pension at pension age as at 31/03/16 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/16 £000	CETV at 31/03/15 £000	Real increase in CETV £000
Rt. Hon Carwyn Jones, First Minister	45-50	2.5-5	495	440	26
Leighton Andrews, Welsh Minister	35-40	2.5-5	560	505	30
Edwina Hart MBE CStJ, Welsh Minister	40-45	2.5-5	635	575	31
Lesley Griffiths, Welsh Minister	20-25	2.5-5	325	280	26
Jane Hutt, Welsh Minister	45-50	2.5-5	815	783	40
Carl Sargeant, Welsh Minister	20-25	2.5-5	256	222	17
Huw Lewis, Welsh Minister	30-35	2.5-5	387	344	23
Mark Drakeford, Welsh Minister	10-15	0-2.5	167	124	30
Theodore Huckle, Counsel General	10-15	2.5-5	144	110	21
Rebecca Evans, Deputy Welsh Minister	5-10	0-2.5	68	50	8
Julie James, Deputy Welsh Minister	5-10	0-2.5	119	86	22
Vaughan Gething, Deputy Welsh Minister	15-20	0-2.5	136	114	11
Ken Skates, Deputy Welsh Minister	5-10	0-2.5	54	39	8

The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the table of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.

## Single total figure of remuneration

The Financial Reporting Manual (FReM) requires that all central Government Departments include a Single Total Figure of Remuneration along with a prior year comparative within the remuneration report. Total remuneration includes salary, bonus payments and benefits in kind, plus the addition of a pension benefit figure. Pension benefits have been calculated using the methodology used to derive pension values for

tax purposes. As a result the figures can be influenced by other factors such as an individual deciding to make additional contributions or valuation factors that impact the pension scheme as a whole and are, therefore, not always a true representation of the actual amounts of pension paid or earned by an individual in any one year. Nevertheless, this methodology applies to all government departments including NHS bodies.

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

	Salary 2015-16 £000	Salary 2014-15 £000	Pension benefits (to nearest £1000) <sup>3</sup> 2015-16 £000	Pension benefits (to nearest £1000) <sup>3</sup> 2014-15 £000	Total (to nearest £1000) 2015-16 £000	Total (to nearest £1000) 2014-15 £000
Sir Derek Jones KCB, Permanent Secretary	160-165	160-165	50-55	30-35	215-220	195-200
Andrew Goodall, <sup>1</sup> Director General (from 08/06/2014)	195-200	160-165 (full year equivalent 195-200)	*	50-55	195-200	210-215
Owen Evans, Deputy Permanent Secretary previously Director General	135-140	130-135	50-55	50-55	185-190	180-185
James Price, Deputy Permanent Secretary previously Director General	135-140	130-135	60-65	25-30	195-200	160-165
David Richards, Director of Governance	100-105	95-100	10-15	30-35	110-115	130-135
Jeff Godfrey, Director Legal Services	105-110	105-110	40-45	10-15	150-155	115-120
Natalie Pearson, Head of Engagement and Communication (from 01/09/2015 )	45-50 (full year equivalent 75-80)	-	15-20	-	60-65	-
Gillian Baranski, Equality and Diversity Champion (from 01/09/2015)	55-60 (full year equivalent) 95-100)	-	5-10	-	65-70	-
Sioned Evans, Chair of Operations Group (from 01/12/2015)	25-30 (full year equivalent 75-80)	-	10-15	-	35-40	-

	Salary 2015-16 £000	Salary 2014-15 £000	Pension benefits (to nearest £1000) <sup>3</sup> 2015-16 £000	Pension benefits (to nearest £1000) <sup>3</sup> 2014-15 £000	Total (to nearest £1000) 2015-16 £000	Total (to nearest £1000) 2014-15 £000
Peter Kennedy, Director of HR (from 01/09/2015)	50-55 (full year equivalent 90-95)	-	15-20	-	70-75	-
Gawain Evans, Director of Finance (from 20/10/2015)	35-40 (full year equivalent 85-90)	-	50-55	-	90-95	-
June Milligan, Director General (to 30/09/2015)	65-70 (full year equivalent 135-140)	130-135	25-30	35-40	95-100	170-175
Michael Hearty, <sup>2</sup> Director General (to 30/09/2015)	85-90 (full year equivalent 155-160)	140-145	25-30	30-35	115-120	165-170
Gareth Jones, Director General (to 30/09/2015)	65-70 (full year equivalent 135-140)	130-135	25-30	30-35	95-100	165-170
Elan Closs Stephens, Non-Executive Director	10-15	10-15	-	-	10-15	10-15
James Turner, Non-Executive Director	10-15	10-15	-	-	10-15	10-15
Sir Adrian Webb, Non-Executive Director	25-30	15-20	-	-	25-30	10-15
Ann Keane, Non-Executive Director (from 01/01/2016)	5-10 (full year equivalent 10-15)	-	-	-	5-10	-

<sup>1</sup> Andrew Goodall is seconded from Aneurin Bevan University Health Board. Pension Benefit has been excluded because the arithmetic calculation (£280-285,000) is not indicative of the benefit received. He temporarily opted out of the pension scheme on 31/12/15.

<sup>2</sup> Michael Hearty's salary includes £14,669 taxable multiple workplace costs.

<sup>3</sup> Sir Adrian Webb's salary includes additional fees of £13,965 for commissioned work within the Welsh Government.

Details of Board level individual exits which are required to be disclosed are shown within the exit packages section on Page 44.

Senior Officials	Accrued Pension at pension age as at 31/03/16 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/16 £000	CETV at 31/03/15 £000	Real increase in CETV £000
Sir Derek Jones KCB, Permanent Secretary	75-80 plus lump sum of 235-240	2.5-5 plus lump sum of 7.5-10	1,714	1,700	57
Andrew Goodall, Director General	55-60 plus lump sum of 125-130	12.5-15 plus lump sum of 5-7.5	698	629	61
Owen Evans, Deputy Permanent Secretary	15-20	2.5-5	186	140	19
James Price, Deputy Permanent Secretary	40-45	2.5-5	521	440	23
David Richards, Director of Governance	45-50 plus lump sum of 140-145	0-2.5 plus lump sum of 0-2.5	1,078	1,092	11
Jeff Godfrey, Director Legal Services	40-45 plus lump sum of 125-130	0-2.5 plus lump sum of 5-7.5	923	818	39
Natalie Pearson, Head of Engagement and Communication	20-25 plus lump sum of 70-75	0-2.5 plus lump sum of 0-2.5	448	420	12
Gillian Baranski, Equality and Diversity Champion	15-20	0-2.5	341	313	9
Sioned Evans, Chair of Operations Group	15-20 plus lump sum of 45-50	0-2.5 plus lump sum of 0-2.5	275	259	6
Peter Kennedy, Director of HR	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 2.5-5	483	438	14
Gawain Evans, Director of Finance	25-30 plus lump sum of 85-90	2.5-5 plus lump sum of 7.5-10	532	469	44
June Milligan, <sup>1</sup> Director General	55-60 plus lump sum of 175-180	0-2.5 plus lump sum of 2.5-5	1,213	1,130	24
Michael Hearty, <sup>1</sup> Director General	55-60 plus lump sum of 165-170	0-2.5 plus lump sum of 2.5-5	1,168	1,090	24
Gareth Jones, <sup>1</sup> Director General	60-65 plus lump sum of 180-185	0-2.5 plus lump sum of 2.5-5	1,339	1,253	27

<sup>1</sup> Figures are as at leaving date.

## Salary

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

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

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

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable

emolument, is disclosed to the nearest £100. Benefits in kind assessed were nil.

## Pay multiples

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

The banded remuneration of the highest paid director in the Welsh Government in the financial year 2015-16 was £195,000-200,000 (2014-15: £195,000-200,000). This was 5.8 times (2014-15: 5.9) the median remuneration of the workforce, which was £34,750 (2014-15: £33,900). The reduction

is due to the increase in average salaries. Based on the Permanent Secretary's banded remuneration the ratio is 4.7(2014-15: 4.8). In 2015-16 and 2014-15 no employees received remuneration in excess of the highest paid director.

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

## Cash Equivalent Transfer Values

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

senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are 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.

## Staff Numbers and Costs

The average number of full-time equivalent persons employed (including senior management

and special advisers) during the period is as follows:

	Permanently employed staff	Other staff	Special Advisers	Total 2015-16	Total 2014-15
<b>Total</b>	<b>72,207</b>	<b>1,969</b>	<b>9</b>	<b>74,185</b>	<b>72,992</b>
<b>Of which:</b>					
Welsh Government	5,011	273	9	5,293	5,556
Local Health Boards	66,408	1,696	-	68,104	66,557
Subsidiaries	788	-	-	788	879
<b>Of the Welsh Government total:</b>					
Regulatory & delivery bodies	676				
Tribunals	30				

## Gender Breakdown of Welsh Government staff

	Male	Female
Board members	67%	33%
Senior Civil Service	57%	43%
All Staff	42%	58%

## Staff costs

	Permanently employed staff £m	Other staff £m	Year ended 31 March 2016 Total £m	Year ended 31 March 2015 Total £m
<b>Welsh Government</b>				
Salaries	204	5	209	212
Social Security Costs	18	-	18	18
Other Pension Costs	49	-	49	50
<b>Total</b>	<b>271</b>	<b>5</b>	<b>276</b>	<b>280</b>
:Recoveries from secondments	(1)	-	(1)	(1)
<b>Net staff costs</b>	<b>270</b>	<b>5</b>	<b>275</b>	<b>279</b>
<b>Consolidated</b>				
Salaries	2,626	134	2,760	2,662
Social Security Costs	198	-	198	193
Other Pension Costs	343	-	343	337
<b>Total</b>	<b>3,167</b>	<b>134</b>	<b>3,301</b>	<b>3,192</b>
:Recoveries from secondments	(1)	-	(1)	(1)
<b>Net staff costs</b>	<b>3,166</b>	<b>134</b>	<b>3,300</b>	<b>3,191</b>

Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, early retirement costs, relocation costs, recruitment and retention allowances, and private office allowances.

Special advisors were paid a total of £620,225 (2014-15 - £592,938) for the year, inclusive of pension and

social security costs, and have been included within the figures above. The social security and pension costs for temporary and seconded staff under the core figures for other staff have been included in salaries as they are invoiced on a gross basis.

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

## Pensions

Civil Service 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 salary related and range between 1.5% and 3.9% of pensionable earnings for Classic and 3.5% and 5.9% for Premium, Classic Plus and Nuvos. Increases to employee contributions applied from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, Classic Plus is essentially a hybrid with benefits 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)

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Welsh Government is unable to identify its share of the underlying assets and liabilities.

For 2015-16, employers contributions of £39,831,454 were payable to the PCSPS (2014-15: £36,800,571) at one of four rates in the range 20.0 to 24.5 per cent (2014-15: 16.7 to 24.3) of pensionable earnings based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £165,822 (2014-15: £175,308) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8 to 14.75 per cent of pensionable earnings. Employers also match

employee contributions up to 3 per cent of earnings. In addition, employer contributions of £6,792, 0.5 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2014-15: nil). Contributions prepaid at the date were £nil (2014-15: £nil).

7 individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £20,749.

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

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

There was no flexible early retirement, approved early retirement or flexible early severance in 2015-16 or 2014-15. For 2015-16 42(2014-15:132) employees have left or agreed to leave between 31 March 2015 and 31 March 2016. Compensation payments are £1,830,696 (2014-15: £6,324,960). For each case a payback period is calculated which is then approved by the Director of HR. The compulsory redundancies for 2015-16 relate to staff employed specifically for the badger-culling policy.

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

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band 2015-16	Total number of exit packages by cost band 2014-15
<£10,000	12	-	12	2
£10,000 - £25,000	-	6	6	29
£25,000 - £50,000	-	8	8	54
£50,000 - £100,000	-	12	12	39
£100,000 - £150,000	-	4	4	6
£150,000 - £200,000	-	-	-	1
£200,000+	-	-	-	1
<b>Total number of exit packages by type</b>	<b>12</b>	<b>30</b>	<b>42</b>	<b>132</b>
<b>Total resource cost £</b>	<b>41,374</b>	<b>1,789,322</b>	<b>1,830,696</b>	<b>6,324,960</b>

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

The table reports three board level exits. These relate to action taken by the organisation to reduce the number of Directors General from six to three. A direct result

of the Welsh Government's drive in 2015 to ensure the organisation is equipped to serve Ministers against a background of continuing financial pressure.

The three exits were made in line with the Civil Service Compensation Scheme and were based on a payment of 12 month's salary. The individuals also received a payment in lieu of their contractual notice period (6 months).

	Compensation Payment £'000	Payment in lieu of notice £'000
Michael Hearty	140-145	70-75
June Milligan	135-140	65-70
Gareth Jones OBE	135-140	65-70

## Sickness absence

Sickness absence levels across the Welsh Government increased during the early part of the year and as a result a number of new measures were introduced to reinforce the existing attendance management policies and to make all managers and staff aware of their individual and collective responsibilities. These included a range of training

and awareness sessions, alongside revised guidance and improved support to encourage staff to return to work earlier. Such measures always take time to positively impact absence levels but reductions were experienced in the final four months of the year and these are expected to continue throughout the following year.

Welsh Government Sickness Absence	2015-16	2014-15	2013-14
Days Lost (short term)	18,967	20,631	19,156
Days Lost (long term)	23,977	23,161	19,534
Total Days Lost (12 month period)	42,944	43,792	38,690
Total staff years	5,307	5,519	5,453
Total staff employed in period (headcount)	5,964	6,134	6,097
Total staff employed in period with no absence (headcount)	2,479	2,500	2,625
% staff with no sick leave	42%	41%	43%
Average working days lost	8.1	7.9	7.1

**Sir Derek Jones KCB**  
**Permanent Secretary and Principal Accounting Officer**

**Date:** 3 August 2016

## Losses Statement

Total reported losses were:

	2015-16	2014-15
Total number of losses	152	216
Total value of losses (£000)	7,236	8,157

### Details of losses over £300,000

Claims abandoned	Ruthin Castle Ltd grant claim as company was sold after the grant was awarded £494,531
Fruitless payment	Commercial in confidence £1,250,000
Store losses	Expired drug stocks £1,075,711

## Summary of Resource Outturn

AMBIT	Budget 2015-16	Outturn 2015-16	Outturn compared with Budget	Outturn 2014-15
	Net expenditure £m	Net expenditure £m	Variance £m	Net expenditure £m
Health and Social Services	<b>5,665</b>	<b>5,512</b>	153	5,571
Local Government	<b>3,474</b>	<b>3,472</b>	2	3,570
Education and Skills	<b>1,861</b>	<b>1,782</b>	79	2,003
Economy, Science and Transport	<b>1,332</b>	<b>1,285</b>	47	1,174
Communities and Tackling Poverty	<b>735</b>	<b>735</b>	-	636
Natural Resources	<b>397</b>	<b>394</b>	3	419
Central Services and Administration	<b>318</b>	<b>304</b>	14	331
<b>Total Resource and Capital requirements</b>	<b>13,782</b>	<b>13,484</b>	298	13,704
<b>Income</b>	<b>2,346</b>	<b>1,823</b>	523	1,919
<b>Gross expenditure</b>	<b>16,128</b>	<b>15,307</b>	821	15,623

### Variance explanations over £10m

Health and Social Services had an under-spend of £153m which arose primarily because of the alignment issue between Ambit and consolidated Budgets.

Education and Skills had an under-spend of £79m which related to Student Loans model non-cash fair value estimates.

Economy, Science & Transport had an under-spend of £47m which related to non-cash infrastructure charges.

Central Services & Administration had an under-spend of £14m which primarily related to non-cash charges which were lower than estimated.

Income – was lower than profiled by £523m on European funded projects. These are multi-year projects and profiling across the years can be variable and unpredictable.

The underspend from 2015-16 is carried forward to 2016-17 in accordance with the budgetary rules agreed with HM Treasury.

### Net Cash Requirement

	Outturn 2015-16 £m	Outturn 2014-15 £m
Authorised for issue from Welsh Consolidated Fund	<b>13,584</b>	13,570
Funding drawn down	<b>(13,471)</b>	(13,430)
Undrawn funding	<b>113</b>	140

## Reconciliation of outturn and Consolidated Statement of Comprehensive Net Expenditure

	Outturn 2015-16 £m	Outturn 2014-15 £m
Net Resource Outturn	<b>13,484</b>	13,704
Less: Capital, loans & adjustments	(849)	(702)
Expenditure per the Consolidated Statement of Comprehensive Net Expenditure	<b>12,635</b>	13,002

## Reconciliation of resources to cash requirement

	Budget 2015-16 £m	Outturn 2015-16 £m	Outturn compared with Budget £m	Outturn 2014-15 £m
<b>Net resource outturn</b>	<b>13,782</b>	<b>13,484</b>	<b>297</b>	<b>13,704</b>
Depreciation	(231)	(223)	(8)	(161)
Impairments	135	160	(25)	(47)
Movements in provisions	(87)	(26)	(61)	(102)
Movements in working capital	(15)	12	(27)	(77)
Other	-	72	(72)	(78)
<b>Net cash requirement</b>	<b>13,584</b>	<b>13,479</b>	<b>105</b>	<b>13,239</b>

**Sir Derek Jones KCB**  
**Permanent Secretary and Principal Accounting Officer**

**Date:** 3 August 2016

# 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 Welsh Government and the Group for the year ended 31 March 2016 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, 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 Accounting Officer's Responsibilities, the Principal Accounting Officer is responsible for preparing the Annual Report and financial statements, which includes the Remuneration and staff report, 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, certify and report on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

I have audited the information in the Remuneration and Staff Report that is described as having been audited.

## 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 Welsh Government and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by

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

## Opinion on Financial Statements

audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing

the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate and report.

## Opinion on Regularity

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 2016 and of its net cash requirement, net resource outturn

and net operating cost, for the year then ended

- have been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 2006.

## 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

for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## 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 Governance Statement does not reflect compliance with HM Treasury guidance
- adequate accounting records have not been kept
- the financial statements and the part of the Remuneration Report

and Staff Report to be audited are not in agreement with the accounting records and returns

- 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

**Date:** 16 August 2016

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

# Financial Report

## Financial Statements

### Consolidated Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

Note	2015-16		2014-15	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services	(37)	(51)	(34)	(34)
Other operating income	(1,663)	(1,930)	(1,794)	(2,077)
<b>Total operating income</b>	<b>2</b>	<b>(1,700)</b>	<b>(1,981)</b>	<b>(1,828)</b>
Staff costs	275	3,300	279	3,191
Expenditure	3	13,956	11,067	14,166
Non-cash costs	3	198	305	119
Provision expense (non-cash)	3	(94)	(51)	266
<b>Total operating expenditure</b>		<b>14,335</b>	<b>14,621</b>	<b>14,830</b>
<b>Net expenditure for the year</b>		<b>12,635</b>	<b>12,640</b>	<b>13,002</b>
				<b>12,915</b>
<b>Other comprehensive net expenditure</b>				
Items which will not be reclassified to net operating costs:				
Net (gain)/loss on revaluation of property, plant and equipment		407	341	(1,683)
Actual (gain)/loss on pension scheme liabilities		(11)	(20)	5
<b>Comprehensive net expenditure for the year</b>		<b>13,031</b>	<b>12,961</b>	<b>11,324</b>
				<b>11,202</b>

The notes on pages 55 to 81 form part of these accounts.

## Consolidated Statement of Financial Position as at 31 March 2016

	Note	As at 31 March 2016 WG Core £m	As at 31 March 2016 WG Group £m	As at 31 March 2015 WG Core £m	As at 31 March 2015 WG Group £m
<b>Non-current assets:</b>					
Property, plant and equipment	4	<b>15,233</b>	<b>18,086</b>	15,645	18,374
Intangible assets	5	<b>16</b>	<b>26</b>	10	20
Financial assets	7	<b>3,414</b>	<b>3,028</b>	2,632	2,365
Trade and other receivables	9	-	<b>220</b>	-	93
<b>Total non-current assets</b>		<b>18,663</b>	<b>21,360</b>	<b>18,287</b>	<b>20,852</b>
<b>Current assets:</b>					
Assets classified as held for sale		-	<b>3</b>	-	2
Inventories	8	<b>192</b>	<b>252</b>	216	275
Trade and other receivables	9	<b>323</b>	<b>428</b>	258	399
Cash and cash equivalents	10	<b>143</b>	<b>350</b>	213	400
<b>Total current assets</b>		<b>658</b>	<b>1,033</b>	<b>687</b>	<b>1,076</b>
<b>Total assets</b>		<b>19,321</b>	<b>22,393</b>	<b>18,974</b>	<b>21,928</b>
<b>Current liabilities:</b>					
Trade and other payables	11	<b>(820)</b>	<b>(1,549)</b>	(891)	(1,523)
<b>Total assets less current liabilities</b>		<b>18,501</b>	<b>20,844</b>	<b>18,083</b>	<b>20,405</b>
<b>Non-current liabilities:</b>					
Trade and other payables	11	<b>(125)</b>	<b>(192)</b>	(134)	(212)
Provisions	12	<b>(733)</b>	<b>(758)</b>	(707)	(764)
Other liabilities	14	<b>(74)</b>	<b>(104)</b>	(87)	(135)
<b>Total non current liabilities</b>		<b>(932)</b>	<b>(1,054)</b>	<b>(928)</b>	<b>(1,111)</b>
<b>Total assets less liabilities</b>		<b>17,569</b>	<b>19,790</b>	<b>17,155</b>	<b>19,294</b>
<b>Taxpayers' equity &amp; other Reserves:</b>					
General fund		<b>10,234</b>	<b>12,072</b>	10,063	11,875
Revaluation reserve		<b>7,335</b>	<b>7,718</b>	7,092	7,419
<b>Total equity</b>		<b>17,569</b>	<b>19,790</b>	<b>17,155</b>	<b>19,294</b>

The notes on pages 55 to 81 form part of these accounts.

**Sir Derek Jones KCB**  
Permanent Secretary and Principal Accounting Officer

Date: 3 August 2016

## Consolidated Statement of Cash Flows for the year ended 31 March 2016

Note	Year ended 31 March 2016		Year ended 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Cash flows from operating activities:</b>				
Net operating cost		(12,635)	(12,640)	(13,002)
Non-cash transactions:	3	104	254	385
Income payable to Welsh Consolidated Fund		-	-	(123)
Movements in working capital other than cash	15	(77)	(61)	13
Use of provisions	12	(77)	(152)	(81)
<b>Net cash outflow from operating activities</b>		<b>(12,685)</b>	<b>(12,599)</b>	<b>(12,808)</b>
				<b>(12,621)</b>
<b>Cash flows from investing activities:</b>				
Purchase of property, plant and equipment		(198)	(383)	(131)
Proceeds of disposal of property, plant and equipment		2	3	2
Purchase of intangible assets		(1)	(4)	-
Purchase of development assets		(15)	(15)	(18)
Proceeds of disposal of development assets		36	36	19
Issue of loans and investments		(638)	(521)	(493)
Movement in bank loan		-	-	(8)
Repayment of loans		89	93	77
<b>Net cash outflow from investing activities</b>		<b>(725)</b>	<b>(791)</b>	<b>(544)</b>
				<b>(731)</b>
<b>Cash flows from financing activities:</b>				
From Welsh Consolidated Fund (Supply) – current year		13,471	13,471	13,430
Capital element of payments for finance leases and on balance sheet PFI contracts		(9)	(9)	(8)
<b>Net Financing</b>		<b>13,462</b>	<b>13,462</b>	<b>13,422</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the WCF</b>		<b>52</b>	<b>72</b>	<b>70</b>
Movements in non-operating receipts due to be surrendered to Welsh Consolidated Fund		(122)	(122)	121
<b>Net increase/(decrease) in cash and cash equivalent in the period after adjustment for receipts and payments to the WCF</b>	10	<b>(70)</b>	<b>(50)</b>	<b>191</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>213</b>	<b>400</b>	<b>22</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>143</b>	<b>350</b>	<b>213</b>
				<b>400</b>

The notes on pages 55 to 81 form part of these accounts.

## Welsh Government Group: Statement of changes on Taxpayers' Equity

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
<b>Balance at 31 March 2014</b>	<b>10,751</b>	<b>6,458</b>	<b>17,209</b>
Welsh Consolidated fund – net funding	13,307	-	13,307
Net operating cost for the year	(12,915)	-	(12,915)
Revaluation gains and losses	-	1,730	1,730
Transfers between Reserves	769	(769)	-
Other adjustments	(37)	-	(37)
<b>Balance at 31 March 2015</b>	<b>11,875</b>	<b>7,419</b>	<b>19,294</b>
Welsh Consolidated fund – net funding	13,471	-	13,471
Net operating cost for the year	(12,640)	-	(12,640)
Revaluation gains and losses	-	(341)	(341)
Transfers between Reserves	(640)	640	-
Other adjustments	6	-	6
<b>Balance at 31 March 2016</b>	<b>12,072</b>	<b>7,718</b>	<b>19,790</b>

## Welsh Government Core: Statement of changes in Taxpayers' Equity

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
<b>Balance at 31 March 2014</b>	<b>9,068</b>	<b>6,125</b>	<b>15,193</b>
Welsh Consolidated fund – net funding	13,308	-	13,308
Net operating cost for the year	(13,002)	-	(13,002)
Revaluation gains and losses	-	1,683	1,683
Transfers between Reserves	716	(716)	-
Other adjustments	(27)	-	(27)
<b>Balance at 31 March 2015</b>	<b>10,063</b>	<b>7,092</b>	<b>17,155</b>
Welsh Consolidated fund – net funding	13,471	-	13,471
Net operating cost for the year	(12,635)	-	(12,635)
Revaluation gains and losses	-	(407)	(407)
Transfers between Reserves	(650)	650	-
Other adjustments	(15)	-	(15)
<b>Balance at 31 March 2016</b>	<b>10,234</b>	<b>7,335</b>	<b>17,569</b>

The notes on pages 55 to 81 form part of these accounts.

# Notes to the Accounts

## 1. Statement of accounting policies

The consolidated financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Welsh Government for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Welsh Government (for the reportable activity) are described in Appendix A or as footnotes to the relevant note. They have been applied consistently in dealing with items that are considered material to the accounts.

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

Following HM Treasury's Simplifying and Streamlining agenda we have enhanced the format of this year's annual report and accounts to improve the reporting of performance, demonstrate accountability and simplify the accounts.

### 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

The accounts comprise a consolidation of the Welsh Government, the seven Local Health Boards, Finance Wales PLC, Regeneration Investment Fund for Wales LLP, WG Holdco Limited and Career Choices. These consolidated companies produce and publish their own annual reports and accounts. Subsidiary companies are consolidated from draft accounts, there being no material difference between draft and final accounts. Transactions between entities included in the consolidation are eliminated.

Design Commission for Wales, Hybu Cig Cymru Cyf – Meat Promotion Wales Limited, Life Sciences Hub Wales Limited, Sector Development Wales Partnership Limited, Welsh Development Management Limited, Innovation Point Limited, Transport for Wales, International Business Wales Limited and Local Health Board NHS Charities have not been consolidated because their expenditure doesn't exceed £10m.

## 2. Operating Income

	Year ended 31 March 2016		Year ended 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Income from sale of goods and services:</b>				
Income from property and investments	31	34	28	28
Other	6	17	6	6
	<b>37</b>	<b>51</b>	<b>34</b>	<b>34</b>
<b>Other non-EU operating income:</b>				
Inland Revenue health funding contributions	1,103	1,103	973	973
Housing Revenue Account <sup>1</sup>	-	-	73	73
Student loans interest receivable	61	61	57	57
Health income	53	321	37	262
Other	19	16	17	62
<b>Other EU operating income:</b>				
European Structural Funds Programmes	182	184	388	401
Common Agricultural Policy	240	240	246	246
Other EU income	5	5	3	3
	<b>1,663</b>	<b>1,930</b>	<b>1,794</b>	<b>2,077</b>
	<b>1,700</b>	<b>1,981</b>	<b>1,828</b>	<b>2,111</b>

<sup>1</sup> Local Government authorities have now exited the subsidy scheme.

### 3. Expenditure

	Year ended 31 March 2016		Year ended 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Expenditure:</b>				
Grants <sup>1</sup>	<b>13,565</b>	<b>7,453</b>	13,723	7,805
Goods and services <sup>1,2</sup>	<b>369</b>	<b>3,557</b>	419	3,376
Rentals under operating leases	<b>9</b>	<b>44</b>	10	32
PFI and other service concession arrangements <sup>3</sup>	<b>13</b>	<b>13</b>	14	14
	<b>13,956</b>	<b>11,067</b>	<b>14,166</b>	<b>11,227</b>
<b>Non-cash costs:</b>				
Depreciation	<b>159</b>	<b>298</b>	77	210
Amortisation	<b>3</b>	<b>6</b>	4	7
Donated and government granted assets	-	<b>(4)</b>	-	(12)
Impairments	<b>37</b>	<b>6</b>	47	61
Profit/loss on disposals	<b>3</b>	<b>3</b>	(6)	(8)
Pension finance	<b>(3)</b>	<b>(3)</b>	(2)	(2)
Release of EU grant	<b>(1)</b>	<b>(1)</b>	(1)	(1)
	<b>198</b>	<b>305</b>	<b>119</b>	<b>255</b>
<b>Provisions (non-cash):</b>				
Increase in provisions	<b>103</b>	<b>146</b>	183	270
Student loan book fair value	<b>(197)</b>	<b>(197)</b>	83	83
	<b>(94)</b>	<b>(51)</b>	<b>266</b>	<b>353</b>
<b>Total non-cash costs</b>	<b>104</b>	<b>254</b>	<b>385</b>	<b>608</b>

<sup>1</sup> Expenditure on Grants and Goods and Services reflects the Ambit Resource Outturn allocation.

<sup>2</sup> Includes £60m (2014-15: £80m) classified as capital maintenance depreciation.

<sup>3</sup> Welsh Government Core figures only.

#### Audit Fees

The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2015-16 is £386,000 (2014-15: £406,357)

and has been included within Goods and Services disclosed above. Also included above are fees levied by the Auditor General for Wales in respect of other accounts prepared by Welsh Ministers as follows:

	Year ended 31 March 2016	Year ended 31 March 2015
	£	£
NHS Summarised Account	<b>34,000</b>	39,550
National Non Domestic Rate Account	<b>9,950</b>	9,950
Whole of Government Account	<b>39,207</b>	39,207
Welsh Consolidated Fund	<b>16,475</b>	16,474

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

## 4. Property, plant and equipment

	Network Assets £m	Land £m	Buildings including Dwellings £m	Information Technology, Fixtures and Fittings £m	Payments on account and assets under construction £m	Total £m
<b>Cost or Valuation for the year ended 31 March 2015:</b>						
At 1 April 2014	15,877	377	2,067	712	432	19,465
Additions	-	2	30	81	311	424
Disposals	-	(1)	(5)	(42)	-	(48)
Transfers	-	-	-	-	3	3
Impairments	(24)	1	-	(1)	-	(24)
Revaluations	2,002	7	52	1	-	2,062
Reclassified to held for sale	-	(1)	(1)	-	-	(2)
Reclassification	97	-	136	9	(243)	(1)
<b>Restated at 31 March 2015</b>	<b>17,952</b>	<b>385</b>	<b>2,279</b>	<b>760</b>	<b>503</b>	<b>21,879</b>
<b>Depreciation for the year ended 31 March 2015:</b>						
At 1 April 2014	2,348	-	157	490	2	2,997
Charged in year	147	-	80	62	-	289
Disposals	-	-	(4)	(42)	-	(46)
Transfers	-	-	-	-	-	-
Impairments	5	-	5	(1)	-	9
Revaluations	254	-	(2)	4	-	256
<b>Restated at 31 March 2015</b>	<b>2,754</b>	<b>-</b>	<b>236</b>	<b>513</b>	<b>2</b>	<b>3,505</b>
<b>Carrying amount at 31 March 2015</b>	<b>15,198</b>	<b>385</b>	<b>2,043</b>	<b>247</b>	<b>501</b>	<b>18,374</b>
<b>Carrying amount at 31 March 2014</b>	<b>13,529</b>	<b>377</b>	<b>1,910</b>	<b>222</b>	<b>430</b>	<b>16,468</b>
<b>Asset financing: for the year ended 31 March 2015:</b>						
Owned	14,816	374	1,939	244	501	17,874
Finance Leased	-	-	12	2	-	14
On-balance sheet PFI contracts	382	11	92	1	-	486
<b>Restated at 31 March 2015</b>	<b>15,198</b>	<b>385</b>	<b>2,043</b>	<b>247</b>	<b>501</b>	<b>18,374</b>

	Network Assets	Land	Buildings including Dwellings	Information Technology, Fixtures and Fittings	Payments on account and assets under construction	Total
	£m	£m	£m	£m	£m	£m

**Cost or Valuation for the year ended 31 March 2016:**

At 1 April 2015	17,952	385	2,279	760	503	21,879
Additions	-	8	19	45	294	366
Disposals	(7)	(1)	(1)	(38)	-	(47)
Transfers	-	1	-	-	(1)	-
Impairments	(25)	1	34	(4)	-	7
Revaluations	(467)	8	79	-	-	(380)
Reclassified to held for sale	-	-	-	-	-	-
Reclassification	157	-	105	14	(285)	(9)
<b>At 31 March 2016</b>	<b>17,610</b>	<b>402</b>	<b>2,515</b>	<b>777</b>	<b>511</b>	<b>21,815</b>

**Depreciation for the year ended 31 March 2016:**

At 1 April 2015	2,754	-	236	513	2	3,505
Charged in year	210	-	82	66	-	358
Disposals	(1)	-	-	(38)	-	(39)
Transfers	-	-	-	-	-	-
Impairments	-	-	3	-	-	3
Revaluations	(111)	-	13	-	-	(98)
<b>At 31 March 2016</b>	<b>2,852</b>	<b>-</b>	<b>334</b>	<b>541</b>	<b>2</b>	<b>3,729</b>

<b>Carrying amount at 31 March 2016</b>	<b>14,758</b>	<b>402</b>	<b>2,181</b>	<b>236</b>	<b>509</b>	<b>18,086</b>
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**Asset financing: for the year ended 31 March 2016:**

Owned	14,377	391	2,075	234	509	17,586
Finance Leased	-	-	12	1	-	13
On-balance sheet PFI contracts	381	11	94	1	-	487
<b>At 31 March 2016</b>	<b>14,758</b>	<b>402</b>	<b>2,181</b>	<b>236</b>	<b>509</b>	<b>18,086</b>

<b>Core department at 31 March 2016</b>	<b>14,758</b>	<b>35</b>	<b>127</b>	<b>29</b>	<b>284</b>	<b>15,233</b>
<b>LHB's and subsidiaries at 31 March 2016</b>	<b>-</b>	<b>367</b>	<b>2,054</b>	<b>207</b>	<b>225</b>	<b>2,853</b>

Core department at 31 March 2015	15,198	26	119	34	268	15,645
LHB's and subsidiaries at 31 March 2015	-	359	1,924	213	233	2,729

## 4. Property, plant and equipment (continued)

Most of the freehold land and buildings (with exceptions noted at 1) and 2) ) were valued on 31 March 2016 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'.

- 1) Properties and land managed by the Department for Economy, Science and Natural Resources were valued on an annual basis by Jones Lang La Salle, Chartered Surveyors during the current year.
- 2) In intervening financial years, between formal 5 yearly valuations, freehold land and buildings are valued using latest available indices at March in each financial year to provide a reasonable estimate of valuation. Network Assets were formally revalued in 2014-15.

## 5. Intangible Assets

Information Technology				
	As at 31 March 2016 WG Core	As at 31 March 2016 WG Group	As at 31 March 2015 WG Core	As at 31 March 2015 WG Group
	£m	£m	£m	£m

<b>Cost or valuation:</b>				
At 1 April	<b>31</b>	<b>52</b>	31	46
Additions	<b>1</b>	<b>4</b>	-	6
Disposals	-	-	-	(1)
Reclassifications	<b>8</b>	<b>8</b>	-	1
<b>At 31 March</b>	<b>40</b>	<b>64</b>	<b>31</b>	<b>52</b>

<b>Amortisation:</b>				
At 1 April	<b>21</b>	<b>32</b>	17	26
Charged in year	<b>3</b>	<b>6</b>	4	7
Disposals	-	-	-	(1)
<b>At 31 March</b>	<b>24</b>	<b>38</b>	<b>21</b>	<b>32</b>

<b>Net Book Value at 31 March</b>	<b>16</b>	<b>26</b>	<b>10</b>	<b>20</b>
<b>Net Book Value at 1 April</b>	<b>10</b>	<b>20</b>	<b>14</b>	<b>20</b>

## 6. Welsh Government Core Capital and other commitments

### 6.1 Capital commitments

Contracted capital commitments not otherwise included within these financial statements.

	As at 31 March 2016	As at 31 March 2015
	£m	£m
<b>Property, plant and equipment</b>		
Network Asset & Buildings	<b>255</b>	273
Help to Buy & Housing	<b>378</b>	159
	<b>633</b>	432

### 6.2 Commitments under leases

#### 6.2.1 Commitments under operating leases

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

	As at 31 March 2016	As at 31 March 2015
	£m	£m
<b>Buildings</b>		
Not later than one year	<b>7</b>	7
Later than one year and not later than five years	<b>22</b>	24
Later than five years	<b>47</b>	52
	<b>76</b>	83

#### 6.2.2 Commitments under finance leases

The Welsh Government was committed to making the following minimum lease payments on its Merthyr building:

	As at 31 March 2016	As at 31 March 2015
	£m	£m
Not later than one year	<b>1</b>	1
Later than one year and not later than five years	<b>5</b>	5
Later than five years	<b>1</b>	2
	<b>7</b>	8
Less interest element	<b>(2)</b>	(3)
	<b>5</b>	5

## 6.3 Commitments under PFI contracts

Commitments for Welsh

Government related PFI contracts are shown below. Local Health Board PFI contract details are reported within the accounts of the seven individual Health Board accounts.

### 6.3.1 Off-balance sheet

#### Bute Avenue PFI contract

The Welsh Government is committed to pay £5.1m annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until

November 2025. The private sector partner maintains for 25 years (from 2000/01) the Bute Avenue road network. After this time the road will be transferred to Cardiff County Council. The road is not an asset of the Welsh Government. The total charged in the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £13,278,358 (2014-15: £13,522,485); and the payments to which the Welsh Government is committed, are as follows:

	As at 31 March 2016	As at 31 March 2015
	£m	£m
Not later than one year	<b>16</b>	13
Later than one year and not later than five years	<b>70</b>	72
Later than five years	<b>82</b>	97
	<b>168</b>	182

### 6.3.2 On balance sheet

#### A55 PFI contract

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

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on-balance sheet PFI or other service concession transactions was £17m. Total future obligations under on-balance sheet PFI and other service concession arrangements are given in the table below for each of the periods.

#### Minimum Lease Payments

	As at 31 March 2016	As at 31 March 2015
	£m	£m
Not later than one year	<b>11</b>	11
Later than one year and not later than five years	<b>48</b>	48
Later than five years	<b>96</b>	108
	<b>155</b>	167
Less interest element	<b>(27)</b>	(32)
	<b>128</b>	135

Service elements due in future periods	As at 31 March 2016	As at 31 March 2015
	£m	£m
Not later than one year	8	5
Later than one year and not later than five years	34	36
Later than five years	33	38
	75	79

#### 6.4 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:

	As at 31 March 2016	As at 31 March 2015
	£m	£m
Not later than one year	213	255
Later than one year and not later than five years	341	522
Later than five years	9	9
	563	786

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

Welsh Government Core figures only are provided in this note. Commitments related to Consolidated bodies are shown in the accounts of those bodies.

## 7. Financial assets - Investments and loans

	Student Loans £m	NHS Trusts Public Dividend Capital £m	Other Financial assets £m	Total £m
<b>WG Group</b>				
<b>Balance at 31 March 2014</b>	<b>1,775</b>	<b>142</b>	<b>145</b>	<b>2,062</b>
Additions	360	16	48	424
Loan repayments	(81)	-	(14)	(95)
Capitalised interest	58	-	-	58
Fair value adjustment	(83)	-	(1)	(84)
<b>Balance at 31 March 2015</b>	<b>2,029</b>	<b>158</b>	<b>178</b>	<b>2,365</b>
Additions	394	9	118	521
Loan repayments	(96)	-	(21)	(117)
Capitalised interest	60	-	-	60
Fair value adjustment	198	-	1	199
<b>Balance at 31 March 2016</b>	<b>2,585</b>	<b>167</b>	<b>276</b>	<b>3,028</b>
<b>WG Core</b>				
<b>At 31 March 2016</b>	<b>2,585</b>	<b>167</b>	<b>662</b>	<b>3,414</b>
<b>At 31 March 2015</b>	<b>2,029</b>	<b>158</b>	<b>445</b>	<b>2,632</b>

### 7.1 Student Loans

Student loans are recorded within Investments and loans at amortised cost, representing the gross value of the loans issued (Additions), discounted to net present value, calculated by the HE Student Loan Repayment Model (the model). The model's net present value calculation takes into account an

estimate of the value of student loans issued which will not be repaid because of: policy reasons; death; disability; the age of the student or loan; or other policies, such as the partial cancellation of student loans scheme.

Student loans are subject to credit risk and interest rate risk. Details are provided in Note A.15.

Key assumptions used within the model are:

Variable	Assumption used
Discount rate	HM Treasury long term discount rate of RPI plus 0.7%, representing the Government's long term cost of capital (reduced from RPI plus 2.2% following the Autumn Statement in November 2015).
RPI Inflation	The Student Loan Repayment model assumes short-term RPI rates will be in line with OBR forecasts (March 2016) until 2020-21. Future RPI is then assumed to be 3.0% from 2025-26, as this is the long-term forecast, with a linear change from the 2020-21 value each year up to 2025-26.
Graduate earnings	The Student Loan Repayment model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2020-21. Future earnings growth is then assumed to be 4.5% from 2025-26, as this is the long-term forecast, with a linear change from the 2020-21 value each year up to 2025-26. Additionally, the UK Government made a policy decision to freeze the £21,000 repayment threshold for all post 2012 loans for 5 years from 2016 to 2021.
Graduate Income Distribution	The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical data for the Labour Force Survey, the British Household Panel and administrative data held by the Student Loans Company.
Base rates	The model assumes that Bank of England base rates will be in line with OBR forecasts up to 2020-21. The base rate is assumed to equal the long term OBR forecast of 5.0% from 2025-26, with linear change from the 2020-21 value each year up to 2025-26. The base rate cap is forecast to apply intermittently until 2020-21.
There are a number of other assumptions used in the modelling, but changing these to other reasonable outcomes does not have a significant impact on the value of the loan books. Many of the assumptions are independent of each other and could change at the same time.	

## 7.2 NHS Trusts Public Dividend Capital

The Welsh Government issues financial instruments, in particular loans, to other public sector bodies in Wales such as NHS bodies. This lending occurs as part of its normal course of activities and the Welsh Government does not undertake any trading activity in these financial instruments. The Welsh Government has taken advantage of the exemption available for 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.

## 7.3 Other Financial Assets

Other financial assets comprise: Welsh Government financial interests in joint ventures and investments; Invest to Save loans with Local Authorities; and, Available-for-Sale assets held by Finance Wales.

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%).

## 8. Inventories

	As at 31 March 2016		As at 31 March 2015	
	WG Core	WG Group	WG Core	WG Group
	£m	£m	£m	£m
Development Assets	<b>161</b>	<b>161</b>	186	186
Drugs	<b>26</b>	<b>48</b>	25	46
Telecommunication spares	<b>3</b>	<b>3</b>	3	3
Road salt	<b>2</b>	<b>2</b>	1	1
Other consumables	-	<b>38</b>	1	39
	<b>192</b>	<b>252</b>	<b>216</b>	<b>275</b>

## 9. Trade receivables, financial and other assets

	As at 31 March 2016		As at 31 March 2015	
	WG Core	WG Group	WG Core	WG Group
	£m	£m	£m	£m
<b>Amounts falling due within one year:</b>				
Trade receivables	<b>175</b>	<b>243</b>	76	194
Other tax	<b>16</b>	<b>15</b>	15	15
Prepayments and accrued income	<b>132</b>	<b>170</b>	140	163
EU accrued income	-	-	27	27
	<b>323</b>	<b>428</b>	258	399
<b>Amounts falling due after more than one year:</b>				
Prepayments	-	<b>1</b>	-	3
Other receivables	-	<b>219</b>	-	90
	-	<b>220</b>	-	93
<b>Total trade receivables and other current assets</b>	<b>323</b>	<b>648</b>	<b>258</b>	<b>492</b>

## 10. Cash and cash equivalents

	As at 31 March 2016		As at 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	<b>213</b>	<b>400</b>	22	209
Net change in cash and cash equivalent balances	<b>(70)</b>	<b>(50)</b>	191	191
<b>Balance at 31 March</b>	<b>143</b>	<b>350</b>	213	400

### The following balances were held at:

Government Banking Service	<b>142</b>	<b>154</b>	210	226
Commercial banks & cash in hand	<b>1</b>	<b>196</b>	3	174
	<b>143</b>	<b>350</b>	213	400

## 11. Trade payables and other current liabilities

	As at 31 March 2016		As at 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Amounts falling due within one year:</b>				
Taxation and social security	<b>5</b>	<b>48</b>	5	30
Trade and other payables	<b>466</b>	<b>799</b>	413	715
Deferred European Union Income	<b>61</b>	<b>61</b>	72	72
Other accruals and deferred income	<b>276</b>	<b>625</b>	265	566
Amounts payable to the Welsh Consolidated Fund	<b>3</b>	<b>3</b>	127	127
Obligations under finance leases and PFI contracts	<b>9</b>	<b>13</b>	9	13
	<b>820</b>	<b>1,549</b>	891	1,523
<b>Amounts falling due after more than one year:</b>				
Obligations under finance leases and PFI contracts and other payables	<b>125</b>	<b>192</b>	134	212
	<b>125</b>	<b>192</b>	134	212
<b>Total trade payables and other current liabilities</b>	<b>945</b>	<b>1,741</b>	<b>1,025</b>	<b>1,735</b>

## 12. Provisions for liabilities and charges

	As at 31 March 2016		As at 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Balance at 1 April</b>	<b>707</b>	<b>764</b>	605	673
Provided in the year	<b>103</b>	<b>320</b>	189	389
Provisions not required written back	-	<b>(174)</b>	(6)	(106)
Borrowing costs	-	-	-	(13)
Provisions utilised in year	<b>(77)</b>	<b>(152)</b>	(81)	(179)
<b>Balance at 31 March</b>	<b>733</b>	<b>758</b>	707	764

### Analysis of expected timing of discounted flows:

Not later than one year	<b>81</b>	<b>244</b>	101	248
Later than one year and not later than five years	<b>178</b>	<b>219</b>	295	275
Later than 5 years	<b>474</b>	<b>295</b>	311	241
<b>Balance at 31 March</b>	<b>733</b>	<b>758</b>	707	764

### WG Core

#### Provisions by type:

	Other £m	Health £m	Total £m
<b>Analysis of expected timing of discounted flows:</b>			
Not later than one year	<b>12</b>	70	82
Later than one year and not later than five years	<b>15</b>	162	177
Later than 5 years	-	474	474
	<b>27</b>	<b>706</b>	<b>733</b>

#### (i) Other Provisions

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

#### (ii) Health Provisions

The Welsh Government has various minor health related provisions including LHB employment

liabilities, the Skipton Fund (Hepatitis C infection claims) and the NHS Electronic Staff Records system; as well as expected future re-imbursements of the Welsh Risk Pool. The Welsh Risk Pool (WRP) assists Welsh NHS bodies with risk management and settlement of disputed claims for alleged medical or employer negligence. The Welsh Risk Pool balance as at 31 March 2016 is £682m (2014-15: £674m).

## 13. Contingent Liabilities

	Year ended 31 March 2016		Year ended 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Legal Claims – alleged medical/ employer negligence	-	<b>65</b>	-	76
Potential contractual obligations under the WDA Act 1975	<b>10</b>	<b>10</b>	10	10
Other legal and contractual claims	<b>11</b>	<b>11</b>	9	10
	<b>21</b>	<b>86</b>	19	96

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

Final claims to the European Commission for the 2007-2013 programmes will not be agreed for some years. Should the value of the Euro weaken significantly in that period, the flexibility within programmes may not be sufficient to contain all potential exchange losses. It is not possible to put a likely value on this due to the range of variables.

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

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

The Welsh Government has committed to indemnify Housing Stock Transfer organisations against the financial consequences of any future withdrawal of, or amendment to the VAT Mitigation Scheme. The liabilities cover 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 2016 was £46 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 £1 million.

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

## 14. Other liabilities

	Year ended 31 March 2016		Year ended 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Pension fund deficits	<b>63</b>	<b>83</b>	76	104
National Loans Fund (falling due after 5 years)	<b>11</b>	<b>11</b>	11	11
Finance Wales bank loans	-	<b>10</b>	-	20
	<b>74</b>	<b>104</b>	87	135

## 15. Movements in working capital other than cash

	Year ended 31 March 2016		Year ended 31 March 2015	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Increase/(decrease) in inventories	<b>24</b>	<b>24</b>	15	16
Increase/(decrease) in receivables: current	<b>(65)</b>	<b>(29)</b>	(13)	(30)
non-current	-	<b>(127)</b>	-	(47)
(Increase)/decrease in payables: current	<b>(71)</b>	<b>26</b>	215	290
non-current	<b>(9)</b>	<b>(20)</b>	(9)	(11)
	<b>(121)</b>	<b>(126)</b>	208	218
Student Loans interest	<b>(60)</b>	<b>(60)</b>	(57)	(57)
Development assets movement	<b>(25)</b>	<b>(25)</b>	(13)	(13)
Adjustments for accrual movement fixed assets	<b>(1)</b>	<b>20</b>	(11)	(33)
Finance Wales – movement in loan provisions	-	-	-	(7)
Other investments held as current assets	-	-	-	(6)
PFI/Finance lease capital element	<b>9</b>	<b>9</b>	8	8
Other adjustment	<b>(1)</b>	<b>(1)</b>	(1)	(1)
Less movement in amounts payable to the Welsh Consolidated Fund and other non-operating cost balances	<b>122</b>	<b>122</b>	(121)	(121)
	<b>(77)</b>	<b>(61)</b>	13	(12)

## 16. Related Party Transactions

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

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

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

The wife of Leighton Andrews (previously Minister for Public Services) was a director of BT Wales, but stood down during the financial year. The Welsh Government has a number of contracts with BT, principally

Next Generation Broadband. BT received £56,107,618 in 2015-16. The Minister had no involvement in the award or management of any contracts which BT won.

Sir Adrian Webb (non-executive director) is the Chair of the Big Lottery Fund which received funding in 2015-16 of £3,403,502 from Communities programmes.

Elan Closs Stephens (non-executive director) is also appointed by the Department for Culture, Media and Sport to the S4C Authority which received funding in 2015-16 of £53,064.

The husband of Gillian Baranski (board member) is a partner in the legal company Geldards who competed for a procurement contract for Legal Services with the Welsh Government. The company was paid £4,215,859 in 2015-16 for these Legal services.

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

## 16.1 Results of Consolidated wholly owned companies

	2015-16		2014-15	
	Profit/(Loss)	Share Capital & Reserves	Profit/(Loss)	Share Capital & Reserves
	£m	£m	£m	£m
Finance Wales PLC (i)	(1,336,066)	105,565,806	999,937	104,993,471
Regeneration Investment Fund for Wales LLP	(199,315)	30,020,116	223,054	30,219,431
WGC Holdco Limited	Nil	55,300,000	Nil	53,950,000
Careers Choices Dewis Gyrfa Limited	(1,256,000)	(14,562,000)	(2,401,000)	(21,147,000)

(i) Investment of 49,999 ordinary £1 shares, 25p part paid.

## 16.2 Associate Undertakings

The Welsh Government has a 49% interest in Welsh Industrial

Partnership LLP with no significant influence. The Partnership is currently dormant and in the process of being dissolved.

## 16.3 Other minor subsidiaries and interests

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

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

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

**EADS Foundation Wales** – a joint interest in a company limited by guarantee. Joint ownership is held with Cassidian Holdings Limited and Cardiff University.

Local Health Board NHS charities are not included in the consolidated accounts as the balances are not material.

# Appendix A – Accounting Policies

## A.1 Property, Plant and Equipment

### Land and buildings (including Dwellings)

The Welsh Government and its related bodies capitalise freehold property where it is retained for use by the organisation itself. 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 2014-15 were taken from the Investment Property Databank (IPD) UK Annual Index (2015).

### 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. To produce this valuation requires the use of assumptions, estimates and professional judgement. The model used to produce the

valuation is known as the Roads Authorities' Asset Valuation Systems (RAAVS), run by external consultants W.S. Atkins. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years. This valuation was carried out in 2014-15. Interim valuations use a series of standard costs to value the individual components of the network assets and indices to revalue these on an annual basis.

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

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

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

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

Subsequent expenditure is capitalised where it adds to the service. Expenditure that does not replace or enhance service potential will be expensed as a charge to the Statement of Comprehensive Net Expenditure.

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

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

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

re-valued 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 Valuation Office Agency

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

### **Information Technology and Fixtures and Fittings**

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

### **Heritage Assets**

The Welsh Government holds a number of non-operational heritage assets where the cultural, educational and historical value

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

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

## A.2 Depreciation

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

- 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	2 to 10 years
Fixtures & fittings	3 to 20 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.

### A.3 Research and Development

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

### A.4 Financial Assets

#### Loans and Public Dividend Capital

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

#### Student Loans

The Welsh Government's accounting policy is to recognise an addition to the student loan book once the Student Loans Company (SLC) has issued the loan to the student. Student loan repayments are collected by the SLC and Her Majesty's Revenue and Customs (HMRC). For repayments made via the SLC, the Welsh Government recognises the repayment when the SLC has received the cash and updated the borrower record. For repayments collected via the tax system, this is recognised when the

amounts which HMRC estimate as being due to the Welsh Government for the financial year are received. Student loans values are shown net of estimated future write-offs in respect of the non-recovery of loans and are reviewed annually.

A statistical model is used to estimate the total value of the loans issues. This makes a number of assumptions including the amount of loans that will be taken out, the earnings levels of Welsh graduates, interest rates, when loans will start to be repaid, the amount of loans that will have to be written off (due to age, death or policies such as partial cancellation and repayment thresholds) and how much repayments made in the future are worth in today's money (net present value). As a substantial asset, changes to the assumptions used in the modelling can have a large effect on the loan funding and the non-cash adjustments valuing the loan book.

The carrying value is also considered to be a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions. A valuation technique is used to estimate the present value of future cash flows and an estimate of irrecoverable amounts because of policy decisions.

The value of new higher education (HE) loans issued is calculated using a forecasting model (the HE student loan repayment model) which holds data on the demographic and behavioural characteristics of students in order to predict their likely repayments

of loans. The model depends on a complex set of assumptions, and particularly on borrowers' earnings. The model is long term in nature, but uses the latest Office for Budget Responsibility (OBR) short and long term forecasts for RPI, base rates and earnings growth. The valuation of the student loan book is uncertain as it is highly dependent on macroeconomic circumstances and graduate earnings over the next 30 years, as well as a number of other complex assumptions, for around four million borrowers. Further information on the core assumptions and a simplified model is provided on the Department for Business, Innovation and Skills website <http://tinyurl.com/stepmodelguide>

**(Note:** The simplified model is owned and updated by the Department for Business, Innovation and Skills).

The forecasting model for Wales contains the same main assumptions as England. However, there are a number of specific Wales only amendments that are made to reflect information and policies that are unique to Wales. The main differences are as follows:

- the inclusion of Welsh borrower data from the SLC
- the inclusion of Welsh student number projections
- the inclusion of information relating to loans for Welsh students
- partial cancellation of student loans scheme (further details <http://tinyurl.com/partial-cancellation>)

Each year the carrying value of HE loans in the Accounts is compared with the latest outputs from the HE student loan repayment model, which is re-run using current assumptions. If there is a significant difference, a review is undertaken to determine the reasons for the variance. The carrying value would only be adjusted if there was sufficient evidence to suggest that the divergence constituted a permanent reduction in the carrying value.

## A.5 Inventories

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

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

## A.6 Operating Income

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

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

Health revenue includes Health Funding Contributions payable 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.

## A.7 Value Added Tax (VAT)

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

## A.8 Pensions

The majority of present and past employees of the Welsh Government are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described within the

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

Some former Welsh Development Agency staff, current Finance Wales PLC staff and Career Choices staff participate in a number of Local Government Pension Schemes in Wales which are multi-employer funded schemes.

Welsh Government staff contributed to: the Nursing and Midwifery Council, NHS Education for Scotland, Department of Health and the Nurses Welfare Trust; and the West Yorkshire Pension Scheme administered by the City of Bradford Metropolitan District Council.

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

### A.9 Early departure costs

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

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

### A.10 Operating leases

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

### A.11 Grants

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

### A.12 Private Finance Initiative / Public Private Partnership transactions

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

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

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

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

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

up to date in accordance with the principles of IAS 16.

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

### A.13 Exchange Rate Gains and Losses

The Welsh European Funding Office, which is part of the Central Services Department requests programme funding from the European Commission at the Euro equivalent level to the sterling required and pays out funds in sterling.

The exchange gain or loss on these transactions is calculated and accounted for in line with IAS 21.

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

### A.14 Provisions

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, provisions for liabilities and charges are made at the year-end where present legal

or constructive obligation exists (ie a present obligation arising from past events), the outflow of resources that will be required to settle the obligation is probable and a reasonable estimate of the obligation can be made.

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

### A.15 Financial Instruments

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

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

### Credit Risk

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

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

### Market Risk

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

### Interest Rate Risk

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

### Liquidity Risk

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

## Appendix B – Glossary (unaudited)

**Amortisation** – this is the method of spreading the cost of a non-current intangible asset over its useful life.

**Annually Managed Expenditure (AME)** – this is a separate annually managed spending limit called AME which has a shorter term view than the DEL limit. AME is more volatile than DEL expenditure and therefore is more difficult to explain or control as it is spent on programmes which are demand-led.

**Capital spending** – spending on the purchase of assets, above a certain threshold, which are expected to be used for a period of at least one year. It includes the purchase of buildings, equipment and land. The threshold is set by each body: items valued below it are not counted as capital assets, even if they do have a productive life of more than one year.

**CFER** – Consolidated Fund Extra Receipts. This is income which cannot be retained and is passed over to HM Treasury.

**Contingent liabilities** – contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Welsh Government's control. An example is legal action where the Welsh Government may need to pay legal costs if it loses the case. These details are not disclosed if doing so could seriously prejudice the outcome of legal claims.

**Departmental Expenditure**

**Limits (DEL)** – this is the spending budget which is allocated to the Welsh Government by the Spending Review. It is normally categorised as capital DEL and resource DEL. This expenditure includes the running of the services and the everyday cost of resources such as staff. The DEL limit is tightly controlled by HM Treasury. Expenditure is deemed to be DEL unless HM Treasury has specified otherwise.

**Depreciation** – a measure of the wearing out, consumption or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technological or market changes.

**Devolved administrations** – the administrations established in Scotland, Wales and Northern Ireland under the Scotland Act 1998, the Government of Wales Act 1998 and the Northern Ireland Act 1998.

**FReM** – Financial Reporting Manual. This is the HM Treasury technical accounting guide to the preparation of financial statements for government.

**IFRS** – International Financial Reporting Standards. The Financial Statements of Government adopted IFRS from 2009-10 as the basis for preparation of their accounts which were previously prepared under UK-based Generally Accepted Accounting Principles (UK GAAP).

**Intangible** – intangible assets are non-physical assets, for example, developed computer software and website development costs.

**Losses** – losses are made up of remissions and write-offs. Remission is the process used to identify and separate receivables which the Welsh Government has decided not to pursue, for example on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

**PFI** – Private Finance Initiative (PFI) is a way of creating ‘public–private partnerships’ by funding public infrastructure projects with private capital.

**Provisions for liabilities** – provisions are recognised when the Welsh Government has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will be settled and an amount has been reliably estimated.

**Resource accounting** – the system under which budgets, Estimates and accounts are constructed in a similar way to commercial audited accounts, so that both plans and records of expenditure allow in full for the goods and services which are to be, or have been, consumed – i.e. not just the cash expended.

**Total Managed Expenditure (TME)** – a Treasury budgeting term which covers all current and capital spending carried out by the public sector.

**Welsh Consolidated Fund** – a neutral place to hold the public money allocated to Wales by the UK Government, via the Secretary of State for Wales, and also that received from other sources.

**Welsh Government Sponsored Bodies (WGSBs)** – the name in Wales for Non Departmental Public Bodies established by the Welsh Ministers.

