

Welsh Development Agency

Financial Report and Accounts 2003/04



The Welsh Development Agency helps deliver the Welsh Assembly Government's ambitions for our country – by assisting businesses to start and grow, regenerating communities and creating greater opportunities for the people of Wales.

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Foreword

Statutory Background

The Welsh Development Agency (the Agency) is a public body, established in 1976 under the Welsh Development Agency Act 1975 (as amended in particular by the Government of Wales Act 1998).

Under this legislation the Agency may exercise a range of activities and initiatives to fulfil its purposes.

These purposes are:

- to further the economic and social development of Wales or any part of Wales and in that connection to provide, maintain or safeguard employment;
- to promote efficiency in business and international competitiveness in Wales; and
- to further the improvement of the environment in Wales, having regard to existing amenity.

The accounts have been prepared by the Agency pursuant to Schedule 3 paragraph 8 of the Welsh Development Agency Act 1975 and cover the period 1 April 2003 to 31 March 2004 in the form determined by the National Assembly for Wales (the Assembly), with the approval of the Treasury.

A copy of the accounts direction is available for inspection at the Agency's registered office.

The Agency's activities are partially financed by payments made by the Assembly, grants provided from the European Commission and also by borrowings from the National Loans Fund.

Subsidiary and Associated Undertakings

These accounts incorporate the results of the Agency's wholly owned subsidiary company Finance Wales plc and of its subsidiaries, Finance Wales Investments Ltd, Finance Wales Investments (2) Ltd and Xénos - The Wales Business Angel Network Ltd. These accounts also include the Agency's share of the loss of Wales Innovation Fund Ltd an incorporated joint venture.

These accounts also incorporate the results of Welsh Development Management Limited, a further wholly owned subsidiary of the Agency, whose principal activity during the period was the provision of management and administration services to Welsh Industrial Partnership, a partnership between the Agency and the Royal Bank of Scotland to undertake industrial property developments in the Objective 1 area of Wales over 5 years.

All subsidiaries prepare their accounts for the same accounting period as the Agency and uniform accounting policies are adopted.

Furthermore, included within these accounts are transactions entered into by the Agency in its capacity as one of three stakeholders in the Newport Urban Regeneration Company, trading as Newport Unlimited.

The Agency's contributions included within these accounts are summarised at note 38.

Auditor

The accounts of the Agency are audited by the Auditor General for Wales as required under the Government of Wales Act 1998. External Audit fees are shown at note 9 to these accounts.

Review of Activities and Future Developments

A review of the Agency's activities and future development plans together with its performance against key strategic targets are contained in the Annual Report.

During the year the Agency took over responsibility for the Knowledge Exploitation Fund. The fund was previously managed by the National Council for Education and Training for Wales and the

Higher Education Funding Council for Wales. Further detail is provided in note 37 to these accounts.

The Agency is continually faced with new challenges and fully recognises the need to adapt to changes in its domestic and global markets and to ensure its structure and operations can properly maintain a strong and effective customer focus. Therefore, during the year the Agency embarked on an organisational design and development exercise with the primary aim of delivering an improved service to its customers.

On the 6 May 2004 the Agency's Board approved an outline of a revised organisational structure, which was subsequently communicated to staff on 11 June 2004. The Agency aims to complete the restructuring exercise during 2004-05.

At the time of signing these accounts the Agency is unable to make a reliable estimate of possible future costs associated with this exercise. Any restructuring costs that the Agency incurs will be fully disclosed in the 2004-05 accounts.

On the 14 July 2004 the First Minister announced an intention to incorporate the Agency into the Welsh Assembly Government by April 2006. In the announcement, the First Minister stated

that continuity of service will be maintained and that all grants and contracts will be honoured.

The Consolidated Income and Expenditure account shows an excess of expenditure over income for the year of £258.8m, compared to £183.1m for the previous year. After transferring this sum to reserves the carried forward balance on reserves amounts to £284.9m (2003 £262.8m).

Prompt Payers' Code

The Agency is committed to prompt settlement of invoices and other claims for payment and fully endorses the principles of the Better Payment Practice Code issued by the Department of Trade & Industry.

Systems are in place to monitor the payment cycle with statistics being maintained to record payment performance and to identify areas where improvements can be made.

In the case of works and construction contracts, where work has been completed satisfactorily in accordance with the terms of the main contract, the Agency's objective is to pay within 30 days of the issue of a valid certificate. This was achieved for 98% of all such payments made in 2003-2004.

In the case of goods, services and other claims, where the supply has been completed satisfactorily, the Agency's objective is to pay within 30 days of the receipt of an invoice or other valid claim for payment. This was achieved for 95% of all such payments made in 2003-2004.

Employee Involvement

The Agency recognises the importance of keeping its employees fully up to date with developments and changes, both within the organisation and those with which the Agency is involved externally.

Improving its internal communication network is an ongoing objective, both through the involvement of all the staff and employee representatives.

The Agency will continue to consult with its staff representatives on all issues affecting terms and conditions.

Equality and Diversity

The Agency is committed to the active promotion of equality and diversity. It seeks to ensure a diverse workforce and encourage a culture where all employees are valued and contribute to our mission of increasing the economic prosperity of the people of Wales.

The Agency will mainstream equal opportunities and diversity into all its business and functions. Its recruitment and selection procedures aim at promoting equality of opportunity and fostering a diverse workforce. The Agency actively seeks to encourage job applications from people from minority groups.

Board Members

The following persons served as Board members of the Agency during the year:

Roger Jones OBE, **Chairman**
Trefor Jones CBE, LL **Deputy Chairman**
Graham Hawker CBE, DL **Chief Executive**
Noel Crowley CBE, DL
Gareth Evans
Simon Gibson OBE
Jim Hancock
Margaret Llewellyn OBE
Dr Drew Nelson OBE
Tyrone O'Sullivan OBE
Janet Reed OBE
Professor Mohamed Wahab OBE
David Williams
Dr Ruth Williams

Board Members' Interests

A register of all declared interests of the members is available for inspection from the Agency's registered office: Principality House, The Friary, Cardiff CF10 3FE.

Financial transactions with organisations, in which Board members declared an interest are shown at note 39 to these accounts.

Audit Committee

The following Board members served on the Agency's Audit Committee during the year.

David Williams (Chair)
Gareth Evans
Trefor Jones CBE, LL
Janet Reed

The Audit Committee is appointed by the Board of the Agency.

Its main duties are to consider the effectiveness of the Agency's overall internal control and risk management systems and to ensure adequate processes and mechanisms are in place for the assessment and management of risk. It considers the scope of audit coverage and the adequacy of management responses to the findings of internal audit reports and advises the Chief Executive on audit and compliance matters. It reports regularly to the Board on the discharge of its functions.

Remuneration and Appointments Committee

The following Board members served on the Agency's Remuneration and Appointments Committee.

Roger Jones OBE (Chair)
 Jim Hancock
 Trefor Jones CBE, LL
 Dr Ruth Williams

The Committee meets at least once annually. Its role includes: undertaking the recruitment and selection process for the post of the Chief Executive; recommending a preferred candidate to the Agency's Board; determining the Chief Executive's performance targets and remuneration, within limits set by the Assembly and contractually; and advising the Chief Executive on senior staff appointments and remuneration. The Chief Executive is not a member of the Committee.

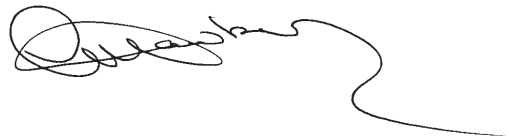
The Remuneration and Appointments Committee does not set the remuneration or other terms of the Agency's non-executive directors, this being a matter for the National Assembly for Wales.

The Chief Executive and officers appointed by him determine the remuneration of the Agency's employees, within limits set by the National Assembly for Wales.

The remuneration of the Agency's Chairman, Deputy Chairman, and Chief Executive are disclosed in the notes to these accounts, as are summary details of the remuneration and related details of other Board members and senior staff.

Other Board Committees

In addition to the above, there is a structure of Board Committees which deal with subject matters determined by the Board.



Graham Hawker CBE, DL
 Chief Executive on behalf of the Board
 15 July 2004

Statement of the Agency's and Chief Executive's Responsibilities

Under Schedule 3 paragraph 8 of the Welsh Development Agency Act 1975 (as amended), the Welsh Development Agency is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the National Assembly for Wales, with the approval of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe all relevant accounting and disclosure requirements as set out in the accounts direction issued by the Assembly and within that select suitable accounting policies and apply them on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements;

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Principal Accounting Officer for the Assembly has designated the Chief Executive of the Welsh Development Agency as the Accounting Officer for the Agency. As Accounting Officer he is responsible for the proper control of the public finances for which he is answerable, including their regularity and propriety. He must ensure that proper financial procedures are followed, that accounting records are maintained in the form prescribed for published accounts and that the public funds and other assets for which he is responsible are safeguarded. His relevant responsibilities as Accounting Officer are set out in the Accounting Officer's Memorandum issued by the National Assembly for Wales.

Statement on the System of Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and in the Agency's Management Statement and Financial Memorandum issued by the Welsh Assembly Government.

The Agency is an Assembly Sponsored Public Body, established under the 1975 Welsh Development Agency Act (as amended). As Accounting Officer, I am accountable to the Board of the Agency, which is appointed by the Assembly, for the overall organisation, management and staffing of the Agency. The Agency's Risk Management arrangements have been approved by the Agency's Board.

The key strategic and operational risks faced by the Agency are regularly brought to the Board's attention.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an

ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Responsibility for the management of risk at the strategic level lies with the Agency's Board. Individual members of the Executive Management Team have responsibility for the groups of risks which appear on the risk register. Awareness of risk management is included in staff induction training and in the on-going programme of Code of Practice training for staff held across the Agency. Risk assessment forms an integral part of the project appraisal process. A process has been introduced to formalise the arrangements for reporting separately on key strategic risks by the appropriate Executive Management Team member.

The Agency's Risk Management Committee ensures that awareness of risks and their control measures are managed across the Agency. A control solution exists for each of the risks included in the Agency's risk register. The risk register is accessible by all

staff, together with the procedure on how new risks identified are dealt with and prioritised by their impact or likelihood. Control solutions developed for any newly identified risks need to be validated by the Risk Management Committee.

At an operational level the risks faced by the Agency are grouped into seven areas, these are People, Safety and Security, Performance, Reputation, Commercial, Information Technology and Legal. Each group contains a number of individual risks which are scored according to their potential impact and likelihood. The higher impact scores are given to those risks which would result in permanent damage to the Agency's entire operation or to people, including the interests of the service user and the general public.

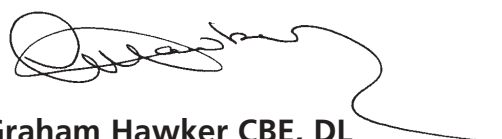
It is recognised that partners should share the Agency's strategic goals and that subsidiaries must have appropriate compliance and risk management processes which fit within the Agency's overall control framework.

The Agency's consolidated accounts include those of Finance Wales plc, a wholly owned subsidiary. The Board and Chief Executive of Finance Wales plc are responsible for the risk management strategy in that organisation, and a separate Statement on Internal Control appears in the Finance Wales plc Annual Accounts. The risk management arrangements in that company are integrated into those of the Agency, the Finance Wales risk register including those risks which are Agency wide as well as those unique to the operation of that Company. Two Agency Board members are on the Board of Finance Wales and its Chief Executive reports to me as a member of the Agency's

Executive Management Team, as well as to the Finance Wales plc Board. The Agency's Group Finance Director and Head of Compliance and Audit attend meetings of the Finance Wales Audit Committee. The Accounts of Finance Wales and the minutes of its Audit Committee are reviewed by the Agency's Audit Committee.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to ensure continuous improvement of the system is in place. This includes the grouping of risks from the categories mentioned above at a strategic level.

The Board and Audit Committee have endorsed the risk management strategy of the Agency. Regular reports are made to the Board through the Audit Committee on the status of the risk management arrangements in the Agency, and significant developments require Board approval. There are no significant internal control problems in the Agency.



Graham Hawker CBE, DL
Chief Executive and Accounting Officer
15 July 2004

Certificate and Report of the Auditor General for Wales to the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 14 to 49 under paragraph 8 of Schedule 3 to the Welsh Development Agency Act 1975. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets and certain properties held for resale and the accounting policies set out on page 20 and 21.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 9 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Welsh Development Agency Act 1975 and National Assembly for Wales directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Welsh Development Agency Act 1975 and directions made thereunder by the National Assembly for

Wales and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent mis-statements or material inconsistencies with the financial statements.

I review whether the statement on page 10 and 11 reflects the Agency's compliance with Treasury's guidance on 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all

risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Welsh Development Agency and the Group at 31 March 2004 and of the excess of expenditure over income, total recognised gains and losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Welsh Development Agency Act 1975 and directions made thereunder by the National Assembly for Wales; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Auditor General for Wales
3 - 4 Park Place
Cardiff CF10 3DP

16 July 2004

Consolidated Income and Expenditure For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Income			
Property rents and related income	2	8,194	8,834
Surplus on sale of properties held for resale		22,054	21,858
Interest receivable and similar income	3	4,582	4,088
Other income from fixed asset investments	4	21	6
Other operating income including grant recoveries	5	7,862	44,652
Total Income		42,713	79,438
Expenditure			
Property services	6	17,382	10,817
Deficit on sale of properties held for resale		2,051	218
Interest payable and similar charges	7	3,537	3,117
Other investment management costs	8	5,241	5,371
Administration expenses	9	56,001	47,649
Other operating activities	10	76,021	68,227
Grants administered & related costs	11	112,581	114,654
Deficit on revaluation of properties held for resale	19	28,540	11,575
Share of operating loss of Wales Innovation Fund Ltd	23	211	903
Notional cost of capital charge		10,780	15,562
Total Expenditure		312,345	278,093
Excess of expenditure over income on ordinary activities before taxation		(269,632)	(198,655)
Taxation	24	-	-
Excess of expenditure over income on ordinary activities after taxation		(269,632)	(198,655)
Adjustment for the notional cost of capital		10,780	15,562
Excess of expenditure over income transferred to reserves		(258,852)	(183,093)

Consolidated Income and Expenditure For the year ended 31 March 2004 (Continued)

The excess of expenditure over income attributable to the Agency's own activities was £253,746,000 (2003 £179,409,000). All results relate to continuing activities

	Note	2004 £'000	2003 £'000
Statement of reserves and total recognised gains and losses			
Excess of expenditure over income for the year		(258,852)	(183,093)
Grant in Aid		233,707	245,316
European grants	36	38,969	20,030
Surrender of surplus by Land Development and Legal Services	30	(1,100)	(1,400)
Movement in provision for the repayment of Grant	23	7,000	(30,000)
Unrealised surplus on revaluation of own use properties		2,367	842
Total recognised gains & losses for the year		22,091	51,695
Reserves at 1 April		262,805	211,110
Total recognised gains & losses for the year		22,091	51,695
Reserves at 31 March		284,896	262,805

The notes on pages 20 to 48 form part of these Accounts.

Agency and Consolidated Balance Sheets

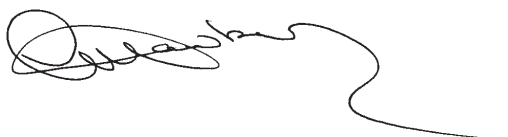
At 31 March 2004

	Note	Agency		Consolidated	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Tangible assets	15	13,562	11,936	13,917	12,252
Investments	16	21,822	20,138	22,244	19,570
Interests in joint ventures	17	9,023	6,424	9,023	6,424
Mortgages and other loans	18	3,063	3,392	3,063	3,392
		47,470	41,890	48,247	41,638
Current assets					
Properties held for resale	19	246,519	219,587	246,519	219,587
Debtors	20	51,074	64,031	50,627	63,785
Short term investments	21	0	0	36,350	40,956
Cash at bank and in hand		38,163	26,119	75,449	27,751
		335,756	309,737	408,945	352,079
Current liabilities					
Creditors: amounts falling due within one year	22	(37,540)	(23,496)	(45,351)	(27,080)
Net current assets		298,216	286,241	363,594	324,999
Total assets less current liabilities		345,686	328,131	411,841	366,637
Creditors: amounts falling due after more than one year	22	(1,570)	(1,801)	(71,449)	(41,486)
Provisions for liabilities and charges	23	(28,862)	(36,144)	(30,619)	(37,690)
Net Assets		315,254	290,186	309,773	287,461

Agency and Consolidated Balance Sheets At 31 March 2004 (Continued)

	Note	Agency		Consolidated	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Financed by					
Public Dividend Capital	25	12,922	12,658	12,922	12,658
Loan capital	26	11,955	11,998	11,955	11,998
Revaluation reserve	27	7,433	5,066	7,433	5,066
General reserve	27	282,944	260,464	277,463	257,739
		315,254	290,186	309,773	287,461

The Notes on pages 20 to 48 form part of these Accounts



Graham Hawker CBE, DL
Accounting Officer
15 July 2004

Consolidated Cash Flow Statement For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Operating activities			
Net cash outflow from operating activities	28	(246,953)	(252,807)
Capital expenditure and financial investments			
Receipts from the sale of tangible assets and interests in joint ventures		1,464	2,107
Mortgage and loan repayments received		2,168	1,486
Payments to acquire tangible assets and interests in joint ventures		(3,132)	(2,250)
Payments to acquire equity investments and to make loans		(6,319)	(8,209)
Net cash outflow from capital expenditure and financial investments		(5,819)	(6,866)
Financing and management of liquid resources			
National Assembly Grant in Aid received		231,707	245,316
European funds received		44,990	17,348
Surrender of surplus by Land Development and Legal Services to the Assembly		(1,100)	(1,400)
Public Dividend Capital received		264	1,699
Loan funds received		20,046	-
Loan capital repayments made		(43)	(82)
Purchase and sale of short term investments		4,606	4,822
Net cash inflow from financing and management of liquid resources		300,470	267,703
Increase in cash		47,698	8,030

Consolidated Cash Flow Statement For the year ended 31 March 2004 (Continued)

	Note	2004 £'000	2003 £'000
Reconciliation of net cash flow to movement in net debt			
Increase in cash during the period		47,698	8,030
Loan capital repaid during year		43	82
Change in net debt		47,741	8,112
Net debt at 1 April		15,753	7,641
Net debt at 31 March	29	63,494	15,753

The notes on pages 20 to 48 form part of these Accounts

Notes to the Accounts

1. Statement of Accounting Policies Basis of Accounting

These accounts are required, without limiting the information given, to meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate to the Agency. The accounts have been prepared under the historical cost convention as modified by the open market valuation of own use land and buildings and certain properties held for resale. The Agency is exempted from the requirements under Financial Reporting Standard No 3 to produce a note of historical cost profits and losses.

Consolidation

The consolidated accounts incorporate the results of the Agency's subsidiary and associated undertakings as referred to in the Foreword.

As permitted by Section 230(4) of the Companies Act 1985, the Agency's income and expenditure account is not presented separately in the financial statements.

Funding

Under the terms of the Welsh Development Agency Act 1975 (as amended), the Agency is partly financed by Grant-in-Aid from the

Assembly and also by borrowings from the National Loans Fund. The whole of the Grant-in-Aid is credited to reserves. Grant funding is also provided by the European Commission for certain qualifying capital and revenue projects. All such grants are also credited to reserves.

It is the Agency's policy, as recognised in its Financial Memorandum issued by the Assembly to operate the Land Development and Legal Services Unit on a ring-fenced basis. The financial results of the Land Development and Legal Services Unit are disclosed separately in note 30 to the accounts.

Tangible Assets

Properties occupied in whole or in part for the Agency's own use are shown in the balance sheet at open market value. They are revalued annually by independent professional valuers. Adjustments arising on revaluation are taken to a revaluation reserve with any permanent diminutions being charged directly to the income and expenditure account. Surpluses or deficits arising on the disposal of land and buildings are derived by reference to the valuation as at the end of the previous financial year.

Other tangible assets are not revalued as, in the opinion of the Agency, the difference between net current replacement cost and historic cost less depreciation is not material.

Depreciation

Depreciation on properties occupied by the Agency is based on the revalued amount having regard to the remaining life of the asset at the time of the valuation.

Other tangible fixed assets are depreciated on a straight line basis having regard to their expected useful lives.

Asset lives are adopted as follows:

Computer equipment 3 years

Other equipment,
vehicles and furniture 4 years

A full year's depreciation charge is made in the year of acquisition. There is no charge in the year of disposal. From 2003-04 the capitalisation threshold for equipment and furniture has been increased to £5,000 from its previous level of £1,000. Computer equipment below this value is grouped and capitalised.

Properties held for resale

The value of land held for resale by the Land Development and Legal Services Unit at the year end is stated at the lower of cost of purchase and improvements or net realisable value.

Other land and buildings held by the Agency, which are not required for own use and which are held with the intention for resale are stated at open market value.

Investments and Interests in Joint Ventures

Investments are shown at cost, less provisions for diminution in value. Interests in unincorporated joint ventures are shown at the lower of cost and recoverable amounts, any shortfall being charged to the income and expenditure account. Subsequent rises in anticipated future receipts are brought to account only when realised.

Short Term Investments

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

Financial Instruments

The Group is precluded from the use of short term methods of funding such as bank overdrafts. Where projects are financed through long term borrowings, these are scheduled appropriately in accordance with the expected life of the project.

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

In the Agency's opinion there is no material exposure to currency risk

Grant Expenditure

Grant expenditure is accrued and charged to the income and expenditure account on the basis of grant claims which have been received and approved, in relation to work undertaken up to the balance sheet date.

The account includes grant payments to local authorities which may be subject to adjustment when final audited claims have been received.

Taxation and Deferred Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to sell. Deferred tax assets and liabilities are not discounted.

Foreign Currency

Transactions denominated in foreign currency are translated at the rate of exchange ruling on the date of the transaction.

Assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date.

Transaction and translation gains and losses are credited or charged to the income and expenditure account.

Pension Costs

Contributions to the Local Government Pension Scheme administered by Rhondda Cynon Taff County Borough Council are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives.

Notional Cost of Capital

A notional capital charge reflecting the cost of capital employed, except to the extent that Loans and Public Dividend Capital are remunerated separately, is included in operating costs. In accordance with Treasury guidance the charge has been calculated at 3.5% for 2003-04 (2002-03: 6%) of capital employed.

Notes to the Accounts

	2004 £'000	2003 £'000
2. Property rents and related income		
Gross rents	7,484	7,128
Miscellaneous income	710	1,706
	8,194	8,834
3. Interest receivable and similar income		
Interest receivable	4,582	4,086
Other Income	-	2
	4,582	4,088
4. Other income from fixed asset investments		
Dividend income	8	6
Surplus on equity disposals	13	-
	21	6
5. Other operating income and grant recoveries		
Other operating income	4,584	3,138
Clawback and reclaimed grants	3,278	41,514
	7,862	44,652
6. Expenditure on property services		
Estate maintenance	3,988	2,917
Rent guarantees	159	167
Rents payable	2,130	1,851
Movement in provision for bad and doubtful debts	7,596	272
Consultancy services and professional fees	1,710	2,268
Other operating costs	1,799	3,342
	17,382	10,817

Notes to the Accounts (Continued)

Included within movement in provision for bad and doubtful debts is a £7m bad debt provision in relation to the repayment of grant to the Agency, which arose following the failure of a company to discharge its obligations under the terms of the grant provision. This provision is also referred to in note 20 of the accounts.

In addition, during the year the Agency identified 17 cases of irrecoverable debts in relation to its property services activity amounting to a total of £96,445, which have been put forward for write off.

All debts to be written off have been fully provided for within these accounts. National Assembly approval for write off is being sought where this is necessary.

	2004 £'000	2003 £'000 (Restated)
7. Interest payable and similar charges		
Interest payable	3,537	3,117
Interest payable and similar charges are analysed as follows:		
On loans repayable within 5 years	6	39
On loans repayable after more than 5 years	3,531	3,078
8. Other investment management costs		
Movement in provision for bad and doubtful debts/ diminution in value of investments	1,848	2,337
Consultancy services and professional fees	2,013	1,852
Other operating costs	1,380	1,182
	5,241	5,371

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000 (Restated)
9. Administration expenses		
Salaries, members' emoluments and related costs	36,867	29,544
Travel, subsistence and hospitality	4,122	3,791
Consultancy services and professional fees	2,133	3,112
Auditor General for Wales		
- annual audit fee	80	82
- other fees	6	7
Other external audit fees	58	42
Office and establishment costs	10,602	9,041
Depreciation	2,133	2,030
	56,001	47,649
10. Other operating activities		
International	2,532	2,020
Marketing	27,068	21,576
Strategy development	845	1,004
Business support	45,576	43,627
	76,021	68,227
11. Grants administered & related costs		
Land reclamation	14,278	20,303
Urban & Rural development (including Investment Grants)	22,763	22,099
Property development	24,258	34,048
Support to other organisations	51,282	38,204
	112,581	114,654

Notes to the Accounts (Continued)

	2004 £	2003 £
12. Board members' emoluments		
Chairman - Roger Jones OBE	61,059	67,180
Deputy Chairman - Trefor Jones CBE, LL	18,987	18,569
Chief Executive - Graham Hawker CBE, DL	120,016	115,313
Eleven members between £5,001 and £10,000 (Twelve in 2003)	92,305	96,430
Total emoluments	292,367	297,492

The Chief Executives' remuneration of £120,016 incorporates a base salary of £113,346 and a non consolidated bonus payment of £6,670 (2001/02-£4,461) in relation to the Agency's performance in the 2002/03 financial year.

From the 1 August 2003 the Chairman is contracted to work 2.5 days per week (previously 3 days per week), with the other Board members being contracted to work between 2 and 5 days per month. All Board members are contracted to serve a three year term.

	2004 £'000	2003 £'000
Expenses:		
Travel and subsistence	33	39
Hospitality extended	3	3
13. Staff costs		
Salaries and wages	29,891	23,744
Social security costs	2,296	1,718
Other pension costs	4,391	3,535
Total staff costs	36,578	28,997

Notes to the Accounts (Continued)

	2004	2003
13. Staff costs (Continued)	No.	No.
Average number of employees during the year	996	850
Breakdown of staff numbers by category of employment at 31 March 2004		
Capital programmes	136	114
Business support	498	437
International/Marketing	158	134
Strategy development	29	29
Regional support services	98	86
Corporate services	120	95
Total	1,039	895

Senior staff

The Agency's senior staff are not Company Directors within the meaning of the Companies Acts, to which the "Greenbury Code" on disclosure of remuneration, etc, is addressed. The Agency's senior staff have signed standard Agency employment contracts which do not provide for publication of private information on their remuneration, etc. Furthermore, all Agency employees have statutory rights to privacy under the Data Protection Acts and Human Rights legislation. Consequently, the senior staff have withheld their consent to publication of their private details, as allowed by HM Treasury's instruction DAO (GEN) 12/00.

The Agency believes that the following information gives a thorough understanding of senior staff details.

Notes to the Accounts (Continued)

13. Staff costs (Continued)

Executive Management Team

Other than the Chief Executive the following employees filled Executive, i.e. the most senior management posts in the Executive Management team during 2003-2004.

Childs D A	Group Finance Director	
Davies G	Executive Director Mid Wales	
Farrow C J	Executive Director North Wales	
Hall G J	Executive Director Strategy Development	
Harcombe Z	Executive Director Human Resources	
Hendy H	Executive Director International	
John G	Executive Director Marketing	
King M	Executive Director South West Wales	
Leeb G	Acting Executive Director Business Support	From 22 March 2004
Lloyd-Jones S	Executive Director Business Support	To 21 March 2004
Lloyd-Jones S	Acting Chief Executive Finance Wales plc	From 22 March 2004
Mitten C	Chief Executive Finance Wales plc	To 21 March 2004
Morgan R	Head of Governance	
Neal N G	Executive Director Land Development & Legal Services	
Thomas K J	Executive Director South East Wales	

The remuneration (including, in certain cases, part costs for the provision of leased cars) of Executive Management post holders, excluding the Chief Executive, was as follows:

Remuneration Range	Number
£0,000 - £9,999	1
£60,000 - £69,999	1
£80,000 - £89,999	10
£90,000 - £99,999	2

The pension arrangements for the above persons were the same as for other Agency employees, who participated in the Agency's occupational pension scheme, as described in note 14 to the accounts.

All employees who are over the age of 60 at 31 March 2004 are entitled to draw their accrued pension on completion of their term of appointment or employment in the Agency.

Notes to the Accounts (Continued)

14. Pension costs

The Agency participates in the Local Government Pension Scheme, which is a multi-employer funded scheme providing pension and related benefits on a final salary basis. The assets of the scheme are held separately from the assets of the Agency and are administered by Rhondda Cynon Taff County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay as you go basis.

A full actuarial valuation of the Fund is carried out every 3 years, with the latest valuation being carried out by a qualified actuary as at 31 March 2001 and the results have been used as the basis for assessing pension costs and future contributions for that scheme. The projected unit actuarial method was used and the principal actuarial assumptions adopted were: an investment return averaging 6.82% per annum; salary increase (exclusive of merit awards) of 4.25% per annum; future pension increases of 2.5% per annum; dividend growth on equity investments of 4.0% per annum.

The market value of the Fund's assets as at 31 March 2001 was £866.4m and was sufficient to cover 76% of the Fund's liabilities, allowing for future pay increases. Consequently from 1 April 2002, the Agency's pension contributions increased to 265% of the contributions payable by members.

The pension cost for the year, excluding the exceptional costs associated with the provision of added years for some leavers, amounted to £3,968,000.

The financial position of the fund will be reviewed as part of a further actuarial valuation as at 31 March 2004 in compliance with the Local Government Scheme Regulations, the result of which is awaited.

As the scheme is multi-employer the Agency's share of the overall underlying assets and liabilities is not identifiable. Further information about the deficit in the scheme can be found by contacting the pensions department at Rhondda Cynon Taff County Borough Council, Bronwydd House, Porth, Rhondda, CF39 9DL.

Notes to the Accounts (Continued)

15. Tangible assets

The Assembly has directed that land and buildings wholly or partly occupied by the Agency should be included in the balance sheet at their open market value. Accordingly, at 31 March 2004 the Agency's land and buildings were valued on that basis by independent valuers, suitably qualified for the purpose and in accordance with the Guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors.

The valuation was carried out by King Sturge Chartered Surveyors (RICS).

	Land and buildings £'000	Office equipment and vehicles £'000	Total £'000
Cost and valuation			
At 1 April 2003	9,920	7,364	17,284
Additions	26	1,424	1,450
Disposals	-	(1,004)	(1,004)
Revaluation adjustment	1,986	-	1,986
At 31 March 2004	11,932	7,784	19,716
Depreciation			
At 1 April 2003	-	5,032	5,032
Charge for the year	381	1,752	2,133
Disposals	-	(985)	(985)
Revaluation adjustment	(381)	-	(381)
At 31 March 2004	-	5,799	5,799
Net book amounts			
At 31 March 2004	11,932	1,985	13,917
At 1 April 2003	9,920	2,332	12,252
A summary of the valuation of land and buildings is as follows:	£'000		
Freehold	7,507		
Long Leasehold	4,425		
At 31 March 2004	11,932		

Notes to the Accounts (Continued)

	Agency £'000	Consolidated £'000
16. Investments		
Cost		
At 1 April 2003	23,395	26,092
Additions	741	6,320
Repayments	(270)	(1,809)
Written off	(729)	(729)
At 31 March 2004	23,137	29,874
Diminution in value		
At 1 April 2003	3,257	6,522
Movement in Provisions	(1,213)	1,837
Written off	(729)	(729)
At 31 March 2004	1,315	7,630
Net book values		
At 31 March 2004	21,822	22,244
At 1 April 2003	20,138	19,570

Loans due for repayment within one year total £1,753,528 (2003 - £1,433,649)

The above includes the Agency's investment in Welsh Industrial Partnership, an associated undertaking. The net book value of the Agency's interest in the Partnership included above, amounts to £10,565,000

During the year the Agency identified 8 cases of irrecoverable investments in relation to its investment activity amounting to a total of £730,888. Included within these irrecoverable investments are two individual cases of £105,000 and £450,000, in relation to investments in companies which had ceased trading.

Notes to the Accounts (Continued)

	£'000
17. Interests in Joint Ventures	
At 1 April 2003	6,424
Transfer from properties held for resale (Note 19)	2,501
Additions	3,681
Disposals	(1,348)
Diminutions in value - Included within note 11	(2,235)
At 31 March 2004	9,023

Transfer from properties held for resale, relates to the value of a Joint Venture held by the Agency's Land Development and Legal Services Unit, which was previously reported within note 19.

The above interests in joint venture projects have been independently assessed by King Sturge Chartered Surveyors. The value represents the lower of cost or recoverable amounts, any shortfall being charged to the income and expenditure account. The joint venture projects included in the above valuation have been undertaken at the following locations:

Llanelli Gate, Dafen	Swansea Vale
Hawtin Park, Blackwood	Land at Pillgwenlly, Newport
Land at Duffryn, Newport	Barry, Vale of Glamorgan
Land at Cleppa Park, Newport	Land at Rhyd-y-Car, Merthyr
Heath Hospital, Cardiff	Penrhyndeudraeth, Gwynedd
Ocean Park, Cardiff	Cross Hands, Carmarthenshire
Science Park, Bridgend	Junction 33 M4
Oakdale, Blackwood	Commercial Street, Risca
Parc Amanwy, Ammanford	

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000
18. Mortgages and other loans		
Agency and Consolidated		
At 1 April	3,392	3,511
Additions	-	145
Repayments	(329)	(264)
At 31 March	3,063	3,392
Amount falling due within one year	356	329

	Land Development Unit £'000	Other Agency £'000	2004 Total £'000	2003 Total £'000
19. Properties held for resale				
At 1 April	70,815	148,772	219,587	181,144
Transfer to Joint Ventures (note 17)	(2,501)	-	(2,501)	-
Additions	6,095	81,018	87,113	67,527
Intra Agency transfer	1,300	(1,300)	-	-
Disposals	(9,651)	(19,489)	(29,140)	(17,509)
Movement in provision for diminution in value	1,557	(30,097)	(28,540)	(11,575)
At 31 March	67,615	178,904	246,519	219,587

The intra Agency transfer represents a purchase of Land at cost by the Land Development Unit from the Agency's North Division.

Properties held for resale includes certain land and buildings where tenants have been provided with options to purchase within certain limited time periods at a value of not less than £550,000.

Notes to the Accounts (Continued)

	Agency		Consolidated	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
20. Debtors				
Amounts falling due within one year				
Trade debtors	8,445	6,148	8,487	6,191
Other debtors	27,668	43,097	27,105	42,761
Prepayments and accrued income	13,601	12,747	13,673	12,786
	49,714	61,992	49,265	61,738
Amounts falling due after more than one year				
Other debtors	10	14	12	22
Prepayments and accrued income	1,350	2,025	1,350	2,025
Total debtors	51,074	64,031	50,627	63,785

Other debtors has been reduced by a £7m bad debt provision in relation to the repayment of grant to the Agency, which arose following the failure of a company to discharge its obligations under the terms of the grant provision.

This amount is included within expenditure on property services in note 6 of the accounts.

The Agency has similarly made a reduction in a provision to repay this grant to the Assembly, which is shown within provisions for liabilities and charges in note 23. The corresponding entry shown as a movement within the statement of reserves and total recognised gains and losses on page 15.

	Agency		Consolidated	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
21. Short term investments held as current assets				
Investment Funds	-	-	36,350	40,956
	-	-	36,350	40,956

Notes to the Accounts (Continued)

	Agency		Consolidated	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
22. Creditors				
Amounts falling due within one year				
Payments received on account	1,525	1,549	1,525	1,549
Trade creditors	12,287	9,631	12,591	9,880
Taxation and social security	40	25	40	25
Other creditors	1,589	690	1,732	690
Accruals	22,099	11,601	29,463	14,936
	37,540	23,496	45,351	27,080
Amounts falling due after more than one year				
Other creditors	-	300	44,924	25,178
Accruals	1,570	1,501	26,525	16,308
	1,570	1,801	71,449	41,486
Total creditors	39,110	25,297	116,800	68,566

23. Provisions for liabilities and charges

	Pensions	Repayment of Grant	Wales Innovation Fund Ltd	Total	Total
	£'000	£'000	£'000	£'000	£'000
Provision at 1 April	6,144	30,000	1,546	37,690	7,128
Applied in the year	(578)	-	-	(578)	(573)
Provided in the year / (unused amounts reversed)	296	(7,000)	211	(6,493)	31,135
Provision at 31 March	5,862	23,000	1,757	30,619	37,690

The carried forward pensions' provision relates to total future pension costs of former employees who have been provided with added years pension entitlements. Also included is provision for the Chairman's future pension costs, which have not been funded through the Local Government scheme.

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000
24. Taxation and deferred taxation		
1. Tax on profit on ordinary activities		
(a) Analysis of charge in period		
Current Tax		
UK corporation tax on profits of the period @ 30%	-	-
	0	0
(b) Factors affecting the tax charge for the period		
The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%).		
The differences are explained below:		
Excess of expenditure over income on ordinary activities before tax	(269,632)	(198,655)
Excess of expenditure over income on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002:30%)	80,890	59,597
Effects of:		
Non taxable (expenses)/income	(4,397)	(12,888)
Timing differences not recognised	1,980	1,291
Utilisation of tax losses	1,929	5,645
Property expenses not allowable for tax purposes	(9,640)	(4,424)
Grant in aid offset against expenses	(65,802)	(48,588)
Tax losses not recognised in deferred tax	(4,960)	(1,053)
Payment in respect of sale of fixed assets in prior year	-	420
Current tax credit for period (note 1(a))	0	0

(c) Factors that may affect future tax charges

Deferred tax has not been recognised in respect of timing differences relating to fixed assets of £1m. Deferred tax assets have also not been recognised in respect of losses arising on property rentals of £34m, £2.5m in respect of excess management expenses, £125k in respect of non-trade financial losses and £212k in respect of timing differences on provisions. These assets would be recovered if taxable income were received in excess of expenses in future years in respect of each activity sufficient to absorb these losses.

Notes to the Accounts (Continued)

£'000

25. Public Dividend Capital

Balance at 1 April 2003	12,658
Receipts during the year	264
Balance at 31 March 2004	12,922

National Loans Fund

26. Loan capital

Balance at 1 April 2003	11,998
Repayments during year	(43)
Balance at 31 March 2004	11,955
Amounts falling due within 1 year	40
Amounts falling due between 1 and 5 years	132
Amounts falling due after 5 years	11,783
Total	11,955

The National Loans Fund loans are repayable over periods of up to 60 years. They bear interest rates between 4.75% and 17.25%.

	Public Dividend Capital £'000	Loan Capital £'000	Revaluation Reserve £'000	General Reserve £'000	Total 2004 £'000	Total 2003 £'000
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27. Movement in funds

Recognised gains & losses for the year	-	-	2,367	19,724	22,091	51,695
Movement in capital	264	(43)	-	-	221	1,617
Movement of funds in the year	264	(43)	2,367	19,724	22,312	53,312
Funds at 1 April	12,658	11,998	5,066	257,739	287,461	234,149
Funds at 31 March	12,922	11,955	7,433	277,463	309,773	287,461

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000
28. Reconciliation of excess of expenditure over income to net cash outflow on operating activities		
Excess of expenditure over income on ordinary activities before tax	(269,632)	(198,655)
Movement in provisions for liabilities and charges	(71)	562
Depreciation	2,133	2,030
Release of deferred grant income	(2,350)	(2,285)
Diminution in value of joint ventures	2,235	825
Movement in provision for bad and doubtful debts	9,444	2,609
Notional cost of capital	10,780	15,562
Increase in properties held for resale	(26,932)	(38,443)
Decrease / (Increase) in debtors	16,804	(41,413)
Increase in creditors	10,636	6,401
Net cash outflow on operating activities	(246,953)	(252,807)

	Change in Year	Total £'000	Total £'000
29. Analysis of changes in net debt			
Cash at bank and in hand	47,698	75,449	27,751
Debt due within one year	3	(40)	(43)
Debt due after more than one year	40	(11,915)	(11,955)
Total	47,741	63,494	15,753

Notes to the Accounts (Continued)

30. Land Development and Legal Services

The Land Development and Legal Services Unit seeks to support and encourage the creation of development opportunities in situations of market difficulty throughout Wales. It conducts its activities by supporting both the public and private sectors and acting for the Agency's regional teams, as required, on land related activities, including urban regeneration schemes. It is the Agency's policy to operate the unit on a ring fenced basis, generating income mainly from disposal of sites for development.

Land Development and Legal Services also undertakes legal services on behalf of the Agency as a whole.

As required by the Accounts Direction a memorandum summary of the Land Development and Legal Services financial performance for the year is set out below:

	2004 £'000	2003 £'000
Turnover	25,717	25,369
Cost of Sales	(9,651)	(6,003)
Movement in provision for diminution in value of stock	1,557	141
Gross Profit	17,623	19,507
Administration expenses (includes Corporate Recharges)	(5,144)	(5,649)
Operating Profit	12,479	13,858
Interest Receivable	461	314
Interest Payable	(48)	-
Net profit for the period	12,892	14,172

During the year Land Development and Legal Services made a payment to the Assembly of £1,100,000, which directly related to cash received from the sale of assets inherited from the former Cardiff Bay Development Corporation. This repayment is shown as a movement within the statement of reserves and total recognised gains and losses on page 15.

The above excludes a notional cost of capital charge, as no separate balance sheet is prepared.

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000
31. Contingent liabilities		
Guarantees and conditional undertakings	3,050	3,705
Other contingent liabilities	7,478	6,060
At 31 March	10,528	9,765

'Other contingent liabilities' primarily encompass potential costs associated with the removal of ground contamination and also legal proceedings being pursued against the Agency. The Agency does not consider that there is any basis for such legal claims.

32. Capital commitments

Contracted but not yet provided for	149,369	140,123
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In addition to the above, since 2000/01 the Agency has been contractually committed to pay £5.1 million annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. The amount payable in 2003/04 was £5,862,613. This scheme was transferred from the Cardiff Bay Development Corporation (CBDC) to the Agency in April 2000 as part of the wind up of CBDC. The private sector partner is required to design, construct and maintain for 25 years a road network to be known as Bute Avenue, the completion of associated works and to secure and or undertake the provision of specified residential and commercial developments. It is not possible to assign a capital value of the scheme at this time.

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000
33. Operating leases		
Total operating lease rentals charged to the income & expenditure account are analysed as follows:		
Hire of Equipment	6	5
Other operating leases	4670	4179
Operating lease commitments falling due within 12 months are analysed as follows:		
Land & Buildings		
Commitments that expire:		
Within 1 year	297	191
Between 1 and 5 years	1,269	1,295
After 5 years	2,322	1,916
Total	3,888	3,402
Other Assets		
Commitments that expire:		
Within 1 year	43	105
Between 1 and 5 years	252	122
Total	295	227

34. Financial limit

Under Section 18 of the Welsh Development Agency Act 1975, as amended by the Welsh Development Agency Act 1997 and by Statutory Instrument 1147 (W.82) made by the National Assembly for Wales on 30 March 2000, the aggregate amount of finance outstanding by the Agency otherwise than by way of interest should not exceed the limit of £2,000 million.

The amount outstanding as at 31 March 2004 was **£1,908,153,000** (2003 - £1,719,278,000)

Notes to the Accounts (Continued)

35. Results of related companies

In accordance with the accounts direction, where the Agency's interest exceeds 30% of the issued ordinary shares and convertible preference shares of a company and £100,000, the following information taken from the latest audited annual accounts is given.

Agency holdings at 31 March 2004

Name of company	Description of investment	Proportion held %	Year to	Share capital and reserves £	Profit/(Loss) for the year £
Welsh Development Management Ltd	1 ordinary £1 share	100	31.3.04	(54)	(4)
Finance Wales plc	12,500 ordinary £1 shares	100	31.3.04	(5,468,583)	(2,756,033)

Finance Wales plc is a wholly owned subsidiary company of the Agency. The loss for the year of £2,756k (2003 - £1,400k) and its share capital and reserves of (£5,468k) (2003 - (£2,712k)), incorporates the results of its own wholly owned subsidiary companies, Finance Wales Investments Ltd, Finance Wales Investments (2) Ltd, Xénos - The Business Angel Network Ltd and also its share of the loss of Wales Innovation Fund Ltd, an incorporated joint venture.

The Agency also has a 49% interest in an associated undertaking known as Welsh Industrial Partnership Ltd. The value of the Agency's interest, which has been independently assessed by King Sturge Chartered Surveyors, amounts to £10,565,000 and is included within Investments at note 16.

Notes to the Accounts (Continued)

	2004 £'000	2003 £'000
36. European grants		
European Union grants were provided under the following programmes		
European Regional Development Fund		
Industrial South Wales programme	(180)	237
Rural Wales programme	(98)	315
Objective 1	30,108	11,741
Objective 2	3,021	542
Interreg	(28)	-
Other Community Initiatives	(9)	1
Sub Total	32,814	12,836
European Agricultural Guidance & Guarantee Fund		
Rural Wales programme	-	356
Objective 1	3,603	5,594
Sub Total	3,603	5,950
European Social Fund	2,184	915
Other European Initiatives	368	329
	38,969	20,030
These receipts were applied to the following activities;		
Property development	11,640	954
Land reclamation	(305)	(32)
Rural development	285	226
Business support	27,349	18,882
	38,969	20,030

Notes to the Accounts (Continued)

37. Transfer of the Knowledge Exploitation Fund

In May 2003 the Assembly Minister for Economic Development requested that the Agency take over responsibility for the Knowledge Exploitation Fund (KEF), a fund that was set up to encourage entrepreneurship and innovation in Further and Higher Education Institutions in Wales. This Fund was previously managed by the National Council for Education and Training for Wales and the Higher Education Funding Council for Wales.

The transfer took place on 14 January 2004, by which time Phase 1 of the KEF Programme was substantially complete. An arrangement to manage Phase 1 was therefore agreed between the Agency and the two Councils, under which the Agency is required to administer the remaining elements of Phase 1 on behalf of the Councils until its completion; although the ultimate responsibility for Phase 1 remains with the Councils' Accounting Officers. From the date of transfer, responsibility for the operation, delivery and completion of Phase 2, passed in its entirety to the Agency.

As a consequence of the transfer of responsibility, the Agency became entitled to receive £4,248,586 during the year, consisting of: £3,152,309 in additional Grant in Aid; £572,691 of European grant monies previously held by the two Councils; and £523,586 due from European Structural Funds. This funding was intended to cover all KEF commitments previously entered into by the two Councils which remained outstanding to 31 March 2004. In the event of any shortfall, the Councils will recompense the Agency.

The financial commitments detailed in the Transfer Agreement have been brought to account in these financial statements. At the time of completion of these accounts, projects supported by European grants were yet to receive audit certificates. Once these figures have been certified any amendments will be incorporated into the 2004-05 balances.

38. Newport Unlimited

Newport Unlimited is a private company limited by guarantee with financial backing and Board member support from the National Assembly for Wales, Newport City Council and the Agency (the stakeholders).

The objectives of the company are to develop and secure the regeneration in the physical environment and to strengthen the economy of specific areas of the city and other locations in Newport. The company sets a strategic policy for the regeneration of Newport but does not enter into transactions on its own behalf. Instead contributions to both revenue and capital programmes will be expended by the relevant stakeholders.

Notes to the Accounts (Continued)

38. Newport Unlimited (Continued)

As referred to in the foreword, included within these accounts are transactions entered into by the Agency in its capacity as one of three stakeholders in the Newport Urban Regeneration Company, trading as Newport Unlimited.

The Agency's financial support, including the contribution made by the National Assembly for Wales, included within these accounts are summarised below.

	2004 £'000	2003 £'000
Sundry operating income	155	107
Capital costs		
Acquisition of land	810	4,941
Capital Works	483	-
IT Equipment	21	62
Total	1,314	5,003
Revenue costs		
Salaries	323	121
Travel & Subsistence	9	2
Office & Establishment	116	48
Consultancy/professional fees	1,116	13
Sundry	315	373
Total	1,879	557

The net book value of properties held for resale at 31 March 2004 (note19) includes £6.4m of capital assets acquired in respect of the above transactions.

Nic Neal and Karen Thomas, members of the Agency's Executive Management Team are Non-Executive Directors of Newport Unlimited.

Notes to the Accounts (Continued)

39. Related Party Transactions

The Welsh Development Agency is a Public Body sponsored by the National Assembly for Wales. The Assembly is regarded as a related party. During the year the Agency received funding from the Assembly in the form of Grant in Aid and Public Dividend Capital.

During the year the Agency has had various material transactions with other entities for which the Assembly is the sponsor, namely;

Arts Council of Wales
Higher Education Funding Council for Wales
National Council for Education and Training Wales
Wales Tourist Board

In addition the Agency completed the following financial transactions with bodies in which the following Board members and Senior staff declared an interest and which are considered material.

Transactions with other public sector bodies or not for profit organisations where Senior staff or a member of the Agency's Board have an interest.

During the year the Agency provided £36,136 of core funding to the Mid Wales Partnership. Roger Jones is Vice-Chair of the partnership and Dr Geraint Davies is a member of the Steering & Chief Executive's Group and the Strategy & Policy Group of the Partnership.

During the year the Agency paid £13,361 to the Institute of Directors Wales. Roger Jones is a board member of the Institute of Directors Wales.

During the year the Agency provided core funding of £6,403,935 to Finance Wales plc, a wholly owned subsidiary of the Agency. Trefor Jones and David Williams are directors of Finance Wales plc. Colin Mitten was Chief Executive of Finance Wales plc until 21/03/04. Sian Lloyd Jones became Acting Chief Executive of Finance Wales from 22 March 2004.

During the year the Agency provided £599,483 in grant funding to Wales Co-Operative Centre Ltd. Tyrone O'Sullivan and Jim Hancock are management board members of the Wales Co-Operative Centre Ltd.

During the year the Agency made contributions of £33,650 to Business in the Community. Janet Reed is a member of the Advisory Board of Business in the Community.

During the year the Agency provided £122,628 of funding to Wales European Centre Ltd. Gareth Hall is a director of Wales European Centre Ltd.

Councillor Noel Crowley is leader of Neath Port Talbot County Borough Council. During the year the Agency provided £1,747,621 in grant funding to the Council.

During the year the Agency paid a total of £12,904 to the University College of Wales, Aberystwyth. Dr Geraint Davies is a member of the Council and Court of Governors for the University of Wales, and a Member of the Gregynog Advisory Panel.

Notes to the Accounts (Continued)

39. Related Party Transactions (Continued)

During the year the Agency paid to the University of Wales Bangor a total of £814,478. Chris Farrow is a member of the Court of the University and a member of the School of Business Regional Advisory Board. Gareth Evans is also a member of the School of Business Regional Advisory Board.

During the year the Agency provided £3,359,253 in support of Ryder Cup Wales (2010) Ltd. David Williams and Gareth John are Board Members of Ryder Cup Wales (2010) Ltd.

Transactions with the private sector, where a member of the Agency's Board has an interest.

During the year the Agency paid a total of £103,400 to S4C. Roger Jones is a board member of the S4C Authority.

During the year the Agency incurred £775,484 of expenditure in rents and service charges to the Principality Building Society. David Williams is a board member of the Principality Building Society.

During the year the Agency provided £440,611 in grant funding to South Caernarfon Creameries Ltd. Gareth Evans was Chief Executive of South Caernarfon Creameries Ltd.

During the year the Agency provided £136,678 of grants to Enfis Ltd. Simon Gibson is a non-executive director of Enfis Ltd.

Five Year Summary

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Income & Expenditure					
Income	42,713	79,438	33,752	30,286	27,313
Expenditure	312,345	278,093	208,374	146,587	160,007
Fixed Assets (at year end)					
Tangible assets	13,917	12,252	10,873	9,422	8,374
Investments	22,244	19,570	14,902	4,104	2,888
Interests in joint ventures	9,023	6,424	9,151	10,374	11,261
Properties Held for Resale	246,519	219,587	181,144	175,209	168,025
Funding					
National Assembly Grant-in-Aid	233,707	245,316	171,282	109,975	114,812
European sources	38,969	20,030	14,838	12,362	3,611

The Agency's expenditure includes fees paid to consultants. A list of consultants who were awarded contracts which exceeded £25,000 in total for the financial year is available for public inspection at the Agency's registered office: Principality House, The Friary, Cardiff, CF10 3FE.

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