

Scrutiny of Accounts 2018-19: Welsh Government

May 2020



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Scrutiny of Accounts 2018-19: Welsh Government

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About the Committee

The Committee was established on 22 June 2016. Its remit can be found at:
www.senedd.wales/SeneddPAC

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Nick Ramsay MS
Welsh Conservatives

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Welsh Conservatives



Gareth Bennett MS
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Welsh Labour



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Plaid Cymru



Rhianon Passmore MS
Welsh Labour



Jenny Rathbone MS
Welsh Labour

The following Member was also a member of the Committee during this inquiry.



Adam Price MS
Plaid Cymru

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Chair's foreword

Our scrutiny of the Welsh Government's Accounts and Annual Report 2018-19 was undertaken in greater depth in Autumn 2019 enabling us to take a closer look at the various sections of the accounts and focus more on the internal workings of the Civil Service in Wales. For the first time we also heard from the Welsh Government's Non-Executive Directors. This gave us insight into their role and remit and their part in the Welsh Government's governance arrangements. The Committee appreciate the time commitment given by officials and the Non-Executive Directors to support this different approach, which proved to be very beneficial.

Although we have seen an improvement in the preparation and presentation of the Welsh Governments Accounts and Annual Report for the financial year 2018-19, there are still several reoccurring themes from previous scrutiny that we have reflected in this report.

We still believe the Welsh Government could, and should, be more transparent in its financial reporting. The current lack of alignment of publication of key reports hampers the Assembly's ability to scrutinise performance effectively. There are also publications that remain unpublished, such as Welsh Government Board papers and documents relating to the accounts. Without this fuller picture, we cannot consider financial management and governance issues as a whole.

Recommendations

Recommendation 1. We recommend that the Welsh Government reviews its approach to the publication of Board and Audit and Risk Assurance Committee (ARAC) papers, and that it does not simply restrict publication to agendas and summary minutes..... Page 25

Recommendation 2. We recommend that the Welsh Government works with its sponsored bodies to review what information they make publicly available about their Board and audit committee meetings to ensure a consistent minimum standard and allow the public to see how decisions are made..... Page 25

Recommendation 3. We recommend that the Welsh Government demonstrate best practice in financial management, budgeting and reporting. This will include the publication of indicative spending plans and priorities linked to outcomes, alignment of budgets to outturn, the publication of Whole of Government accounts and forward-looking public finance plans and forecasts. Specifically, we recommend that:

- The Welsh Government gives further active consideration to the merits and practicalities of preparing a Whole of Government of Wales Account and updates us in autumn 2020;
- The Statement of Resource Outturn sets out more information about significant variances and makes clear the different types of variances, taking account of the issues outlined in paragraph 33 of this report;
- The Outturn Report is formally published, as well as being presented to the Finance Committee, at the same time, or soon after, the Welsh Government's annual consolidated accounts;
- The Welsh Government includes information on its website that sets out its overall approach to reporting and the connections between the four key annual reports that it produces as set out in Table 1 of this report;
- Should plan to introduce a clear and streamlined suite of common objectives and indicators across the reporting areas outlined in Table 1 to facilitate improved alignment of comprehensive performance reporting.
..... Page 28

Recommendation 4. The Welsh Government provides us with a list of the key performance indicators that it intends to report on for 2019-20 to measure the administrative performance of the civil service and a timetable for reporting on the remaining indicators.Page 28

Recommendation 5. We recommend including a summary of the principal risks and any changes to them during the period covered by the accounts. This should set out information about the potential impact of the risks and how these are being mitigated. We are not calling for the inclusion of the Welsh Government's entire risk register in its accounts.....Page 35

Recommendation 6. We recommend that the Welsh Government provides the Committee with a fuller explanation of how and why it has decided to move from requiring external certification of local authority grant claims to relying on internal sign-off alone, and why it has discontinued its efforts to obtain assurances that grants are delivering their intended outcomes.....Page 36

Recommendation 7. We recommend that the Permanent Secretary provide greater clarity through detailed explanation of her lines of accountability and any measures in place to address potential conflicts of interest.Page 47

Recommendation 8. Finally, in preparation for engagement with the Auditor General's upcoming work on Welsh Government workforce planning, the Committee believes it would be useful for the Permanent Secretary to set out how her responsibility for staffing relates to Ministerial priorities.....Page 47

1. Background

- 1.** During the autumn, the Public Accounts Committee scrutinises the consolidated accounts of the Welsh Government. This year, for the first time, the Committee undertook its scrutiny during three evidence sessions examining in detail matters arising from the Welsh Government's Consolidated Accounts 2018-19 (the Accounts 2018-19), which were laid at the National Assembly for Wales on 27 August 2019. This scrutiny included hearing from some of the Welsh Government's Non-Executive Directors about their roles and responsibilities.
- 2.** The Accounts 2018-19 provide information on the Welsh Government Core (the Welsh Government itself) and Welsh Government Group. The Group position reflects the transactions and balances of the Welsh Government, its subsidiaries and Local Health Boards. They also included, for the first time the NHS Trusts and Transport for Wales.
- 3.** The Auditor General for Wales (the AGW) audited the accounts and provided an unqualified opinion on them.
- 4.** This report does not seek to replicate the extensive evidence we received and sets out the Committee's views on the key issues considered. Transcripts of all oral evidence sessions and written evidence, along with the Committee's previous scrutiny of accounts reports covering the Welsh Government and other organisations, can be viewed in full at:

<http://senedd.assembly.wales/mglIssueHistoryHome.aspx?lId=15845>

2. Accounts Preparation

Process and Timescales

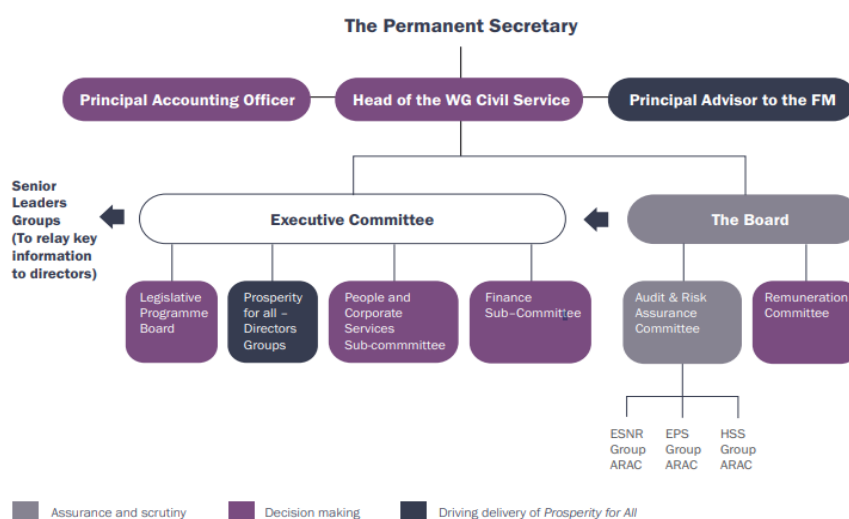
5. The Accounts 2018-19 were laid simultaneously in English and Welsh in line with the timetable published on the Welsh Government's website. The process for preparing the accounts this year had been improved.

6. These improvements included officials reviewing the spreadsheets used for accounts preparation, strengthening of the Welsh Government's accounts team and more careful timetabling. Officials were due to meet with Wales Audit Office staff to consider whether there were further changes the Welsh Government could make to improve the process.¹

7. As the Principal Accounting Officer, Dame Shan Morgan DCMG, the Permanent Secretary is responsible for preparing the Welsh Government's accounts. She is supported by the Welsh Government Board whose role includes to "ensure the organisation operates to the highest standards of governance, financial management, management of risks and processing of the annual accounts".² The Board's terms of reference are included in Diagram A, which sets out the Welsh Government's overall governance structure.

Diagram A

The Corporate Governance Structure:



¹ National Assembly for Wales, Record of Proceedings (RoP), 7 October 2019, paragraphs 14 - 15

² Welsh Government Board Terms of Reference (January 2020)

8. We heard that the accounts are reviewed at all levels, starting with a thorough review by senior officials, with further scrutiny at Audit Risk and Assurance Committee (ARAC) level before the accounts were presented to the Welsh Government Board.

9. The Permanent Secretary suggested that she would be looking to bring the accounts sign-off forward to July, but this was unlikely to occur for the Accounts 2019-20 due to “practical constraints”. These included the “lengthy and rigorous processes that are involved in ensuring the accounts are done properly”.³

Alignment Exercise

10. In its report, Best Practice Budget Processes the Finance Committee in the Fourth Assembly recommended:

“... an ‘alignment exercise’ should be carried out, similar to the one at Westminster, to ensure that Welsh Government accounts uses the same boundary for the budget presented to the Assembly as that used by the Treasury for control of public expenditure. It would also be necessary for the Welsh Government to prepare its accounts on the same basis. This would also be a useful first step towards the production of a whole of government of Wales account.”⁴

11. The **Welsh Government consulted in May 2019**⁵ about the latest proposals to amend the Government of Wales Act 2006 (Budget Motion and Designed Bodies) Order 2018 to include additional specified Welsh public bodies within the schedule of designated bodies. This sought views on the next phase of the alignment (phase 3), which focuses on public bodies in the central government sector in Wales: the Welsh Government Sponsored Bodies, Commissioner bodies; and Welsh NHS Charities (as defined by section 150(4) of the Charities Act 2011).

12. The consultation document noted that bodies needed to provide financial information in a form and to a deadline prescribed by the Welsh Government.

13. The Permanent Secretary explained that the Welsh Government was midway through an exercise to align the budget and accounting boundaries for the Welsh Government and its sponsored bodies. Currently, of the 48 bodies, 20 are designated and aligned with the Welsh Government’s budget structure, and 13 of

³ RoP, 7 October 2019, paragraph 26

⁴ Report of the Finance Committee, Best Practice Budget Processes Inquiry, July 2014, page 34

⁵ Welsh Government Consultation Document, Amending the Government of Wales Act 2006 (Budget Motions and Designed Bodies) Order 2018, May 2019

these are already included in the accounts. That leaves 28 bodies which are not currently aligned.

14. The consultation identified a number of issues to resolve to ensure bodies are clear on the purpose of the alignment exercise and the implications for their independence. It is anticipated that three more bodies will be designated and included in the Welsh Government's accounting boundary for 2019-20.⁶

Conclusions and Recommendations

15. We welcome the measures taken for the preparation of the 2018-19 accounts and the Welsh Government's commitment to continuous improvement of the process. However, we recognise that the Coronavirus pandemic may well affect the Welsh Government's ability to sustain the existing accounts timetable for this year, let alone make any improvements to it. We therefore urge the Welsh Government to return to this issue for the 2020-21 accounts.

16. The Committee notes that these improvements are important given the alignment exercise will bring additional bodies within the Welsh Government's accounting boundary. A timetable is needed for the resolution of issues and agreement with bodies on the format for providing information to the Welsh Government so that it can be easily and accurately processed for the accounts.

17. In line with the commitment given in response to recommendation 11 of our report on the Accounts 2017-18⁷, we expect to see the Welsh Government publish its timetable for the preparation of the annual accounts on its website.

⁶ RoP, 7 October 2019, paragraph 24

⁷ Welsh Government **Response** to the Committee's Scrutiny of Accounts 2017-18 Report, (30 April 2019)

3. Transparency

Board and Committee Papers

18. The Committee remains concerned about the lack of publicly available information on the in-year performance of the Welsh Government. This is in stark contrast to the requirements placed on other public sector bodies, such as Local Health Boards in Wales, which are required to publish papers for board meetings. We previously said:

“We want the Welsh Government to work with other bodies to review what information they make publicly available to ensure a consistent standard, and allow the public to see how decisions are made. We believe this will promote openness and transparency, and demonstrate accountability of the bodies to Welsh taxpayers.”⁸

19. The Permanent Secretary responded:

“We publish the papers of the Welsh Government board on the Welsh Government website, but it is true that we don’t publish everything. The papers of the sub-committee, including remuneration committee, are not published. Some of those would be very difficult to do, because they deal with specific individuals and issues relating to them, and I wouldn’t want to do that.”⁹

20. At our time of reporting, only the agenda and summary minutes of Welsh Government Board meetings were available online and its papers were not published. There is also inconsistency in the public availability of papers for, and minutes of, board meetings at Welsh Government Sponsored Bodies.

21. The Welsh Government does not publish the agenda and papers of its sub-committees, such as the Audit and Risk Assurance Committee (ARAC). This appears to be consistent with the approach taken by its Sponsored Bodies.

22. This means that the Welsh Government and its sponsored bodies do not make publicly available the reports relating to the preparation and audit of their

⁸ Report of the Public Accounts Committee, Scrutiny of Accounts 2017-18, March 2019, paragraph 81

⁹ RoP, 7 October 2019, paragraph 19

annual accounts. Nor do all bodies publish their in-year management accounts and information to show how key decisions are made.

23. The Permanent Secretary agreed to give further consideration to the publication of Welsh Government Board and the Welsh Government's ARAC meeting papers.

Fiscal devolution

24. Part 1 of the Accounts 2018-19 included an overview on the way the Welsh Government has administered the new fiscal powers transferred to Welsh Ministers. It sets out information on the Welsh Government tax policy framework, its reform of local taxation (council and non-domestic rates) and the Welsh Rates of Income Tax, which were introduced from 1 April 2019.

25. While welcoming the inclusion of this information, the Committee asked the Permanent Secretary if, to promote transparency, the Welsh Government planned to make any changes or additional disclosures in the 2019-20 Accounts.¹⁰

26. The Permanent Secretary said the Welsh Revenue Authority published full details of the taxes that have been paid in Wales and the Office for Budget Responsibility (OBR) published a report on devolved tax revenues alongside the Welsh Government's budget. In her view, taken together, these provided transparency. However, she would consider the scope for including further information in Part 1 of the accounts in future.¹¹

Reporting how public money has been spent

27. We have reported previously on the need for greater transparency by the Welsh Government in reporting its outturn against budget, including the explanations for variances.¹²

28. In its Scrutiny of Accounts 2016-17 Report, the Committee noted that the presentation of the information

“...does not aid transparency and to this end we welcome the reassurance provided by the Permanent Secretary during the meeting

¹⁰ RoP, 7 October 2019, paragraph 27

¹¹ RoP, 7 October 2019, paragraph 28

¹² **Report** of the Public Accounts Committee, Scrutiny of the Accounts 2016-17, February 2018, paragraph 81

that the Welsh Government intends “to simplify and streamline it for next year’s accounts.”

29. The following year, the Committee recommended that the Welsh Government:

“... makes more detailed financial and performance information, such as analyses of annual expenditure within each MEG and how these programmes are delivering against planned outcomes. This should include information to allow the public to see how decisions are made and also reports about its in-year performance to increase transparency and accountability.” (recommendation 14)

30. In response¹³, the Permanent Secretary referred previously to the Statement of Resource Outturn (SORO), which reports the outturn against the budget voted by the Assembly. The presentation of this information in the Accounts 2018-19 does not differ significantly to that set out for 2016-17 and 2017-18.

31. The SORO 2018-19, and the related notes, showed that the Welsh Government’s expenditure for each Ambit or Main Expenditure Group (MEG) was within the budget voted by the Assembly. The Welsh Government reported a total underspend of £274 million against its budget of £17.1 billion, or 1.6%. The Welsh Government’s actual income for 2018-19 was £281 million less than its budget of £1.2 billion, a variance of 23% of the budget. The Committee noted that Welsh Government’s income has been at least 10% below budget each year since 2015-16, exceeding 20% in 2015-16 and 2018-19.

32. The Permanent Secretary explained that where the Welsh Government had not spent its budget, no funding had been lost to Wales and the underspends had been added to the Wales reserve for future priorities. She noted the Welsh Government could carry up to £350 million in reserves to use in future years. She added that some of the underspends had arisen from annually managed expenditure (AME) programmes, which can be “volatile and demand led”. She concluded that the underspends had not arisen from a lack of rigour but instead the unpredictable nature of the programmes involved.¹⁴

33. The Permanent Secretary said that Welsh Government had provided an overview of the reasons for variances, balancing the amount of information included without losing people’s interest. She said that the notes to the SORO set

¹³ Welsh Government **Response** to the Committee’s Scrutiny of Accounts 2017-18 Report, (30 April 2019)

¹⁴ RoP, 7 Oct 2019, paragraph 114

out explanations for variances over £10 million as these are most likely to be of interest but confirmed that she was happy to include more detail in future accounts.¹⁵

34. The Accounts 2018-19 do not explain why the Welsh Government had not met its budget for income. The Permanent Secretary told us the reasons for this was that EU funding accounted for most of the Welsh Government's income and the timing of its receipt was difficult and complex to predict.¹⁶

35. The Permanent Secretary added that if the Welsh Government set its income budget too low and more EU funding was received than expected, it would be required to surrender to the Welsh Consolidated Fund any amounts over and above the budget.

36. Furthermore, if the amounts held in the Wales Reserve at the year-end exceed the threshold, the Welsh Government would be required to return funding to the Treasury. The Permanent Secretary explained that the budget has to be carefully managed to mitigate the risk of losing income for Wales:

“Setting the budget high makes sure that we don't lose money that we could spend on Welsh priorities. And, again, it's a balance between setting it realistically high and not setting it so low that we then breach it and can't use the money for Wales.”¹⁷

37. The Permanent Secretary's response to the Committee's Scrutiny of Accounts 2017-18 Report stated that the Welsh Government would be introducing a further table in its Accounts 2018-19 to set out the 30 largest areas of expenditure. This had not been actioned for the Accounts 2018-19 but the Welsh Government had included an infographic that set out the Top 5 expenditure areas which amounted to £11.2 billion, around two-thirds of the total expenditure.

38. In her update on the recommendations in the Committee's Scrutiny of Accounts 2017-18 Report, the Permanent Secretary explained:

“In the Accounts preparation process it became apparent that simply extracting the 30 largest areas of expenditure into a table, which would

¹⁵ RoP, 7 Oct 2019, paragraph 124

¹⁶ RoP, 7 October 2019, paragraphs 127 – 128

¹⁷ RoP, 7 October 2019, paragraph 128

include non-cash accounting charges as well as direct expenditure added little useful information for the user of the Accounts.”¹⁸

39. The Permanent Secretary said that, having reconsidered, it was clearer to only include the top five largest areas of expenditure, to meet the Committee’s objectives and give the public an overview of the main areas of public spending.

40. The Permanent Secretary’s response last year also referred to other reports produced by the Welsh Government. These included the Outturn Report, which the Welsh Government submits annually to the Assembly’s Finance Committee to provide ‘comprehensive details of how the Welsh Government outturn compares with the budget’.¹⁹ However, at the time that the Accounts 2018-19 were laid, the latest Outturn Report was in respect of the Welsh Government’s outturn for 2017-18.²⁰

41. The Permanent Secretary reported that she would ask the Minister for Finance and Trefnydd if the Outturn Report could be copied to the Public Accounts Committee when it is submitted to the Finance Committee. She added ‘the Outturn Report is prepared once the Accounts have been audited to provide certainty of reporting’.²¹

Whole of Government of Wales Account

42. The former Auditor General for Wales noted in his valedictory session with this Committee in July 2018.

“...you have to scrutinise what the Welsh Government is doing, and I have to say that I don’t believe that the Government is as open as it should be, and that means that you have a responsibility to scrutinise in more detail.”

43. He also suggested that the Welsh Government should produce a Whole of Government Account for Wales, stating “there’s every reason why Wales should” and that it was “essential” to know the total state of assets and liabilities and their effects on future generations.

¹⁸ Written Correspondence, PAC(5)-24-19 Paper 5, 7 October 2019

¹⁹ Welsh Government Response to the Committee’s Scrutiny of Accounts 2017-18 Report, (30 April 2019)

²⁰ Welsh Government Report on Outturn 2017-18 (November 2018)

²¹ RoP, 7 October 2019, paragraph 141

44. The Committee concluded previously that there would be value in the Welsh Government preparing a Whole of Government of Wales Account. This would help build the picture of the state of the nation's public finances and particularly important given the Welsh Government's new taxation and borrowing powers. It would also be an important source of information for assessing progress against the aspirations of the Well-being of Future Generations (Wales) Act 2015.

45. The Auditor General for Wales wrote to us²² outlining practices in New Zealand, where the principle of open and transparent reporting on the plans and activities of the government is well established. The New Zealand Government produced its first set of whole of government accounts in 1991; the UK Government has done so every year since 2011; and the Scottish Government committed in 2016 to do so (in anticipation of taking on its new fiscal and borrowing powers). The Scottish Government reconfirmed its intention in November 2018 to the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee, although the Auditor General for Scotland has noted that the Scottish Government has still not fulfilled its commitment.²³

46. We recommended that the Welsh Government liaise with its counterparts in the Scottish Government to enhance its understanding of the potential merits of introducing a Whole of Government Accounts for Wales and provide an update to the Committee.²⁴

47. The Permanent Secretary accepted this recommendation, noting that she would provide an update in autumn 2019, but added:

“... at this stage, the Welsh Government has not been provided with a strong case for preparing a whole of Wales account.”²⁵

48. In October 2019, the Permanent Secretary told us that she felt that the Welsh Government was moving towards more of a whole of government approach with the inclusion of the aligned bodies (as described in Part 2 of this report), noting:

“We'll continue to do that before we're able to take stock of the value of including other bodies in whole-of-Wales account approach. The main ones that would be left at that point, once we've designated and

²² Written Correspondence, PAC(5)-28-19 Paper 6, 11 November 2019

²³ Report: The 2018/19 audit of the Scottish Government Consolidated Accounts, page 5 (September 2019)

²⁴ Report of the Public Accounts Committee. Scrutiny of the Accounts 2017-18. March 2019. page 45.

²⁵ Written Correspondence, PAC(5)-12-19 paper 4, 13 May 2019

consolidated the arm's-length bodies would essentially be local authorities. So, that would make for a very, very bulky set of accounts if we included everything.

From talking to my Scottish counterpart, I gather what they're thinking about is just having a couple of tables that pull out some key figures for comparison rather than incorporating all of their local authority accounts into one whole-of-Scotland account.”²⁶

Alignment of Policy Objectives, Expenditure and Impact

49. The Committee discussed the need to link the information in the accounts with policy goals to better understand what difference expenditure makes to people's lives, and how the Welsh Government's goals align with the budget setting process.²⁷

50. A recent report by Chwarae Teg commented on the need for organisational change within the Welsh Government, stating:

“...there remains a sense among officials that the strategic budget process is too far removed from policy-making and not transparent enough to enable effective collaboration and scrutiny.”²⁸

51. The Permanent Secretary told us the Welsh Government was working with Chwarae Teg to take forward the recommendations from the review, including the introduction of gender budgeting in the annual budget process.

52. The Future Generations Commissioner is quoted in the Chwarae Teg report welcoming the definition of preventative spend that has been agreed with Welsh Ministers. She has also emphasised the need for a mechanism that makes it easier to track progress on how decisions are being made differently as a result of the Well-being of Future Generations (Wales) Act 2015.²⁹ The lack of integrated performance reporting makes it difficult to analyse the impact that Welsh Government spending is making..

53. For example, in its Accounts 2018-19, the Welsh Government notes that '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

²⁶ RoP, 7 October 2019, paragraphs 40-41

²⁷ RoP, 7 October 2019, paragraph 68

²⁸ Chwarae Teg, Deeds not Words, (June 2019), page 65

²⁹ Chwarae Teg, Deeds not Words, (June 2019), page 67

seven well-being goals for Wales'. However, other than that set out in a case study, the Accounts 2018-19 do not detail how the Welsh Government is measuring its related progress or set out information about outcomes.

54. The Auditor General for Wales outlined relevant practices in New Zealand where the Annual Report of the Treasury and the Financial Statements of the Government of New Zealand are the closest equivalents to the Welsh Government's accounts, stating:

"The Annual Report of the Treasury in particular sets out a wide range of information for the reader, presented in a clear and engaging style, and contains extensive information on targets, performance and outcomes.

Other departments of the New Zealand Government produce their own annual reports, such as for the Ministry of Social Development and the Ministry for Education. Taken with the annual accounts, these departmental reports together provide a comprehensive picture of progress, delivery and achievements."³⁰

³⁰ Written Correspondence, PAC(5)-28-19 Paper 6, 11 November 2019

4. Performance Reporting

55. The Committee has made a series of recommendations in its accounts scrutiny reports since 2015-16 about the Welsh Government's performance reporting.

56. HM Treasury's Financial Reporting Manual (commonly known as the 'FReM') is the technical accounting guide for the preparation of the annual report and accounts by certain public bodies, such as the Welsh Government.

57. Much of the FReM is set in the context of departments financed through the Westminster Estimates process and some of the more detailed requirements apply only to those UK government departments that have published a Single Departmental Plan (SDP).

58. The guidance issued to supplement the FReM for the preparation of the Annual Report and Accounts 2018-19 identified the areas departments should 'broadly aim to address' in respect of the Performance Report. These include information about:

- What the body is aiming to achieve (aligned to objectives and strategies);
- What it has spent its money on;
- How it has performed (using indicators) explaining the linkages between various pieces of information and narrative around the link between Key Performance Indicators (KPIs), risk, uncertainty and spending)); and
- What are the body's plans for the future.

59. In its Scrutiny of Accounts 2017-18 Report, the Committee noted that Wales had the opportunity to 'lead the way' in the presentation of financial reporting. The Committee also noted that the Welsh Government issued accounts directions to its sponsored bodies, which required them to comply with HM Treasury's Financial Reporting Manual (FReM), including guidance in respect of performance reporting. The Permanent Secretary told us:

"We make sure that we keep our arm's-length bodies, our sponsored bodies, up to date in all developments in public sector financial reporting [...] I think that's a very important role for the Welsh Government to be providing training to spread best practice across the

Welsh public sector as a whole, for example with the new accounting standards that are just coming in. And we obviously insist that our sponsored bodies follow the Treasury guidance in how they prepare their reports.”³¹

60. The Accounts 2018-19 reflect some changes in presentation, such as the inclusion of case studies, and the Welsh Government makes clearer what information is set out in each of the three constituent parts of the document. However, consistent with the approach taken in previous years, the Welsh Government did not report performance against the Programme for Government.

61. We have previously disagreed with the Permanent Secretary’s view that reporting performance against policy objectives should not be included in the accounts on the grounds that it is a matter for Welsh Ministers.³² The Permanent Secretary explained that she had given the matter significant thought, particularly given the concerns we had raised, but stated that the accounts “comply with all of the Treasury guidance that sets out the framework for how we [Welsh Government] should report”.³³

62. The Permanent Secretary told the Committee in **October 2018** that, as a devolved administration, the Welsh Government does not have to comply with the requirements of the FReM, stating that the Welsh Government has “flexibility to do something different that we think is better for Wales”.³⁴

63. In her response to the Committee’s 2016-17 Report, the Permanent Secretary also stated that reporting performance against objectives set out in the Programme for Government - ‘Prosperity for All’ - was a matter for Welsh Ministers. The Permanent Secretary reiterated in October 2019 that the system of reporting reflected “what our Ministers want to do”.³⁵ She confirmed that the First Minister is content that Welsh Government officials continue to report performance against policy objectives as it does currently.

64. We heard that the Welsh Government publishes four reports, which provide a “comprehensive overview” of activity in Wales. These comprise of the Accounts, the annual well-being of Wales report, the annual report in respect of progress made in delivering ‘Prosperity for All’ and the annual outturn report.³⁶

³¹ RoP, 7 October 2019, paragraph 234

³² **Report** of the Public Accounts Committee, Scrutiny of Accounts 2017-18, March 2019

³³ RoP 7 October 2019, paragraph 45

³⁴ RoP, 15 October 2018, paragraph 33

³⁵ RoP, 7 October 2019, paragraphs 45-46

65. The Accounts 2018-19 refer to its annual progress reports towards delivery of 'Prosperity for All'.³⁶ At the time the accounts were laid, the latest annual report related to 2017-18.³⁷

66. The Welsh Government publishes an annual well-being of Wales report. At the time the accounts were laid, the latest Well-being of Wales Report related to 2018 (published September 2018). However, this notes:

"This report assesses progress against those shared national goals for Wales as a whole. It is not a report about the performance of any organisation, but the collective changes we are seeing in Wales."³⁸

67. Other Welsh Government performance reports are published at different intervals during the year. For example, Health and Social Services Departmental targets such as A&E waiting time targets.

68. Along with the Outturn Report (paragraphs 40-41), the table below illustrates the four different annual reporting mechanisms and the lack of alignment in publication.

Table 1: Welsh Government Annual Reporting - Publication and laying dates, 2017-18 and 2018-19

Reporting Document	Purpose	Author	2017-18	2018-19	Assembly Oversight & Scrutiny
Consolidated Accounts	Detailed overview of the Welsh Government's finances and how it has met its statutory obligations.	Permanent Secretary of the Welsh Government	2 October 2018	27 August 2019	Public Accounts Committee during Autumn term
Outturn Report*	A comparison of the Welsh Government's spending plans set out in the last Supplementary Budget of a year and an explanation of significant variations.	Minister for Finance and Trefnydd	28 November 2018	29 October 2019	Scrutiny of the Minister for Finance by the Finance Committee

³⁶ Welsh Government, [Prosperity for All: the national strategy](#) (September 2017)

³⁷ Welsh Government, [Prosperity for All: annual report 2018](#) (October 2018)

³⁸ Welsh Government, [Well-being of Wales 2017-18](#), page 2 (September 2018).

Well-being of Wales Report	Report on the progress of the Welsh Government's 7 Well-Being goals, 12 Well-Being objectives and 46 Well-Being indicators.	Chief Statistician of the Welsh Government	20 September 2018	26 September 2019	No formal scrutiny.
Annual report in respect of progress made in delivering 'Prosperity for All'	Report on progress against the objectives of the National Strategy and the associated (150+) individual actions.	First Minister	3 October 2018	31 January 2020	Debate led by the First Minister in Plenary on the Annual Report and Legislative Programme.

Note * The Outturn Report is presented to the Assembly's Finance Committee.

69. The Permanent Secretary believes these four documents show what has been achieved, not just in terms of outputs, but outcomes as well³⁹. We heard that bringing these documents together would create a document that would be too large and inaccessible. The Permanent Secretary explained:

"What we try and do always, and I do feel we achieve that, is provide the information that we need to produce for your purposes, for democratic scrutiny of Welsh Government expenditure, but also for wider public interest. So, we try and make it as accessible as possible."⁴⁰

70. The Permanent Secretary concluded that choosing to have four separate documents enabled the Welsh Government to focus on particular areas. The annual well-being of Wales report also gives an important overview of what has changed as a result of policies that mean something to the public as well as those involved in scrutiny.⁴¹

71. While it is standard practice to include links to other documents in the accounts, their usefulness is limited if they are not published concurrently. Their effectiveness in explaining how public funds have been used and what has been

³⁹ RoP, 7 October 2019, paragraph 91

⁴⁰ RoP, 7 October 2019, paragraph 93

⁴¹ RoP, 7 October 2019, paragraph 93

achieved with that spending is also limited if the reports do not refer to the accounts that report spending.

72. The Permanent Secretary set out the practical barriers to publishing reports concurrently, such as when the data becomes available for compiling the reports and that others can only be produced when the accounts have been audited and signed off.⁴²

Key Performance Indicators for the civil service

73. The Permanent Secretary's response to the Committee's Scrutiny of Accounts 2017-18 Report stated that she had asked one of the Non-Executive Directors to lead a task and finish group to advise on a suitable approach to preparing an enhanced and systematic set of Key Performance Indicators (KPIs) for the Welsh Government. These would relate to the operational performance of the Welsh Government and the responsibilities that rested with the Permanent Secretary rather than Ministers.

74. In a written update, the Permanent Secretary stated the task and finish group had recommended a framework based on the International Civil Service Effectiveness Index (InCiSE).⁴³ The latest InCiSE Index 2019⁴⁴, is reported as 'building on the lessons learned during the 2017 pilot phase',⁴⁵ using '46 more metrics and 5 more data sources than previously'.

75. The Permanent Secretary told us that this work, which is being taken forward by the Welsh Government's Knowledge and Analytical Services, would 'help improve and maintain the performance and efficiency of the organisation', adding:

"Some new KPIs will be included in the 2019-2020 Report and Accounts. Others will take longer as new data will need to be collected and analysed."⁴⁶

Conclusions and Recommendations

76. We remain concerned about the incoherence of information publicly available about the in-year performance of the Welsh Government. We are

⁴² RoP, 7 October 2019, paragraph 87

⁴³ Written Correspondence, PAC(5)-24-19 Paper 5, 7 October 2019

⁴⁴ International Civil Service Effectiveness (InCiSE) Index 2019

⁴⁵ InCiSE 2017 Pilot Phase

⁴⁶ Written Correspondence, PAC(5)-24-19 Paper 5, 7 October 2019

surprised to note the range of differing approaches to publication adopted by its sponsored bodies, some of whom disclose considerably more information than others, including Board papers. We question whether the Welsh Government (and some of those sponsored bodies) are adhering to the spirit of the principles of transparency set out in *Managing Welsh Public Money*⁴⁷, and instead are maintaining a default position of minimal disclosure of information.

77. The Committee appreciates that there can be sensitivities and costs involved, but if other public bodies can publish their Board papers, even if that involves some redaction, the Welsh Government and its Sponsored Bodies should look to do the same – or else be very clear why this is not practical.

Recommendation 1. We recommend that the Welsh Government reviews its approach to the publication of Board and Audit and Risk Assurance Committee (ARAC) papers, and that it does not simply restrict publication to agendas and summary minutes.

Recommendation 2. We recommend that the Welsh Government works with its sponsored bodies to review what information they make publicly available about their Board and audit committee meetings to ensure a consistent minimum standard and allow the public to see how decisions are made.

78. We welcome the Welsh Government's inclusion of an infographic in its Accounts for 2018-19 which sets out the Top 5 expenditure areas. However, we remain concerned that the accounts and Outturn Report still do not adequately explain Welsh Government expenditure and what outcomes this expenditure has achieved. We are also concerned that the Welsh Government is not moving quickly enough to address concerns around gender budgeting and reporting on the extent to which it is shifting expenditure towards prevention.

79. We welcome the Permanent Secretary's confirmation that she is content to set out further information in the notes to the Statement of Resource Outturn while recognising the need to balance detail and retain public interest. The sort of information about variances that we would like to see considered included, for example:

- which are under or overspend against departmental expenditure limit budgets and explain more fully why the Welsh Government has not incurred expenditure in line with those budgets;

⁴⁷ *Managing Welsh Public Money*, January 2016

- which represent technical accounting entries for which the actual values differ from the estimates and why; and
- which are variances for Annually Managed Expenditure – areas of expenditure, typically consisting programmes which are large, volatile or demand-led; for example, the issue of student loans.
- the impacts of these variances – what do these mean for Wales, the provision of services, the retention of unspent funds in Wales for future use, and the delivery of the Welsh Government’s objectives.

80. We note that the Welsh Government is not able to publish the annual reports for ‘Prosperity for All’ and well-being until the data becomes available. We do not understand why the Outturn Report is not presented to the Finance Committee until several months after the Welsh Government’s audited consolidated accounts are laid at the Assembly. We see no reason why the report could not be prepared alongside the accounts, and published shortly thereafter, on the assumption that there may be few material changes to figures after the draft accounts are produced. We also consider that the Welsh Government could make clearer its overall approach to reporting and the connections between the reporting in the Accounts and the other annual reporting documents it produces.

81. Given the introduction of the Welsh Rate of Income Tax from April 2019 we believe there is an opportunity for greater transparency and clarity about the overall shape of Welsh public finances for the 2019-20 financial year onwards. There appears to be a gap in the Welsh Government’s Part 1 commentary, that refers to fiscal matters, but does not explain how the accounting ‘all fits together’. In the future, the Welsh Government may wish to consider building on the example of the text set out in the Scottish Government’s accounts, as this provides greater clarity.

82. We are disappointed that the Welsh Government appears to have adopted a relatively passive stance in response to our call for active consideration of the case for a Whole of Government Account. It seems to us that such an account would allow greater understanding and scrutiny of the overall state of the Welsh public finances. It could, for instance include details of Welsh Government revenues from the block grant; the Welsh rate of income tax (collected via HMRC); the devolved taxes (collected via the Welsh Revenue Authority), local taxes (council tax and Non-Domestic Rates (NDR); loans and other borrowing.

83. On the expenditure side, it could provide details of revenue and capital spending, assets (including the nature and state of the nation’s infrastructure),

debtors (including the student loan book) and cash balances; and liabilities including creditors, provisions (including Local Government pensions), borrowings, guarantees and contingencies.

84. We think that, over time, such an account would also permit analysis of trend patterns, potentially supporting better quality scrutiny of forecasts and projections for revenues, spending, capital investment and borrowing.

85. This could assist in assessing the impact of Welsh Government policies, if policy objectives could be mapped against expenditure on individual budget lines.

86. Finally, we welcome the Welsh Government's commitment to report against new Key Performance Indicators for the Civil Service in the 2019-20 Accounts but are disappointed with the time it has taken to develop these arrangements. We also note that the principal aim of the Welsh Civil Service is to "support Ministers to deliver for Wales". If these indicators are seen and drawn up in isolation to the priorities of the Government of the day, there is a risk that this could deepen the reporting complexity. Regardless of its administrative efficiency, the organisation could be at risk of failing in its primary objective of delivering the government's programme.

Recommendation 3. We recommend that the Welsh Government demonstrate best practice in financial management, budgeting and reporting. This will include the publication of indicative spending plans and priorities linked to outcomes, alignment of budgets to outturn, the publication of Whole of Government accounts and forward-looking public finance plans and forecasts. Specifically, we recommend that:

- The Welsh Government gives further active consideration to the merits and practicalities of preparing a Whole of Government of Wales Account and updates us in autumn 2020;
- The Statement of Resource Outturn sets out more information about significant variances and makes clear the different types of variances, taking account of the issues outlined in paragraph 33 of this report;
- The Outturn Report is formally published, as well as being presented to the Finance Committee, at the same time, or soon after, the Welsh Government's annual consolidated accounts;

- The Welsh Government includes information on its website that sets out its overall approach to reporting and the connections between the four key annual reports that it produces as set out in Table 1 of this report;
- Should plan to introduce a clear and streamlined suite of common objectives and indicators across the reporting areas outlined in Table 1 to facilitate improved alignment of comprehensive performance reporting.

Recommendation 4. The Welsh Government provides us with a list of the key performance indicators that it intends to report on for 2019-20 to measure the administrative performance of the civil service and a timetable for reporting on the remaining indicators.

5. Governance and Accountability

Risk profile

87. The Governance Statement, included in the Accounts 2018-19, reported that the Welsh Government Board had only reviewed corporate risks twice during 2018-19, which led us to ask whether this was enough for the Board to discharge its responsibilities.

88. The Permanent Secretary outlined that in addition to the Board's detailed reviews, there are other processes. Risks are assessed at Group level, enabling Directors to keep under constant control and manage risks that are specific to their individual group. Independent Non-Executive Directors provided external scrutiny and challenge through group level ARACs and the overall Welsh Government ARAC. The risk registers are also scrutinised by the Finance Sub-Committee of the Welsh Government's Executive Committee (ExCo).

89. The Accounts 2018-19 described the Welsh Government's risk profile as 'extensive and varied, as would be expected from the broad range of different activities in which it is involved'.⁴⁸ The Welsh Government reported that, at the time, the most critical matter on the Corporate Risk Register remained the level of uncertainty about the timing and outcome of European Transition as well as its likely impact on Wales.⁴⁹ The Board had included four new risks in the Corporate Risk Register during 2018-19. These included an escalation in the risk relating to the delivery of 'A Healthier Wales', the Welsh Government's long-term plan for health and social care.

90. The Permanent Secretary stated that having this risk had sharpened the Welsh Government's focus and that work was ongoing, including close engagement with the NHS and social care delivery organisations. A programme budget of £10 million had been established to support delivery of the actions set out in 'A Healthier Wales', on top of which there is the NHS Transformation Fund.⁵⁰

91. The other three new risks described in the accounts related to arms-length body governance, the General Data Protection Regulation and a disruption event affecting the Welsh Government's business, which is particularly apt at our time of

⁴⁸ Welsh Government Consolidated Accounts 2018-19, page 58

⁴⁹ Welsh Government Consolidated Accounts 2018-19, page 58

⁵⁰ RoP, 21 October 2019, paragraph 64

publishing. No information was given in the Accounts 2018-19 in respect of the other risks on the Corporate Risk Register.

Internal Control Issues

92. The Permanent Secretary stated in the Accounts 2018-19 that the Welsh Government had 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'. We explored some of those issues.

European Agricultural Funds Rural Development

93. The Auditor General provided a qualified opinion on the European Agricultural Funds Rural Development (EAFRD) account for the year to October 2018, reflecting auditors' findings in respect of non-compliance with EC regulations and a failure to demonstrate value for money. This related to the eligibility of certain grant expenditure and contracts awarded through 'direct applications' and project extensions by the Welsh Government.

94. The value of these contracts had initially been assessed to be €33.1 million. However, the Welsh Government had quantified the value at €8.9 million. The Accounts 2018-19 stated the actual amount was still to be agreed between the Welsh Government and European Commission (EC).

95. We asked the Permanent Secretary why the Welsh Government's control framework did not identify and manage the risk of non-compliance. The Permanent Secretary told us that Welsh Government believed that the bids it submitted were eligible for EU funding. She added that the Welsh Government have an "outstanding record on compliance, and we have seen the lowest levels of repayment in Wales over the last five years".⁵¹

96. Andrew Slade, the Director General – Economy, Skills and Natural Resources Group -explained that the issue stemmed from an assessment about what the law requires in respect of types of project identification and approvals. The Welsh Government's early analysis suggested that this was not a systemic problem and any issues about how these projects were managed could be picked up as part of a lessons learned exercise.

⁵¹ RoP, 21 October 2019, paragraph 81

97. The Permanent Secretary agreed to provide the Committee with an update on the bilateral discussions regarding the European Agricultural Funds Rural Development Accounts when appropriate.

Arm's-Length Bodies (ALBs)

98. In its Scrutiny of Accounts 2017-18 report, the Committee expressed concerns about how planned changes to the Welsh Government's 'Calling-in Procedure' for Arms-Length Bodies (ALBs) would work. The calling in mechanism is the requirement for ALBs to refer to the Welsh Government for approval certain categories of decision, such as single tenders above a specified threshold or issues which are novel and contentious.

99. The Welsh Government has suggested previously that the removal of this procedure would result in an efficiency saving to the Welsh Government in time spent providing advice and approvals, and also allow Chief Executives to take decisions which are properly their responsibility as Accounting Officers. A 'tailored review' process would be used to provide assurance on whether individual bodies remain fit for purpose, are well governed and properly accountable.⁵²

100. We asked how the Welsh Government would get assurances in future on matters previously reported through the procedure. In an update in July 2019, the Permanent Secretary noted that, for 2019-20, she and the First Minister had agreed transitional arrangements, having been assured by officials that the removal of calling-in procedures does not pose an unacceptable risk to the Welsh Government or the effective delivery of its Programme.⁵³ The Permanent Secretary set out details about the transitional arrangements for the new procedures, which introduce approval, pre-notification and notification arrangements.

101. In her subsequent update on 27 September 2019, the Permanent Secretary noted, as part of the transitional arrangements, the Welsh Government had 'further refined' the procedure to be followed 'in the event of a public body choosing to disregard Welsh Government advice on an issue requiring pre-notification'. The changes were notified to public bodies in July 2019.

102. The Permanent Secretary explained that Welsh Government had reviewed the purpose and value of its interactions with Arm's-Length Bodies and identified

⁵² Written Correspondence, PAC(5)-26-18 PTN2 15 October 2018

⁵³ Written Correspondence, PAC(5)-21-19 PTN3, 16 September 2019

that the calling-in procedures did not have a great deal of purpose or add considerable value. The ALBs felt the process delayed their operations.⁵⁴

103. The Welsh Government's aim had been to develop a transparent and strategic relationship with ALBs, ensuring appropriate governance and decision-making structures were in place to give assurance to the Permanent Secretary and to enable their accounting officers to take the right decisions. Rather than focussing on individual transactions under calling-in procedures, some of which can be marginal, the Welsh Government decided to change those arrangements on a transactional basis, and in the meantime collect data to ensure it is kept well informed.

104. The Permanent Secretary told us:

“... for me, the focus has got to be on having the right chair and chief exec who are both competent and trained, to have a capable and well-functioning board overall, a good audit and risk committee, and a properly trained accounting officer who is applying effective financial controls, and that we also have the right level of scrutiny through internal and external audit, and also, obviously, through Assembly committees. Obviously, we want to build an effective relationship with the Welsh Government as part of that.”⁵⁵

105. She explained that a tailored review would be completed in respect of each ALB during each term of Government. While the Welsh Government's Public Bodies Unit was developing the approach:

“That review will focus on the overall purpose and role of the ALB, its capacity to deliver the control and governance arrangements that are in place, how the board is functioning, how decision-making structures are functioning, the relationship with the Welsh Government and, in particular, with the sponsor team; also, issues like value for money, whether there's scope to make savings, what is the digital readiness of that ALB given [...] how fast things are moving. All of that will be done in partnership—a mix of Welsh Government officials, arm's-length bodies and independent members as well”⁵⁶

106. The Permanent Secretary added that a challenge panel, chaired by the Minister for Finance and Trefnydd will consider the review at the end. At the time

⁵⁴ RoP, 21 October 2019, paragraph 174

⁵⁵ RoP, 21 October 2019, paragraph 176

⁵⁶ RoP, 21 October 2019, paragraph 179

of taking evidence, the National Library for Wales was piloting the approach with the first challenge panel due to take place in January 2020, which would be followed up with a full programme of tailored reviews.⁵⁷

107. Reflecting on these changes, the Permanent Secretary did not believe the distance between the Welsh Government and its ALBs was getting longer, but instead it was an ‘arm-in-arm’ approach, with tight controls remaining in place. Each ALB had a framework document, which set out its purpose and the nature of its relationship with the Welsh Government. Each ALB also had a designated Accounting Officer, who was responsible for the preparation of the annual accounts, which were audited.⁵⁸

Local Authority Grant Claims

108. In its Governance Statement, the Welsh Government described its local accountability arrangements for local authorities and NHS bodies in respect of which ‘a considerable proportion’ of its expenditure is incurred in the furtherance of policy objectives and delivery of frontline services.⁵⁹

109. The Grants Management Report, included for the first time in the Accounts 2018-19, quantified the amount of hypothecated funding by sector and financial year. This showed that £1.3 billion of the £3.5 billion (or 37%) of hypothecated funding in 2018-19 was provided to local authorities.

110. Certification (or audit) of grant claims is one of the ways in which grant awarding bodies can obtain assurance of compliance, including entitlement to, and use of, grant or subsidy by the recipient bodies. It has been long-standing practice for the Welsh Government to require – in the terms and conditions for many of its hypothecated grants – local authorities to have their claims for grant funding independently certified (or audited) by the Auditor General.

111. The Accounts 2018-19 reported that the Welsh Government and Wales Audit Office ran a pilot to review the basis for the certification of grant claims:

“The pilot’s objective was to consider the value of a move away from extensive financial transactional testing, to considering what activities

⁵⁷ RoP, 21 October 2019, paragraph 180

⁵⁸ RoP, 21 October 2019, paragraphs 203-204

⁵⁹ Welsh Government Consolidated Accounts 2018-19, page 55

were delivered through grants and concentrating the audit focus on whether outcomes had been achieved.”⁶⁰

112. The Permanent Secretary had previously explained:

“...the overall aim of that pilot was to test out how to get the right balance of assurance versus use of resources by both ourselves, WAO and local authorities in fact—you know, what was the right balance. We reviewed the outcome of those pilots and that approach that we took in the pilot has now been rolled out across all 22 local authorities for the 2017-18 financial year. Once we have the audit statements for that year, we will review very carefully to make sure that we’re content with that process. But it seems to us to be a useful way of really focusing on the essentials without putting undue burdens on the local authorities.”⁶¹

113. The Accounts 2018-19 noted:

“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.”⁶²

114. The Permanent Secretary told us:

“... for grants that are over £100,000, we will have additional assurance coming from this statement of expenditure or outturn certificate. So, that’s grants over £100,000. For grants under £100,000, we get assurance via the claims process, which includes assurance, and of course all—. Here we’re talking about hypothecated grants to local authorities, rather than the larger, un-hypothecated grants, and all hypothecated grants to local authorities, like to all other grant recipients, have to comply with a mandatory template that sets out, as I said before, the purpose, monitoring arrangements, targets and outcomes. So, I think those two parallel processes build in a lot of rigour and certainly give me assurance about the use of the grant.”⁶³

⁶⁰ Welsh Government Consolidated Accounts 2018-19, page 15

⁶¹ RoP, 15 October 2018, paragraph 243

⁶² Welsh Government Consolidated Accounts 2018-19, page 15

⁶³ RoP, 21 October 2019, paragraph 275

Conclusions and Recommendations

115. The Committee notes the ongoing discussions between the Welsh Government and the European Commission regarding the European Agricultural Funds Rural Development Accounts and the Permanent Secretary's commitment to provide an update in due course.

116. The Committee is concerned that the Accounts and Annual Report 2018-19 do not provide a fuller commentary on the Welsh Government's principal risks, its assessment of these risks including their probability and impact, its plans to mitigate the risks in order to achieve future objectives; and the movement of risk during the year (aside from those newly added to the Corporate Risk Register in 2018-19). Although we do note that some high-level information is provided in respect of managing Brexit as the 'most critical matter'.

Recommendation 5. We recommend including a summary of the principal risks and any changes to them during the period covered by the accounts. This should set out information about the potential impact of the risks and how these are being mitigated. We are not calling for the inclusion of the Welsh Government's entire risk register in its accounts.

117. In relation to the Welsh Government's new approach to managing its Arm's-Length Bodies and its removal of the calling in procedure, we remain concerned about the risks associated with this change in accountability. We will monitor the effectiveness of the newly established Public Bodies Unit in improving engagement and the governance arrangements between Welsh Government and arm's-length bodies by following up on these matters in our future scrutiny.

118. The Committee remains concerned about the proposed changes to existing arrangements for the certification of local authority grant claims which remove the requirement for external audit and instead simply require sign-off of claims by a suitably authorised officer within the local authority. Independent certification of grant claims provides assurance to the Welsh Government (as the grant awarding body) that its funding has been used for the specific purpose and in accordance with strict controls as set out in its terms and conditions. It also provides assurance for the bodies in receipt of funding and indirectly, to taxpayers and users of public services. The requirement for authorisation of claims by authorised officers is not a new control and we are aware that the audit certification process has, in the past, often identified significant issues with grant claims even though these authorisation processes were already in place prior to audit.

119. We are surprised that the Welsh Government appears to have reversed its stance on the desirability of gaining assurance over the extent to which grant funding is delivering the intended outcomes. With tightened public finances, such assurances on the effectiveness of public spending can help inform future Ministerial decisions on resource allocations.

Recommendation 6. We recommend that the Welsh Government provides the Committee with a fuller explanation of how and why it has decided to move from requiring external certification of local authority grant claims to relying on internal sign-off alone, and why it has discontinued its efforts to obtain assurances that grants are delivering their intended outcomes.

6. Civil Service in Wales

‘Future proofing’

120. In 2017, the Permanent Secretary established a “future-proofing” initiative, which is described in the Welsh Government Accounts 2018-19 as:

“...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.”⁶⁴

121. The Committee has previously noted that the “future proofing” initiative did not seem dissimilar to a scheme run by the previous Permanent Secretary, “Fit for the Future”. Last year, we also recommended that the Welsh Government set out how the new programme was working not only to improve the efficiency of the organisation but also in advancing its capacity and agility.

122. In response⁶⁵, the Permanent Secretary noted that ‘Future Proofing’ builds upon the work of her predecessor and takes account of the learning and insight from that. “Preparing for the Future” looked primarily at organisational and structural ways in which the Welsh Government needed to adapt. ‘Future-Proofing’ switches the emphasis to people-related change and the integrated and system-wide nature of the way the Welsh Government are approaching the behaviour change programme.

123. In terms of the specific objectives set for the ‘Future Proofing’ programme and how performance is measured and reported, we heard that there are no specific objectives and ‘Future-proofing’ is a programme that is designed to change the culture of the Welsh Government. The Permanent Secretary explained:

“The aim of what I’m trying to do comes back to the task I was set by the former First Minister when I arrived—I’m trying to build, with all my colleagues, a more confident, capable and resilient civil service for the future, more adaptable, able to tackle the kinds of priorities we need for the future. I believe very strongly that the Welsh Government is a good organisation, it is full of talented and committed people who

⁶⁴ Welsh Government Consolidated Accounts 2018-19, page iv

⁶⁵ Welsh Government Response to the Committee’s Scrutiny of Accounts 2017-18 Report, (30 April 2019)

really care about what they're doing. I think that that has been demonstrated magnificently this year in response to Brexit.”⁶⁶

124. The Permanent Secretary also told us that, during her first six months in post, she had spoken to staff about how the organisation could be improved. This had identified issues, such as the need for greater transparency and fairness in promotion systems, better leadership and performance management, and access to better learning and development opportunities. She also reported that staff noted the importance of dignity and respect for all in the workplace. All these issues had been built into the ‘Future Proofing’ initiative. However, she noted it is “hard to tie down to targets in those areas” with the overarching objective to “generate real culture change that’s lasting over time”.⁶⁷

Staff survey

125. Having considered its methodology and the contractual arrangements, the Welsh Government has decided not to use the same people survey during 2019. This is due to contractual changes with the developers of the people survey which are overseen by the UK Civil Service at Whitehall. These changes meant there was no guarantee the Welsh Government would be able to include the Welsh specific questions that it wanted. In weighing the cost versus the benefits, it was agreed that it would not give the Welsh Government the type of information needed.⁶⁸

126. The Welsh Government was planning to run its own equivalent survey at the beginning of 2020 to retain a Welsh focus but still enabling the findings to be compared with UK Government figures.⁶⁹

127. We were told that, in February 2020 depending on the contract renewal position, the Welsh Government would negotiate with the Cabinet Office to include Welsh specific questions in future Civil Service People Surveys. Should these negotiations be successful, the Welsh Government would re-join the survey for autumn 2020.⁷⁰

Recruitment

128. During its scrutiny of accounts 2017-18, the Committee asked the Welsh Government whether it would move towards “Success Profiles” – the new

⁶⁶ RoP, 11 November 2019, paragraph 141

⁶⁷ RoP, 11 November 2019, paragraph 142

⁶⁸ RoP, 11 November 2019, paragraph 103

⁶⁹ RoP, 11 November 2019, paragraph 104

⁷⁰ RoP, 11 November 2019, paragraph 107

recruitment framework used within the UK Civil Service. Its aim is to help drive up performance and improve diversity and inclusivity, moving away from using a purely competency-based system of assessment and with candidates assessed against a range of elements and using a variety of selection methods.

129. The Success Profiles framework has five elements: behaviours; strengths; ability; experience; and technical. The Permanent Secretary told the Committee in October 2018:

“We are part of the UK civil service and we operate within the framework of the UK civil service, but that framework gives flexibility in a number of areas, and we use what we think is best for Wales and for this organisation. But we definitely operate within the framework provided by the Cabinet Office, but we have had a very good look, over the last year or so, at where we think it really works for Wales and where we think we could do something better.”⁷¹

130. In subsequent correspondence, the Permanent Secretary noted that the Welsh Government had decided in principle to adopt Success Profiles, but with a slightly longer timeframe for implementation, reflecting bilingual requirements and the need to ensure effective engagement and consultation with trade unions and staff networks.⁷²

131. In its Scrutiny of Accounts 2017-18 Report, the Committee recommended that the Welsh Government clarified its position in respect of adopting the UK Civil Service’s Success Profiles and how these would work in the Welsh context. This was to include the relationship - or otherwise – between this approach and that of the standards and values for internal promotion at gateway grades developed with the input of the Future Generations Commissioner (recommendation 26).

132. In her response, the Permanent Secretary confirmed that the Welsh Government planned to adopt the UK Civil Service’s Success Profiles in autumn 2019. Subsequently, the Permanent Secretary reported that the Welsh Government had started to introduce Strengths Profiles through its corporately run recruitment campaigns, such as its apprenticeship campaign and promotion gateways. The Permanent Secretary also told us:

“The experience and evidence from applying Strengths Profiles to our corporate campaigns will inform how we design our assessment

⁷¹ RoP, 15 October 2018, paragraph 117

⁷² Written Correspondence, PAC(5)-32-18 PTN3, 3 December 2018

processes for roles below Grade 7 and specialist recruitment. However all resourcing activity will be underpinned by the ‘Expectations’ we have developed to reflect the needs of our devolved context and the Well-being of Future Generations ways of working.”⁷³

133. These ‘Expectations’ are complementary to the UK Civil Service profiles as they set out ways of working and Welsh Government values and complement rather than replaced the Civil Service Code or the Nolan principles.⁷⁴

134. We heard there was a different ethos around recruitment and performance management and development. Far from being a conflict with the Strength Profiles, the Welsh Government found the Expectations and strengths-based performance management approach worked towards achieving common and consistent goals. The Head of Organisational Development and Engagement - Welsh Government, Natalie Pearson said:

“So rather than saying, ‘We value this over here, but we’re going to interview for it in a completely different way over here’, or, ‘We’re going to give you another set of measures for performance management’, we want all the bits of our system to be pointing in the direction of what we value, and then putting that into practice by promoting and recruiting people who’ve got those behaviours, and by embedding that in performance management and the way we develop people. So, the intention is that, by doing things consistently across the board, and those things working together, we start to change the culture in the organisation, especially around leadership.”⁷⁵

Voluntary Exit Scheme (VES)

135. In scrutinising the Welsh Government’s Accounts 2017-18, the Committee noted a significant increase in the number and costs associated with exit packages. The Committee recommended that, to aid transparency and facilitate scrutiny, the Welsh Government consider whether more information could be included in its future accounts to explain the purpose of exit packages and/or severance schemes (recommendation 22).

⁷³ **Written Correspondence**, PAC(5)-23-19 Paper 5, 7 October 2019

⁷⁴ RoP, 11 November 2019, paragraph 127

⁷⁵ RoP, 11 November 2019, paragraph 135

136. The Permanent Secretary accepted this recommendation and said she would write to the Welsh Government's ALBs stressing the importance of including information in their annual accounts.

137. The Accounts 2018-19 reported 154 employees left or agreed to leave in the year to 31 March 2019, for which the aggregate value of compensation payments was £5.9 million (in 2017-18, 156 employees left with aggregate compensation of £5.9 million). The Accounts 2018-19 stated:

“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.”⁷⁶

138. The Permanent Secretary explained that the VES was designed to reduce staff costs and create potential headroom to take on staff with new skills that might be needed for the future. For example, more people with digital skills and Welsh Language skills. The scheme was published with four assessment criteria against which every application must be considered. This, she assured us, is done rigorously.

139. The Welsh Government would not approve applications for the VES if it was to have an impact on business continuity, if the individual had key or core skills or if it would need to recruit to replace the applicant. The fourth criterion was that the Welsh Government must ensure that each application for VES generates a future cost saving for the organisation. We heard the Welsh Government's assessment process is:

“... complex. There are layers of scrutiny of the applications. They go through line managers and directors, through group recommendation panels, and then the final decisions are taken by ExCo—the executive committee that I chair—to make sure that we are being fair and consistent and very rigorous about the approach that we're taking to VES.”⁷⁷

140. Of the 223 applications for VES received, 81 were rejected.⁷⁸

⁷⁶ Welsh Government Consolidated Accounts 2018-19, page 76

⁷⁷ RoP, 11 November 2019, paragraph 52

⁷⁸ RoP, 11 November 2019, paragraph 52

Gender Pay Gap

141. The Welsh Government's gender pay gap for 2017-18 was reported to be 8.08%, which was lower than the ONS published Civil Service gender pay gap figure of 12.7% (based on average salaries).

142. The Committee previously recommended that the Welsh Government shared with the Committee its action plan for reducing the gender pay gap since it believed that the action plan would benefit from scrutiny to ensure it is sufficiently ambitious.⁷⁹

143. The Permanent Secretary responded noting that the Welsh Government would be working with Chwarae Teg in Spring 2019 to develop an action plan to reduce the gender pay gap and agreed to share this with the Committee once it had been finalised.

144. In her subsequent update on 27 September 2019, the Permanent Secretary said:

“Our pay systems are fair but a pay gap results from percentages of men and women working at different grades and far larger numbers of women working part time.”⁸⁰

145. She added that the Welsh Government had recently taken part in the Chwarae Teg Fair Play Employer Award benchmarking process and, in August 2019, had met with Chwarae Teg to discuss its findings and recommendations.

146. Chwarae Teg published two reports in respect of Phase Two of the Gender Equality Review: ‘Deeds not Words - Review of Gender Equality (Phase Two)’ (September 2019); and ‘Gender Equality - A Roadmap for Wales’.

147. In her update in September 2019, the Permanent Secretary noted that the Welsh Government would use the recommendations relating to employment from the Gender Review Phase Two report to inform its work. It would embed the resulting actions in its new Diversity and Inclusion Action Plan, which would target its drive for workplace equality in the period from April 2020 onwards.⁸¹ Chwarae Teg's recommendations have been accepted by Welsh Ministers and the Executive Committee, which the Permanent Secretary said demonstrated a

⁷⁹ **Report** of the Public Accounts Committee, Scrutiny of Accounts 2017-18, March 2019

⁸⁰ **Written Correspondence**, PAC(5)-24-19 Paper 5, 7 October 2019

⁸¹ **Written Correspondence**, PAC(5)-24-19 Paper 5, 7 October 2019

commitment to make the required changes. The resulting action plan was due to be implemented from 2020 – 2024.

148. In relation to the benefits of incorporating the gender pay gap actions into the new Diversity and Inclusion Plan, rather than taking those actions forward separately, the Permanent Secretary explained that the Welsh Government is building on actions to reduce the gender pay gap into its new diversity and inclusion action plan. This included actions to remove barriers to progression and improve equality of outcomes for all people with protected characteristics, rather than focus solely on pay and conditions. This would ensure the issues are not fragmented.⁸²

149. Chwarae Teg have noted the ambition to have a dynamic and flexible civil service that is ready to question and challenge how things have been done in the past, but reported the pace of change was too slow.

150. The Permanent Secretary did not wish to challenge Chwarae Teg's assessment and acknowledged that "there were areas that the Welsh Government needed to catch up on".⁸³ She added that it was healthy to hear these views and for the Welsh Government to think about how it can quicken its pace to meet those expectations.

151. We also heard that although the diversity and inclusion plan would pick up the recommendations made by Chwarae Teg, there were other initiatives in place. For example, the Welsh Government's women into senior leadership development programme.⁸⁴

Welsh Language

152. Last year, the Committee requested that Welsh Government provide an update about the outcome of the Welsh Government Board discussion regarding its policy on the internal use of the Welsh Language. We also asked for the relevant Board papers.

153. The Permanent Secretary's update provided a broad timetable for finalising the policy noting:

"The objective in the short term is for the Welsh Government to become exemplar in its internal use of the language, while in the

⁸² RoP, 11 November 2019, paragraphs 158 - 162

⁸³ RoP, 11 November 2019, paragraph 170

⁸⁴ RoP, 11 November 2019, paragraph 174

longer term, by 2050, the Welsh Government will become an organisation where all staff can understand Welsh, bilingual working is enabled and there is a significant increase in the use of the language.”⁸⁵

154. While her response did not mention sharing the Board papers with us, the Permanent Secretary confirmed in oral evidence that she would be willing to do so.⁸⁶

155. The Permanent Secretary told us the Welsh Government’s strategy included a series of milestones and targets, with a commitment in ‘Cymraeg 2050’, underpinning the strategy, which says:

“We will introduce recommendations to senior Welsh Government Officials with the aim of agreeing upon an internal use policy to promote and facilitate the use of Welsh within the workforce. We will prepare an action plan for the policy and will bring to implement it in 2019-20.”⁸⁷

156. This action plan will be regularly monitored, including assessing progress against milestones, to enable the Welsh Government to hold itself to account.⁸⁸

Staffing Arrangements and the Accountability of the Permanent Secretary

157. Welsh Government Officials are members of the UK Civil Service and the Permanent Secretary is the most senior Civil Servant in Wales. The UK Government has delegated to Welsh Ministers matters relating to staffing for the Welsh Government Civil Service, the non-political administration that supports Welsh Government Ministers irrespective of the party that is in power.

158. In responding to a written question in February 2019, the First Minister noted that there has been “a standing arrangement that the Permanent Secretary assumes responsibility for staffing matters upon appointment”.⁸⁹

159. In clarifying who has responsibility for the Civil Service in Wales and how are decisions made in respect of changes to staffing or structures, we heard that the formal situation is that the First Minister has responsibility for the Civil Service in

⁸⁵ Written Correspondence, PAC(5)-24-19 Paper 5, 7 October 2019

⁸⁶ RoP, 11 November 2019, paragraphs 196 -197

⁸⁷ RoP, 11 November 2019, paragraph 182

⁸⁸ RoP, 11 November 2019, paragraph 185

⁸⁹ Written Assembly Question 77884(w), answered by the First Minister on 20 February 2019

Wales. However, all issues concerning staff and the structure of the civil service are delegated to the Permanent Secretary. The Permanent Secretary also stated:

“...we’re very clear that we’re here to serve the First Minister and his Cabinet, and I consult with him and them on a very regular basis about their priorities, and particularly about strategic decisions on the running of the organisation or any issues concerning staff.”⁹⁰

160. In further clarifying her role, the Permanent Secretary set out her three roles: Principal Accounting Officer for the Welsh Government, Senior Policy Advisor to the First Minister, and Head of the Civil Service in Wales.

161. As part of the UK Civil Service, the Welsh Government works within the framework set out by the UK Cabinet Office which includes employment terms and conditions and standards and codes of behaviour for Civil Servants. However, in Wales, these matters are delegated to the First Minister who then delegates these to the Permanent Secretary, enabling some flexibility.

162. To further complicate matters, the Permanent Secretary has dual accountability to the Cabinet Secretary and Head of the Civil Service, to whom she reports to as a UK Civil Servant. She is also accountable to the First Minister and the Welsh Government.

163. We raised concerns about the potential for any tensions or conflicts of interest to arise from this dual accountability. The Permanent Secretary said that she had not experienced any difficulties. She added that as professional civil servants they:

“...understand the role of civil servants. We understand that we service different Government’s or departments while preserving, very importantly our political impartiality.”⁹¹

164. To show the balance, the Permanent Secretary set out the process for her annual appraisal. She undertakes a personal assessment of her performance against high level objectives, such as those relating to the delivery of ‘Prosperity for All’ and the well-being of future generations commitments. This is presented to the Cabinet Secretary in London.

165. The Cabinet Secretary subsequently asks the First Minister for feedback on her performance. Additionally, a Welsh Government Non-Executive Director

⁹⁰ RoP, 11 November 2019, paragraph 27

⁹¹ RoP, 11 November 2019, paragraph 32

collects feedback on the Permanent Secretary from staff and key stakeholders for submission to the Cabinet Secretary.

Conclusions and Recommendations

166. We have examined a number of matters relating to the Civil Service in Wales and we note that the Auditor General is examining the Welsh Government's workforce planning arrangements. The Committee will revisit these issues in Autumn 2020 as part of its scrutiny of accounts work.

167. We note the Welsh Government's current approach to aligning its recruitment principles with the Success Profiles in order to be consistent with the UK Civil Service. We welcome the fact that, alongside this, the Welsh Government has developed a set of expectations on ways of working and values/behaviours to reflect the devolved context and, in particular, the Well-Being of Future Generations (Wales) Act 2015.

168. On this issue, Delyth Jewell AM, wished to express a minority view, in that she believed that aligning to the UK Government's recruitment framework for civil servants could hinder efforts to develop a 'One Wales' public service. She believed that the competencies, values and skills for Welsh Government Civil Servants should be guided first and foremost by the needs of Wales, and our own unique and often divergent arrangements, such as the Well-Being and Future Generations (Wales) Act 2015. She would prefer to see consistency across Welsh Government, Local Government in Wales and Welsh NHS staff around the values of the Well-Being of Future Generations (Wales) Act 2015.

169. We consider that the needs of the Welsh context should take precedence and recruitment arrangements that are appropriate in Whitehall may not necessarily be appropriate in Wales.

170. We heard that the Welsh Government opted out of the UK Government's People Survey for Welsh civil servants last year and held its own independent version of the survey earlier this year. We hope that the survey was robust and appropriately gauged the views of staff. We welcome the Permanent Secretary's approach to wanting to ensure there is Welsh context to surveying staff and we believe it makes sense to design a survey in Wales for a Welsh system. However, we recognise that there is still merit in ensuring some comparability with other government departments and public bodies in the UK and internationally. Many of the cultural and staff engagement issues covered by surveys of this nature are common across different workplaces.

171. Finally, in relation to the Welsh language we note that a working group had previously identified a target date of 2036 to make Welsh an equal administrative internal language. We are concerned that the target date for this has been moved to 2050 and will return to this in our future scrutiny. We wish to accept the Permanent Secretary's offer of sharing with us Welsh Government Board papers relating to its policy on the internal use of the Welsh Language.

Recommendation 7. We recommend that the Permanent Secretary provide greater clarity through detailed explanation of her lines of accountability and any measures in place to address potential conflicts of interest.

Recommendation 8. Finally, in preparation for engagement with the Auditor General's upcoming work on Welsh Government workforce planning, the Committee believes it would be useful for the Permanent Secretary to set out how her responsibility for staffing relates to Ministerial priorities.