Welsh Government Consolidated Accounts 2018–2019

Llywodraeth Cymru
Welsh Government

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Government of Wales Act 2006

Accounts of the Welsh Government are prepared pursuant to Section 131 of the Government of Wales Act 2006 for the year to 31 March 2019, together with the Certificate and report of the Auditor General for Wales thereon.

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

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Mae'r ddogfen yma hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

Overview from the Permanent Secretary

Shan Morgan

I am pleased to present my third consolidated accounts on behalf of the Welsh Government.

This year has undoubtedly been dominated by one of the greatest challenges in recent history – the preparations for a possible 'No Deal' Brexit. This unique situation required an unparalleled level of planning and co-ordination which involved every department considering the impact of 'No Deal' on their areas of business while balancing this critical work with wider Programme for Government priorities. Staff at all grades and from all areas of the organisation came together to work on emergency planning, often working outside of their usual roles to ensure Welsh Government was ready to respond to any emergency that could potentially arise.

Alongside the intensive preparations needed to manage civil contingencies planning, colleagues across the organisation worked closely with our legal services team on an unprecedented legislative exercise to make the necessary corrections to EU-derived law in areas devolved to Wales. 128 Statutory Instruments were laid in Parliament with the consent of Welsh Ministers and 41 were laid in the National Assembly. It was by no means a foregone conclusion that this huge task could be completed by 31 March and I am very grateful to the many people who committed their energy and dedication to making sure it happened within a very short timeframe.

The months ahead will be used to learn lessons, adapt plans to reflect changing circumstances, prepare for new functions and continue to analyse Welsh policy interests in line with the priorities set by the Welsh Government Cabinet Sub-Committee on European Transition. Work will also continue on preparations for alternatives to 'No Deal' Brexit to ensure we are in a strong position for any outcome.

Whilst Brexit has been a significant and unavoidable focus for much of the last year, the wider government agenda remained as important as ever and the organisation has worked hard to maintain momentum in delivering the Programme for Government. Since December, the new First Minister and Cabinet have set out further priorities for Wales which we continue to deliver against a backdrop of on-going austerity.

Responding to this uniquely challenging set of circumstances has stretched the capacity and capability of the Welsh Government civil service more profoundly than any comparable period in devolution history. When I set up my Future-proofing initiative in 2017, my intention was to help build the capability and skills of the civil service at all levels so that we would be better equipped to meet the challenges ahead.

I am pleased to say that the changes we are making through Future-proofing are already having an impact on important aspects of the way we work and the feedback I hear from staff continues to be positive. Over this reporting period, significant progress has been made in a number of areas including the introduction of more frequent, strengths-based performance management conversations to help us respond more quickly to emerging priorities and more robust and consistent assessment and development gateways for promotion to get the right people into posts. We continue to build our skills through a more innovative learning and development offer and are investing in new ICT equipment to enable staff to work more flexibly and productively across Wales.

I am tremendously proud of my colleagues for the talent and commitment that they have brought to the challenges we have faced and I know that they will continue to do everything they can to support Ministers in making a tangible difference for people and communities in Wales in the year ahead.

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What's in the Report and Accounts: A snapshot

Each year, the Welsh Government publishes an annual Report and Accounts. As well as providing a detailed picture of how we have managed our finances and met our statutory obligations, the Report gives us the opportunity to share information about how the organisation has been run in the previous year.

It is important to know that the Report and Accounts does not provide an account of progress on the Welsh Government's delivery programme, *Prosperity for All*. You can find the full annual progress report on *Prosperity for All* on our website.

The Report and Accounts is split into three key elements:

Part One is a report on our operational activities. In this section you can read an overview of what the Welsh Government is responsible for, the membership of the Cabinet during the accounting year, an explanation of what is included in the Welsh Government's accounts and some information about how Welsh Ministers have chosen to exercise their spending and borrowing powers.

You will also find some headline facts and figures about the organisation itself, including how many people we employ, the buildings we own or lease, the services and goods we buy and the grants schemes we administer.

Whilst Welsh Ministers determine the policy ambitions and delivery priorities that make up the Government's programme, the effective performance of the organisation in delivering that programme is the responsibility of the Permanent Secretary and senior leadership team. In this section of the Report we have aimed to give an over-arching picture of the way the organisation has been structured and run during a very demanding period of challenge and change.

This includes the approach we have taken to managing the complex and time-critical preparations for the possibility of a 'No Deal' Brexit alongside the work necessary to prepare for a more managed and structured post-EU landscape. The huge volume of work that was required on EU-related legislation and statutory instruments was in addition to the work already planned for the Government's substantial programme of domestic legislation and the Report provides a summary of the progress made on all legislation during the financial year. **Part One** also includes an overview on the way the organisation has administered the new fiscal powers transferred to Welsh Ministers and implemented the Cabinet's tax policy as well as providing an update on grants administration.

In common with many other public bodies in Wales, the Welsh Government is bound by and committed to the **Well-being of Future Generations Act** and this Report includes an update on how we are putting the Act into practice - both in the way we work internally and with our stakeholders and delivery partners. Similarly, the report includes a brief update on how the organisation is meeting its responsibilities in relation to the **Welsh Language (Wales) Measure 2011**.

The way we work is one of the main themes of the Permanent Secretary's Future-proofing initiative – a wide-ranging programme of change and improvement which aims to develop a confident, skilled and resilient civil service that can meet the challenges we face today but also prepare the organisation for the challenges of the future. **Part One** of the Report provides a broad overview of progress on organisational development and improvement which includes the Future-proofing programme, an update on the Permanent Secretary's major campaign to promote dignity and respect in the workplace and

some information about how we are reviewing our main corporate and support services to ensure they are as streamlined and efficient as possible.

The Welsh Government has a long-established **Partnership Working Agreement** with our Trade Unions and this spirit of social partnership has been invaluable in helping us meet the challenges of the past year. The Trade Union Side works closely with the senior management team on all our major organisational improvement initiatives and is instrumental in the way we approach our commitment to fair employment, health and safety and diversity and inclusion. The report provides some information on our working partnership and its effectiveness.

Managing with integrity and propriety is fundamental to our core values and **Part One** concludes with a short summary of our work to support human rights through ethical procurement and tackle corruption, bribery and fraud. This section also summarises our spending on advertising and our approach to sponsorship and provides a summary of complaints against Welsh Government dealt with by the Public Services Ombudsman.

Throughout **Part One** of the Report, we have included some short case studies and examples which are designed to give the reader some insight into the day-to-day operations of Welsh Government and what it means to work here. These include some snapshots of the work done by teams who were finalists in the **2019 Welsh Government Awards**. The Awards themselves are about celebrating success and sharing best practice - but this is celebration with a purpose. We want to encourage every team in the organisation to learn from the best and to be ambitious about what they can achieve for citizens and service users and our awards case studies offer a small window onto some of the exceptional work undertaken in the organisation.

Part Two of this document contains the **Accountability Report**. This part of the Report and Accounts provides information about how Ministers and senior staff are remunerated and gives an overview of the Welsh Government's financial outturn against the voted budget. Importantly, it also contains the annual **Governance Statement** from the Permanent Secretary in her role as Principal Accounting Officer (PAO). The Governance Statement outlines the controls that are in place to enable the PAO and Additional Accounting Officers (AAOs) to discharge her responsibilities to manage and control the organisation's resources.

Part Three of the Report and Accounts is devoted to the accounts themselves. The accounts represent a comprehensive statement on the costs incurred by the Welsh Government and details of all its assets and liabilities.

The Welsh Government in numbers

Finance
£17bn
Total expenditure

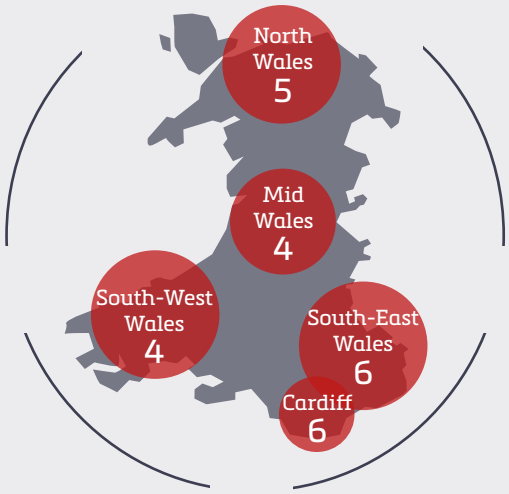
26
Total Administrative Estate Properties

20 offices in Wales
1 office in London
5 specialist properties in Wales

Total Assets
£27bn

Top 5 expenditure areas

- Core NHS Allocations: £6,847m
- Local Government General Revenue Funding: £3,220m
- Student Support Grants: £431m
- Further Education Provision: £415m
- Other Direct NHS Allocations: £277m



5,092
staff

50% ↓
Reduction in carbon since 2014–15

25% ↓
Reduction in amount of water used in 2014–15

98% ↓
decrease in waste to landfill since 2014–15

Sustainability indicators

Total gross emissions ('000 tCO_2e)

8.4 ↓ 4.2
2014–15 2018-19

Total waste (tonnes)

500 ↓ 372
2014–15 2018-19

Landfill (tonnes)

127 ↓ 3
2014–15 2018-19

Equality key achievements

8th
Stonewall UK Top 100 Employers Index (of 445 submissions)

Gold status
awarded by a:gender

Best Employers for Race
Business in the Community Employers for Race

Level 3 Leader
Disability Confident

44%
of WG Procurement spent in Wales

94%
of invoices paid on time (Financial administration)

323
grant schemes administered

£14.9bn
Total grant funds

Introduction to Welsh Government

The Welsh Government at a glance

The Welsh Government is the devolved government for Wales which works across key areas of public life such as health, education, the economy, agriculture and the environment. It was formally created in 2007 under the Government of Wales Act, which established a division of functions between the National Assembly for Wales (the legislature) and the Welsh Assembly Government (the executive).

The Wales Act 2014 has since legally changed the name to the Welsh Government. The Welsh devolution settlement has evolved dramatically since the establishment of the Assembly in 1999 and continues to expand as new powers are devolved.

Led by the First Minister, Welsh Government makes decisions and is responsible for delivery in the areas devolved to it, as set out in the Government of Wales Act 2006 and the Wales Acts 2014 and 2017. This involves developing and implementing policies; setting up and directing delivery and governance; proposing Welsh Laws (Assembly Bills); and making subordinate legislation, such as regulations and statutory guidance. It also directly funds Welsh Government Sponsored Bodies.

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

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

The Welsh Government Accounting Boundary 2018-19

These accounts reflect the consolidated assets and liabilities and the results of entities within the Welsh Government consolidation accounting boundary. The accounting boundary is similar to the concept of a group for corporate accounting, but is based on control criteria for the public sector. Further information on the accounting boundary is contained in the Financial Statements and Note 1.2 to the accounts.

These accounts include the Welsh Government Core (the Welsh Government itself) and Welsh Government Group entities set out below:

Welsh Government Group:

- Welsh NHS Local Health Boards & Trusts
- Development Bank of Wales
- WGC Holdco Limited
- Career Choices Dewis Gyrfa Limited
- Transport for Wales
- Regeneration Investment Fund for Wales LLP

Welsh NHS Trusts and Transport for Wales are included in the Welsh Government Consolidated Accounts for the first time in 2018-19.

The consolidated organisations produce and publish their own annual reports and accounts.

Whilst the Welsh Government funds Welsh Government Sponsored Bodies, Health Education and Improvement Wales and Commissioner bodies, they are not consolidated into these accounts as they do not fall within the Welsh Government consolidation accounting boundary.

The Cabinet

Before December 2018, the Cabinet and Ministers were:

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

From December 2018 the Cabinet and Ministers are:

Rt. Hon Mark Drakeford	First Minister
Rebecca Evans	Welsh Minister for Finance and Trefnydd
Vaughan Gething	Welsh Minister for Health and Social Services
Lesley Griffiths	Welsh Minister for Environment, Energy and Rural Affairs
Julie James	Welsh Minister for Housing and Local Government
Jeremy Miles	Counsel General and Brexit Minister
Eluned Morgan	Welsh Minister for International Relations and the Welsh Language
Ken Skates	Welsh Minister for Economy and Transport
Kirsty Williams	Welsh Minister for Education
Hannah Blythyn	Deputy Minister for Housing and Local Government
Jane Hutt	Deputy Minister and Chief Whip
Julie Morgan	Deputy Minister for Health and Social Services
Dafydd Elis-Thomas	Deputy Minister for Culture, Sport and Tourism
Lee Waters	Deputy Minister for Economy and Transport

Prosperity for All – Welsh Government's delivery programme

The Government's priorities for this government term were set out in 'Prosperity for All: the national strategy' in September 2017, framed around twelve well-being objectives.

The strategy also set out five priority areas: early years; housing; better mental health; skills and employability; and social care. These are the areas where a whole-government approach can deliver the greatest contribution to people's long term prosperity and well-being.

In October 2018, Welsh Government published the first annual report against progress made towards delivery of Prosperity for All. The report can be found on the Welsh Government website: https://gov.wales/prosperity-all-annual-report-2018

As part of this, Welsh Government reviewed its well-being objectives and considered the progress made with the specified actions. It concluded that the existing set of well-being objectives remain the areas where Welsh Government can make the biggest contribution towards the well-being goals. However, the importance of the decarbonisation agenda and the need for all areas of government to work together to deliver its ambitious targets has resulted in it becoming the sixth priority area. Although this will not alter Welsh Government's well-being objectives, it will provide a 'whole of government' approach and strengthen the contribution decarbonisation makes towards the well-being goals.

The Civil Service

The civil service is the non-political administration that supports the Welsh Government's First Minister and Ministers.

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

The Senior Leadership Team

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

Shan Morgan
Permanent Secretary's Group

Welsh Treasury Finance Governance Human Resources

Des Clifford
Director General, Office of the First Minister and Brexit Group

- Cabinet Division
- Cabinet Office
- Communications
- Constitutional Affairs and Inter-Governmental Relations
- European Transition
- International Relations and Trade
- Legal Services Department
- Office of the First Minister
- Office of the Legislative Counsel
- Welsh European Funding Office

Tracey Burke
Director General, Education and Public Services Group

- Care Inspectorate Wales
- Communities and Tackling Poverty
- Education
- Healthcare Inspectorate Wales
- Housing and Regeneration
- Local Government
- Office of Chief Digital Officer
- Welsh Language Division

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

- Cafcass Cymru
- Mental Health, NHS Governance and Corporate Services
- Nursing
- Planning, Delivery and Performance
- Population Health
- Primary Care and Health Science
- Social Services and Integration
- Technology and Transformation
- Workforce and Organisational Development

Andrew Slade
Director General, Economy, Skills and Natural Resources Group

- Business and Regions
- Culture, Sport and Tourism
- Economic Infrastructure
- Economic, Strategy and Decarbonisation
- Environment and Marine
- ESNR – Finance and Operations
- Land, Nature and Food
- Office of the Chief Scientific Advisor
- Office of the Chief Veterinary Officer
- SHELL
- WG Commercial and National Procurement Services (Interim)

Preparing for Brexit

Since the UK voted to leave the EU on 23 June 2016, the Welsh Government has been working to secure a Brexit outcome that protects the interests of Wales. In the past year, planning for EU transition including essential preparations to help us manage the civil contingency risks of a 'No Deal' Brexit has required intensive work from almost every part of the organisation.

Supporting Ministers during this uniquely challenging environment has been a top priority for the Permanent Secretary and senior leadership team, which has met regularly during the year to maintain an overview of this critical work and ensure that organisational effort and resources have been deployed to the highest priority areas of Brexit and essential government business. This has required a high degree of flexibility and re-prioritisation as teams and individuals were re-assigned to manage and plan for the potential impacts on our community, economic and environmental resilience.

The European Transition Team (ETT) was established to coordinate Welsh Government work on developing legislation, strategic oversight of negotiations and frameworks and preparedness for Brexit and this team has continued to lead and coordinate efforts to ensure that Wales' interests are protected in the negotiations as the UK withdraws from the EU. The team supports Welsh Ministers in Cabinet Sub-Committee meetings to discuss negotiating our position including through the Joint Ministerial Committee (EU Negotiations) and the Ministerial Forum (EU Negotiations).

Alongside the Transition Team, policy teams across Welsh Government continue to strengthen relationships with UK Government departments; undertaking joint work developing and seeking to agree UK-wide negotiating positions and working together to seek to strengthen the role of Welsh Government in the next phase of the negotiations with the EU. The organisation has focused on engagement with the UK Government on readiness projects which have a devolved interest and has been developing actions to address circumstances and priorities specific to Wales which may not be felt to the same extent at a UK level and coordinating the Welsh Government's overall preparations for exiting the EU.

Planning for a 'No Deal' outcome became a major focus of EU preparedness work in the last quarter of the year and the organisation prepared to make the Emergency Coordination Centre Wales (ECCW) operational on a 24 hours a day, 7 days a week basis from mid March with more than 90 staff prepared to work on a shift pattern basis. ECCW carries out a vital role to assess the impact on public services in Wales and to be prepared to respond to any emergencies which could potentially arise before, during and after the exit. The ECCW is also our central hub for communications and liaison with Welsh Ministers on matters arising and links directly to our counterparts for civil contingencies planning in Whitehall.

Senior staff were also required to work on a voluntary basis from the Welsh Government's office at Victoria Street in London for a short period each month to represent Welsh Government at meetings taking place in Whitehall and ensure that Wales' voice was in the many discussions taking place. With the UK Government's announcement that the date for leaving the EU would be delayed to 31 October 2019, the requirement for ECCW to operate on a 24 hour basis was paused and senior civil service cover in Whitehall was scaled back although preparations for EU exit continue to dominate much of the organisation's working agenda.

The Auditor General for Wales published a report in February 2019 (Preparations in Wales for a 'no deal' Brexit). The report recognised the lead role taken by the Welsh Government in identifying and managing national and strategic risks, working with colleagues in the UK Government and the other devolved administrations.

Managing our Legislative Programme

Effective management of the Welsh Government's extensive programme of legislation is one of the biggest priorities for the Permanent Secretary and senior leadership team, requiring coordination and team-working across the whole organisation.

In the past year, the scheduled programme of domestic legislation had to balance with the urgent need for legislation essential to prepare for the impact of the UK's departure from the EU.

EU Transition

The legislative exercise required in 2018-19 to make the Welsh statute book operable after leaving the EU was unprecedented in scale and urgency. This required around 189 new Statutory Instruments with most of them using powers under the EU (Withdrawal) Act to make the necessary corrections to EU-derived law in areas devolved to Wales. 128 Statutory Instruments were laid in Parliament with the consent of Welsh Ministers, under the terms of the Intergovernmental Agreement between Welsh and UK Governments and 41 were laid in the National Assembly. A further 20 Statutory Instruments did not need to be in place in advance of a 29 March exit day but will be progressed over the next few months. The EU exit Statutory Instrument programme will lead to a large increase in the executive functions of Welsh Ministers.

In 2018 Welsh Government outlined plans to introduce an Emergency Bill to protect devolution, formally known as the Law Derived from the European Union (Wales) Bill. However, following amendments to the EU (Withdrawal) Bill and the securing of the Intergovernmental Agreement, Welsh Government agreed to take steps to repeal the LDEU (Wales) Bill, once it had received Royal Assent, which occurred in June 2018. The then Act was therefore repealed, in line with the Intergovernmental Agreement, in November 2018.

Devolved Bills

In addition to the legislative demands required as part of Brexit preparations, Welsh Government has maintained a wide-ranging and innovative legislative programme.

The programme has covered the following items of legislation which were either enacted or introduced during the year.

The Childcare Funding (Wales) Act 2019

The Childcare Funding (Wales) Act gives Welsh Ministers the power to provide funding for childcare for qualifying children of working parents and to make regulations about the arrangements for administering and operating such funding. It requires applicants to provide information to enable an assessment of their eligibility for the funding to be undertaken and will make it possible for relevant UK Government departments to share information with the Welsh Ministers for the purposes of determining a person's eligibility. The data sharing gateway is an integral part of the process whereby qualifying parents can apply for funding and provide evidence of their eligibility by way of a primarily digital system. Ministers will not commence the duty to fund under section 1 of the Act until the system goes live in September 2020. The Bill was introduced 16 April 2018 and received Royal Assent on 30 January 2019.

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

The Act abolished the Right to Buy (including the Preserved Right to Buy and Extended Right to Buy) and the Right to Acquire in Wales on 26 January 2019. The Welsh Government's stated purpose of the Act is to safeguard Wales' social housing stock for people who are unable to acquire homes through the housing market. It considered that this approach was based on the sustainable development principle of the Well-being of Future Generations (Wales) Act 2015 and will also encourage local authorities and housing associations to invest in new social housing. The Abolition of the Right to Buy and Associated Rights (Wales) Act 2018 was introduced as a Bill 13 March 2017 received Royal Assent on 24 January 2018.

Reasonable Punishment Bill

The purpose of the Bill is to abolish the common law defence of reasonable punishment so it is no longer available in Wales to parents or those acting in loco parentis as a defence to assault or battery against a child. The defence currently applies in respect of both the criminal and civil law. Under the criminal law, it applies in respect of the common law offences of assault and battery; and under civil law, in respect of the tort of trespass against the person.

The Bill is intended to support children's rights by prohibiting the use of physical punishment, through removal of this defence. The intended effect of the Bill, together with an awareness-raising campaign and support for parents, is to bring about a further reduction in the use and tolerance of the physical punishment of children in Wales. The Bill was introduced on 25 March 2018.

Renting Homes (Fees etc.) (Wales) Bill

The Renting Homes (Fees etc.) (Wales) Bill was introduced on 11 June 2018 and will prohibit certain payments made in connection with the granting, renewal or continuance of standard occupation contracts. It also makes provision in respect of the treatment of holding deposits. The Bill was agreed by the Assembly on 27 March 2019. It is likely to be commenced on 1 September 2019.

Public Health (Minimum Price for Alcohol) (Wales) Act 2018

The Public Health (Minimum Price for Alcohol) (Wales) Act 2018 received Royal Assent on the 9 August 2018. The aim of the Act is to address the Welsh Government's concerns around the health and social harms that can be caused by the effects of excess alcohol consumption. The Act makes provision for Welsh Ministers, by regulations, to specify the minimum unit price for which alcohol is to be supplied to a person in Wales and establishes a local authority led enforcement regime.

Legislation (Wales) Bill

In December 2018 the Counsel General for Wales introduced a Bill to make Welsh law more accessible, clear and straightforward to use. It makes provision about the interpretation and operation of Welsh legislation, and requires the Counsel General and Welsh Ministers to take steps to improve the accessibility of Welsh law. At the same time the Counsel General also published a Draft Taxonomy for Codes of Welsh Law to illustrate how the statute book for Wales could be organised and published in future.

Case Study

Award – Winning Work

Delivering Results: the 21st Century Schools and Education Programme Team

The 21st Century Schools and Education Programme is a strategic investment programme in educational infrastructure. The Programme is co-constructed, co-funded and co-managed with delivery partners in local government and further education. The Programme Board includes members from local authorities and colleges and projects are generally match-funded 50/50. The Programme represents the largest investment in schools and colleges since the 1960s. More than £1.4bn has been invested across 2014–19 with 193 schools and colleges rebuilt or refurbished, delivered against an initial target of 150 meaning an over-delivery by at least 28% in the first phase. This means over 100,000 learners are benefitting from new or refurbished buildings across Wales.

The Team also manage a complex blend of other capital grants-covering issues such as childcare, infant class sizes, Further and Higher Education equipment, school/college maintenance and Welsh-medium education.

Developing tax policy

The Welsh Government has produced a tax policy framework – https://gov.wales/tax-policy-framework to inform how it uses its tax powers. The five principles embedded in the framework seek to ensure taxes are fair, clear and stable; that they help to deliver policy objectives – in particular jobs and growth; they are developed through proactive engagement, collaboration and involvement.

This tax policy work is designed to use the Well-being of Future Generations (Wales) Act and will contribute directly to the Government's well-being objectives.

The Welsh Treasury works across government, the wider public sector and the tax community in developing tax policy and the design of fully devolved taxes, to ensure policies are joined-up and support delivery of the Welsh Government's strategic priorities. Welsh tax policy has also been informed by a wide range of people and organisations outside of the Welsh Government, including in particular the members of the Minister for Finance's Tax Advisory Group, and Technical Experts Groups for land transaction tax and landfill disposals tax, and the Reference Group established to inform development of a potential vacant land tax.

Tax forums and one-day conferences have also provided opportunities for stakeholders to contribute their ideas and expertise to the Welsh Government's thinking.

Welsh rates of income tax

The Wales Act 2014 and Wales Act 2017 devolved taxation and borrowing powers to the Welsh Government and National Assembly for Wales.

From April 2019 onwards, each year the Welsh Government will decide the rates of Income Tax paid by Welsh taxpayers. The Welsh Government could vary the Welsh rates of Income Tax or keep them the same as the rates paid by English and Northern Irish taxpayers. Responsibility for many aspects of income tax will remain with the UK Government. As a partially devolved tax, Welsh rates of income tax will continue to be collected by HMRC, as set out in the Wales Act 2014. The UK Government will also retain full responsibility for taxing income from savings and dividends.

Reforming local taxation

The local taxes – council tax and non-domestic rates – contribute over £2.5 billion a year towards the funds spent by local government in delivering services for communities across Wales. We are developing these local taxes as an integral part of the wider local government finance system. Our priorities for this work are securing fairness for citizens and businesses while sustaining funding for vital local services. To this end, we have a programme of short, medium and long-term work in hand. This work is summarised on the Welsh Government website: https://gov.wales/reforming-local-government-finance-wales-2018-update

Our focus over the past year has been to make a series of improvements to council tax to make it fairer, to better target the range of reliefs available to help taxpayers with their bills and to begin the practical exploration of alternative forms of taxation.

Borrowing by Welsh Ministers

Under Section 121 of Government of Wales Act 2006 (amended by the Wales Act 2014 and 2017) additional borrowing powers were conferred on Welsh Ministers with effect from April 2018. Any sums borrowed and repaid under these provisions are done via the Welsh Consolidated Fund and therefore are reflected in those accounts. The first exercise of the borrowing powers took place in 2018-19 where £65m was paid into the Welsh Consolidated Fund from the National Loans Fund.

Administering Grant Funding

The Welsh Government's provision of grant funding supports a broad range of organisations, businesses and projects across the whole of Wales. The organisation's definition of a grant is "all non-procured payments to external bodies or individuals for activities which are linked to delivering Welsh Government policy objectives or statutory obligations". Grants are divided into two distinct categories:

- Unhypothecated grants include those payments provided to health bodies and local government and account for £11.4bn of the £14.9bn total paid in grants for 2018-19.
- Hypothecated grants represent payments where there are specific deliverables and criteria surrounding the purpose of the grants and account for the remaining £3.5bn of funding.

Grants Centre of Excellence

The team is responsible for improving grants management policy, providing practical support and advice to grant managers, training and embedding best practice across the organisation. The team is the first point of contact for grant queries within the organisation. During this reporting period, more than 1,600 email queries were resolved. In addition, the team held extensive face-to-face and telephone engagement with grant managers, providing support and guidance on all aspects of grant management.

Over the 2018-19 period, the team also delivered a number of key activities including an external survey of grant recipients, comprehensive guidance in relation to grants and GDPR issues, a mandatory grants award template to ensure consistency and compliance on grants policies, worked with Local Authorities to review auditing arrangements and introduced and embedded the Grants Assurance Panel.

Grant Recipients External Survey 2018

An online survey was commissioned by the Grants Centre of Excellence to seek feedback from organisations in receipt of Welsh Government grant funding on their experiences of dealing with Welsh Government. More than 1,900 organisations were contacted with a response rate of approximately 20% (typical for an online survey). The survey focused on how satisfied current grant recipients were with the process from applying through to closure of a grant scheme. It included questions on duplication, consistency and levels of satisfaction.

Responses were received from across the public, private and third sectors. Overall respondents were satisfied with the process. The highest level of satisfaction was with the claims and payments process (80%). The lowest satisfaction was with the application and decision process (67%).

Grants Centre of Excellence will use the survey results to refine their feedback to grant managers, guidance and training and online applications. The External Survey Report was published on the Welsh Government's website on 14 November 2018: https://gov.wales/welsh-government-grant-recipients-survey-2018

Local Authority Grant Audits

Following a review identifying the need to refocus the audit rationale for local authority grants, Welsh Government and Wales Audit Office ran a pilot to review the traditional financial audit process. The aim was to consider how to maintain the required assurance whilst ensuring resources were used efficiently and effectively across Welsh Government, Wales Audit Office and local authorities.

The pilot's objective was to consider the value of a move away from extensive financial transactional testing, to considering what activities were delivered through grants and concentrating the audit focus on whether outcomes had been achieved.

A decision has now been taken to remove the need to seek external financial audit scrutiny by Wales Audit Office in respect of grant awards to local authorities. From 2019–20 Welsh Government will place assurance with a suitably authorised officer within the local authority, namely a Section 151 Officer or Chief Finance Officer.

Welsh Government Improving Efficiency Board

The Welsh Government Improving Efficiency Board is focused on identifying opportunities to reduce the administrative burden on Welsh Government teams and external organisations, whilst also seeking to improve the effectiveness of underlying processes. A number of workstreams are in place covering the following areas: Public Bodies Unit, Corporate Services Review, Single Requisitioning Teams, Stakeholder Groups and one on Grants and Assurance.

Three key recommendations for the Grants and Assurance Workstream have been agreed and are currently being actioned.

- **Grants Assurance Panel** - this provides practical advice and challenge to grant managers at the outset of developing a grant scheme with a view to adding value and mitigating risks. Panel members have been drawn from key areas of the business to provide constructive challenge, scrutiny and assurance for new/proposed hypothecated grant schemes and to improve processes in the early development phase. The panel first met in September 2018 and now meets monthly or more frequently when needed.
- **The Central Due Diligence Team** - since its creation in February 2019, the team have been developing systems and processes to enable them to provide corporate due diligence and governance checks against organisations that Welsh Government is funding or considering funding. The aim is to improve consistency, reduce duplication and deliver greater support to grant managers at the appraisal stage of the grants process. Project due diligence (outcomes, organisation capability to deliver the project and value for money) remains the responsibility of policy teams. The team are in the pilot phase of their work and will continue to engage with key stakeholders across Welsh Government as they roll out their work in a phased approach.

- **The Grants Target Operating Model (TOM)** – this reflects the end-to-end grant processes and identifies which administrative functions should be undertaken by a single team to ensure policy and procedures are applied in a consistent and compliant manner. Ownership of the grant schemes will remain with policy officials including decisions around which organisations should receive grant funding. Recruitment for this team is underway and an implementation plan will be developed to set out how this work will be taken forward.

Funding from Welsh Government

The data presented for 2018-19 is based on the system of 'industry keys', which was introduced specifically to provide a clear picture of funding by sector and particularly the Third Sector.

Table 1: Total Welsh Government Grant Funding by Financial Year

	2016-17	2017-18	2018-19
Grant provided (£bn)	13.8	14.3	14.9

Source: Welsh Government Finance System

In 2018-19, 323 grant schemes made over 11,000 new offers of funding.

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

Table 2: Hypothecated Grant Funding by Sector and Financial Year

Hypothecated Funding (£m)	2016-17	2017-18	2018-19
Local Authorities	1,329	1,334	1,335
NHS	19	19	17
Central Government & Public Corporations	37	36	181
Welsh Government Sponsored Bodies	31	36	62
Funding to Education	434	434	458
Private Sector	689	675	555
Third Sector	251	270	337

Source: Welsh Government Finance System

Welsh European Funding Office

The following table shows Welsh European Funding Office's (WEFO) progress with committing the grant available under the Structural Funds it delivers in Wales, as at 31 March 2019:

Hypothecated Funding (£m)	West Wales ERDF £m	East Wales ERDF £m	West Wales ESF £m	East Wales ESF £m	TOTAL £m
Allocation	1,036	175	688	174	2,073
Grant Value	942	162	641	134	1,879
Number of Operations	94	35	59	39	227
% Approved	91%	93%	93%	77%	91%

Structural Funds consist of the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

WEFO has continued to work towards the target of 100% commitment in line with the original UK Government Treasury Guarantee however the extension to include approvals to December 2020 has provided the flexibility to commit funds beyond the date of withdrawal.

By the end of March 2019, WEFO had committed 91% of its 2014–20 Structural Funds programmes. At time of writing, Structural Funds overall were 95% committed on average, with 240 operations now approved, totalling £3.4bn total expenditure. The main areas of the programmes with funding still to commit are marine energy, which as a young industry has a number of technical and financial issues to overcome and the new ESF Priority for Public Services Reform and Regional Working. This leaves some flexibility to address uncertain impacts in respect of EU transition with minimal risk to existing approved projects.

With regard to declared expenditure (the total programme expenditure that WEFO has declared to the European Commission which is the basis on which our claims for funding are paid), Wales continues to perform well with 24% of the programme value claimed from the European Commission. The average declared expenditure across the European Union is 18%, the overall UK position is 14%.

In addition to the regional programmes, WEFO also administers the Ireland / Wales Territorial Cooperation programme. Progress for this programme is:

Ireland / Wales	€m
Allocation	79
Approved:	
Grant Value	57
Number of Operations	17
% Approved	72%

Key highlights from the last reporting period include:

- **Performance Framework** – the Programme regulations set all Member States targets to reach by December 2018. These targets were set to allow for re-distribution of funding where priorities and Member States were not achieving the original plans for delivery. WEFO achieved targets in all ERDF priorities except one which was anticipated and the funds were moved elsewhere in Wales' programme. For ESF, all expenditure targets were met. One output target for both Programmes was not, however this did not result in a loss of funding to Wales as the reserve associated with this target can be allocated elsewhere within the Wales Programmes.
- **Correspondence** – WEFO contributed to Welsh Government's Preparing Wales website with information and advice on the implications of a 'No Deal' Brexit for organisations engaged in Structural Funds, European Territorial Co-operation and Horizon 2020 programmes. WEFO also wrote to all its stakeholders with guidance on the implications of Brexit scenarios for project management and funding applications.
- **Counter-fraud** – during the last financial year, Welsh Government's Counter Fraud Officer provided bespoke training to WEFO staff. This training covered what can go wrong with Grant Funding and how to prevent repeat instances.

Independent reviews of WEFO

WEFO is subject to review by the Welsh Government's Governance and Assurance's European Funds Audit Teams (EFAT) and by the European Commission. The Auditor General for Wales published a report "Managing the impact of Brexit on EU Structural Funds" in August 2018. The report was generally positive about WEFO's actions in managing the EU Structural Funds in the context of Brexit. The report considered wider issues relating to the UK Government Treasury Guarantee and issues regarding what will replace Structural Funds post - Brexit. Specifically in respect of WEFO's management of the Structural Funds the report found that WEFO had maintained robust checks and balances despite the intention to increase the pace of spending ahead of Brexit. Key comments from the report are:

- WEFO strengthened its approach to approving projects and only commits to those which meet strict criteria and match strategic priorities.
- WEFO has robust checks in place to ensure that projects can only claim funding if they can show they have complied with all eligibility and delivery requirements.
- There are clear arrangements in place for monitoring and reporting progress with the overall programme.

European Funding Audit Team (EFAT)

The reviews of WEFO's processes by EFAT have all been considered Category 1 (Works well; only minor improvements needed) or 2 (Works, but some moderate improvements are needed). No significant alterations to WEFO's processes were required as a result of these reviews.

The EFAT review of the operations funded and monitored by WEFO highlighted very few issues. The level of compliance is represented in an error rate:

Year	2018	2017
Error Rate	0.10%	0.05%

The error rate is an indication of the level of expenditure claimed from the European Commission which was not in fact an appropriate charge to EU budgets. This is usually due to poor audit trails and non-compliance with procurement regulations.

European Commission

WEFO's processes were reviewed during the year by EFAT, who report their findings to the European Commission.

Meeting our commitment to the Well-being of Future Generations

The Well-being of Future Generations Act (the Act) requires Welsh public bodies to think more about the long-term, to work better with people, communities and each other, to focus on preventing problems before they occur and take a more joined-up approach. The Act's seven Well-being Goals and sustainable development principle (five ways of working) provide a clear framework for public service decision-making. The Welsh Government continues to take forward action to work differently and realise the benefits of the Act.

The Cabinet has set out its contribution to the seven well-being goals through 'Prosperity for All – the national strategy' (see page 4).

Leadership in Welsh Government

Building on the changes to the Terms of Reference of the Board to provide strategic advice in line with the Well-being of Future Generations (WFG) Act, and the appointment of a Welsh Government Board champion, a new division was also established to support colleagues at all levels across Welsh Government to embed the 'ways of working' and strengthen policy making capability.

During the year a number of changes have been made to our corporate systems and processes to help further embed the WFG principles in our routine operations. This has included introducing an Integrated Impact Assessment (IIA) tool to help colleagues to undertake a rounded assessment of the impact of a proposed action, including the social, economic, cultural and environmental effects. The tool is currently under review to ensure it remains current and fit for purpose. This aligns with work to review policy making capability within Welsh Government which will help inform a programme of development to address any gaps. This work is due to conclude at the end of 2019.

In the 2019–20 Budget a number of steps were taken to embed the Act which was recognised by the Future Generations Commissioner, including alignment to the well-being objectives, budget bilateral discussions and work on an agreed definition of 'prevention' with the Future Generations Commissioner and stakeholders.

All recruitment exercises for the Senior Civil Service now require candidates to have knowledge and understanding of the Act in the context of the organisation's work and we are also working with colleagues across the organisation to ensure WFG principles are fundamental to the way we manage procurement, assets and risk.

Working with others

Working collaboratively across boundaries is a fundamental part of the well-being ethos and in the past year we have made a concerted and coordinated effort to improve the way we work with others to put this important principle into practice with our delivery partners and stakeholders. As part of the National Bodies Sharing Group, the Welsh Government is an active participant in a network of colleagues from those national bodies subject to the Act.

The 'All Together!' report was published following work with the Third Sector and identified a number of areas for action to implement the Act. It continues to inform the work to implement the Act within Welsh Government. The latest report can be found online: https://gweddill.gov.wales/docs/dpsp/publications/181108-workshops-report-en.pdf

Public Services Boards (PSBs) are an important part of this landscape and Welsh Government provided a package of national support as well as targeted support through regional funding in 2018-19. This support is based around encouraging PSBs to work collaboratively with other PSBs as they undertake delivery of their Local Well-being Plans. All areas have made use of the regional funding to enable consistent approaches to be taken and to avoid duplication of effort.

Welsh Government continues to work closely with the Future Generations Commissioner for Wales and the Permanent Secretary and Ministers have regular meetings with the Commissioner and her office throughout the year. The organisation works closely with the Wales Audit Office on the Auditor General's examination duty under the Well-being of Future Generations Act.

The ground-breaking nature of the Act continues to attract considerable interest internationally and Wales is actively engaged in international networks such as 'Regions 4 Sustainable Development' which enables the Welsh Government to share learning on sustainable development with others whilst also gathering best practice from around the world. We are also working with colleagues in the UK Government, Scottish Government and the Northern Ireland civil service on the first UK Voluntary National Review report. This is a report to share learning and identify progress in implementation of the United Nation's 2030 Agenda (The sustainable development goals).

Future-proofing our Organisation

The Permanent Secretary's Future-proofing initiative is designed to equip Welsh Government staff to meet the challenges of delivering Prosperity for All and build a confident, skilled and sustainable civil service for the future. Launched in 2017, Future-proofing is structured around four key themes – how we lead, how we perform, how we learn and how we work.

In the last reporting period, a number of improvements were made including:

- The introduction of a new set of organisational expectations which were developed with staff and TUS colleagues to clarify the behaviours and attributes that Welsh Government values. These include inclusive leadership, commitment to development and learning, collaboration across boundaries and the Well-being of Future Generations 'ways of working'. The new expectations have been used to strengthen the approach to SCS recruitment and to develop a more robust and transparent development and assessment gateway for Executive Band promotion.
- More than 3,500 members of staff have now been trained in Future-Engage-Deliver – a straightforward approach to inclusive, distributed leadership that is designed to get the best from teams and individuals by focusing on shared purpose, pace, building strong relationships and developing people's strengths to get the best from everyone who works in the organisation.
- A new approach to continuous, strengths-based performance management has been introduced. This involves more regular, forward-looking check-ins between managers and individuals. The approach is based on international evidence on best practice and feedback and input from staff at all levels. The ongoing 'Let's Talk' campaign encourages colleagues to focus on development and well-being as well as responding to emerging priorities and tracking progress on delivery.
- Developing capability by creating new, structured development programmes for middle managers and the corporate learning and development offer was reviewed and refreshed.

A number of other activities are also being prepared for launch shortly after the reporting period. This includes the creation of a new online hub for all learning and development activity, workshops helping staff to prepare for leaving the European Union, a campaign to promote dignity and respect in work and an organisation-wide roll out of Smart Working – a business-focused approach that supports more flexibility, resilience and productivity in the way staff work.

Case Study

Award – Winning Work

Smart Working

Our flexible working pilot took place in our Merthyr Tydfil office from June 2016 until May 2017. The pilot aimed to test the organisation's appetite for flexible working practices and identify ways in which becoming more flexible could support teams to better meet business objectives and improve delivery.

The pilot consisted of intensive engagement activity including staff sessions led by senior leaders, a dedicated intranet area, supporting materials and guidance, new pods to use for informal, ad hoc meetings and simplified and shortened HR policies. Each team had a discussion about how working more flexibly could support them to deliver business objectives. Teams created Charters setting out their commitments and support to trying new ways of working.

A formal evaluation report was commissioned which showed:

- 92% of staff felt able to effectively deliver their work whilst working flexibly
- 68% reported flexible working reduced their sickness absence
- 68% reduced the amount they travel for work
- 75% thought the pilot had increased staff productivity
- 77% felt that the pilot supported them to better balance their wellbeing with work commitments
- 70% said the pilot improved the way their teams work across multiple sites

The 2018 People Survey results show that Merthyr is now our most engaged office with scores higher that the Welsh Government average in many key areas and several questions received scores that were 10-11% above the WG average.

Outcomes from the pilot provided significant insight to the development of a blueprint for the organisation-wide roll out of Smart Working which we launched in May 2019. This will enable more flexible working across all our offices in Wales.

In February, the pilot won the Culture and People Award at the 2019 Smarter Working Awards, a UK-wide recognition organised by Government Property Agency.

Improving our Corporate Services

Welsh Government policy and delivery teams rely on a range of corporate and expert services to support them in undertaking their work as professionally and effectively as possible. During 2018-19, the Permanent Secretary commissioned a review of corporate services, focusing specifically on HR, Finance, Corporate Governance and Facilities Management. Undertaken in partnership with Deloitte, the review looked primarily at the effectiveness, consistency and efficiency of the services provided.

The approach was based on engagement with staff throughout the Welsh Government, analysis of current delivery arrangements and learning from the direction of travel in the provision of corporate services elsewhere. Building on the recommendations made on opportunities for service improvement, the senior leadership team took the decision to move to an integrated approach to delivering corporate services.

The integrated approach is based on developing a stronger framework for teams to work together by thinking about services as a whole function. It will provide greater clarity about roles and responsibilities and enables Welsh Government to ensure operational and transactional service delivery is undertaken by the right part of the team, reducing the potential for duplication. Centres of excellence and business partners can then focus on providing strategic, expert advice. It should also achieve a consistent and joined-up service for colleagues whichever part of the service they are using.

A small project team is leading and coordinating improvement work, linking closely with the wider Future-proofing initiative. Work is focused on strategy, service, structure and skills underpinned by technological and automation opportunities and is being undertaken in partnership with colleagues across the services.

The senior team has agreed its vision for corporate services and supporting design principles for developing the integrated model across the four functions. This has been presented as the ‘Strategic approach to future-proofing corporate services’ and during the reporting period a supporting HR vision and a finance vision have been agreed.

In the context of the uncertainty and pressure on resources resulting from the essential work on EU Transition and the possibility of a ‘No Deal’ Brexit, it was decided that implementation would need to be phased, starting with HR services. This work is now underway.

Progress so far has included redesigning the approach to HR case advice to centralise the service and strengthen the support available, and improvements to recruitment arrangements with much of the wider work expected to be delivered during the next reporting period.

Case Study

Mutual Investment Model

The Mutual Investment Model (MIM) has been developed by Welsh Government to finance major capital projects due to a scarcity of capital funding. It is an innovative way to invest in public infrastructure, supporting additional investment in social and economic infrastructure projects and improving the delivery of public services in Wales.

MIM schemes see private partners design, build, finance and maintain public assets. In return, Welsh Government pay a fee to the private partner to cover the cost of undertaking these activities. Incentives are embedded in the Model to ensure that the private sector delivers on time and on budget and maintains the infrastructure over the life of the contract. Private partners are obliged to assist in delivering the Well-being of Future Generations Act and must deliver stretching community benefits, commit to Welsh Government's ethical employment code and build to very high levels of environmental sustainability.

Current MIM Schemes

Welsh Government has committed to undertaking a number of schemes including the dualling of sections 5 and 6 of the A465 between Dowlais and Hirwaun and additional investment in Band B of the 21st Century Schools Programme.

Our Commitment to Dignity and Respect

Creating an environment where people feel enabled to be themselves - and to challenge when they need to – is one of the Permanent Secretary's biggest priorities. Over the past year we have involved people across the organisation in understanding how we can address any perceived barriers to challenging unwelcome behaviour and, at the same time, promote the value of cultural inclusivity. The aim has been to build on what is already positive in the organisation and champion the behaviour we want to see.

This has resulted in a high-profile 'Let's Talk Respect' internal campaign, led by the Permanent Secretary and developed with the support of our Trade Unions and staff diversity networks. The campaign is structured around five core commitments, each with a number of actions attributed to them. These interventions range from longer-term, strategic ambitions such as promoting clear development programmes and pathways for colleagues with protected characteristics and investing in our future leaders to exemplify the behaviours we encourage, to more immediate 'quick wins'.

The 'quick wins' include the introduction of an anonymous, impartial helpline for staff to discuss issues relating to unwelcome behaviour, as well as developing an animation and supporting resources to promote better understanding of the social model of disability.

Underpinning the campaign, intensive work has continued through the Diversity and Inclusion Action Plan (2016-20) to achieve Welsh Government's aim of being an exemplar in equality, diversity and inclusion by 2020. A Diversity and Inclusion Steering Group oversees and drives progress through a range of activities which have included expanding our reverse mentoring scheme for senior civil servants, new diversity and inclusion training programmes, 'Disability Confident' sessions for senior managers and an innovative TED X event on Inclusive Leadership.

We have also been working to improve our support for non-binary colleagues, updated our guidance and provision for pregnant and nursing employees and introduced an Autism Spectrum Disorder peer to peer support group.

We will work to embed the social model of disability across the Welsh Government, by making the social model real and tangible for people by developing clear and engaging resources and guidance, showcasing and celebrating those teams who have embedded the social model successfully in the workplace and/or in their policy area, removing barriers to transform accessibility and equality. We will take action internally to remove barriers and ensure a fully inclusive workplace and explore the best ways of embedding social model thinking across our external work, creating better policy and better services for everyone.

All Groups have diversity champions to promote equality and diversity in their business area as well as sponsoring a diversity network. Staff network activities during the year have included events for UN Day of Disabled People, LGBT History Month and International Women's Day.

A gender pay gap of 7.96% (based on average salaries) was identified in 2018. This was a slight drop from the previous year. Welsh Government signed up to Chwarae Teg's Fairplay Employer benchmark and is currently working closely with them to develop an action plan to reduce the gender pay gap.

A number of benchmarking schemes were used to assess the diversity and inclusion work undertaken. Welsh Government was placed 8th in the Stonewall UK Top 100 Employers Index 2019 – in the Top 10 for the first time. Stonewall

also recognised Welsh Government as a top trans inclusive employer. The organisation participated in Business in the Community Employers for Race benchmark for the first time in 2018 and were listed in their Best Employers for Race. Welsh Government was once again awarded gold status by a:gender, the Civil Service Support Network for trans and intersex staff across government and are a Disability Confident Leader organisation. This was awarded in October 2017 and the accreditation lasts for three years.

Information on Welsh Government's disabled and Black, Asian and Minority Ethnic (BAME) targets (as well as the 50/50 by 2020 commitment) is included in the Diversity and Inclusion Plan, available to staff on our intranet.

The targets are as follows:

- 50% of the senior civil service are female by 2020.
- The percentage of BAME staff increases from 2% (2015-16) to 2.5% by 2020.
- The percentage of disabled staff increases from 4.8% (2015-16) to 5.8% by 2020.

These percentages were set to drive change whilst being mindful of limitations on external recruitment.

Progress against these targets is monitored monthly. At the end of June 2019, the figures were as follows:

- 50% of the senior civil service are female by 2020 – **now 44%**
- The percentage of BAME staff increases from 2% (2015-16) to 2.5% by 2020 – **now 2.4%**
- The percentage of disabled staff increases from 4.8% (2015-16) to 5.8% by 2020 – **now 5.6%**

Diversity networks

There are four diversity networks within Welsh Government. The networks give underrepresented groups a voice, enable colleagues to share experiences and support each other. They also act as an advisory body to internal policy makers:

- **Disability Awareness and Support (DAAS)** – the network for disabled colleagues, carers and those with an interest in disability issues.
- **Minority Ethnic Staff Network (MESN)** – the network for staff from BAME backgrounds.
- **Women Together** – an inclusive network encouraging personal growth and mutual support of women to reach their potential and work to achieve gender balance in the organisation.
- **PRISM** – the sexual orientation and gender identity staff network that supports staff who identify as lesbian, gay, bisexual, trans or gender variant (LGBT+).

There are also informal peer support networks for Adoption and Fostering, Autism Spectrum Disorder, Mind Matters (Mental Health) and Carers.

Case Study

Award – Winning Work

Well-being of Future Generations Award: Decarbonisation Team

Decarbonisation requires a fundamental cultural and policy change across government and both short and long-term actions. The Decarbonisation Team lead on the implementation of Part 2 of the Environment Act, by considering and advising on the transition Wales needs to make to meet the legislative target of 80% emission reduction by 2050.

Decarbonisation is now a priority area within 'Prosperity for All – the national strategy' and action to tackle climate change is integral to the achievement of the seven well-being goals for Wales.

The Decarbonisation Team placed the sustainable development principle of the Well-being of Future Generation Act at the heart of its policy development. They developed a multi-layered cross-government governance structure from a Ministerial Task and Finish Group to policy working groups, involving and collaborating with interested parties and stakeholders, all of which are guided by the five ways of working.

The team specifically involved young people to ensure they have a say in decisions which will impact on their future. This included a competition within schools about how Wales will look in 2050 and a young people's consultation. Their approach has developed crucial aspects of delivering the legislation including setting the Welsh emission account, drafting interim targets and carbon budgets and developing a delivery plan in a collaborative way which considers the impacts on future generations. This work has been completed in collaboration with and endorsement from the Future Generations Commissioner for Wales's office.

Working Bilingually

The Welsh Language Standards have been embedded in the Welsh Government's day to day working practices since they first came to force in 2016. The organisation strives to ensure that Welsh citizens can engage with their government in their language of choice on all occasions. Our vision is to become an exemplar organisation that ensures the Welsh Government civil service plays a full part in assisting the First Minister to achieve the ambition of one million Welsh speakers by 2050, as set out in our Welsh Language Strategy, *Cymraeg 2050: a million Welsh speakers*. This is not only in developing the necessary policies to promote the language across Wales, but also by leading the way as a public sector employer.

Work is underway to promote and facilitate the language internally within the organisation to provide staff with opportunities to use the language at work. The provision of Welsh language learning opportunities for Welsh Government staff is under review with a view to ensuring that it meets the needs of different levels of learners and offers a range of options to respond to a variety of learning styles. This work has intensified to match the one million Welsh speakers by 2050 target. In line with our statutory duties we publish an annual report on our compliance with the Welsh Language Standards. The 2018-19 report can be seen on the Welsh Government's website: https://gov.wales/welsh-language-standards-annual-report-2018-2019

Working in Partnership

Trade Union Side (TUS) is the umbrella body that co-ordinates the views of the three trade unions recognised by Welsh Government.

The Welsh Government's management team work closely in partnership with TUS who represent their members on a wide range of conditions of service and other work-related matters.

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

Ensuring staff are fully supported, remain healthy and have a safe environment is an important part of the Welsh Government's health and safety approach and one on which we work particularly closely with TUS to continuously improve.

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

The organisation has implemented several improvements including developing a suite of generic risk assessments giving staff access to safe systems of work when undertaking their duties; and providing effective and meaningful online and face-to-face training to raise awareness of health and safety responsibilities, as well as looking at how to manage stress and the importance of wellbeing.

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

Last year Welsh Government's Board agreed a new Wellbeing Strategy to help the organisation become a healthier workplace that supports colleagues to look after their physical and mental wellbeing. A 'Wellbeing Hour' was introduced following a proposal from TUS to give staff one hour each week (pro-rated for those who work part-time) to focus on activities that maintain or improve their physical and mental health and wellbeing. This initiative will be evaluated to identify best practice and ensure that it is meeting its objectives.

Protecting our Environment

We are committed to creating a more sustainable administrative estate and have continued to improve our environmental performance during 2018-19. We have worked closely with core contractors and internal colleagues to further develop sustainable practices, share knowledge and increase connections with relevant strategies.

We have successfully surpassed our 2020 carbon reduction target, reducing our emissions by 66% since the baseline year of 2010–11. Between 2017–18 and 2018-19 we reduced our emissions by just over 1,200 tonnes of CO_2.

We recycled 88% of our waste in 2018-19 and have almost achieved zero waste to landfill, with under 1% disposed of in that way; while we reduced our water consumption per person by 5%. Biodiversity projects on the estate endeavour to support local wildlife through the creation of new habitats and native planting. In late 2018, nine new bee hives each housing up to 50,000 bees were installed on the roof of the Cathays Park office and will be managed by local bee keepers. Welsh Government also has apiaries at its offices in Merthyr Tydfil, Llandudno Junction and Aberystwyth, as well as numerous biodiversity projects on its administrative estate.

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

Greenhouse Gas Emissions		**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Non-Financial Indicators ('000 tCO_2e)	Total Gross Emissions	8.4	6.9	6.3	5.4	4.2
	Gross Emissions Scope 1 (Gas)	1.3	1.1	1.1	1.1	1.0
	Gross Emissions Scope 2 (Electricity)	7.1	5.8	5.2	4.3	3.2
Related Energy Consumption (GWh)	Electricity	13.4	11.8	11.6	11.2	10.5
	Gas	7.1	5.8	5.8	6	5.7
Financial Indicators (£million)	Expenditure on Energy	2.1	2.1	2.1	2.0	2.1
	CRC Allowances – Administrative estate (2012 onwards)	0.16	0.27	0.1	0.1	0.0

Waste		**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Non-Financial Indicators (tonnes)	Total Waste (tonnes)	500	498	563	350	372
	Landfill	127	112	104	41	3
	Waste to energy	-	-	-	-	41
	Reused/Recycled	314	322	396	222	245
	Composted (food)	59	64	63	87	83

Water	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Non-Financial Indicators (cu.m/person/yr)	8	8	7.1	6.3	6.2

Case Study

Award-Winning Work

Value for Money: The Trunk Road Pavement Team

The Trunk Road and Motorway Pavement Team within the Network Management Division of Transport have identified new processes to combat poor performance of road surfaces. Defective road condition causes high disruption, costs millions of pounds and is accelerated by the effects of an increasingly unpredictable climate. Improved longevity of road material is fundamental to meet requirements outlined in the Future Generations Act, Taking Wales Forward and Prosperity for All.

Software customisation, modelling, analysis and prediction of a dynamically changing road condition profile were used to evidence the requirement for an innovative response to a failing road surface network. The team worked tirelessly to develop a new road material with the durability, safety, low noise characteristics and sustainable properties that has moved Wales into the forefront of highway maintenance for Europe as well as the ultimate goal of a better service for the travelling public of Wales.

This initiative will increase service life, reduce whole life cost and potentially save £30m a year.

Managing with Integrity

Respecting Human Rights

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

All procurement processes over the value of £25,000 are subject to a strategy risk assessment, which considers the sustainability of the service and the potential for specific areas of the Code to be addressed through the contract terms, for example payment of the living wage.

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

Anti-bribery and corruption

Our standards and expectations of the way employees of the Welsh Government are expected to behave when undertaking their duties are very clear. Our Terms and Conditions of Service, Civil Service Code, Staff Code of Conduct and guidance on *Managing Welsh Public Money* all focus on our core values of integrity, honesty, objectivity and impartiality and provide unambiguous advice that staff should not misuse their official position to further private interests or to accept gifts or hospitality or receive other benefits from anyone which might reasonably be seen to compromise judgement or integrity.

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

In addition, due diligence checks are undertaken on organisations we fund, as part of a range of measures to protect against financial crime by recipients of Welsh Government grants and contracts.

The organisation has also established a Counter Fraud Branch whose remit is to embed a culture of anti-fraud and corruption and to promote a zero tolerance approach to fraud and corruption through the investigation of all allegations made, whether against Welsh Government officials or against third parties in receipt of Welsh Government grants and contracts. This Branch maintains close contact with Welsh Police forces and other specialist groups and participates in national data matching exercises to identify potential fraud and conflicts of interest. The Counter Fraud Branch is also responsible for maintaining the Welsh Government's Counter Fraud and Corruption Policy and the Fraud Response Plan.

We have well-defined Whistleblowing Policies in place as well as a Fraud Reporting telephone number and online fraud reporting capability that allows both staff and members of the public to raise any concerns. Awareness training is provided for colleagues covering such areas as fraud, bribery and corruption and money laundering.

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

Spending on publicity and advertising

In accordance with Prosperity for All and the associated Economic Action Plan for Wales, budgets are allocated to promote Wales in key markets in the UK and internationally as a place for tourism, inward invest, trade and export.

In the business sphere, Welsh Government undertakes integrated marketing programmes including print, digital and outdoor activity aimed at key business-to-business audiences – with a focus on the UK market. There was an increase of 60% in traffic to 'tradeandinvest.wales' in 2018-19. This programme also includes providing support for Welsh Government to attend a wide range of trade and sector-specific events. The return on this work is carefully monitored to ensure that leads secured are measured and followed up by Welsh Government officials.

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

Communications plays an important part of the Welsh Government's work in terms of informing the public in Wales about our policies and priorities. During this year, there has been an intensive communications effort to prepare Wales for the possibility of a 'No Deal' Brexit, as well as ensuring that the First Minister and Cabinet's position on the terms of our exit from the European Union is widely understood. We have also undertaken a series of public information and behaviour change campaigns to support the delivery of policy outcomes, for example increasing organ donation rates and explaining our new system of student support. Marketing Wales within the UK and internationally under a unifying Cymru Wales brand remains a key priority, with campaigns in target markets aimed at boosting tourism and business investment into Wales.

Sponsorship agreements

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

Those making such requests are asked to provide information that relates to the event, audience, benefits to Welsh Government of sponsoring the activity and the potential risks if the request is not supported. The request is then considered in the context of how it fits with the relevant business objectives and whether the opportunity provides

value for money in terms of branding, PR, communications, networking/introductions and reputation. Any events or activities taking place in Wales would also be expected to consider the requirements of the Welsh Language (Wales) Measure 2011.

In 2018-19 the Welsh Government sponsored a number of organisations and events including; Mediwales innovation awards, the Valleys Growth Business Award, Young Enterprise Wales and the Hay Festival of Literature and the Arts.

Handling Complaints

The Welsh Government has a clear and transparent complaints policy which explains our approach to handling complaints from members of the public or other organisations. We have adopted best practice in complaints handling in line with the Public Services Ombudsman for Wales' (PSOW) model complaints policy and guidance.

123 complaints were handled in 2018-19. The Welsh Government operates a KPI of 85% for complaint responses. The table below shows response times for the past two years:

	% responded to within agreed timescale
April 2017 – March 2018	69%
April 2018 – March 2019	75%

Complaint response timescales are now monitored on a monthly basis and communicated to Complaint Leads within each Group. This allows them to flag the issue of late responses earlier and put steps in place to prevent this becoming a regular occurrence. There are various reasons that a complaint would not be responded to within the set timescale (complexity of the complaint, level of investigation required). If a complaint deadline is extended, it is always communicated to the complainant in advance so they are kept up to date. This is also in line with the PSOW model.

At time of writing, the PSOW Annual Report 2018-19 has yet to be published however, 22 complaints are known to have been referred with only two taken forward to be investigated by PSOW.

The outcome of these is not yet known.

The table below shows total cases closed by PSOW over the past four years:

Year	Total cases closed
2015-16	49
2016-17	43
2017-18	30
2018-19	20

Part 2

Accountability Report 2018-19

Statement of Accounting Officer's Responsibilities

Under Section 131 of the Government of Wales Act 2006, the Welsh Ministers are required to prepare for each financial year consolidated resource accounts, as HM Treasury has directed, detailing the resources acquired, held or disposed of and the use of resources during the year by the Welsh Government and other public bodies designated in the Welsh Government group and listed in the notes to these accounts. The 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 group and of the income and expenditure, Statement of Financial Position and cash flows of the group for the financial year.

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 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 requirements of the Government Financial Reporting Manual (FReM) and, in particular, to:

- observe the Accounts Direction issued by the Treasury, including relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- ensure that the Welsh Government has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by other public bodies in the group;
- state whether applicable accounting standards, as set out in the FReM have been followed and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 and NHS Trusts in Wales is governed by separate authority and the Chief Executives of each of the Local Health Boards and NHS Trusts 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 PAO (or Additional Accounting Officers, on her behalf) has also appointed the Chief Executives (or equivalents) of Welsh Public Bodies as the Accounting Officers of those bodies. The PAO is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants the Welsh Government makes to Welsh Public Bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of these bodies are accounted for properly for the purposes of consolidation within the resource accounts. Under the terms of appointment, the Accounting Officers of Welsh Public Bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of those bodies.

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 and for safeguarding the assets of the Welsh Government or Welsh Public Body for which the Accounting Officer is answerable, are set out in *Managing Welsh Public Money* issued by the Welsh Government.

Disclosure of Information to Auditors

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

Governance Statement

Introduction

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

The Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Welsh Government is directed and controlled and the activities through which it accounts to the National Assembly for Wales and engages with stakeholders. It enables the organisation to monitor the achievement of its policies, aims and objectives and whether value for money has been obtained. The Framework includes both those bodies through which Government priorities and commitments are delivered and internal decision-making arrangements within the Welsh Government.

Welsh Public Bodies

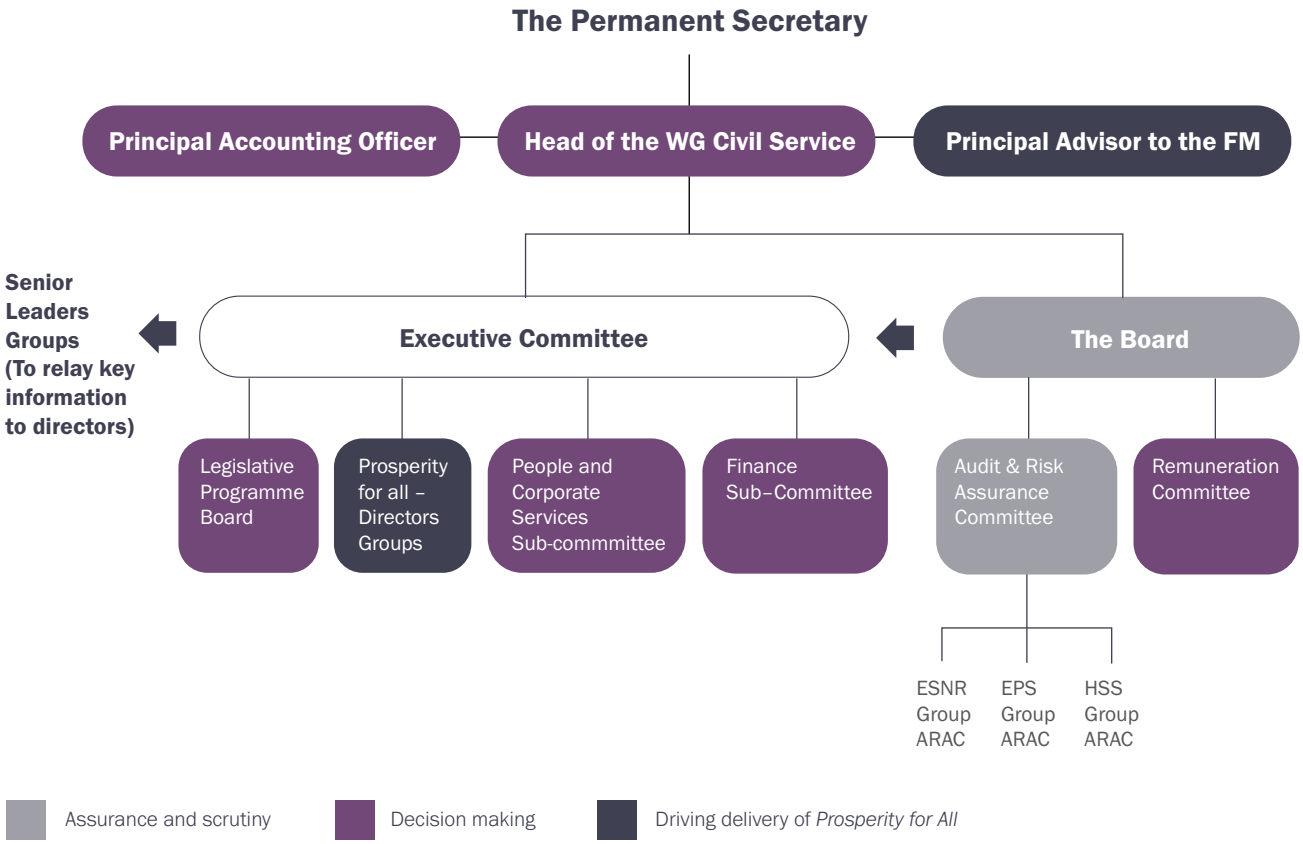
The Welsh Government delivers its aims and objectives, in part, through a number of public bodies, including Welsh Government Sponsored Bodies (WGSBs), subsidiary companies and other government-funded public bodies. Accounting Officers (or Chief Executives) appointed to each body are responsible for their organisation's management of public finances and are required to sign a governance statement which is published in their body's annual accounts. The relationship with the Welsh Government is defined in a written document for each body. During the year, the action plan arising from an internal review of the sponsorship of our public bodies was implemented, including the establishment of a new Public Bodies Unit, to improve engagement and the governance arrangements between the Welsh Government and the Public Bodies it supports.

Welsh Government Internal Arrangements

The system of internal control is a significant part of the governance framework and is designed to mitigate unacceptable risk. The Welsh Government's "Common Control Framework" sets out the standard delegations which operate across all parts of the Welsh Government.

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

The Corporate Governance Structure:



Key Performance Indicators

I have been encouraged by the Public Accounts Committee to develop a more comprehensive suite of key performance indicators which can inform and support myself and my senior colleagues in leading the Welsh Government civil service. I welcome this feedback because I too believe that a revised set of indicators will be of considerable assistance to me. I asked Jeff Farrar, one of my non-executives on the Welsh Government Board, to lead a task and finish group with the remit "to consider and make recommendations to the Permanent Secretary on a new suite of performance management information and KPIs in relation to her responsibilities for the running of the Welsh Government." Mr Farrar is due to report to me shortly and I will use his proposals, which I expect to advocate the adoption of a framework developed by the Institute of Government but with amendments to reflect circumstances in Wales, to develop a new set of indicators for the running of the Welsh Government. I will include a progress report as part of the Annual Report next year. Performance reporting in relation to the Government's programme is dealt with separately through other mechanisms.

Governance Review

Following the Review of governance arrangements undertaken last year, a new structure was implemented during 2018-19 to aid transparency and clarity around decision-making. The actions arising from the Review have been substantially implemented, although the actions to improve the working of the Audit & Risk Assurance Committee (ARAC) and the Remuneration Committee will be completed in the current year.

The Executive Committee was established, replacing the Senior Leadership Team, and two new sub-committees were formed to take over the work of the former Operations Sub-Committee of the Board but as sub-committees of the Executive Committee rather than the Board. The Board's arrangements were reviewed and the number of meetings reduced from monthly to six-weekly. The Welsh Government ARAC met throughout the year and refreshed Group ARAC arrangements became operational from September 2018.

The Board

As Permanent Secretary and PAO, I am supported by the Welsh Government Board, which consists of 16 Members, both Non-Executives and Executives; TUS representatives attend two meetings per year. The Board advises me in taking key strategic decisions about how the Welsh Government civil service is developed to support the First Minister and Ministers and ensures the Welsh Government delivers the objectives and strategies set out in Ministers' programme for government "Taking Wales Forward" and the priorities identified in "Prosperity for All". The Terms of Reference for the Board were updated in May 2019 to ensure they fully and clearly set out this purpose. I chaired all Board meetings and I also met regularly with Board members on a bilateral basis and with the Non-Executive Directors collectively every six weeks. I have agreed with the First Minister that he will engage with the Board at least once a year.

Board Membership and Attendance

Current Membership	Attendance at Meetings
Shan Morgan, Permanent Secretary	7/7
Elan Closs Stephens, Non-Executive Director (to 30 April 2018)	1/1
James Turner, Non-Executive Director (to 30 April 2018)	1/1
Ann Keane, Non-Executive Director	7/7
Ellen Donovan, Non-Executive Director	7/7
Jeff Farrar, Non-Executive Director	7/7
Gareth Lynn, Non-Executive Director (from 20 April 2018)	6/7
Andrew Slade, Director General, Economy, Skills & Natural Resources	5/7
Tracey Burke, Director General, Education & Public Services	7/7
Andrew Goodall, Director General, Health & Social Services (NHS Chief Executive)	7/7
Des Clifford, Director General, Office of the First Minister	5/7
David Richards, Director, Governance	6/7
Jeff Godfrey, Director, Legal Services	6/7
Peter Kennedy, Director, Human Resources & Corporate Services	6/7
Gawain Evans, Director, Finance	7/7
Gillian Baranski, Board Equality & Diversity lead	6/7
Natalie Pearson, Head of OD & Engagement	5/7

Board Self-Assessment of Performance

The annual Board review was held in May 2019 via a self-assessment exercise. The exercise identified that the Board considers it has the right balance of skills and experience, that it receives the information needed to exercise its role and is well supported by the Secretariat. The Board considered itself to be strong on governance (particularly relating to its inclusion of Non-Executive Directors), its provision of financial oversight, and its consideration of corporate and strategic issues. Board members generally felt that the Board is strong on inclusivity, both in terms of including all members at meetings and of supporting equality and diversity within the wider organisation, noting however that membership of the Board could be more diverse. The assessment identified a strong working relationship between the Board and Executive Committee (ExCo), the Board also felt that it was important for there to be proper synchronisation between agendas for Board and ExCo to ensure that the Board was able to make an input at the appropriate time. Other areas for development identified included improved action point tracking from Board discussions, enhancing the information provided to the Non- Executive Directors from ExCo meetings and revising the agenda structure to allow more time for discussion on key corporate issues and follow up from previous meetings. A Board development day is scheduled which will be informed by the self-assessment.

Board Sub-Committees

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

Board Sub Committee: Audit & Risk Assurance

The Welsh Government's ARAC supports me on assurance matters. This Committee was chaired by a Board Non-Executive Director (NED), as one of two Board NEDs sitting as Members of this Committee. ARACs also operated at Group-level from the second half of 2018-19 with their three Chairs making up the rest of the membership of the Welsh Government ARAC. The ARAC advised me, throughout the year, in my capacity as PAO, on the operation of internal control and the capacity of the organisation to manage risk.

Board Sub Committee: Remuneration

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

Executive Committee (ExCo)

Throughout 2018-19, I was supported by a leadership team consisting of Directors General, each leading a Welsh Government Group, together with the Directors covering key corporate functions being Governance, Finance, Treasury, HR/Corporate Services and Legal Services. During the course of the year, this group was reconstituted formally as the Welsh Government Executive Committee.

The Directors General in the Executive Committee are designated as Additional Accounting Officers (AAOs) to give them personal responsibility and accountability for the proper and regular use of public finances and the achievement of value for money on my behalf. Certain specific Directors are also designated as AAOs to further clarify corporate governance and accountability arrangements, both for the use of public funds and in accounting to the Public Accounts Committee. These Director designations are reviewed to ensure their ongoing relevance.

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

The Act requires Welsh Ministers to report on progress towards their well-being objectives annually; the Welsh Government published its first set of well-being objectives in November 2016. These were reviewed and revised as part of the development of *Prosperity For All:* the National Strategy which was published in September 2017, to ensure the well-being objectives remain at the heart of all government work. The Well-being Statement, published alongside Prosperity For All committed to communicating progress on a regular basis and to reviewing the National Strategy at mid-term. In September 2018, the 'Well-being of Wales, 2018: progress reports against the well-being goals' were published setting out progress towards the statutory well-being goals.

ExCo: Brexit

Time has been put aside for ExCo to meet regularly for the sole purpose of focusing on EU exit preparedness issues. This is a temporary arrangement which will remain in place for as long as required.

ExCo Sub Committee: Finance (FinCo)

The Finance Sub-Committee is a permanent sub-committee which supports ExCo with the internal running of the organisation on an operational level with respect to the management of finances and resources, allowing the ExCo to maintain a strategic, cross-organisational focus.

ExCo Sub Committee: People & Corporate Services

The People & Corporate Services Sub-Committee is a permanent sub-committee which supports ExCo with the internal running of the organisation on an operational level with respect workforce management, staffing matters, IT security and data management.

ExCo Sub Committee: Prosperity For All – Directors Group

Prosperity for All – Directors Group is a permanent sub-committee which supports ExCo by monitoring the progress of the delivery of the priorities identified in "Prosperity for All".

ExCo Sub Committee: Legislative Programme Board

The Legislation Programme Board co-ordinates and oversees at official level the delivery of the Government's programme of legislation.

Whistle-Blowing

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

Six cases were reported to the Panel in the year:

Whistleblowing Cases	2018-19	2017-18	2016-17
Not substantiated	5	2	2
Resolved internally (staff-related matters)	-	1	3
Not a matter for the Welsh Government	-	-	1
Advice provided to the Whistleblower	-	1	-
Still under investigation	1		
Total	**6**	**4**	**6**

In addition to the Whistle-Blowing Panel dealing with internal cases, the External Assurance Panel (EAP) addresses issues raised concerning organisations in receipt of public money from the Welsh Government. It provides a consistent, proportionate and appropriate response to concerns about how Welsh Government funding has been handled by our delivery partners and the beneficiaries of our grant schemes.

The EAP provides advice to officials and identifies systemic issues which need to be addressed. The Panel addressed 16 new cases in the year, compared with 19 cases in 2017-18. Five of these new cases remain open, together with four from previous years and will be addressed in the current year.

External Assurance Panel Cases	2018-19
Carried forward from 2017/18	12
New cases arising	16
Cases resolved	(19)
Cases remaining	
– Court Case in Progress	1
– Under police investigation	1
– Under repayment monitoring	1
– In review by an independent fraud agency	1
– Investigation ongoing	5
Total outstanding	**9**

Of the cases resolved none had HR disciplinary or performance management implications. Each case was reviewed for lessons learned, which have been disseminated to appropriate teams for action including through the Grants Centre of Excellence, HR, Procurement Services, Counter Fraud and Group Operations teams.

Assurance Arrangements

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

I am also advised on the effectiveness of the system of internal control by the Board and the Audit and Risk Assurance Committee. In addition, in May 2019, I attended the annual assurance "stock-take" with the Directors General (DGs) and lead assurance providers from across the Welsh Government, to consider the assurances available to me in respect of 2018-19.

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.

Internal Audit

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

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

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

The programme of audit work completed during 2018-19, which drives the overall assurance opinion given, produced the following opinions for the audit reports issued:

Assurance Opinion	2018-19	2017-18	2016-17	2015-16
Substantial Assurance	35	16	14	24
Reasonable Assurance	30	38	29	37
Limited Assurance	9	7	9	12
No Assurance	0	0	0	0

Where weaknesses were identified in audit reports, management action plans were agreed to enhance the control framework and address the issue identified.

European Funds Audit Team

In February 2019, the European Funds Audit Team (EFAT) submitted its Annual Control Report and Opinion to the Commission with its assurance opinion on Structural Funds claimed by Wales for the period 1 July 2017 to 30 June 2018. This report was based on work carried out by EFAT in accordance with its audit strategy for the Programmes. I am pleased to report that EFAT was able to provide an unqualified opinion to the Commission. EFAT also issued an unqualified opinion in respect of the Ireland/Wales Territorial Cooperation Programme for the same period.

Audit and Risk Committee Annual Report

Based on its work throughout 2018-19 the Committee provided overall reasonable assurance on the adequacy of internal audit arrangements for the Welsh Government and also on the arrangements for governance, risk management and internal control for the Welsh Government, although noting the outcome of an Internal Audit review of risk management which has identified further improvements needed in the capacity to handle risk. The Committee considered the range of assurances presented to the Committee and the information provided to it by Officials. I am satisfied the ARAC has operated effectively and provided good support in monitoring and review of risk management, control and governance processes.

Annual Internal Control Questionnaires and Assurance Statements

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

Through the ICQ, the Directors have provided me with their self-assessments of internal control, governance and risk management and their considerations about how effectively they believe controls have operated throughout the financial year. The Directors General have provided an overview of governance, control and risk management within their respective Groups.

Business Critical Analytical Models

ICQ returns included positive assurances in respect of the Business Critical Analytical Models which support a range of activities, such as the Help to Buy Repayment Model and the National School Categorisation Model. A programme of assurance reviews undertaken by the Welsh Government's Knowledge & Analytical Services team to assess the models in place has also given me assurance on these models.

The organisation's assessment of its exposure to analytical modelling risk remains similar to last year in terms of the overall degree of uncertainty in underlying assumptions and data used although, over the medium term, we expect a greater reliance on analytical models that have a higher degree of uncertainty and, therefore, risk. For example, it is likely that risk will increase due to taxes (such as Welsh rate of income tax and other newer fiscal interventions) emerging and developing over time. Significant risk exposure remains in certain areas such as student finance given the long term uncertainties and significant value of future grant and loan liabilities. In the case of traffic modelling, this work is undertaken externally and a Quality Assurance Plan (QAP) has now been developed by the Transport Policy Team which sets out the approach for quality assuring such transport analytical models.

The assessment of risk associated with some of the models has been lowered where the degree of uncertainty in the data or assumptions being used has reduced but they remain vulnerable to policy or monetary decisions made by HM Treasury, for example in setting the Discount Rate, which are out of my control. Many models are affected by wider economic factors and, therefore, Brexit and the impact it may have on the economy and migration, represents a particular additional element of uncertainty in some models such as student finance, income tax and population projections. Analytical capacity also remains a challenge in ensuring there are sufficient expert resources devoted to business critical models. Good governance and mitigation are in place to manage the risks around business critical models but cannot completely mitigate inherent uncertainties should there be significant in-year events.

From the assurance I have taken from the sources above, I am satisfied risk has been well managed and systems of governance and internal control continue to operate effectively.

Internal Control Issues

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

EC Funding

During its audit of the European Agricultural Funds Rural Development (EAFRD) account for the period ended 15 October 2018, the Wales Audit Office (WAO) provided a qualified opinion over the eligibility of certain grant expenditure on contracts awarded through 'direct applications' and project extensions by the Welsh Government. Such actions represent potential non-compliance with European Commission (EC) regulations and a failure to demonstrate the achievement of value for money. The EC initially requested repayment of €33.1m of EAFRD funding from the Welsh Government's Pillar 2 Rural Development Plan. Further work by Welsh Government officials has identified the issue is restricted to expenditure of €8.9m as further validation has confirmed the majority of funding went through a competitive process. This information is with the EC to consider. As part of the normal contradictory process which enables member states and the EC to agree on any amounts of expenditure to be disallowed a bi-lateral has been set for November 2019 to consider this information.

The qualification is on a specific element of agricultural funds managed by the Welsh Government and is not a reflection on the general operation of Rural Payments Wales (RPW) and the controls in force over c.€320m of EU funds disbursed in 2017-18. In addition to the points above, in two Technical Assistance claims payments were made before the necessary administrative checks were undertaken. The intention was to undertake these checks after payment on the basis that an internal claim from a Welsh Government project would be 'low risk'. At the time of the audit the checks remained to be done and as a consequence we decided to remove the payments from the account. The claims will be resubmitted once the checks have been completed. There has been no loss to the Welsh Government arising from this and senior officials are working closely with both the WAO and the Internal Audit Service to identify if there is a need to strengthen compliance and control.

Identification, Understanding and Management of Conflicts of Interest

The PAC Report on the Welsh Government's funding of Pinewood identified issues concerning the management of conflicts of interest which can arise. To be sure all Welsh Government officials are clear about identifying properly their own outside interests and appreciating how these might present a potential conflict and, also, about identifying and managing effectively conflicts of interest existing in third party organisations seeking grant funding from the Welsh Government, I have asked the Director of HR & Corporate Services to review, reinforce and, if necessary, strengthen current arrangements for internal reporting of interests. Internal Audit will support and inform this review by undertaking an assessment of the effectiveness of arrangements across the organisation. In addition, all members of the Senior Civil Service are being required to attend training on good financial governance which includes elements covering conflicts of interests management.

Natural Resources Wales Accounts Qualification

The Auditor General qualified Natural Resources Wales' (NRW) accounts for 2018-19 for the fourth year running on the basis of regularity. Following the 2017-18 qualification, the Accounting Officer of NRW requested that Grant Thornton complete an independent review of the timber sales operations which was published in February 2019. The 2017-18 qualification related to how certain timber contracts had been procured in 2015-16 and the duration of the contracts meant these have continued through into 2018-19.

In the course of the 2018-19 audit, the Auditor General identified further significant concerns around the letting of timber sales contracts. In letting 79 contracts known as standing sales plus contracts, NRW departed from its own procurement policies, requirements of its' Framework document and procurement regulations leading to a regularity qualification. The independent review by Grant Thornton identified concerns relating to the management of standing sales plus contracts, NRW took immediate action to suspend any further award of standing sales plus contracts. The issues identified by both the Auditor General for Wales and Grant Thornton are largely the consequence of historic decisions.

The Accounting Officer for NRW has put in place a robust plan to address the governance failings in the procurement process in NRW so the risk of contracts being let in a similar way is now much reduced. I am satisfied the oversight arrangements we have in place for NRW are operating effectively and enable the proper escalation of issues should the need arise.

Write-Offs

Over the last decade, a number of part-time Welsh-domiciled students on distance-learning courses have been incorrectly paid grants for dependents (GFDs). Higher education student support regulations do not allow students on distance-learning courses to access GFDs as they are not attending a campus. These payments represent an overpayment of student support.

Following amendment of the regulations in 2018 and clarification of the policy intent, Student Finance Wales (SFW) and The Open University (OU) in Wales confirmed part-time students on distance learning courses in previous years had been awarded GFDs in error. 471 applications had been assessed for support in 2018-19 from students who received GFDs in 2017-18 at the point the issue was identified. To ensure these students are not penalised financially, the Welsh Government has written-off the payments already made in error totalling £3.27m.

Payments will continue to existing students affected by the GFD awards in error to the end of their studies and will be recorded as "special payments" and will be disclosed in Welsh Government Accounts as such. No new awards of this nature will be made.

A write-off of £358,620 was recorded in the year arising from the write off of repayable business finance to Retirement Review Ltd. The company had received £430,000 funding in 2014 for repayments to commence in 2016. In April 2015 the company went into liquidation, further to administration processes there were insufficient assets following the company's winding-up for the finance to be repaid. The write-off reflects the finance provided less an element for benefits delivered by the support. A case review has been undertaken which has concluded that the failure of the business could not have been foreseen, and there are no systemic lessons arising.

Pandemic flu stocks were written off in the year to the value of £7.6m. Stocks of antivirals, antibiotics and consumables are held by the Welsh Government in accordance with UK- wide public health planning. Stock levels required, drug types and reprocessing of drugs are planned and managed nationally and consequently can be volatile. Write-offs occur as a consequence of adjusting national supplies to meet planned need. The write offs reported relate to expired drugs which are not suitable for use in core NHS services.

VAT Arrangements / Tax Planning and Management

HMRC commenced a VAT Inspection within the Welsh Government in 2016 which is currently ongoing. This review has highlighted four issues regarding the way in which Welsh Government has been treating VAT, two of which are resolved and two in relation to Cadw. A further one issue with Careers Wales also arose which is now resolved. Whilst the review is yet to conclude a corrective repayment was made to HMRC during the year in relation to Cadw to the sum of £1.07m. This related to input VAT that Cadw had been incorrectly recovering in connection to its business exempt activities. The Welsh Government has responded positively to the issues identified and has amended procedures to the satisfaction of HMRC, avoiding any penalties to date. Steps are being taken to improve understanding and provide sufficient resource and expertise to support better VAT compliance across the organisation.

Fraud Matters

In March 2019 a long-running Police investigation, instigated by the Welsh Government, came to a conclusion when three individuals pleaded guilty to fraud-related offences after claiming £4.7m in EC and Welsh Government grants to develop an alternative to fish feed. The venture was supposed to create multiple jobs but few actually materialised and the grant funding was used for other purposes. Custodial sentences were handed down to two of the three perpetrators and “proceeds of crime” recovery is now being pursued. The Welsh Government welcomed the outcome of this case, from which lessons have been learned which have strengthened various aspects of due diligence, grant giving and grants management.

A data matching exercised devised and implemented by Internal Audit working with the WAO which involved matching between SLC and HMRC data has identified potential error and risk of fraud in the declaration of income for the purposes of the means tested element of the student grant and loan. Further investigations are on-going to verify the accuracy of the data in advance of possible corrective action.

Information Governance

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

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

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

Following the passing of the Data Protection Act 2018, which brought the General Data Protection Regulation (GDPR) into legal force in May 2018, the "bar" for reporting to the Information Commissioner's Office (ICO) has lowered and more data breaches now meet the test for reporting to the ICO. As a consequence, the number of breaches report in 2018-19 is increased from previous years. At the same time, much greater awareness about data processing requirements combined with a strengthened reporting process have led to an overall increase in reporting of incidents including those not deemed sufficiently serious to meet the criteria for reporting to the ICO.

Incidents Falling Within the Criteria for Reporting to the ICO (Reported):

Year	Incidents Reported to ICO	Action Taken by ICO
2018-19	6	0
2017-18	4	0

Incidents Not Falling Within the Criteria for Reporting to the ICO (Not Reported):

Type	Nature of incident	2018-19	2017-18
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	3	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	2	1
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0	1
IV	Unauthorised disclosure	64	34
V	Other	12	3

Most incidents not reported to the ICO arose from unauthorised disclosures, which were due, mostly, to specific documents containing personal data being sent or emailed to the wrong person. Of these incidents 66% involved data transmission external to the Welsh Government and 44% internal to the Welsh Government.

The Welsh Government maintains a robust internal reporting process covering all types of incident. After each breach is reported, remedial actions are agreed with management and action tracking is used to monitor completion of those actions. Where necessary, lessons to be learnt across the organisation form part of the regular all-staff Security Bulletin.

I take assurance from the ongoing work of the GDPR Project Group but management continues to work to address the reasons for the occurrence of data breaches. A new, quicker reporting system combined with active action tracking, to ensure remedial actions are taken and lessons learned from each incident, implemented in response to GDPR, ensure an effective management response to any data breaches which occur. I also take assurance from Internal Audit work relating to information systems security which confirmed arrangements are adequate and sufficient.

DPO Report

In addition, I take assurance from the Welsh Government's Data Protection Officer concerning the ongoing progress being made in respect of GDPR compliance. However, the DPO has also highlighted the further work which needs to be undertaken, in particular to understand fully the whole range of arrangements in place are compliant. In particular, considering the potential proximity of Brexit, the most pressing priority is to understand all the arrangements with external processors given the specific potential risks to data held by third party processors based in Europe following European Transition. Ensuring all of these arrangements are properly understood and protected by appropriate contractual clauses or data sharing agreements remains a challenge. The Welsh Government continues to improve its privacy notices (PNs) and data privacy impact assessments (DPIAs) as queries and issues arise and is working to ensure all relevant data handling activities are properly covered by up-to-date DPIAs and PNs.

Local Accountability

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

Local Authorities

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

Unitary Authorities receive some specific grants from UK Government Departments for non-devolved functions, income from nationally-set non-domestic rates distributed by the Welsh Government, from locally-set council tax and from fees, charges and other sources of income. Unitary Authorities also receive Welsh Government grants for capital spending, which is supplemented by their own borrowing capacity.

Similar arrangements apply to the provision for Police and Crime Commissioners, who are funded through a mix of RSG and redistributed non-domestics 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 its functions. Unitary Authorities have an appointed officer under Section 151 of the Local Government Act 1972 with a statutory duty to ensure there is proper administration of financial affairs. Authorities are held to account by their scrutiny functions and are also subject to annual improvement audits undertaken by the Auditor General for Wales and covering value for money as well as governance and capacity matters.

When funding is provided for specific purposes, the Welsh Government imposes grant terms and conditions to ensure compliance with its required standards for governance and financial arrangements, relevant law, policy and good practice. With regard to funding provided by the UK Government in respect of non-devolved functions, the arrangements for accountability will be agreed between the Local Authorities and the relevant UK Government Department.

In respect of specific Authorities, Powys' Improvement and Assurance Board was established in March 2018 to assist the Leader in driving forward the required change and improvement in Powys County Council (the Council). Since then, a good level of progress has been made by the Council in relation to corporate and social services improvement but more remains to be done. CIW re-inspected Powys' Children's' Services in October 2018 and since the original inspection in July 2017, found that the Council had made significant improvement. However, serious concerns remain, meaning that more work

is needed to make the changes required so the authority can provide a high level of services to its residents, specifically to the most vulnerable. A new Director of Social Services has been appointed as well as a new Head of Children's Services which is already yielding positive outcomes for service users. The recent appointment of a permanent Chief Executive and Director of Transformation in the Council is welcome and will provide the basis on which progress can be embedded in the organisation.

The Improvement and Assurance Board covers improvement in both corporate and social services and will have an ongoing role in supporting the transformational changes within the authority. The external perspective the Board provides to both officers and elected members will remain important in offering assurance to regulators, the Ministers and the Leader that the Council has a sound grip on the challenges it continues to face. The Minister for Housing and Local Government, has therefore, written to the Leader of the Council confirming that she expects the Board to be in existence whilst the new Chief Executive (Dr Caroline Turner commenced her post in February 2019) settles in the role. This includes support and guidance to the wider senior team so they may continue to benefit from their knowledge and experience during a period of change within the senior management team. A review of the Board's role and remit will take place over the summer 2019.

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

Health

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

Last year I reported that six out of ten Local Health Boards and NHS Trusts had complied with the statutory break even duty by operating within their budgets over the three year period of assessment. Four of the ten Local Health Boards and NHS Trusts had not achieved their financial duty to break even over three years. Consequently, these four organisations received qualified regularity opinions from the Auditor General for Wales on their 2017-18 accounts, having failed to meet their statutory financial duty for the second three-year period.

In 2018-19, all NHS accounts received a clean "true and fair" audit opinion from the Auditor General for Wales, including the newest organisation Health Education and Improvement Wales.

Six out of ten Local Health Boards and NHS Trusts had complied with the statutory break even duty by operating within their budgets over the three year period of assessment. Four of the ten Local Health Boards and NHS Trusts had not achieved their financial duty to break even over three years. Consequently, these four organisations received qualified regularity opinions from the Auditor General

for Wales on their 2018-19 accounts, having failed to meet their statutory financial duty for the third three-year period. Health Education and Improvement Wales achieved their annual financial duty to break even.

The four organisations that failed to meet their statutory financial duty are Betsi Cadwaladr University Health Board, Cardiff and Vale University Health Board, Swansea Bay (formerly Abertawe Bro Morgannwg) University Health Board and Hywel Dda University Health Board.

Of these bodies, Betsi Cadwaladr University Health Board (BCUHB) remains in Special Measures despite progress and a series of improvements in key areas. The significant concerns at the health board at the time it was put into Special Measures in June 2015 centred on leadership and governance, maternity services in Ysbyty Glan Clwyd, mental health, re-connecting with the public and GP out-of-hours services. Maternity services were de-escalated as a special measures concern in February 2018 and primary care out of hours' services were taken out of special measures in February 2019. There has been evidence of improvements in governance and quality processes, board leadership, mental health services, engagement and partnership working and achieving sustainable in hours general practice. The focus is to make further progress in these areas and the improvements necessary in the outstanding concerns in finance, planning and waiting time performance.

Swansea Bay University Health Board (formerly Abertawe Bro Morgannwg University Health Board) and Hywel Dda University Health Board remain in targeted intervention. Cardiff and Vale University Health Board, in view of the improvements in service and financial performance has been de-escalated from targeted intervention to enhanced monitoring.

As a consequence of the Royal College of Obstetricians and Gynaecologists and Royal College of Midwives review of maternity services at the former Cwm Taf University Health Board, now Cwm Taf Morgannwg University Health Board, maternity services were placed under Special Measures from 30 April 2019. The independent review was commissioned by Welsh Government in October 2018, following serious concerns that initially came to light as a consequence of the under reporting of serious incidents in maternity services and quality governance arrangements including:

- Ionising Radiation (Medical Exposure) Regulations compliance, with the Health Board being non-compliant with the Health and Safety at Work Act requirements.
- The need to ensure actions are in place to respond to a recent Human Tissue Authority Inspection report.
- The quality of serious incident reporting requiring an external review of processes to be commissioned to improve the local mechanisms.
- Compliance with the Nurse Staffing Act and awaiting final confirmation of compliance from their Board.

Risk Profile

The risk profile of the Welsh Government is extensive and varied, as would be expected from the broad range of different activities in which it is involved. Operational risks arise in the course of delivering key policy objectives and are managed and mitigated on a day-to-day basis across the organisation. In addition the Welsh Government also carries a number of contingent risks (high impact but unlikely to be realised) which arise from its regulatory responsibilities, for example its responsibilities in the event of an outbreak of human or animal disease in Wales, its responsibility for the Welsh transport infrastructure and its obligations under the guarantees it enters into from time to time to support businesses in Wales. In addition to contingent risks, the Welsh Government carries a number of long-term risks where the risk arises from uncertainties involved in the eventual outcome or cost to it, such as Student Loans and the "Help to Buy" scheme.

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

- The Cabinet Sub-Committee on European Transition provides strategic direction and ensures key policy decisions are taken to secure the best outcome for the people of Wales as the UK leaves the EU.
- The Welsh Government Board keeps Brexit related resourcing under review.
- ExCo regularly considers Brexit risks and mitigation plans at dedicated Brexit meetings
- The European Transition team leads the development of strategic policy and co-ordinates Welsh Government work on the UK leaving the EU and advocates our interests and priorities.
- A cross-departmental Welsh Government European Transition Officials Group supports the Cabinet Sub-Committee on European Transition.
- Sub-Groups on Legislation, Frameworks, and Economy support the work.
- An external European Advisory Group advises the Welsh Government on the implications for Wales of the UK's exit from the EU, alongside a range of other stakeholder fora.

The European Transition team continues to work closely with the Welsh Government team in Brussels and across relevant policy departments and make connections with the UK Government and other devolved governments through existing Joint Ministerial Committee (JMC) architecture and other channels.

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

The Board included four new risks in the Corporate Risk Register in the course of the year, being:

- **Delivery of a Healthier Wales** – the Health & Social Services Group escalated the risk of insufficient capacity or capability within the Welsh Government, Welsh NHS organisations or local government to deliver the transformational ambitions and future vision set out in *A Healthier Wales*. There is also a risk that health and social care systems might absorb additional funding intended to drive transformation in order to maintaining existing approaches, resulting in unsustainable services which cannot respond to increasing demand or improve outcomes for individuals.
- **Arms Length Body Governance** – this risk was reinstated following the completion of an internal review of the arrangements for governance of Welsh Public Bodies by the Welsh Government, which identified the need for a more consistent approach across public body sponsor teams. The reinstatement of the risk reflected the desire of the Board to retain focus on this matter while new arrangements were being rolled out, including the establishment of the new Public Bodies Unit to provide expertise and focus for better Public Body engagement.
- **GDPR** – the General Data Protection Regulation (GDPR) came in to force on 25 May 2018 which requires higher standards of practice by data controllers and carries higher penalties for serious data breaches, with the risk that, should officials not be fully aware of and understand the new regulations, avoidable penalties may be incurred because of data breaches.
- **Disruption Event, Affecting People, Places, Finances, Communications and IT** – this new risk replaced previous risks focusing on emergency response and potential IT failures and has been adopted to provide a broader assessment of events which might disrupt Welsh Government business, regardless of their type or cause.

In the case of all four new risks identified, a range of mitigation measures have been documented in the Corporate Risk Register and further actions required also identified where the residual risk after mitigation is not yet at the target risk the Welsh Government is able to tolerate.

Capacity to Handle Risk

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

Corporately, the Board is responsible for overseeing the implementation of the risk management policy and process and for oversight and scrutiny of the mitigations for key risks facing the Welsh Government which might otherwise prevent or hinder the organisation from achieving its strategic objectives. Principally, these are those risks which are so critical they cannot be managed at Group level together with those of a corporate nature whose impact would be felt across the whole organisation. Corporate risks have been reviewed by the Board twice in the year.

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

Towards the end of the year, Internal Audit undertook a review of Risk Management arrangements across the organisation to determine whether it had a risk management framework which was fit for purpose, which included benchmarking the Welsh Government approach against other public bodies and exemplar frameworks. Overall, the review found there were some gaps in the risk management framework which need to be addressed. It also identified the impact of limited dedicated resources on the ability of the Risk Improvement Officer to deliver effective risk management training, support, advice and tools to the organisation. A risk improvement project has been initiated to address the shortfalls in the risk management framework and to refresh training and guidance materials with a training programme to be rolled out during 2019.

Ministerial Direction

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

Conclusion

The system of internal control has been in place in the organisation for the year ending 31 March 2019 and up to the date of approval of the Annual Report and Consolidated Accounts. It accords with HM Treasury guidance. I have reviewed the evidence provided to me by my review of the effectiveness of the governance framework and can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with moderate risk exposure until resolved.

Shan Morgan
Permanent Secretary and Principal Accounting Officer

20 August 2019

Remuneration and Staff Report 2018-19

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 pay and pensions of Ministers is determined by the National Assembly for Wales Remuneration Board Determination on Members' Pay and Allowances.

Service Contracts

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

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

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

Welsh Government Annual Pay Policy Statement

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

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

a) demonstrable evidence of affordability and value for money;

b) the number of senior posts within the body with a remuneration package of more than £100,000 in bands of £5,000;

c) the approach to internal talent management;

d) the approach to performance related pay;

e) the approach to providing support for lower paid staff;

f) the highest and lowest pay points; and

g) the severance policies operated and how and in what circumstances these can be varied.

Remuneration (including salary) and pension entitlements

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

The following sections provide details of the remuneration and pension interests of the Ministers and the senior management.

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 as Assembly Members of £66,847 (2017–18: £65,344). Benefits in kind related to Assembly Members responsibilities are not included in the table below.

Single total figure of remuneration – Ministers

Ministers	Salary 2018-19 £	Salary 2017-18 £	Pension benefits (to nearest £1000)[1] 2018-19 £	Pension benefits (to nearest £1000)[1] 2017-18 £	Total (to nearest £1000) 2018-19 £	Total (to nearest £1000) 2017-18 £
Mark Drakeford Cabinet Secretary to 12/12/18 then First Minister from 13/12/18	117,027	102,100	47,000	42,000	164,000	144,000
Rebecca Evans Minister to 12/12/18 then Welsh Minister from 14/12/18	93,456	86,785	28,000	28,000	121,000	115,000
Vaughan Gething Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	104,448	102,100	31,000	34,000	135,000	136,000
Lesley Griffiths Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	104,448	102,100	31,000	34,000	135,000	136,000
Julie James Minister to 03/11/2017 then Leader of the House and Chief Whip from 04/11/2017 then Welsh Minister from 14/12/18	104,448	93,039	32,000	29,000	136,000	122,000
Jeremy Miles Counsel General from 04/11/2017 then Counsel General and Brexit Minister from 13/12/18	104,448	41,692	32,000	13,000	136,000	55,000
Eluned Morgan Minister from 04/11/17 then Welsh Minister from 14/12/18	93,456	35,437	28,000	12,000	121,000	47,000
Ken Skates Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	104,448	102,100	32,000	32,000	136,000	134,000
Kirsty Williams Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	104,448	102,100	31,000	34,000	135,000	136,000
Hannah Blythyn Minister from 04/11/17 then Deputy Minister from 13/12/18	88,781	35,437	27,000	12,000	116,000	47,000
Dafydd Elis-Thomas Minister from 04/11/17 then Deputy Minister from 13/12/18	88,781	35,437	8,000	5,000	97,000	40,000
Jane Hutt Leader of the House and Chief Whip to 03/11/2017 then Deputy Minister and Chief Whip from 14/12/18	26,491	60,409	17,000	35,000	43,000	95,000
Julie Morgan Deputy Minister from 14/12/18	26,491	-	10,000	-	36,000	-
Lee Waters Deputy Minister from 14/12/18	26,491	-	9,000	-	35,000	-
Alun Davies Cabinet Secretary from 04/11/2017 to 13/12/18	73,282	93,039	20,000	30,000	93,000	123,000
Huw Irranca-Davies Minister from 04/11/17 to 13/12/18	62,290	35,437	18,000	11,000	80,000	46,000
Rt. Hon Carwyn Jones First Minister to 12/12/18	102,202	142,940	25,000	49,000	127,000	192,000

Pension details

Ministers	Accrued Pension at pension age as at 31/03/19 £000	Real increase in pension at pension age £000	CETV at 31/03/19 £000	CETV at 31/03/18 £000	Real increase in CETV £000
Mark Drakeford Cabinet Secretary to 12/12/18 then First Minister from 13/12/18	20–25	2.5–5	411	337	46
Rebecca Evans Minister to 12/12/18 then Welsh Minister from 14/12/18	15–20	0–2.5	187	159	11
Vaughan Gething Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	25–30	0–2.5	316	278	13
Lesley Griffiths Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	35–40	0–2.5	616	554	24
Julie James Minister to 03/11/2017 then Leader of the House and Chief Whip from 04/11/2017 then Welsh Minister from 14/12/18	15–20	0–2.5	287	239	26
Jeremy Miles Counsel General from 04/11/2017 then Counsel General and Brexit Minister from 13/12/18	5–10	0-2.5	61	33	15
Eluned Morgan Minister from 04/11/17 then Welsh Minister from 14/12/18	0–5	0–2.5	63	36	16
Ken Skates Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	10–15	0–2.5	166	137	12
Kirsty Williams Cabinet Secretary to 12/12/18 then Welsh Minister from 13/12/18	35–40	0–2.5	528	479	15
Hannah Blythyn Minister from 04/11/17 then Deputy Minister from 13/12/18	0–5	0–2.5	44	26	8
Dafydd Elis-Thomas Minister from 04/11/17 then Deputy Minister from 13/12/18	60–65	0–2.5	961	966	6
Jane Hutt Leader of the House and Chief Whip to 03/11/2017 then Deputy Minister and Chief Whip from 14/12/18	60–65	0–2.5	1,117	1,127	14
Julie Morgan Deputy Minister from 14/12/18	10–15	0–2.5	195	184	7
Lee Waters Deputy Minister from 14/12/18	0–5	0–2.5	45	37	4
Alun Davies Cabinet Secretary from 04/11/2017 to 13/12/18	20–25	0–2.5	347	323	11
Huw Irranca-Davies Minister from 04/11/17 to 13/12/18	0–5	0–2.5	62	44	11
Rt. Hon Carwyn Jones First Minister to 12/12/18	60–65	0–2.5	965	928	12

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

[1] The CETV at the start of the year has been restated due to a change in factors used in the CETV calculation following the review of all factors on completion of the 2017 actuarial valuation.

In 2018-19, the titles of some of the Ministers changed from 2017-18 as follows:

2017-18		2018-19
Cabinet Secretary	now	Welsh Minister
Minister	now	Deputy Minister

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

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

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

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

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

Single total figure of remuneration

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

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

Senior officials*	Salary 2018-19 £000	Salary 2017-18 £000	Pension benefits (to nearest £1000) 2018-19 £000	Pension benefits (to nearest £1000) 2017-18 £000	Total (to nearest £1000) 2018-19 £000	Total (to nearest £1000) 2017-18 £000
Shan Morgan[1,2] Permanent Secretary	130–135	155–160	–	*	130–135	155–160
Andrew Goodall[3] Director General	200–205	200–205	–	–	200–205	200–205
Tracey Burke Director General from 20/11/2017	115–120	40–45 (full year equivalent 115–120)	50-55	15–20	170–175	60–65
Des Clifford[1] Director General from 29/01/2018	115–120	20–25 (full year equivalent 115–120)	–	20–25	115-120	40–45
Andrew Slade[1] Director General from 01/01/2018	115–120	30–35 (full year equivalent 115-120)	-	40–45	115–120	70–75
David Richards Director of Governance	100–105	100–105	(5–10)	10–15	95–100	115–120
Jeff Godfrey Director Legal Services	110–115	110–115	(0–5)	15–20	105–110	125–130
Natalie Pearson Head of Organisational Development and Engagement	75–80	75–80	0–5	10–15	80–85	90–95
Gillian Baranski Equality and Diversity Champion	120–125	120–125	15–20	70–75	140–145	195–200
Peter Kennedy Director of HR	90–95	90–95	15–20	15–20	110–115	110–115
Gawain Evans[1] Director of Finance	100–105	100–105	40–45	*	140–145	100–105
Andrew Jeffreys Director of Treasury from 01/04/18	95–100	–	35–40	–	130–135	–
Elan Closs Stephens[6] Non-Executive Director	0–5 (full year equivalent 10–15)	10–15	–	–	0–5	10–15
James Turner[7] Non-Executive Director	0–5 (full year equivalent 10–15)	10-15	–	–	0–5	10-15
Ann Keane[4] Non-Executive Director	15–20	30–35	–	–	15–20	30–35
Ellen Donovan[5] Non-Executive Director from 27/02/2018	10–15	0–5 (full year equivalent 10-15)	–	–	10–15	0–5

Senior officials*	Salary 2018-19 £000	Salary 2017-18 £000	Pension benefits (to nearest £1000) 2018-19 £000	Pension benefits (to nearest £1000) 2017-18 £000	Total (to nearest £1000) 2018-19 £000	Total (to nearest £1000) 2017-18 £000
Jeff Farrar Non-Executive Director from 27/02/2018	10–15	0–5 (full year equivalent 10–15)		–	10–15	0–5
Gareth Lynn Non-Executive Director from 20/04/18	10–15	–		–	10–15	–

Senior officials for the single total figure of remuneration disclosures are members of the Welsh Government Board and Executive Committee.

[1] The pension benefit for Shan Morgan and Gawain Evans for 2017-18, and for Des Clifford and Andrew Slade for 2018-19 has been excluded above because the arithmetic calculation £465,000-470,000, £105,000-110,000, £105,000-110,000 and £125,000-130,000 distorts year on year comparatives in the year of salary increases. Although the numbers presented are not indicative of the true benefit received, the format is mandatory and is subject to audit.

[2] The reduction in Shan Morgan's salary from the previous year is a consequence of the decision to stop accruing pension in the PCSPS. This has reduced the cost of employment to Welsh Government but the role continues to be delivered on a full time basis. The Permanent Secretary turned down a performance related non-consolidated bonus of £17,500.

[3] Andrew Goodall is seconded from Aneurin Bevan University Health Board and he has chosen not to be covered by the NHS pension arrangements.

[4] Ann Keane's salary includes additional fees paid of £4,662 (2017-18 £19,576) for commissioned work within the Welsh Government.

[5] Ellen Donovan's salary includes additional fees paid of £694 (2017-18: £nil) for commissioned work within the Welsh Government.

[6] Elan Closs Stephens salary includes additional fees paid of £694 for commissioned work within the Welsh Government. Disclosure in the table above includes an overpayment, recovery of which is in discussion.

[7] James Turner disclosure in the table above includes an overpayment, recovery of which is in discussion.

Pension details

Senior officials*	Accrued Pension at pension age as at 31/03/19 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/19 £000	CETV at 31/03/18 £000	Real increase in CETV £000
Shan Morgan[2] Permanent Secretary	–	–	–	1,953	–
Andrew Goodall[3] Director General	–	–	–	–	–
Tracey Burke Director General from 20/11/2017	30–35	2.5–5	433	352	29
Des Clifford Director General from 29/01/2018	30–35 plus lump sum of 100–105	5–7.5 plus lump sum of 15–17.5	744	576	104
Andrew Slade Director General from 01/01/2018	40-45 plus lump sum of 95–100	5-7.5 plus lump sum of 10–12.5	717	546	90
David Richards Director of Governance	50–55 plus lump sum of 155 b160	0–2.5 plus lump sum of 0–2.5	1,155	1,118	-7
Jeff Godfrey Director Legal Services	45–50 plus lump sum of 140–145	0–2.5 plus lump sum of 0–2.5	1,128	1,029	-2
Natalie Pearson Head of Organisational Development and Engagement	25–30 plus lump sum of 80–85	0–2.5 plus lump sum of 0–2.5	585	522	2
Gillian Baranski Equality and Diversity Champion	25–30	0–2.5	561	509	20
Peter Kennedy Director of HR	30–35 plus lump sum of 85–90	0–2.5 plus lump sum of 0	643	569	10
Gawain Evans Director of Finance	40–45 plus lump sum of 110–115	0–2.5 plus lump sum of 0–2.5	848	739	24
Andrew Jeffreys Director of Treasury from 01/04/18	25–30 Plus lump sum of 55–60	0–2.5 Plus lump sum of 0–2.5	445	371	18

Salary

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

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

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

Benefits in kind

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

Pay multiples

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

The banded remuneration of the highest paid director in the Welsh Government in the financial year 2018-19 was £200,000–£205,000 (2017–18: £200,000–£205,000). This was 5.7 times (restated 2017-18: 5.7) the median remuneration of the workforce, which was £35,750 (2017–18: £35,750). Based on the Permanent Secretary's banded remuneration the ratio is 3.7 (restated 2017–18: 4.4). In 2018-19 and 2017–18 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £15,000-£20,000 to £200,000–£205,000 (2017–18: £15,000–£20,000 to £200,000–£205,000).

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Staff Numbers and Costs

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

	Permanently employed staff	Other staff	Special Advisers	Total 2018-19	Total 2017-18
Total	**84,425**	**2,561**	**9**	**86,995**	**77,265**
Of which:					
Welsh Government	4,813	270	9	5,092	5,022
LHBs & NHS Trusts*	78,821	2,291	–	81,112	71,503
Subsidiaries	791	–	–	791	740

Of the Welsh Government total: Regulatory & delivery bodies – 725; Tribunals – 28.

* The NHS Trusts were consolidated in the Welsh Government Account from 1 April 2018. The prior comparative at 31 March 2019 including NHS Trusts was 79,916

Gender Breakdown of Welsh Government staff (unaudited)

	Male	Female
Board members	60%	40%
Senior Civil Service*	59%	41%
All Staff	42%	58%

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

Staff costs

	Permanently employed staff £m	Other Staff £m	Year ended 31 March 2019 Total £m	Year ended 31 March 2018 Total £m
Welsh Government				
Salaries	206	8	**214**	210
Social Security Costs	24	–	**24**	23
Other Pension Costs	54	–	**54**	53
Total	**284**	**8**	**292**	**286**
Recoveries from secondments	(3)	–	**(3)**	(2)
Net staff costs	**281**	**8**	**289**	**284**
Consolidated				
Salaries	3,188	193	**3,381**	2,944
Social Security Costs	317	–	**317**	272
Other Pension Costs	427	–	**427**	372
Total	**3,932**	**193**	**4,125**	**3,588**
Recoveries from secondments	(3)	–	**(3)**	(2)
Net staff costs	**3,929**	**193**	**4,122**	**3,586**

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

Special advisors were paid a total of £814,069 (restated 2017-18 – £681,921) for the year, inclusive of pension and social security costs, and have been included within the figures above. In addition, due to Ministerial changes in the year, the contracts for all Special advisors ceased, and severance payments of £259,988 were made in line with the terms of the Model Contract for Special Advisors. On reappointment of certain Special advisors, £79,704 severance payments were recovered and a further £60,648 is in the process of recovery in line with the terms of the Model Contract for Special Advisors.

The social security and pension costs for temporary and seconded staff under the core figures for other staff have been included in salaries as they are invoiced on a gross basis. Salaries of Welsh Ministers are paid by the National Assembly for Wales Commission and are reflected in those accounts. In respect of the number of senior staff whose salary is above £100k, there were 33 staff whose FTE salary was above £100k as at 31 March. Of these, 3 were part-timers whose actual earnings therefore fell below the £100k threshold and one left part way through the year.

Pensions

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

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

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

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

Pensions (Cont'd)

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

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

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

For 2018-19, employers contributions of £40,674,217 were payable to the PCSPS/Alpha(2017–18: £39,996,547) at one of four rates in the range 20.0 to 24.5 per cent (2017–18: 20.0 to 24.5) of pensionable earnings based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 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 £194,560 (2017-18: £190,298) 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 £6,691, 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 (2017–18: nil). Contributions prepaid at the date were £nil (2017–18: £nil).

Two individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £3,088.44.

Pensions (Cont'd)

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

Reporting of Civil Service and other compensation schemes – exit packages

There was no flexible early retirement, approved early retirement or flexible early severance in 2018-19 or 2017–18.

For 2018-19 154 (2017–18:156) employees have left or agreed to leave between 31 March 2018 and 31 March 2019. Compensation payments are £5,890,654 (2017–18: £5,884,548). For each case a payback period is calculated which is then approved by the Director of HR.

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

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band 2018-19	Total number of exit packages by cost band 2017-18
Exit package cost band				
<£10,000	–	3	3	9
£10,000 – £25,000	–	60	60	52
£25,000 – £50,000	–	48	48	51
£50,000 – £100,000	–	43	43	44
£100,000 – £150,000	–	–	–	–
£150,000 – £200,000	–	–	–	–
£200,000+	–	–	–	–
Total number of exit packages by type	**–**	**154**	**154**	**156**
Total resource cost £	**–**	**5,890,654**	**5,890,654**	**5,884,548**

The rolling programme of voluntary exits launched in March 2017, and the Permanent Secretary was clear that the position would continue to be reviewed regularly and to assess whether a further reduction in the numbers of permanent staff was required in order to manage within budget. The longer term affordability of the Welsh Government has remained a serious concern with the pressure on running costs becoming particularly acute over the next two financial years. It was therefore decided that the number of permanent staff charged to the budget would need to decrease in order to contain costs for the 2019-20 financial year. This position was discussed with the First Minister and the next stage of the rolling programme of voluntary exits was subsequently launched before the end of the financial year.

The costs included in the table provide the total cost to the organisation of any exit. However, in some instances individuals on exit may have used their compensation payments to provide early access to an unreduced pension, or to buy an increased pension.

Sickness absence (unaudited)

The measures introduced during the previous 2 years have begun to reduce absence levels, including a marked increase in the number of staff taking no absence during the year. Such measures, introduced as part of the Welsh Government's Health and Well-being Strategy Action Plan inevitably take time to become embedded within the culture of an organisation and take time to have a positive impact on absence levels. It is anticipated that this reduction will continue over the coming years.

Welsh Government Sickness Absence	2018-19	2017-18	2016-17	2015-16
Days Lost (short term)	16,545	17,818	17,354	18,967
Days Lost (long term)	23,840	22,627	22,876	23,977
Total Days Lost (12 month period)	**40,385**	**40,445**	**40,230**	**42,944**
Total staff years	5,098	5,035	5,155	5,307
Total staff employed in period (headcount)	5,770	5,682	5,691	5,964
Total staff employed in period with no absence (headcount)	2,826	2,490	2,529	2,479
% staff with no sick leave	49%	44%	44%	42%
Average working days lost	7.9	8.0	7.8	8.1

Accountability Disclosures

The following is the statement of losses and special payments as required by the Government Financial Reporting Manual, with individual disclosures where the total amounts incurred are over the limits proscribed in Managing Welsh Public Money of £300,000.

Losses Statement	2018-19	2017-18
Total number of losses	194	175
Total value of losses (£000)	15,259	8,202

Details of losses over £300,000:

Store losses	Expired drug stocks	£7,586,775
Claims abandoned	Retirement Review Ltd	£358,620
Claims Waived	Student Finance Wales / Open University in Wales	£3,267,034

Special Payments	2018-19	2017-18
Total number of Special Payments	10	7
Total value of Special Payments (£000)	23	1,902

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

Summary of Resource Outturn

	Budget 2018-19 Net Expenditure £m	Outturn 2018-19 Net Expenditure £m	Outturn compared with Budget Variance £m
AMBIT			
Health and Social Services	7,989	7,904	85
Housing and Local Government	4,419	4,392	27
Education	2,549	2,447	102
Economy and Transport	1,301	1,266	35
Central Services and Administration	372	354	18
Environment, Energy and Rural Affairs	283	281	2
International Relations and the Welsh Language	167	162	5
Total Resource and Capital requirements	**17,080**	**16,806**	**274**
Income	**1,243**	**962**	**281**
Gross expenditure	**18,323**	**17,768**	**555**

The above table shows the ambit format for 2018-19 following changes made in December. The previous Ambit structure applied to the 2017-18 financial year shown below.

AMBIT	Outturn 2017-18 Net expenditure £m
Health and Social Services	7,731
Local Government and Public Services	4,286
Education	2,408
Economy and Transport	1,268
Energy, Planning and Rural Affairs	374
Central Services and Administration	315
Total Resource and Capital requirement	**16,382**
Income	**818**
Gross expenditure	**17,200**

Variance explanations over £10m

Health and Social Services £85m underspend

The underspend mostly relates to £83.3m surplus on Annually Managed Expenditure budgets. This relates to the change in the Welsh Risk Pool provision for Medical Negligence and Personal Injury claims in NHS Wales. The provision required at year end was lower than forecast due to a decrease in case numbers during the year and the impact of a change to the accounting treatment for discounting expected future lump sum elements within the provision. HM Treasury issued revised discounting rate requirements in December 2018.

Housing and Local Government £27m underspend

The £27m underspend principally relates Non Cash Annually Managed Expenditure for the revaluation of Help to Buy Wales scheme investments held by the Development Bank of Wales as a consequence of changes to accounting standards implemented in 2018-19.

Education £102m underspend

The underspend mainly relates to variances between forecast and out-turn for Student Loans balances – a £53.9m underspend on non-cash budgets and an Annually Managed Expenditure underspend of £42m. Student loan accounts are demand led and volatile. Forecasts provided to HM Treasury included sufficient contingency to safeguard against the potential impact of IFRS 9 adopted in year and the continued impact of the increase in repayment threshold. To facilitate a reallocation of budget with the E&T MEG following the cabinet reshuffle, a £5.3m underspend on capital budgets was recorded.

Economy and Transport £35m underspend

The underspend comprises; £5m capital for slippage on business support programmes and infrastructure projects; an underspend against Annually Managed Expenditure Non Cash of around £16m in relation to lower impairment levels than anticipated on property holdings and investments, and a reduced requirement for provisions against future pensions liabilities of sponsored bodies; and Ambit adjustments required in relation to capital charges on a strategic infrastructure project joint venture not reflected in the original budget amounting to around £14m.

Central Services & Administration £18m underspend

The largest element of the underspend – £9.2m – is made up of (£1m) Invest to Save due to fewer investment opportunities in 2018-19; (£3.9m) Voluntary Exit Scheme due to lower than anticipated applications; and (£4.3m) the Central Brexit support budget resulting from delayed recruitment to Brexit posts. A further proportion of the underspend relates to a provision (£5.7m) for a pension liability which is difficult to forecast (and hence treated as Annually Managed Expenditure). The remaining underspend (£5.719m) relates to the Gypsy Travellers capital budget, which due to timing was unable to be utilised in 2018-19.

Notes

Net Cash Requirement	Outturn 2018-19 £m	Outturn 2017-18 £m
Authorised for issue from Welsh Consolidated Fund	16,314	15,657
Funding drawn down	(16,108)	(15,330)
Undrawn funding	206	327

Reconciliation of outturn and CSoCNE	Outturn 2018-19 £m	Outturn 2017-18 £m
Net Resource Outturn	16,806	16,382
Less: Capital & loans adjustments	(1,618)	(1,103)
Less: Consolidation Adjustment	-	(154)
Plus : NDR Adjustment	48	-
Plus : Other adjustments	6	-
Expenditure per the CSoCNE	15,242	15,125

Reconciliation of resources to cash requirement	Budget 2018-19 £m	Outturn 2018-19 £m	Outturn compared with Budget £m	Outturn 2017-18 £m
Net resource outturn	**17,080**	**16,806**	**274**	**16,382**
Depreciation	(361)	(346)	(15)	(318)
Impairments	(337)	(238)	(99)	(360)
Movements in provisions	(129)	(131)	2	(216)
Other	61	17	44	(66)
Net cash requirement	**16,314**	**16,108**	**206**	**15,422**

Shan Morgan
Permanent Secretary and Principal Accounting Officer

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

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of Welsh Government and the Group for the year ended 31 March 2019 under the Government of Wales Act 2006. These comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash flows, the Statement of Changes in Taxpayers' Equity and related notes, including a summary of significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Resource Outturn, the Accountability Disclosures and the information in the Remuneration and Staff Report that is described in that report as having been audited. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of Welsh Government and the Group's affairs as at 31 March 2019 and of its net cash requirement, net resource outturn and net operating cost for the year then ended; and
- have been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

Opinion on regularity

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

Report on other requirements

Opinion on other matters

As legislation and directions issued to Welsh Government do not specify the content and form of the other information to be presented with the financial statements, I am not able to confirm that the Annual Report and the Accountability Report have been properly prepared in accordance with those Directions.

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

Matters on which I report by exception

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

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

- adequate accounting records have not been kept;
- the financial statements, Statement of Resource Outturn, Accountability Disclosures and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns;
- 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.

Responsibilities

Responsibilities of the Principal Accounting Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Responsibilities for regularity

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

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

The maintenance and integrity of the Welsh Government's website is the responsibility of the Welsh Government; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Adrian Crompton
Auditor General for Wales
27 August 2019

24 Cathedral Road
Cardiff CF11 9LJ

Part 3
Financial Statements

These Financial Statements include Transport for Wales and the NHS Trusts in Wales from 1 April 2018 as newly consolidated bodies.

Consolidated Statement of Comprehensive Net Expenditure For the year ended 31 March 2019

	Note	Year Ended 31 March 2019		Year Ended 31 March 2018	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services	2	(43)	(57)	(34)	(37)
Other operating income	2	(650)	(1,005)	(631)	(950)
Total operating income		**(693)**	**(1,062)**	**(665)**	**(987)**
Staff costs	3	289	4,122	284	3,586
Expenditure	3	15,679	11,985	15,174	12,014
Provision expense	3	159	197	332	435
Total operating expenditure		**16,127**	**16,304**	**15,790**	**16,035**
Net expenditure for the year		**15,434**	**15,242**	**15,125**	**15,048**
Other comprehensive net expenditure: Items which will not be reclassified to net operating costs:					
Net (gain)/loss on revaluation of property, plant, equipment and investments		(613)	(626)	(480)	(611)
Actuarial (gain)/loss on pension scheme liabilities		13	16	9	3
Comprehensive net expenditure for the year		**14,834**	**14,632**	**14,654**	**14,440**

The Notes on pages 88 to 126 form part of these accounts

Consolidated Statement of Financial Position as at 31 March 2019

	Note	As at 31 March 2019		As at 31 March 2018	
		WG Core £m	WG Group £m	WG Core £m (Reclassified)	WG Group £m (Reclassified)
Non-current assets:					
Property, plant and equipment	4	17,715	21,242	17,021	20,142
Intangible assets	5	29	63	41	51
Financial assets[1]	6	4,530	3,817	3,968	3,591
Trade and other receivables[1]	8	27	117	30	146
Total non-current assets		**22,301**	**25,239**	**21,060**	**23,930**
Current assets:					
Assets classified as held for sale		–	3	–	1
Financial Assets	6	173	173	130	130
Inventories	7	187	261	185	245
Trade and other receivables	8	256	409	184	316
Cash and cash equivalents	9	107	698	127	444
Total current assets		**723**	**1,544**	**626**	**1,136**
Total assets		**23,024**	**26,783**	**21,686**	**25,066**
Current liabilities:					
Trade and other payables	10	(980)	(1,787)	(935)	(1,744)
Provisions	11	(295)	(347)	(287)	(287)
Other liabilities	13	–	(1)	–	–
Total current liabilities		**(1,275)**	**(2,135)**	**(1,222)**	**(2,031)**
Total assets less current liabilities		**21,749**	**24,648**	**20,464**	**23,035**
Non-current liabilities:					
Trade and other payables	10	(96)	(154)	(106)	(167)
Provisions	11	(885)	(931)	(848)	(859)
Other liabilities	13	(65)	(101)	(77)	(109)
Total non current liabilities		**(1,046)**	**(1,186)**	**(1,031)**	**(1,135)**
Total assets less liabilities		**20,703**	**23,462**	**19,433**	**21,900**
Taxpayers' equity & other Reserves					
General fund		11,518	13,741	10,802	12,767
Revaluation reserve		9,185	9,721	8,631	9,133
Total equity		**20,703**	**23,462**	**19,433**	**21,900**

[1] £251m of Non Current Trade Receivables in the DBW annual accounts for 2017-18 have been reclassified as Non Current Financial Assets.
The Notes on pages 88 to 126 form part of these accounts.

Shan Morgan
Permanent Secretary and Principal Accounting Officer
20 August 2019

Consolidated Statement of Cash Flows For the year ended 31 March 2019

	Note	Year ended 31 March 2019		Year ended 31 March 2018	
		WG Core £m	WG Group £m	WG Core £m	WG Group Reclassified £m
Cash flows from operating activities:					
Net operating cost		(15,434)	(15,242)	(15,125)	(15,048)
Provisions used	11	(117)	(151)	(111)	(221)
Non-cash transactions		464	854	847	1,115
Movements in working capital other than cash[2]	14	51	14	57	286
Income payable to Welsh Consolidated Fund		11	11	–	–
Other		6	–	–	–
Net cash outflow from operating activities		**(15,019)**	**(14,514)**	**(14,332)**	**(13,868)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(274)	(676)	(304)	(583)
Purchase of intangible assets		–	(10)	(6)	(10)
Proceeds from disposal of property, plant and equipment		3	5	1	14
Proceeds from disposal of development assets		6	6	41	41
Purchase of development assets		(20)	(20)	(35)	(35)
Issue of loans and investments[2]		(934)	(797)	(816)	(848)
Repayment of loans		131	132	115	112
Net cash outflow from investing activities		**(1,088)**	**(1,360)**	**(1,004)**	**(1,309)**
Cash flows from financing activities:					
From Welsh Consolidated Fund		16,108	16,108	15,330	15,330
Minority Interest		–	3	–	–
PFI & Finance Lease Capital Element		(10)	(10)	(8)	(8)
Net financing		**16,098**	**16,101**	**15,322**	**15,322**
Net increase/(decrease) in cash and cash equivalents in the period before adjustments for receipts and payments to the WCF		**(9)**	**227**	**(14)**	**145**
Income payable to Welsh Consolidated Fund		(11)	(11)	–	–
Newly Consolidated Bodies cash balances[1]		–	38	–	–
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the WCF	9	**(20)**	**254**	**(14)**	**145**
Cash and cash equivalents at the start of the year	9	**127**	**444**	**141**	**299**
Cash and cash equivalents at the end of the year	9	**107**	**698**	**127**	**444**

[1] Newly Consolidated Bodies cash balances reflect the balances included at 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

[2] £251m of Non Current Trade Receivables in the DBW annual accounts for 2017-18 have been reclassified as Non Current Financial Assets.

The Notes on pages 88 to 126 form part of these accounts.

Statement of changes in Taxpayers' Equity

Welsh Government Group

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
Balance at 31 March 2017	**12,489**	**8,544**	**21,033**
Welsh Consolidated Fund – net funding	15,330	–	15,330
Net operating cost for the year	(15,048)	–	(15,048)
Revaluation gains and losses	11	596	607
Transfers between Reserves	15	(15)	–
Other adjustments	(30)	8	(22)
Balance at 31 March 2018	**12,767**	**9,133**	**21,900**
Newly Consolidated Bodies[1]	15	37	52
Welsh Consolidated Fund – net funding	16,108	–	16,108
Net operating cost for the year	(15,242)	–	(15,242)
Revaluation gains and losses	–	626	626
Transfers between Reserves	66	(66)	–
Other adjustments	27	(9)	18
Balance at 31 March 2019	**13,741**	**9,721**	**23,462**

Welsh Government Core

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
Balance at 31 March 2017	**10,614**	**8,156**	**18,770**
Welsh Consolidated Fund – net funding	15,330	–	15,330
Net operating cost for the year	(15,125)	–	(15,125)
Revaluation gains and losses	–	480	480
Transfers between Reserves	13	(13)	–
Other adjustments	(30)	8	(22)
Balance at 31 March 2018	**10,802**	**8,631**	**19,433**
Welsh Consolidated Fund – net funding	16,108	–	16,108
Net operating cost for the year	(15,434)	–	(15,434)
Revaluation gains and losses	–	613	613
Transfers between Reserves	51	(51)	–
Other adjustments	(9)	(8)	(17)
Balance at 31 March 2019	**11,518**	**9,185**	**20,703**

[1] Newly Consolidated Bodies reflect the balances included at 1 April 2018 for NHS Trusts in Wales and Transport for Wales.
The Notes on pages 88 to 126 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 Resource Outturn which shows actual outturn against budget and supporting notes which reconcile outturn to net operating cost, and resources to cash requirement are included in the Accountability Report.

1.1 Accounting convention

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

1.2 Basis of Consolidation

The accounts reflect the consolidated assets and liabilities and the results of entities within the Welsh Government consolidation accounting boundary. The consolidation accounting boundary includes subsidiary undertakings as required by the FReM where they are designated for consolidation by statutory instrument, and are above a de minimis threshold for materiality. The consolidation accounting boundary also includes subsidiary undertakings above the de minimis threshold which had been consolidated on the basis of IFRS Group Accounting Standards prior to the introduction of Designation Orders in Wales (effective from 2017-18), and for which the designation process has not yet been concluded. This is to maintain consistency of the Group consolidation presentation whilst the Welsh Government alignment project progresses.

Since the introduction of Designation Orders, entities are added to the consolidation accounting boundary only if designated and material.

Subsidiaries are consolidated from draft accounts where final accounts are not available. Transactions between entities included in the consolidation are eliminated.

Further information about the entities within the consolidation boundary is provided within the Annual Report accompanying these accounts see page 2.

1.3 New Accounting Standards Adopted

The group has applied the following accounting standards for the first time for the reporting period commencing 1 April 2018:

IFRS 9 Financial Instruments

IFRS 9 replaced the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The new standard was applied in the FReM for the 2018-19 financial year.

Whilst the adoption of IFRS 9 resulted in changes in accounting policies and adjustments to the presentation of amounts recognised in the financial statements, in accordance with the FReM comparative statements have not been restated.

IFRS 15 Revenue from contracts with customers

IFRS 15 introduces a new five stage model for the recognition of revenue from contracts with customers replacing the previous Standards IAS 11 Construction Contracts, IAS 18 Revenue and related IFRIC and SIC Interpretations.

Whilst the adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the presentation of amounts recognised in the financial statements, in accordance with the FReM comparative statements have not been restated.

2. Operating Income

	Year ended 31 March 2019		Year ended 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services:				
Income from property and investments	35	35	31	32
Other	8	22	3	5
	43	**57**	**34**	**37**
Other non-EU operating income:				
Student loans interest receivable[1]	–	–	89	89
Health income	47	392	36	446
Other	16	26	13	(85)
	63	**418**	**138**	**450**
Other EU operating income:				
European Structural Funds Programme	258	258	174	181
Common Agricultural Policy	322	322	315	315
Other EU Income	7	7	4	4
	587	**587**	**493**	**500**
	693	**1,062**	**665**	**987**

[1] IFRS 9 adopted 1 April 2018. In accordance with the FReM no restatement of prior year comparatives is required. Student Loans are now measured as Fair Value through Statement of Comprehensive Net Expenditure, requiring amended disclosure presentation. See Note 3.

3. Expenditure

	Year ended 31 March 2019		Year ended 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Expenditure				
Grants[1]	14,946	7,572	14,333	7,621
Goods and Services[1]	332	3,787	298	3,652
Rentals under operating leases	17	17	9	35
Staff Costs	289	4,122	284	3,586
PFI and other service concession arrangements	14	14	19	27
Student loan book fair value	–	–	302	302
Net fair value (gains)/losses on financial assets at fair value through SOCNE[2]	178	178	–	–
Fixed Asset Depreciation	155	334	161	306
Amortisation	10	22	4	8
Donated and government granted assets	–	(7)	–	(9)
Impairments	18	60	58	85
(Profit)/Loss on disposals	10	9	(7)	(15)
Pension Finance	(3)	(3)	(2)	3
Release of EU grant	–	–	(1)	(1)
Bad Debt Provision	2	2	–	–
	15,968	**16,107**	**15,458**	**15,600**
Provisions				
Increase in provisions	159	197	332	435
	16,127	**16,304**	**15,790**	**16,035**

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

[2] IFRS 9 adopted 1 April 2018. In accordance with the FReM no restatement of prior year comparatives is required. Student Loans are now measured as Fair Value through Statement of Comprehensive Net Expenditure, requiring amended disclosure presentation. Help to Buy Wales Financial Assets are now measured as Fair Value through Statement of Comprehensive Net Expenditure in the Core Account requiring amended disclosure presentation.

Staff Costs

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

Audit Fees

The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2018-19 is £368,703 (£368,703 2017-18) 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 2019 £	Year ended 31 March 2018 £
NHS Summarised Account	28,274	29,770
National Non Domestic Rate Account	8,359	9,774
Whole of Government Account	9,500	32,689
Welsh Consolidated Fund	16,475	16,475

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

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

4. Property, Plant and Equipment

	Network Assets £m	Land £m	Buildings including Dwellings £m	Information Technology Fixtures and Fittings £m	Payments on account & Assets under construction £m	Total £m
Cost or valuation for the year ended 31 March 2018						
At 1 April 2017	18,224	413	2,658	809	618	22,722
Additions	120	19	32	81	332	584
Disposals	(120)	(1)	(3)	(36)	–	(160)
Transfers	(47)	–	–	–	–	(47)
Impairments	–	(11)	(80)	(5)	(7)	(103)
Revaluations	555	(29)	(167)	–	–	359
Reclassified to held for sale	–	–	–	–	–	–
Reclassification	–	–	92	10	(127)	(25)
As at the 31 March 2018	**18,732**	**391**	**2,532**	**859**	**816**	**23,330**
Depreciation for year ended 31 March 2018						
At 1 April 2017 (Restated)	2,370	–	422	541	2	3,335
Charged in year	151	–	82	72	–	305
Disposals	(120)	–	(2)	(36)	–	(158)
Transfers	(2)	–	–	–	–	(2)
Impairments	–	–	(50)	–	–	(50)
Revaluations	75	–	(317)	–	–	(242)
As at 31 March 2018	**2,474**	–	**135**	**577**	**2**	**3,188**
Carrying amount at 31 March 2018	**16,258**	**391**	**2,397**	**282**	**814**	**20,142**
Carrying amount at 31 March 2017 (Restated)	15,854	413	2,236	268	616	19,387
Asset financing for the year ended March 2018						
Owned	15,852	381	2,282	281	814	19,610
Finance Leased	–	–	12	1	–	13
On-balance sheet PFI contracts	406	10	103	–	–	519
At 31 March 2018	**16,258**	**391**	**2,397**	**282**	**814**	**20,142**

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

	Network Assets £m	Land £m	Buildings including Dwellings £m	Information Technology Fixtures and Fittings £m	Payments on account & Assets under construction £m	Total £m
Cost or valuation for the year ended 31 March 2019						
At 1 April 2018	18,732	391	2,532	859	816	23,330
Newly Consolidated Bodies[1]	–	27	76	211	27	341
Additions	66	1	42	110	472	691
Disposals	(66)	(1)	(3)	(58)	–	(128)
Transfers	–	–	–	–	1	1
Impairments	–	1	(46)	(8)	(3)	(56)
Revaluations	713	6	8	–	–	727
Reclassified to held for sale	–	(1)	(1)	–	–	(2)
Reclassification	2	3	120	16	(166)	(25)
As at the 31 March 2019	**19,447**	**427**	**2,728**	**1,130**	**1,147**	**24,879**
Depreciation for year ended 31 March 2019						
At 1 April 2018	2,474	–	135	577	2	3,188
Newly Consolidated Bodies[1]	–	–	7	129	–	136
Charged in year	147	–	94	96	–	337
Disposals	(66)	–	(1)	(58)	–	(125)
Transfers	–	–	–	–	–	–
Impairments	–	–	(3)	–	–	(3)
Revaluations	105	–	(1)	–	–	104
As at 31 March 2019	**2,660**	–	**231**	**744**	**2**	**3,637**
Carrying amount at 31 March 2019	**16,787**	**427**	**2,497**	**386**	**1,145**	**21,242**
Asset financing for the year ended March 2019						
Owned	16,325	424	2,318	384	1,145	20,596
Finance Leased	–	–	2	2	–	4
On-balance sheet PFI contracts	462	3	177	–	–	642
At 31 March 2019	**16,787**	**427**	**2,497**	**386**	**1,145**	**21,242**
Core department at 31 March 2019	**16,787**	**46**	**121**	**48**	**713**	**17,715**
LHBs and subsidiaries at 31 March 2019	–	**381**	**2,376**	**338**	**432**	**3,527**
Core department at 31 March 2018	16,258	46	121	30	566	17,021
LHBs and subsidiaries at 31 March 2018	–	345	2,276	252	248	3,121

[1] Newly Consolidated Bodies reflect the balances included at 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

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

Land and Buildings, including Dwellings

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

The Welsh Government Group figures include the Local Health Board (LHB) & NHS Trust Land and Buildings which were revalued by the District Valuation Service with an effective date of 1st April 2017. The valuation has been prepared in accordance with the terms of the Royal Institution of Chartered Surveyors' Valuation Standards, 6th edition. LHBs & NHS Trusts apply the revaluation model set out in IAS 16 as adapted by the FReM. Land and non-specialised buildings are held at market value for existing use, specialised buildings are held at depreciated replacement cost.

5. Intangible Assets

	Information Technology			
	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Cost or valuation				
At 1 April	59	90	28	55
Newly Consolidated Bodies[1]	–	65	–	–
Additions	–	10	6	10
Disposals	(2)	(4)	–	(1)
Reclassifications	–	4	25	26
At 31 March	**57**	**165**	**59**	**90**
Amortisation				
At 1 April	18	39	14	31
Newly Consolidated Bodies[1]	–	42	–	–
Charged in year	10	23	4	8
Disposals	–	(2)	–	–
At 31 March	**28**	**102**	**18**	**39**
Net Book Value at 31 March	**29**	**63**	**41**	**51**
Net Book Value at 1 April	41	51	14	24

[1] Newly Consolidated Bodies reflect the balances included at 1 April 2018 for NHS Trusts in Wales.

6. Financial Assets – Investments and loans

	Student Loans	NHS Trust Public Dividend Capital	Other Financial Assets	Total
	£m	£m	£m	£m
Balance at 31 March 2017	**2,675**	**175**	**368**	**3,218**
Additions	506	(3)	87	590
Loan repayments	(119)	–	(27)	(146)
Capitalised interest	89	–	–	89
Fair value adjustment	(302)	–	21	(281)
Reclassification[1]	–	–	251	251
Balance at 31 March 2018 Reclassified[2]	**2,849**	**172**	**700**	**3,721**
Newly Consolidated Bodies	–	(172)	–	(172)
Additions	596	–	181	777
Disposals	–	–	(41)	(41)
Loan repayments	(123)	–	(40)	(163)
Capitalised interest	–	–	–	–
Fair value adjustment	–	–	(14)	(14)
Net fair value gains/(losses) on financial assets at fair value through SOCNE(see note 3 Expenditure)[3]	(207)	–	38	(169)
Reclassification	–	–	51	51
Balance at 31 March 2019[2]	**3,115**	–	**875**	**3,990**

WG Core only				
At 31 March 2019[2]	**3,115**	**189**	**1,399**	**4,703**
At 31 March 2018[2]	2,849	172	1,077	4,098

[1] £251m of Non Current Trade Receivables in the DBW annual accounts for 2017-18 have been reclassified as Non Current Financial Assets.

[2] Included within the balance carried forward is £173m (2018 – £130m) due within one year.

[3] IFRS 9 adopted 1 April 2018. In accordance with the FReM no restatement of prior year comparatives is required. Student Loans are now measured as Fair Value through Statement of Comprehensive Net Expenditure (see Note 3), requiring amended disclosure presentation. Details of the Student Loans Fair Value measurement and exposure to risks is set out below. Help to Buy Wales Financial Assets are now measured as Fair Value through Statement of Comprehensive Net Expenditure in the Core Account requiring amended disclosure presentation.

Face value

The table below provides a reconciliation between the carrying value and the face value of student loans issued.

	Student Loans £m
Balance at 31 March 2017	**3,559**
Additions	506
Repayments	(120)
Interest	90
Policy write-offs	(26)
Balance at 31 March 2018	**4,009**
Additions	596
Repayments	(123)
Interest	129
Policy write-offs	(21)
Balance at 31 March 2019	**4,590**

Closing fair value adjustments/impairments:	
At 31 March 2019	**(1,475)**
At 31 March 2018	(1,160)

Carrying value:	
At 31 March 2019	**3,115**
At 31 March 2018	2,849

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

6.1 Student Loans

Loans for students in higher and further education are originated and recognised by the Welsh Government.

Student loans

In adopting IFRS 9 as at 1 April 2018, the classification and measurement of student loans has changed. During 2017-18, student loans were held at amortised cost as required by IAS 39. Interest income was recognised using the effective interest method and impairment recognised annually as expected cashflows were revised.

Under IFRS 9, student loans are recognised at fair value through Statement of Comprehensive Net Expenditure (SOCNE). In determining the fair value of student loans, the Welsh Government has used a discounted cash flow model (see below) and this includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the statement of comprehensive net expenditure.

On consideration of the reliability of the inputs used in determining fair value Student Loans have been classified as Level 3 inputs under the accounting standards, defined as: If one or more of the significant inputs is not based on observable market data, the instrument is included as level 3. The fair value of Student Loans is, therefore, calculated using the Stochastic Earnings Path (StEP) financial model provided by the Department for Education.

The value of new loans issued is calculated using the StEP model which uses data on the demographics of higher education students in order to predict their likely repayments of loans. There are also models adapted for borrowers taking different loan types – pre-2012 and post-2012 loans (Undergraduate, Part Time and Postgraduate Masters & Doctoral loans). The models depend on a complex set of assumptions, and particularly on borrowers' earnings. The models are long term in nature, but use the latest OBR short and long term forecasts for RPI, base rates and earnings growth. By their nature, the valuation of the student loan books is uncertain as they are highly dependent on macroeconomic circumstances and graduate earnings over the next 30 years, as well as a number of other complex assumptions. Given their newness, there is little historic repayment data available for post-2012 loans as these loans were first eligible for repayment in 2016-17. The assumptions used in the repayment models are formally reviewed each year and the amounts currently provided reflect the estimate as at 31 March 2019.

Key **variables** and assumptions used within the model are:

- **Discount rate** – The Welsh Government has considered the principles under IFRS 9 and have used the rate as set out in the latest PES paper, being RPI plus 0.7%. This is HM Treasury's long term discount rate representing the Government's long term cost of borrowing. This changes infrequently, with any increase in Discount Rate decreasing the carrying value of Student Loans.

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

- **RPI inflation** – The model uses RPI rates in line with OBR forecasts (received October 2018) until 2024-25. Future RPI is then assumed to follow a linear trend from 2025-26 to 2039-40, and then a step change to 3.00% from 2040-41 onwards. A higher RPI will increase interest for most loans, which will result in a reduction in carrying amount.
- **Graduate earnings** – The model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2025-26. Future earnings growth is then assumed to be 4.24% from 2031-32, as this is the long-term forecast, with a linear change from the 2025-26 value each year up to 2031-32. An increase in Graduate Earnings will increase the carrying value of student loans.
- **Graduate earning threshold** – On 18 October 2017 the Welsh Government announced that the repayment threshold for all post-2012 loans would be increased from £21,000pa to £25,000pa with effect from 1 April 2018. The amount of £25,000pa has been used within the model for post-2012 loans. In future years this is expected to increase in line with earnings growth. An increase in threshold will decrease the carrying value, as future repayments would be reduced.
- **Graduate income distribution** – The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical data for the Labour Force Survey, the British Household Panel and administrative data held by the Student Loans Company.
- **Partial cancellation** – Partial cancellation is a Welsh Government policy applicable to maintenance loans, whereby a cancellation of up to £1,500 may be applied on receipt of the first repayment against the loan if the student does not have any outstanding charges, costs, expenses or penalties in relation to the loan or if they are in breach of the loan agreement.
- **Base rates** – The model assumes that Bank of England base rates will be in line with OBR forecasts until 2068-69. A base rate cap is applied to the base rate from 2018-19 onwards, reducing the base rate to the cap level between 2018-19 and 2022-23. An increase in Base Rates will increase the carrying value.

There are a number of other assumptions used in the model, 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, although could change at the same time.

6.2 NHS Trusts Public Dividend Capital

The Welsh Government's investment in NHS Trusts is represented by Public Dividend Capital (PDC). PDC is held in accordance with the FReM interpretation of IFRS 9 at historic cost less impairments, consistent with prior years. On consolidation of the NHS Trusts, the PDC investment is eliminated.

6.3 Other Financial Assets

The Welsh Government issues financial instruments, in particular loans, to other public sector bodies in Wales and repayable finance and loans to businesses to support economic development. 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.

As simple debt instruments the majority of Welsh Government Core financial assets are held for contractual cash flow collection, and therefore are held at Amortised Cost under IFRS 9. On adoption of IFRS 9 Help to Buy Wales financial assets are held at Fair Value through Statement of Comprehensive Net Expenditure, and are eliminated on consolidation. There are no material financial assets held at Fair Value through Other Consolidated Net Expenditure in the Core account.

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

The Welsh Government has taken advantage of the exemption available for not accounting for short-term debtors and creditors.

7. Inventories

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Development Assets	165	164	157	157
Drugs	19	45	24	47
Telecommunication spares	1	1	1	1
Road salt	1	1	2	2
Other consumables	1	50	1	38
	187	**261**	**185**	**245**

8. Trade receivables, financial and other assets

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group Reclassified £m
Amounts falling due within one year:				
Trade receivables[1]	114	221	114	219
Other tax	13	13	24	24
Prepayments and accrued income	129	175	46	73
	256	**409**	**184**	**316**
Amounts falling due after more than one year:				
Trade receivables[1]	13	99	18	130
Prepayments	14	18	12	16
Other receivables	–	–	–	–
	27	**117**	**30**	**146**
Total trade receivables and other current assets	**283**	**526**	**214**	**462**

[1] £251m of Non Current Trade Receivables in the DBW annual accounts for 2017-18 have been reclassified as Non Current Financial Assets.

9. Cash and cash equivalents

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	**127**	**444**	**141**	**299**
Newly Consolidated Bodies[1]	–	38	–	–
Net change in cash and cash equivalent balances	(20)	216	(14)	145
Balance at 31 March	**107**	**698**	**127**	**444**
The following balances were held at:				
Government Banking Service	105	151	126	144
Commercial banks & cash in hand	2	547	1	300
	107	**698**	**127**	**444**

[1] Newly Consolidated Bodies reflect the balances included at 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

10. Trade and other payables

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Amounts falling due within one year:				
Taxation and social security	1	67	1	58
Trade and other payables	636	1,034	558	935
Deferred European Union Income	66	66	86	86
Other accruals and deferred income	267	606	280	646
Amounts payable to the Welsh Consolidated Fund	–	–	–	–
Obligations under finance leases and PFI contracts	10	14	10	19
	980	**1,787**	**935**	**1,744**
Amounts falling due after more than one year:				
Trade and other payables	–	1	–	–
Obligations under PFI	93	150	103	164
Obligations under finance leases	3	3	3	3
	96	**154**	**106**	**167**
Total trade payables and other current liabilities	**1,076**	**1,941**	**1,041**	**1,911**

11. Provisions for liabilities and charges

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	**1,135**	**1,147**	**927**	**945**
Newly consolidated Bodies[1]	–	11	–	–
Provided in the year	162	214	319	557
Provisions not required written back	–	(4)	(2)	(111)
Transfer	–	61	–	(24)
Provisions utilised in year	(117)	(151)	(109)	(220)
Balance at 31 March	**1,180**	**1,278**	**1,135**	**1,147**
Analysis of expected timing of discounted flows:				
Not later than one year	295	347	287	287
Later than one year and not later than five years	353	482	343	354
Later than five years	532	449	505	506
Balance at 31 March	**1,180**	**1,278**	**1,135**	**1,147**

[1] Newly Consolidated Bodies reflect the balances included at 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

WG Group only

	Other £m	Health £m	Total £m
Analysis of expected timing of discounted flows:			
Not later than one year	12	335	347
Later than one year and not later than five years	15	467	482
Later than five years	72	377	449
	99	**1,179**	**1,278**

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

11.1 Other Provisions

This includes various potential pension and employment liabilities in respect of previous employees and provisions in relation to Welsh Government delivery activity.

11.2 Health Provisions

The Welsh Government has health related provisions, for the Wales Infected Blood Support Scheme and expected future re-imbursements of the Welsh Risk Pool (WRP).

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

WRP assists Welsh NHS bodies with risk management and settlement of disputed claims for alleged medical or employer negligence. WRP balance as at 31 March 2019 is £1,081m (2017-18: £1,063m).

WRP provision continues to evidence the impact of the changes in the personal injury discount rate announced by the Lord Chancellor on 27 February 2017, effective from 20 March 2017. The rate changed from 2.5% (the level maintained since 2001) to -0.75%. The rate change results in higher payouts for the lump sum element of personal injury claims, including those affected by medical negligence. The Lord Chancellor started a review of the rate in March 2019, which is due to conclude in August 2019.

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

12. Contingent liabilities

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Legal Claims – alleged medical/employer negligence	936	995	815	849
Potential contractual obligations under the WDA Act 1975	10	10	10	10
Other legal and contractual claims	108	108	115	175
	1,054	**1,113**	**940**	**1,034**

(i) Legal Claims – alleged medical/employer negligence
This reflects that under the Wales Act 2006 the Welsh Government must meet the liabilities of the Welsh Risk Pool should the NHS bodies cease to exist.

(ii) Other legal and contractual claims
Other legal and contractual claims includes legal and contractual claims in progress and contingent liabilities related to commercial contractual indemnities and guarantees. No new contingent liabilities for commercial contractual indemnities or guarantees arose in 2018-19.

(iii) Unquantified contingent liabilities
On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations.

12.1 Remote Contingent Liabilities

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

In 2018 the Welsh Government agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the 'Grant Agreement' with its rail service provider (Transport for Wales Rail Services) and the 'Held Harmless Agreement' with the Department for Transport.

Quantifiable remote contingent liabilities:

Welsh Government has provided an indemnity to the rail service provider in the event that, through a decision of Welsh Government, the rolling stock order that the rail service provider has placed has to be cancelled. The maximum liability for Welsh Government under this indemnity is estimated to be £68m.

Unquantifiable remote contingent liabilities:

Welsh Government has provided an indemnity to the Department for Transport and Network Rail in the event that any diseconomies of scale emerge or any new financial risks materialise as a result of the devolution of rail franchising powers and the proposed transfer of the Core Valley Line assets from Network Rail to Transport for Wales.

Welsh Government has provided an indemnity to the rail service provider for a limited time only against any additional tariffs imposed as a result of Brexit.

Welsh Government has provided an indemnity to the rail service provider against the impact of any decision taken by the Pensions Regulator as a result of the review it is currently undertaking in respect of the status of Train Operator Company (TOC) pension schemes.

Welsh Government has provided an indemnity to the rail service provider against Department for Transport originated changes to planned track access charges. Welsh Government are similarly indemnified by the Department for Transport.

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

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 2019 was £29.3million.

Letters of comfort:

The Welsh Government has issued a Going Concern letter of assurance to RIFW to cover future liabilities of £0.151 million. Given the significant level of reserves in RIFW the probability of this liability materialising is assessed as remote.

13. Other liabilities

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Pension fund deficits	54	91	66	98
National Loans Fund (falling due after 5 years)[1]	11	11	11	11
	65	**102**	**77**	**109**

[1] National Loans Fund balances represent National Loans Funds lent onwards by the Secretary of State for Wales originally to the Mid-Wales Development Corporation. They were then passed to the Development Board for Rural Wales in the 1980's; and to the Welsh Development Agency (WDA) when DBRW was abolished in 1998. Following WDA abolition in 2006, responsibility for the repayment of principal and interest falls on the Welsh Government.

14. Movements in working capital other than cash

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
(Increase)/decrease in inventories	5	(1)	9	10
(Increase)/decrease in receivables:				
current	(72)	(76)	52	64
non-current	3	30	(16)	155
Increase/(decrease) in payables:				
current	45	–	111	152
non-current	(10)	(13)	(10)	(14)
Student Loans interest	–	–	(89)	(89)
Development assets movement	(7)	(7)	(8)	(8)
Adjustments for accrual movement: fixed assets	–	–	–	8
PFI/Finance lease capital element	10	10	8	8
Other adjustment	66	60	–	–
Less movement in amounts payable to the Welsh Consolidated Fund and other non-operating cost balances	11	11	–	–
	51	**14**	**57**	**286**

15. Capital and other commitments

15.1 Capital commitments

Contracted capital commitments not otherwise included within these financial statements.

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Property plant and equipment	215	480	142	404
Investments and loans	94	94	181	181
	309	**574**	**323**	**585**

15.2 Commitments under leases

15.2.1 Commitments under operating leases

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

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Buildings				
Not later than one year	6	35	6	27
Later than one year and not later than five years	22	79	22	65
Later than five years	46	113	47	92
	74	**227**	**75**	**184**
Other				
Not later than one year	–	1	–	–
Later than one year and not later than five years	–	2	–	–
Later than five years	–	2	–	–
	–	**5**	–	–
	74	**232**	**75**	**184**

15.2.2 Commitments under finance leases

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

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	1	3	1	1
Later than one year and not later than five years	2	2	3	4
Later than five years	–	–	–	–
	3	**5**	**4**	**5**
Less interest element	(1)	(1)	(1)	(1)
	2	**4**	**3**	**4**

15.3 Commitments under PFI contracts

The Local Heath Boards have ten PFI contracts, eight of which are on the Statement of Financial Position. There are no contracts with an individual total commitment of greater than £500m. Details of the individual schemes are included in the individual Local Health Board statutory accounts.

15.3.1 Off-balance sheet

Bute Avenue PFI contract

Since 2000 The Welsh Government has been committed to pay £5.1m annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. The private sector partner maintains for 25 years (from 2000-01) the Bute Avenue road network. After this time the road will be transferred to Cardiff County Council. The road is not an asset of the Welsh Government. The total charged in the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions was £8,819,158 (2017-18: £8,637,765); and the payments to which the Welsh Government is committed, are as follows:

	As at 31 March 2019 £m	As at 31 March 2018 £m (Restated)
Not later than one year	9	9
Later than one year and not later than five years	38	37
Later than five years	20	30
	67	**76**

15.3.2 On-balance sheet

A55 PFI contract

The A55 road network is maintained by contractors for a period of 30 years (from 1998), after which time the ownership of the A55 will revert to the Welsh Government. The road is treated as an asset of the Welsh Government and unitary payments comprise of two elements – imputed finance lease charges and service charges. The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI or other service concession transactions was £10,288,537 (2017-18 £10,152,135). Total future obligations under on-balance sheet PFI and other service concession arrangements are given in the table below for each of the periods.

	As at 31 March 2019 £m	As at 31 March 2018 £m
Minimum Lease payments		
Not later than one year	12	12
Later than one year and not later than five years	48	48
Later than five years	60	72
	120	**132**
Less interest element	(17)	(20)
	103	**112**

	As at 31 March 2019 £m	As at 31 March 2018 £m
Service elements due in future periods		
Not later than one year	8	10
Later than one year and not later than five years	32	32
Later than five years	6	14
	46	**56**

15.4 Other Financial Commitments

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

	As at 31 March 2019		As at 31 March 2018	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	446	446	277	277
Later than one year and not later than five years	1,088	1,088	252	252
Later than five years	2,689	2,689	421	421
	4,223	**4,223**	**950**	**950**

Other financial commitments payable within one year include £182m as a committed income stream, via the Grant Agreement with its rail service and infrastructure manager provider (Transport for Wales Rail Services). Commitments payable within 2 to 5 years include £782m and beyond 5 years at £2.2bn.

The Welsh Government provides grant funding for a number of entities on an annual basis. These grants have been committed to within the latter part of the year ended 31 March 2019 in order to provide security to the recipient organisation. As they relate to the year ending 31 March 2020 and are funded by the Welsh Government's budget allocation for the year ending 31 March 2020, they have not been disclosed within the above commitments.

16. Related Party Transactions

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

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

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

Dafydd Elis-Thomas (Deputy Minister for Culture, Sport and Tourism) and Lesley Griffiths (Minister for Environment, Energy and Rural Affairs) are both Vice-Presidents, and Ken Skates (Minister for Economy and Transport) is an Honorary President of Llangollen International Eisteddfod which received £4,624 grant funding in 2018-19.

Dafydd Elis-Thomas (Deputy Minister for Culture, Sport and Tourism) is also steward at Llandaff Cathedral which received Heritage grant funding of £25,656; and is a member of the Welsh Academy which is administered by Literature Wales which received museum, tourism, training and Welsh language development training grant funding of £20,975 in 2018-19. He is also an honorary life member of North Wales Wildlife Trust which received £105,054.

The husband of Kirsty Williams (Minister for Education) is a partner in a farming business which in 2018-19 received £71,898 support under the EU's Common Agricultural Policy. Kirsty Williams is a member of Brecon and District Credit Union which received funding of £17,967 in 2018-19.

Jeremy Miles (Counsel General and Brexit Minister) and Rebecca Evans are members of Celtic Credit Union, which in 2018-19 received £256,976 of grant support funding.

Peter Kennedy (board member) was also on the board of Transport for Wales until 1/08/2018. During this period Transport for Wales received grant funding of £5,732,833.

The husband of Gillian Baranski (board member) is a partner in the legal firm Geldards LLP who were appointed as a provider on the Legal Services by Solicitors Framework with the National Procurement Service. The firm was paid £1,355,446 in 2018-19 for these Legal Services.

The partner of Tracey Burke (board member) is an unpaid business change advisor to the Wales Council for Voluntary Action (WCVA) and is not involved in funding applications. WCVA received £9,103,401 in 2018-19 for various grant funding programmes.

Elan Closs Stephens (non-executive director until 30 April 2018) was a member of S4C Authority which received £1,170 in this period. The Authority has no direct involvement in this transaction which was at Executive level.

Ellen Donovan (non-executive director) is also a non-executive director of Qualifications Wales and Marie Curie who received Welsh Government funding in 2018-19 of £7,487,000 and £2,000 respectively.

Gareth Lynn (non-executive director) is also the Independent Chairman of Trustees of the Milford Haven Port Authority Retirement Benefits (pension) scheme. The appointment is made by Milford Haven Port Authority and is remunerated. Milford Haven Port Authority received £47,748 in 2018-19.

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

16.1 Results of consolidated wholly owned companies

	Year Ended 31 March 2019 £m	Year Ended 31 March 2018 £m
Profit/Loss		
DBW PLC[1]	3	5
Regeneration Investment Fund for Wales LLP	3	1
WGC Holdco Limited	–	–
Careers Choices Dewis Gyrfa Limited	(2)	(2)
Transport for Wales	–	–
Share Capital & Reserves		
DBW PLC	156	141
Regeneration Investment Fund for Wales LLP	39	36
WGC Holdco Limited	61	61
Careers Choices Dewis Gyrfa Limited	(31)	(25)
Transport for Wales	1	–

[1] Investment of 49,999 ordinary £1 shares, 25p part paid.

These accounts have been consolidated using draft figures, being not materially different to final accounts.

16.2 Other minor subsidiaries and interests

The following Welsh Government Joint Ventures are included in the consolidated accounts:

- International Convention Centre Wales Limited – The Welsh Government owns 50% of the issued share capital of the International Convention Centre Wales Limited, with the other 50% being held by The Celtic Manor Resort Limited.
- Airbus Group Endeavr Wales (formerly EADS Foundation Wales) – a joint interest in a company limited by guarantee. Joint ownership is held with Airbus Defence and Space Ltd (formerly Cassidian Holdings Limited) and Cardiff University.

The following Welsh Government interests are not included in the consolidated accounts:

Welsh Government – Non Ministerial Departments – subject to a designation order but immaterial for consolidation

- Welsh Revenue Authority

Welsh Government Subsidiaries – subject to a designation order but immaterial for consolidation

- Design Commission for Wales Limited (Design Commission for Wales / Comisiwn Dylunio Cymru)
- Meat Promotion Wales Limited / Hybu Cig Cymru Cyf
- Sector Development Wales Partnership Limited
- Life Sciences Hub Wales Limited
- Innovation Point Limited
- National Academy for Education Leadership

Welsh Government Subsidiaries – not subject to a designation order and immaterial for consolidation

- Welsh Development Management Limited
- International Business Wales Limited

Student Loans Company Limited

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

NHS Charities

NHS Charities in Wales are subsidiaries of the Local Health Boards and NHS Trusts. They are not subject to a designation order and are immaterial for consolidation.

Appendix A – Accounting Policies

A.1 Property, Plant and Equipment

Land and buildings (including Dwellings)

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

Network Assets

The road network is valued at its depreciated replacement cost in line with the guidance in the Financial Reporting Manual (FReM) 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 last carried out in 2014-15. Interim valuations use a series of standard costs to value the individual components of the network assets and indices to revalue these on an annual basis.

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

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

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

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

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

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

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

The indexation factors applied are:

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

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

Information Technology and Fixtures and Fittings

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

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

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.

A.2 Depreciation

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

i. annual maintenance charge;

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

iii. calculated depreciation of the structures and communications.

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

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

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 incurred.

A.3 Research and Development

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

A.4 Financial Assets

Loans and Repayable Finance

Welsh Government issues loans and repayable finance to group companies (e.g. Development Bank of Wales), other public sector bodies and private sector companies for the purpose of economic development or policy implementation objectives. These financial assets are held for the purpose of collecting the contractual payments of the principal and any interest chargeable, and are held at amortised cost in accordance with IFRS 9.

Help to Buy Wales loans issued are shared equity loans and are held at Fair Value through the Statement of Comprehensive Net Expenditure in accordance with IFRS 9.

Public Dividend Capital

Public Dividend Capital issued is held at historic cost less impairments in accordance with the FReM interpretation of IFRS 9.

Investments

Investments in subsidiary group entities are held at cost in the Welsh Government Account in accordance with IAS 27. Investments in joint ventures are held at fair value.

Loans and equity investments made by Development Bank of Wales are accounted for in accordance with IFRS 9 whereby debt instruments held to collect contractual payments of the principal and interest are held at amortised cost and equity investments are held at Fair Value through Profit and Loss. Full details of the Development Bank of Wales accounting policies for financial assets are set out in their Annual Report and Accounts.

Student Loans

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

updated the borrower record. For repayments collected via the tax system, this is recognised when the amounts which HMRC estimate as being due to the Welsh Government for the financial year are received. Student loans values are shown net of estimated future write-offs in respect of the non-recovery of loans and are reviewed annually.

In accordance with the FReM application of IFRS 9, student loans are classified as Loans and Receivables and are carried at Fair Value through Statement of Comprehensive Net Expenditure. Detailed explanation of the valuation approach is set out in Note 6. Disclosures relating to risk, required by IFRS 7, are set out in Accounting Policy A15.

Non-current Assets

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

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A.5 Inventories

Development assets, comprising land held for future development and built properties not required for own use, which are held with the ultimate intention for resale, are shown at the lower of historic cost and professional asset valuation, any impairment on revaluation being written off to the Statement of Comprehensive Net Expenditure. Material reversals of prior year impairments are written back to the Statement of Comprehensive Net Expenditure 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. The Welsh Government adopted IFRS 15 *Revenue from Contracts with Customers* from 1 April 2018. IFRS 15 introduces a new five stage model for the recognition of revenue from contracts with customers. All Welsh Government revenue which falls within the scope of this Standard, has been accounted in accordance with it. The impact of adoption for Welsh Government is immaterial.

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

A.7 Value Added Tax (VAT)

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

A.8 Pensions

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

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

Some Welsh Government staff contribute to: Department of Health and the Nurses Welfare Trust; and the West Yorkshire Pension Scheme administered by the City of Bradford Metropolitan District Council.

Employees of Local Health Boards and NHS Trusts participate in the NHS pension scheme. Information on this scheme can be found in the NHS 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 and NHS Trust 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 PFI asset is recognised as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

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

a) Payment for the fair value of services received;

b) Payment for the PFI asset, including finance costs; and

c) Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

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

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

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

A.13 Exchange Rate Gains and Losses

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

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

A.14 Provisions

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

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

A.15 Financial Instruments

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

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

Credit Risk

The Welsh Government's objective is full recovery of debt, which we actively pursue. The policy is to operate normal credit control procedures for the management of risk of default by trade debtors through the Accounts Receivable function. Due to the nature and value of debtors, the credit risk associated is deemed as minor. IFRS 9 introduced a forward looking model of expected credit loss, and a three-stage approach to providing for debts. Due to the low credit risk, stage 1 and 2 expected credit losses for Welsh Government are immaterial. Stage 3 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

The main risks are to the Student Loan portfolio from a downward movement in the economy that could result in an increase in borrowers' unemployment, impacting on their ability to repay student loans. Student loans are also impacted due to the potential resultant negative impact on graduate earnings growth, which lengthens the time period before loans are in repayment and extends the repayment period. This may impact the carrying value in the accounts. It can also lead to an increase in write-offs as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

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 Welsh Government's variable rate financial assets are predominantly its student loans which have an interest rate cap set at RPI or the Bank of England base rate plus 1%. The interest rate on pre-2012 loans is the lower of RPI and the Bank of England base rate plus 1%. The amount of interest repayable is therefore subject to fluctuations in the base rate and RPI. The probability of Welsh Government recovering the face value of loans issued is increased when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation for these loans. The impact of the interest rate risk for student loans issued under the pre-2012 scheme is factored into the carrying value as the student loan repayment model calculates the impact of interest rate on expected future cash flows. There is inherent risk in forecasting the amount of interest payable and if base rates that are lower than RPI are experienced, the future cash flows will be impaired further.

Liquidity Risk

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

A.16 Newly issued accounting standards not yet effective

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

Standards which may have a material impact if adopted are:

IFRS 16 Leases – effective 1 January 2019. IFRS 16 will provide a single model for all leases that will bring all leases on Statement on Financial Position unless the lease term is 12 months or less or the underlying asset has a low value. HM Treasury are reviewing the implications of this amendment on the UK Public Sector with a view to include in the 2020-21 FReM.

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

- IFRS 3 *Business Combinations and IFRS 11 – Joint Arrangements* – amendment
- IFRS 9 *Financial Instruments* – amendment
- IAS 12 *Income Taxes* – amendment
- IAS19 *Employee Benefits* – amendment
- IAS 23 *Borrowing Costs* – amendment
- IAS 28 *Investments in Associates and Joint Ventures* – amendment
- IFRIC 23 *Uncertainty over Income Tax Treatments* – interpretation
- IFRS 17 *Insurance Contracts* – to replace IFRS 4