

Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Mr N Ramsay MS
Chair, Public Accounts Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

17 July 2020

Dear Mr Ramsay,

SCRUTINY OF ACCOUNTS 2018-19: WELSH GOVERNMENT

Thank you for early sight of the PAC report into the scrutiny of the Welsh Government annual report and accounts 2018-19. Details of how I propose to respond to the recommendations contained within the report are attached at Annex A. I have also taken this opportunity to address the question raised by the committee concerning the creation of the Welsh Government Land Division. This is attached at Annex B.

In respect of the publication of the Welsh Government Annual Report and Accounts for 2019-20, I previously wrote to the committee to explain that due to concerns over the availability of staff and access to the data needed to validate year end accounts, the Auditor General for Wales (AGW) and I had agreed the audit and publication of the 2019-20 Annual Report and Accounts for the Welsh Government should be deferred by at least 9 weeks to the end of October 2020. Whitehall departments have also delayed publication of their accounts by up to 3 months.

In the last few weeks, HM Treasury under advice from the Financial Reporting Advisory Board (FRAB), has issued revisions to the Financial Reporting Manual (FRM) in relation to the preparation of 2019-20 reports and accounts. These revisions seek to reduce the volume of information that Devolved Governments and Whitehall



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departments must disclose in the annual report. We have reviewed the changes to the FReM alongside what we consider to be additional key aspects of the annual report in Wales, such as our progress on the use of Welsh Language within the organisation and the implementation of the Wellbeing of Future Generations Act. As a result, we are not proposing wholesale changes to the content of the Welsh Government Annual Report and Accounts for 2019-20. The main items not included this year will be the case studies, which draw on information from teams across the organisation and grants. Our grants centre of excellence (CoE) is one of the central teams most impacted by the Covid-19 crisis. They have been receiving a significant number of additional queries from grant managers and have been closely involved in the development of new schemes aimed at supporting the public, private and third sectors in Wales. Nevertheless, grants are a key delivery mechanism for the Welsh Government and, therefore, I am proposing that for this year only the grants CoE prepares a separate interim report early in the new year. This report would outline the work of the team during 2019-20 and also reflect on the support and guidance provided during the peak of the Covid-19 crisis.

The Governance Statement and Core Financial Statements (parts 2 and 3 of the report and accounts) will remain unchanged.

Ysgrif,
 Shan Morgan

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Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Gove



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Responses to the recommendations made by the PAC following the scrutiny of the 2018-19 Welsh Government Annual Report and Accounts

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 accepted. The Welsh Government currently publishes the agenda and full minutes of all Board meetings on our website. Going forward we will also publish associated papers, with the exception of those containing official sensitive information and the personal details of staff. Following discussions with the Chair of the Welsh Government Audit and Risk Assurance Committee, he and I have agreed that given the sensitive nature of many of the papers and the need to provide external members with an environment where they can challenge officials in an open and frank manner, it would not be appropriate to publish associated minutes or papers. We believe that this approach is consistent with other UK Governments and many larger sector public bodies.

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.

Recommendation accepted. The Public Bodies Unit will work with our public bodies to ensure consistency and transparency for the public. This work will be completed by the autumn of this year.

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:

Responses to the individual recommendations are detailed below. On the broader issue of performance reporting, the annual report for the Welsh Government focusses on the management and oversight of the organisation and administrative

performance of the civil service. With this in mind, the 2019-20 annual report will include a new set of performance indicators for those areas of the Welsh Government which are my responsibility as Permanent Secretary. We will continue to develop these performance indicators during 2020-21 and will publish further details in next year's annual report and accounts. Reporting performance against objectives set out in the Programme for Government remains a matter for Welsh Ministers. I confirmed with the committee during the scrutiny of the 2018-19 annual report and accounts that the First Minister was content with this approach.

a. 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.

Recommendation accepted. We will consult with the Scottish Government, HM Treasury and Audit Wales on the merits of a Whole of Government of Wales Account. I will write to the Chair before the end of the calendar year on the outcome of those discussions and the proposed way ahead. However, regardless of the outcome, the Welsh Government will need to complete the alignment project and consider the procurement of a consolidation tool before we can move ahead with a Whole of Wales Account. This means that it will not be possible to prepare a full dry run of the Whole of Wales account until at least 2022-23.

b. 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 the report;

Recommendation accepted. The content of the explanations in the SORO have been reviewed and will be enhanced for 2019-20 to ensure that they are more understandable for the reader. Additional information on the top 10 revenue and capital areas of expenditure based on BEL level information plus main areas of AME expenditure will also be included in the annual report. These capture the vast majority of Welsh Government expenditure in the year. For example the top 10 revenue BELs account for circa 85% of total revenue expenditure.

c. 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;

Recommendation accepted. The Minister for Finance and Trefnydd has agreed that the outturn report can be made more accessible to PAC members and published

on the Senedd website. We will strive to complete the outturn report within 4 weeks of signing off the Annual Report and Accounts.

d. 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;

Recommendation accepted. A link to a description of the overall approach to reporting and the relationship between the four key reports will be published on the website alongside the 2019-20 Annual Report and Accounts.

e. 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 accepted. I am in the process of introducing a new set of performance indicators for those areas of the Welsh Government activity which are my responsibility as Permanent Secretary

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.

Recommendation accepted. Attached at Annex C are details of the latest position on proposed key performance indicators although we continue to develop the approach.

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.

Recommendation accepted. Details of the principle risks to the Welsh Government are outlined in the Annual Report and the Governance Statement. During financial year 2019-20 the main risks were Brexit and the onset of the Covid-19 crisis. In the past we have documented the principle risks but not necessarily detailed the potential impacts or mitigation actions. This will be addressed for the 2019-20 Annual Report and Accounts.

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.

Recommendation accepted. The pilot sought to identify whether the risk of issues arising with grant funding awarded to Local Government was sufficient to justify a separate audit. The pilot highlighted that the funding was already subject to audit during the annual audit cycle for Local Government. Therefore, following a number of discussions with Audit Wales, the Welsh Government concluded that the audit work already being undertaken along with further assurances from the Section 151 officer at year end, would be sufficient. Furthermore, all hypothecated grant schemes are subject to detailed terms and conditions and are monitored by relevant grant managers. Should any concerns arise, during the monitoring process, the terms and conditions for all grants awarded by the Welsh Government allow us to retrospectively review compliance and where necessary recover funding.

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 accepted. In October 2019 HMT Treasury issued Dear Accounting Officer (DAO) 04/19 which included an update to Managing Public Money (MPM) that recommended the introduction of the Accounting Officer System Statement (AOSS) to support the Annual Governance Statement. The AOSS should cover all of the accountability relationships and processes within the Welsh Government, making what it clear what it is accountable for from the Accounting Officer down. This includes relationships with arms length bodies and third party delivery partners. The accountability links should, where possible, be shown diagrammatically. The Welsh Government recognises MPM as demonstrating best practice in areas such as financial management and governance and, therefore, an AOSS will be published on the Welsh Government website alongside the Annual Report and Accounts. PAC members may also recall that we had planned an update to Managing Welsh Public Money. Unfortunately this work has had to be put on hold during the Covid-19 crisis due to the significant increase in the volume of work undertaken by the Governance Centre of Excellence in providing support and advice. As for conflicts of interest, the Welsh Government has procedures in place to manage conflicts of interest. These include a Conflict of Interest Policy and

associated Register and an annual return from all relevant staff published on the Welsh Government Internet site which discloses all board and similar memberships of third party organisations held by Welsh Government officials.

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.

Recommendation accepted. The First Minister has responsibility for the Civil Service in Wales with issues relating to staffing, structures and organisational running cost budgets delegated to the Permanent Secretary as Head of the Civil Service and Principal Accounting Officer.

The governance framework through which those responsibilities are exercised includes fortnightly oversight of staffing and resourcing issues by the Executive Committee (ExCo), chaired by the Permanent Secretary and made up of Directors General and the Directors responsible for Corporate Services, Governance and Ethics, Finance, Legal Services and the Welsh Treasury. Two ExCo Sub-Committees covering People and Corporate Services and Finance provide an opportunity for consideration of strategic workforce issues and organisational running costs to be informed by Director-level representation from all Groups and corporate business areas.

Workforce strategy and resourcing, including activity to strengthen equality and inclusion, is regularly reviewed by the Board with the Remuneration Sub-Committee taking formal responsibility for agreeing SCS recruitment and remuneration.

The Permanent Secretary meets regularly with the First Minister to discuss delivery priorities for the Civil Service and also discusses resourcing issues with individual Cabinet members. When new responsibilities are transferred to Wales or resource pressures emerge because of, for example, crisis situations such as the Covid 19 emergency response, rapid realignment of resources within and across DG-led Groups may become necessary. New pressures and emergency resourcing issues are discussed with the First Minister and relevant Ministers so that their views inform the alignment and potential re-prioritisation of staff resources within available budgets. The First Minister and Cabinet are also consulted on broader strategic workforce planning issues, including pay and reward, organisational structure, capability, diversity and inclusion.

Creation of the Welsh Government Land Division

Unlocking the potential of publicly owned land for development to help meet the demand for more affordable housing and deliver against wider government policies is a ministerial priority for this current Assembly term.

In early 2019 I, therefore, asked my officials to prepare a proposal that would bring together different elements of the organisation in order to provide an agile response to this emerging policy area. Officials recommended that as a first step a new Land Division should be established within Welsh Government. It was noted that such a change would also address recommendations that had emerged from the Affordable Housing Review, published in April 2019.

The Finance Minister has a particular portfolio interest in the Land Division as she has overall ministerial responsibility for assets and it was the case a number of Welsh Government land assets would be transferred to the new Division from the Economy portfolio. Consequently, a briefing was issued to the Minister on 08 August 2019 recommending that a new Land Division should be established and confirming the budgeting and resourcing position.

In a subsequent paper to Cabinet on 16 September 2019, the development of the Land division and its mission to deliver greater public value from the way in which our assets are managed was noted. The cabinet also agreed to the transfer of land assets with residential potential from the Economy property portfolio to the new Land Division. It was following this meeting that a Ministerial written statement was issued.

Annex C

Update on Proposed Key Performance Indicators

Proposed indicators for 'Function' themes

(Please note indicators may be subject to change as development continues)

Theme	Theme status	Proposed indicators
Policy Making		Indicators to be developed [delay due to Covid19] Indicators to be developed [delay due to Covid19] Indicators to be developed [delay due to Covid19]
Fiscal & Financial Management		£ difference between forecast and outturn/percentage difference [or percentage error] between forecast & outturn (incl. decomposition factors) Score / ranking in Open Budget Index (measure of budget transparency) Total amount of underspend identified and released in appropriate timescale Percentage of recommendations by category identified in Gateway reviews undertaken for major programmes/projects
Legislation		Feasibility of successful delivery of legislative programme [progress] Feasibility of successful delivery of commitments to make law accessible and process of law making transparent [progress] Indicator to be developed [delay due to Covid19; Update expected in July]
Resilience, Contingency Planning & Response		Outcomes/effectiveness score of Business Contingency test exercises and lessons learned exercises Indicators to be developed [delay due to Covid19] Indicators to be developed [delay due to Covid19]

Procurement / Grants		<p>Procurement Indicators:</p> <ul style="list-style-type: none"> - Procurement savings as % of total influenceable spend - Contribution to social value spend as a % of total influenceable spend - Percentage of total influenceable spend won directly by Wales based businesses including SME's? - Percentage of total influenceable spend with suppliers off formal contract/Departure spend as a % of total influenceable spend <p>Grants indicators to be developed</p>
HR Management		<p>Average length of time for end to end recruitment</p> <p>Number of applications received from applicants from key equalities groups</p> <p>Percentage positive score for People Survey question '<i>The organisation is committed to moving resources to areas of Ministerial priority</i>'</p> <p>Percentage positive score for People Survey question '<i>The organisation takes action to support the health and wellbeing of its workforce</i>'</p>
ICT & Digital for Officials		<p>Percentage positive score for People Survey question '<i>I have the technology (ICT/IT) I need to do my job effectively</i>'</p> <p>Overall average score for SOCITM Digital Maturity Assessment (and average scores for the 9 separate themes)</p> <p>Use of digital tools by staff in order to carry out a range of tasks / do their job [survey of staff]</p>
Internal Finance		<p>Proportion of prompt payments made within 5, 10 and 30 day targets</p> <p>Accuracy of cash management processes (forecasting cash flow): Performance of WG against variances set by the Treasury</p> <p>Accuracy of Budget profiles</p>
Estate Management		<p>Use of occupied space expressed as sq. m per FTE; m2 per FTE for the estate as a whole</p> <p>Improvements to workspace efficiency expressed as £ per FTE: £ per FTE for the estate as a whole</p> <p>Environmental performance against objectives and targets for CO2 emissions: tCO2e per FTE</p>
Tax Administration		<p>Indicators to be developed [liaise with WRA]</p> <p>Indicators to be developed [liaise with WRA]</p> <p>Indicators to be developed [liaise with WRA]</p>
Digital Services for Citizens		<p>Take-up of digital services / percentage of target population</p> <p>Social follower figures across main Twitter and FB channels</p> <p>WG Website visitor numbers</p>

Proposed indicators for 'Attribute' themes

(Please note indicators may be subject to change as development continues)

Theme	Theme status	Proposed indicators
Ways of Working & Core Values		Percentage Positive Index Score for 5 WFGA questions [People Survey and Stakeholder Survey; Stakeholder Survey currently not conducted] Percentage 'yes' for People Survey Civil Service Code questions (awareness, reporting and confidence in action being taken) Number of incidents reported relating to core values/behaviour (grievances, disciplinaries and complaints)
Openness		Number of open datasets that have become available over previous 12 months Overall compliance rate with Corporate Standards / Regulations - Complaints, DPA / Records Management, ICT breaches, FOI Percentage positive for measures relating to engagement with stakeholders and citizens [People Survey & National Survey] - <i>Where I work, we regularly look to collaborate with external stakeholders to help achieve the Welsh Government's objectives</i> - <i>Where I work, we regularly look to involve those who are affected by the work we do (e.g. citizens, customers)</i> - <i>In general, how good would you say the Welsh Government is at listening to people's views before it takes decisions?</i>
Capabilities		Percentage positive score for People Survey question <i>'The organisation is committed to building the capability and skills of its employees'</i> Capability maturity level of Welsh Government professions [incl. needs assessment] Percentage positive for People Survey question <i>'I have the skills I need to do my job effectively'</i>
Equality & Inclusiveness		Number of WG staff with protected characteristics Percentage positive score for People Survey question <i>'The organisation promotes the dignity and respect of all staff'</i> Percentage positive score for People Survey question <i>'I think that the organisation respects individual differences (e.g. cultures, working styles, backgrounds and ideas etc.)'</i>
Staff Engagement		Percentage positive Employee Engagement Index Score Percentages for People Survey 'intention to stay' question Average working days lost (rolling average, short term sickness, adjusted for FTE)
Welsh Language		Percentage positive score for People Survey question <i>'The organisation is committed to supporting the Welsh language to thrive'</i> Percentages for people survey question: <i>'Which language do you use to carry out your work?'</i>

		Compliance with Welsh Language Standards - Number of complaints reported to the Commissioner related to compliance with Welsh Language Standards - Number of complaints received relating to Service Delivery Standards Provision of a Welsh language Service (investigated / discontinued)
Innovation		Percentage positive score for People Survey question 'I believe I would be supported if I try a new idea, even if it may not work'
		Percentage positive scores for People Survey questions: - <i>'The people in my team are encouraged to come up with new and better ways of doing things'</i> - <i>'The people in my team work together to find ways to improve the service we provide'</i>
		Average score for Digital Maturity sub-theme ' Digital Innovation' (within Digital Vision & Leadership)

Theme status	
Complete	
Nearly complete, just small additions due in 2021	
Partially complete, additions due in 2021	
Not fully developed, but some progress made. Theme not available until end of 2021	
Not developed. Theme not available until end of 2021	