

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

The National Assembly for Wales
Cynulliad Cenedlaethol Cymru
Consolidated Annual Report and Accounts 2006-2007

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

THE PERMANENT SECRETARY'S REPORT

Format of the accounts

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury, under Section 97 of the Government of Wales Act 1998. They are a consolidation of the accounts of the National Assembly for Wales; its executive agency, Health Commission Wales – Specialist Services (HCW); the Local Health Boards operating in Wales; and subsidiary companies resulting from merger.

A copy of the Accounts Direction is available from the National Assembly for Wales, Finance Department at Cathays Park, Cardiff, CF10 3NQ.

Function and operation

The National Assembly for Wales was established in 1999 under the Government of Wales Act 1998. The National Assembly for Wales has the power to develop and implement policies in a range of areas including: agriculture, economic development, education, environment, health, transport, housing, local government, social services, culture, sport and the Welsh language. The accounts cover the activities of the Welsh Assembly Government, the Assembly Parliamentary Service, Health Commission Wales, the Local Health Boards in Wales and various subsidiary companies. All activities are continuing for financial reporting purposes up to 31 March 2007. From the 1 April 2007 the Government of Wales Act 2006 has established a formal split of functions between the National Assembly for Wales (the legislature) and the Welsh Assembly Government (the executive).

Principal aim and objectives

“Wales: A Better Country” is the National Assembly for Wales’ strategic agenda issued in September 2003 which is published on the National Assembly for Wales’ website.

“Wales: A Better Country” sets out the National Assembly for Wales’ vision for a sustainable future for Wales, where action for social, economic and environmental improvement work together to create positive change. In particular:

- promoting a diverse, competitive, high-added value economy, with high quality skills and education, that minimises demands on the environment;
- action on social justice that tackles poverty and poor health, and provides people and their communities with the means to help themselves and break out of the poverty trap;
- action in our built and natural environment that enhances pride in the community, supports bio-diversity, promotes local employment and helps to minimise waste generation, energy and transport demands;
- strengthening Wales’ cultural identity and helping to create a bilingual country;
- ensuring all our children and future generations enjoy better prospects in life, and are not landed with a legacy of problems bequeathed by us;
- supporting people to live healthy and independent lives; and
- promoting openness, partnership and participation.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Sources of funding

Funding for the National Assembly for Wales during 2006-07 was primarily provided by Parliament through the Department for Constitutional Affairs, and by the European Union.

Accounting boundary

These accounts present the assets, liabilities and the results of the National Assembly for Wales for the year ending 31 March 2007. During 2006/2007, the National Assembly for Wales' core activities incorporated:

- The expenditure of the Royal Commission for Ancient and Historic Monuments (Wales) (RCAHM). The National Assembly for Wales is responsible for operating the finance function of the Royal Commission;
- The Welsh Development Agency (WDA), National Council for Education and Training for Wales (Elwa), the Wales Tourist Board (WTB), Qualifications, Curriculum and Assessment Authority for Wales (ACCAC). These former Assembly Sponsored Public Bodies and their associated subsidiary companies including Finance Wales PLC were merged, for accounting purposes, on 1 April 2006 under a 'machinery of government' change. The accounts have been amended in accordance with Financial Reporting Standard Number 6;
- Health Professions Wales (HPW). Some functions of HPW were transferred, for accounting purposes, on 1 April 2006 under a 'machinery of government' change. The accounts have been amended in accordance with Financial Reporting Standard Number 6;
- Student Loans – for Welsh applicants. Student Loans were transferred from the Scottish Executive, for accounting purposes on 1 April 2006 under a 'machinery of government' change. The accounts have been amended in accordance with Financial Reporting Standard Number 6;
- The funding of Arriva Trains Wales was transferred, for accounting purposes, on 1 April 2006 under a 'machinery of government' change. The accounts have been amended in accordance with Financial Reporting Standard Number 6;
- Tir Gofal. Tir Gofal and Tir Cymen Agri-Environment were transferred from the Countryside Commission for Wales, for accounting purposes on 16th October 2006 under a 'machinery of government' change. The accounts have been amended in accordance with Financial Reporting Standard Number 6;
- Dysg. Dysg was transferred from the Learning and Skills Agency, for accounting purposes on 1 April 2006 under a 'machinery of government' change. No amendments have been made for prior years as the Learning and Skills Agency ceased to exist on this date.

The effects of the changes set out above are disclosed at Note 37 to these accounts.

These accounts also report the assets, liabilities and the results of the National Assembly for Wales consolidated position. These incorporate the following:

National Assembly for Wales' executive agency Health Commissions Wales;
the Local Health Boards in Wales;
Finance Wales PLC;
Welsh Development Management Ltd;
International Business Wales Ltd;
Ryder Cup Wales 2010 Ltd;
Design Commission Wales Ltd;

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Elwa Trading Ltd (ceased trading);
North Wales Training and Enterprise Council Ltd (ceased trading);
West Wales Training and Enterprise Council Ltd (ceased trading);
Mid Wales Training and Enterprise Council Ltd (ceased trading);
Council of Welsh Tecs (ceased trading).

Results for the year

The results for the period are reported in detail in the attached accounts. They record a consolidated net operating cost of £11,870,405,000 (restated 2005-06 - £11,299,187,000). The consolidated net assets have increased by £777,058,000 mainly due to increases in the value of the roads network. HM Treasury has given the National Assembly for Wales dispensation from producing a Statement of Parliamentary Supply, reconciling budget to accounts and then to cash requirement. That statement is structured around Whitehall Departments which report direct to Parliament, whereas the National Assembly for Wales' budget is based on the Welsh Block which follows different principles.

Movements in tangible fixed assets

Fixed asset additions in the period were £79,967,000. Fixed assets were re-valued in the period, resulting in a net increase in value of £485,408,000 of which £451,207,000 related to roads and infrastructure assets.

Lending and investing activities

As part of its normal course of business the National Assembly for Wales issues loans or Public Dividend Capital to other public sector bodies in Wales. The majority of these funds are issued to the National Health Service in Wales. Other loans exist with Local Authorities, Education Authorities and Housing Associations. Additionally, the National Assembly for Wales had responsibility for managing the National Loans Fund loans to the Welsh Development Agency, which was transferred on merger to the National Assembly for Wales.

At 31 March 2007 the National Assembly for Wales and its related bodies had investments totalling £2,484,032,000 comprising Public Dividend Capital of £1,382,436,000; Student Loans of £1,052,317,000; property related investments of £20,513,000; interests in joint ventures of £24,332,000; and other loans of £4,434,000.

The National Assembly for Wales' loan funds are lent at a variety of interest rates, determined by HM Treasury.

Review of activities

The activities of the Welsh Assembly Government are reported in the Management Commentary, published with these accounts.

No charitable donations were made in 2006-07.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Post Holders and Senior Officers

Presiding Officer and Deputy

Lord Dafydd Elis-Thomas	Presiding Officer
Dr John Marek	Deputy Presiding Officer

There were 9 National Assembly for Wales Cabinet posts during the financial year 2006-07:

<i>Cabinet Member</i>	<i>Post Held</i>
The Rt. Hon. Rhodri Morgan	First Minister
Jane Hutt	Minister for Business
Jane Davidson	Minister for Education & Lifelong Learning
Andrew Davies	Minister for The Economy and Transport
Sue Essex	Minister for Finance, Local Government and Public Services
Dr Brian Gibbons	Minister for Health & Social Services
Edwina Hart MBE	Minister for Social Justice and Regeneration
Carwyn Jones	Minister for Environment, Planning & Countryside
Alun Pugh	Minister for Culture, Welsh Language and Sport

Senior Officials

The Management Board of the Welsh Assembly Government supports the Permanent Secretary in ensuring that the Welsh Assembly Government's civil service is organised, resourced and motivated to deliver its objectives effectively. In particular, the Board assists the Permanent Secretary in his responsibilities for the management, development and organisation of the Welsh Assembly Government staff; the stewardship of National Assembly for Wales assets; the use of public money; the development and delivery of the National Assembly for Wales policies and the service provided by the Welsh Assembly Government's civil service to Ministers, Members and the citizens of Wales.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

The composition of the Management Board during the year was as follows:

<i>Board Members</i>	<i>Post Held</i>
Sir Jon Shortridge KCB	Permanent Secretary
Derek Jones	Senior Director, Policy
Ann Lloyd	Director of Health and Social Services
Richard Davies	Director of Public Service and Performance
Steve Marshall	Director of Education, Lifelong Learning and Skills
Gareth Hall	Director of Enterprise, Innovation and Networks
Dr Emyr Roberts	Director of Social Justice and Regeneration
Gareth Jones	Director of Environment, Planning and Countryside
Hugh Rawlings	Director of Local Government, Public Services and Culture
Michael Harrington	Corporate Information and Services Director
Martin Evans	Finance Director (to 17 September 2006)
Dr Christine Daws	Finance Director (from 18 September 2006)
Bernard Galton	Human Resources Director
Jeffrey Godfrey	Legal Services Director
Huw Brodie	Strategy, Equality and Communications Director
June Milligan	Business Development Director (from 29 May 2006)
Tony Jewell	Chief Medical Officer (from 18 April 2006)
Kathryn Bishop	Non-Executive Director
Sir Adrian Webb	Non-Executive Director

Membership of each of the management boards within HCW, the Local Health Boards, and the subsidiary companies are detailed in their individual accounts for 2006-07.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Senior official appointments

The Permanent Secretary was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service.

Management Board Directors are appointed at the discretion of and by the Permanent Secretary. Civil Service Commissioners chair all openly recruited interview panels for Management Board Directors.

All these appointments are for an indefinite term under the terms of the Senior Civil Service contract. The rules for appointment are set out in chapters 5 and 11 of the Civil Service Management Code.

Appointments relating to Senior Officials within HCW, the Local Health Boards and subsidiary companies are detailed in their individual accounts for 2006-07.

Remuneration of National Assembly for Wales Members and the Management Board

National Assembly for Wales Members' remuneration is determined by the National Assembly for Wales under the provisions of Section 16 of the Government of Wales Act 1998.

The Permanent Secretary's remuneration is set individually by the Head of the Civil Service on the recommendation of the Permanent Secretaries' Remuneration Committee. For other members of the Management Board, remuneration is determined by the Senior Staff Remuneration Committee chaired by the Permanent Secretary in accordance with guidelines prescribed by the Senior Salaries Review Body and the Cabinet Office. Further details on remuneration are set out in the Remuneration Report published within these accounts.

Pensions and early departure costs

Details of the National Assembly for Wales pensions and early departure costs policies are included in notes 1 and 2 to these accounts.

Better Payment Practice Code

Under the Late Payment of Commercial Debts (Interest) Act 1998, the National Assembly for Wales is required to pay suppliers' invoices not in dispute within 30 days of receipt of goods or services or valid invoice, whichever is the later.

The National Assembly for Wales aims to pay 100% of invoices including disputed invoices once the dispute has been settled, in line with these terms. During the year ending 31 March 2007, the National Assembly for Wales paid 97.46% of all invoices within the terms of its payment policy. No interest payments were made on late invoices. The relevant percentage of invoices paid within the terms of their payment policies by HCW, the Local Health Boards, and subsidiaries are disclosed in their respective accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Auditors

The accounts of the National Assembly for Wales are audited by the Auditor General for Wales in accordance with the Government of Wales Act 1998.

The National Assembly for Wales also made payments to the Wales Audit Office for the external audit of grant funding and the certification of claims submitted for support under European Structural Fund Programmes, and for a range of other work conducted at the request of the National Assembly for Wales. These charges are included in Note 4 - Programme Costs.

Events since the end of the financial period

Under the Government of Wales Act 2006 the legal separation of the executive and legislative arms of the National Assembly for Wales has taken place following the Assembly elections on 3 May 2007 and the appointment of the First Minister by Her Majesty the Queen.

The Welsh Assembly Government (the executive) comprising the First Minister, Welsh Ministers, Deputy Welsh Ministers and the Counsel General have executive powers to: make decisions; develop and implement policy; exercise functions; make subordinate legislation and propose Assembly Measures (Welsh Laws). There are 10 Cabinet Ministers including the First Minister and the Deputy First Minister. An agreement called 'One Wales – a progressive agenda for the Government of Wales' was signed on the 27 June 2007 forming a coalition of the two largest parties in the Assembly, and the Welsh Ministers were then appointed to the Cabinet. Four Deputy Ministers were also appointed. Departments within the Welsh Assembly Government were then aligned to the new Ministerial responsibilities.

The National Assembly for Wales (the legislature) made up of the 60 Assembly Members, scrutinises and monitors the Welsh Assembly Government. It scrutinises Welsh Ministers' decisions and policies; holds Ministers to account; approves budgets; examines and approves Assembly Measures and approves certain items of subordinate legislation.

The Assembly Parliamentary Service separated from the Welsh Assembly Government with effect from 26 May 2007 to become the corporate body, the National Assembly for Wales Commission.

Audit Information

So far as the Accounting Officer is aware, there is no relevant audit information of which the Assembly's auditors are unaware, and the Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

**Sir Jon Shortridge
Permanent Secretary and Principal Accounting Officer
24 September 2007**

THE PERMANENT SECRETARY'S MANAGEMENT COMMENTARY

The organisation and people

Under the provisions of the Government of Wales Act 1998 (the relevant legislation for the year 2006-07) the National Assembly for Wales delegated nearly all its executive powers, including the implementation of policies and legislation, to the First Minister. The First Minister in turn delegated responsibility for delivering the executive functions to Welsh Assembly Government Ministers, who together formed the Cabinet. Some powers were also delegated to officials so that they could manage the staff and administrative resources of the organisation.

This commentary relates to the activities undertaken to develop and enhance our corporate capacity and capability to support the delivery of the Welsh Assembly Government's policies. The delivery of Government policy is covered separately in the First Minister's Annual Report. This is published annually and the report for 2006 sets out the Government's achievements for the year and the commitments for the remainder of the Assembly term.

At the close of 2006-07, the Welsh Assembly Government employed 6,167 staff, 42.8% male and 57.2% female, with 3.1% from a Black and Minority Ethnic background. These members of staff were based in 92 locations around Wales, and other locations worldwide. 55% worked in Cardiff.

Equality and Diversity

The Welsh Assembly Government is committed to mainstreaming equality throughout all its policies and practices, and in its treatment of staff and potential employees.

We maintain compliance with the Civil Service Commissioners Recruitment Code to ensure that all recruitment exercises are conducted in a fair and open manner, whether undertaken internally or externally, and are committed to the Two Tick Scheme for disabled applicants.

During 2006-07 the Race Equality Scheme was reviewed, and new schemes for gender and disability developed. To ensure that staff understand their personal responsibilities in these and other equality strand areas, awareness sessions have been delivered across the Welsh Assembly Government offices in Wales. We also launched a Diversity Delivery Plan in response to Cabinet Office's 10 point plan. A recent peer review exercise identified the Welsh Assembly Government as being in the top 5 Government Departments and Devolved Administrations for delivering against the 10 point plan targets.

During the year we received a fourth Gold Award for our work on gender benchmarking, following a further increase in our percentage score to 86%, and maintained a Silver Award for our race benchmarking. We were also rated as amongst the top 10 most improved organisations in the Employers Forum Standard on Disability. We participated in Stonewall UK's Workplace Equality Index in collaboration with our internal Lesbian, Gay, Bisexual, Transsexual Group and were ranked 51st overall. We also received Age Positive Champion status.

A greater emphasis was placed on outreach activity and our marketing of the Welsh Assembly Government brand. To enable potential employees from under-represented groups access to opportunities we have reviewed all our current placement schemes. We have also forged greater links with Welsh Universities and established new schemes in partnership with Scope Cymru and

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Women Connect First.

We have also sought more actively to engage particular groups of staff, and have established two new networks to reflect the needs of women, and minority ethnic staff. We have also made key links with A:Gender which is a civil service wide trans-gender network, and are leading an equality monitoring project on behalf of the Cabinet Office.

The Welsh language is recognised as one of our key organisational priorities. We operate a comprehensive Welsh Language scheme, which sets out how we treat both languages equally.

IiP Accreditation (at the higher level)

The Welsh Assembly Government has been IiP accredited since 1999 and undergoes a voluntary annual assessment as part of its commitment to the Standard. We successfully secured the revised IiP standard in November 2006, and in doing so:

- appointed a full-time Project Manager to co-ordinate arrangements;
- appointed a Board level IiP Champion to help communicate the benefits of IiP as part of business improvement;
- launched a Job Swap programme; and
- formalised a more robust IiP Network across Wales.

An action plan to address issues arising from our last review is also being taken forward as part of a wider communication strategy. The three ongoing key areas we are addressing are:

- evaluation of training to ensure it maximises individual development, whilst helping us to better meet organisational objectives;
- ensuring staff are aware and use the key skills and behaviours that form part of the performance management process; and
- ensuring all more junior staff are actively involved in business planning, and understand how their objectives are linked to wider business outcomes.

Contingency Planning

Recent world events have highlighted the importance of robust and thorough contingency planning. It is essential that the Welsh Assembly Government is able to respond to emergencies quickly and effectively. We also need to be capable of maintaining our core business while managing unforeseen events.

We have established a Civil Contingencies Group (CCG). Core membership includes key Directors together with Communications and Civil Contingencies staff. Wider membership of the Group is flexible, to enable it to be geared to responding to a particular situation. The CCG has participated in a number of emergency exercises throughout the year designed to test the ability of the Welsh Assembly Government to co-ordinate the response in Wales to various emergency scenarios. The outcome of such exercises informs future response arrangements and develops and improves resilience.

Business continuity planning for normal business is being embedded into departmental activities. As Departments introduce individual business continuity plans, each is holding a desktop exercise to test their preparedness for disruption.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Similarly, we have recognised the key role of ICT in maintaining external business and have made arrangements to ensure e-mail communication with critical users can continue in the event of an emergency. On a similar basis, internet services to external customers would also continue as the system is hosted at an external site in Cardiff Bay and would not be disrupted by an emergency in Cathays Park. On a day to day basis, we remain vigilant about our own IT security.

Location Strategy

Our Location Strategy Programme will support the Welsh Assembly Government to transform from a centrally focused organisation into an all-Wales organisation, so that service delivery is improved and made more accessible to the people of Wales. The programme involves the construction of three new Assembly Government offices, situated in Merthyr Tydfil, Llandudno Junction and Aberystwyth, as well as relocating posts into those offices. The programme will reflect the Welsh Assembly Government's sustainable development duty by achieving Building Research Establishment's Environmental Appraisal Method (BREEAM) very good to excellent ratings for each building, establishing green transport plans for each site and ensuring that the future operation of the offices is environmentally friendly.

Further progress on our Location Strategy was made during the year. The new office in Merthyr Tydfil opened in October 2006. Accommodating approximately 470 staff, the new office has achieved a Building Research Establishment's Environmental Appraisal Method (BREEAM) rating of 'excellent' for sustainable development. Three work areas within the Merthyr Tydfil office are piloting new innovative ways of working to inform future policy development. These concepts will be incorporated into the design of the new offices at Llandudno Junction and Aberystwyth.

Planning approval was granted for the Llandudno Junction office in December 2006. Planning permission approval was granted for Aberystwyth in May 2007. Full planning permission approval will require re-submission following the resolution of outstanding issues. A Visitor Centre opened in December 2006 in Llandudno Junction to provide information to the local community on the office development.

Corporate Responsibility

We have been working to reduce our impact on the environment through the way in which we carry out our work. The Green Dragon Environmental Standard has been used to design an effective Environmental Management System (EMS) which enables us to address and measure the environmental impacts of our day-to-day activities. We have put in place an Environmental Policy Statement and Action Plan which is monitored regularly and reviewed annually with the aim of year-on-year improvements in our environmental performance.

We were awarded Green Dragon Level 5 Standard for our 2 main offices in Cardiff, in Cardiff Bay and Cathays Park, and are currently working towards achievement of Green Dragon Standard Level 5 across our wider administrative estate by July 2009. The Green Dragon Roll out Project commenced with a Pilot Roll Out to Carmarthen and Merthyr Tydfil offices to develop a 'Site Green Dragon Toolkit' and produce an optimum roll out strategy. The emphasis is effective environmental management through local empowerment. Carmarthen will be considered in July.

We also use procurement practice as a driver for sustainability by factoring environmental considerations into our tenders and specifications. In 2005-2006 we became the first public sector organisation in the UK to let its car hire contract on the basis of the use of low emission vehicles.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Only cars that meet the 150 g/km or less levels of carbon dioxide emission are available through the contract.

Carbon dioxide emissions from electricity and gas consumption decreased by 3% (137 tonnes) from the previous year in our central office in Cathays Park, and £375,000 was spent on capital projects to improve energy efficiency. A new contract with our Managing Agent requires the Agent to take an active role in monitoring energy consumption and in proposing steps to reduce it. The Managing Agent is also required to remove equipment containing ozone-depleting substances by 2015.

Surveys

The Management Board conduct an annual Staff Survey to maintain an awareness of staff opinion on the organisation as a place in which to work. The responses from the Survey contribute to corporate and local action planning within the organisation, and inform the Board's future strategic direction-setting. The annual Staff Survey is supplemented by the Senior Civil Service Survey which is conducted by the Cabinet Office. The results of both survey series are published on our website.

Every two years we undertake a Stakeholder Survey to assess how well our employees are working with our stakeholders. The last survey results were published in July 2005 and told us that departments within the organisation needed to be better integrated and that our understanding of our stakeholders could be improved. We have worked hard on these areas in 2006-07 and joined up working has become an increasingly central theme, evident in Delivering Beyond Boundaries and the Wales Spatial Plan.

Sickness Absence

Sickness absence levels continued to fall during 2006-07, directly impacting on productivity and customer service. Since 2004 the running rate of absence has been reduced from an average of 10 days per person to 6.5 days per person. This equates to a financial saving of around £2 million per year. Our Attendance Management policy has been praised by Whitehall Government Departments, and we support Welsh Assembly Ministers on the Department for Work and Pensions Ministerial Task force on sick absence and productivity.

Mergers

In April 2006 four Assembly Sponsored Public Bodies – the Welsh Development Agency, Wales Tourist Board, National Council for Education and Training for Wales, the Curriculum and Assessment Authority for Wales, successfully merged with the Welsh Assembly Government. The Tir Gofal Scheme transferred to the Welsh Assembly Government's Department for Environment, Planning and Countryside in October 2006. Dysg and some functions of Health Professions Wales transferred with effect from 1 April 2006.

Following the merger, there were residual issues that needed to be resolved, such as pay and grading comparability, information technology, accommodation and communications. The mergers budget was established to cover the merger activities that could not be met from existing departmental resources. These were mainly one-off costs as a direct result of the mergers. The costs of consultation relating to the merger of the Welsh Language Board with the Welsh Assembly Government and the Stephen Review for the Arts Council for Wales were also met from this budget and are reported within Note 35 to these accounts.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Pay and Grading

The National Assembly for Wales is reviewing the pay arrangements for employees following the various mergers. The goal is to develop a long term 'fit-for purpose' reward strategy for the merged organisation, which is underpinned by a new approach to pay and grading.

There are a number of key drivers to this review:

Business drivers – integration and culture

People Drivers – addressing low pay, inequality, recruitment and retention

Efficiency drivers – better value and simplification.

Business Design

Since the formation of the Welsh Assembly Government considerable work has been undertaken into how the organisation should be designed if we are to operate most effectively. In January the Management Board agreed a single overarching Business Design which builds on all previous organisational design work and gives a coherent and flexible framework that will guide our development.

The Design is built upon our developing understanding of how we work as the Welsh Assembly Government: what we do well and where we can improve. It sets out the steps we need to take to ensure that we are equipped to meet future challenges most effectively and also to meet our aspiration to be the 'best in class' in small country government. We recognise that we will need to continually develop in response to future challenges and that our Business Design will need to be updated to reflect this.

Openness and accessibility

The Welsh Assembly Government has continued to respond to requests for information in accordance with our Code of Practice on Public Access to Information. During 2006-07, we received 671 requests for information and released a large quantity and range of information in response to those requests. Throughout 2006-07, we continued to make no charge for dealing with any requests for information – despite some of them being very large and complex.

The Welsh Assembly Government also routinely published a considerable amount of information in line with the commitments set out in our Publication Scheme. This has resulted in a wide range of information - including Ministerial decisions, Cabinet papers and minutes - being readily available for everyone to access. We are now one of the most open administrations in Europe.

Through our on-going programme of staff training and the Access to Information Community of Practice, we are continuing to develop expertise amongst our staff. During 2006-07, we provided training to staff in the Children & Family Court Advisory and Support Service Wales (CAFCASS CYMRU) and much of what is now the Care & Social Services Inspectorate Wales (CSSIW). We also provided many awareness-raising sessions across the organisation in response to specific invitations.

A report on the Assembly Government's implementation of open government legislation and policies during 2005 and 2006 was published in February 2007.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Leadership and Direction

As Permanent Secretary and Principal Accounting Officer, I am supported by a Management Board which comprises my Departmental Directors and two Non Executive Directors. We work together as a team to provide strategic leadership and direction to staff and to ensure that the Welsh Assembly Government's civil service is organised, resourced and equipped to deliver its objectives effectively.

The Board meets once a month to take forward strategic management and corporate issues. Every third Board meeting is devoted to corporate leadership and Board development. The Board reviews its performance regularly and undertakes a more detailed evaluation of its effectiveness on an annual basis.

A number of sub-committees reported to the Board during 2006-07:

- Policy Committee
- Corporate Governance Committee
- Human Resources Committee
- Investment Board) replaced in-year by a
- Change Board) new sub-committee on strategy
- Remuneration Committee
- Internal Communications Committee

The Board's business is regularly communicated to staff using our intranet news page and staff are also encouraged to attend meetings as observers. Board members also hosted Question & Answer sessions for staff in Welsh Assembly Government offices across Wales.

At the beginning of 2006 we established a Shadow Management Board, which comprises a staff representative from each Board Director's Department. The Shadow Board arrangement is evaluated, and its membership refreshed, annually. Shadow Board members participate in the monthly Board meetings, contributing fresh views and different perspectives.

The agenda, minutes and papers of regular Management board meetings are published in line with the National Assembly for Wales Publication Scheme.

Further information on the Terms of Reference and membership of the Management Board, and on the role and membership of its sub-committees, is available on the Welsh Assembly Government website.

Government of Wales Act 2006 Implementation

The Government of Wales Act 2006 provided for:

- the creation of a separate executive (the Welsh Assembly Government) and legislature (the National Assembly for Wales) upon appointment of the First Minister following the May 2007 elections;
- the executive functions of the previous Assembly to transfer to the Welsh Ministers at that point;
- the National Assembly for Wales to acquire powers to pass Measures, which can make any provision that an Act of Parliament can do, within the confines set by the Act;
- the establishment of an Assembly Commission, to be the corporate body supporting the National Assembly for Wales;
- A Welsh Consolidated Fund.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

- The Assembly to acquire primary legislative powers on specified subjects, in the event of a “yes” vote in a referendum.

The costs of separation are detailed at Note 38 to these accounts. Welsh Assembly Government staff were heavily involved in the preparation and management of the Bill, working under an agency arrangement with the Wales Office. At the same time, work had been put in hand to achieve as complete an administrative separation of the Assembly Parliamentary Service from the Welsh Assembly Government as was feasible, ahead of the legal separation which would be brought about by the Act following the May 2007 elections. A full implementation programme was brought into operation following Royal Assent, with the objective of delivering all that the Welsh Assembly Government needed to do to achieve a smooth separation and establish functioning systems which would enable the Welsh Ministers and Assembly to make the most of the opportunities offered by enhanced legislative powers.

While this programme clearly extends into the 2007-08 financial year, a substantial number of milestones were successfully passed before 1 April 2007. Welsh Assembly Government officials working on behalf of the Wales Office ensured that the necessary implementing orders, including those providing for the transfer of staff, property, assets and liabilities, were made. The Standing Orders for the post-May 2007 new Assembly were approved by the National Assembly for Wales in February 2007. Arrangements were put in place for the Welsh Consolidated Fund to be in operation from April 2007, ensuring a smooth transition in accounting terms. Broad subordinate legislation powers granted to the current Assembly were converted into powers for the new Assembly to make Measures in relation to NHS complaints and a range of education matters.

Substantial efforts were put into training and communications, ranging from targeted in-depth briefings and guidance for those who would be developing legislation using the new powers to general awareness raising for all staff and other organisations. Well over 4,000 staff had attended awareness sessions by the end of March 2007.

Risks and uncertainties

The Management Board regularly reviews the Welsh Assembly Government's corporate risk register to ensure that action is being taken to manage issues that may obstruct the delivery of our programmes. The Corporate Governance Committee, a sub-committee of the Management Board, worked to a structured agenda programme throughout the year which incorporated a systematic look at risks and at the plans and findings of our Internal Audit Service. All Departments hold and manage their own risk registers which link into the corporate risk register. These Departmental Registers are reviewed by senior management and departmental Corporate Governance Committees during the year.

During 2006-07 the focus of our risk management was on the ASPB mergers, the Location strategy, and preparations for the Government of Wales Act 2006. Each of these activities was managed through a project board to ensure that all risks were properly identified and minimised, with necessary contingency plans prepared.

During the year a Risk Essentials guide to risk management within the Welsh Assembly Government was produced and widely distributed to help staff understand risk issues and their role in managing risks. This awareness raising was supported by training sessions for staff and facilitated workshops for senior management.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Progress has continued to be made to improve the processes, awareness and understanding of risk management across the Assembly Government. Our risk management systems will continue to be reviewed and improved in 2007-08, to ensure that all risks are properly identified and managed using a consistent methodology and assessment process, with the aim of reducing all risks to manageable levels.

Public service reform: Beecham and after

A key milestone in the development of the Welsh Assembly Government's public service reform programme (Making the Connections) was the publication in July 2006 of the widely welcomed report of the Review of Local Service Delivery in Wales (Beyond Boundaries). Commissioned by the Welsh Assembly Government and led by Sir Jeremy Beecham, the review team concluded that Making the Connections was on the right lines but needed to be pushed further and faster to deliver citizen-centred, efficient public services. It identified four factors which had to be addressed: more effective citizen engagement, a stronger focus on delivery, more productive partnership working and a greater readiness to challenge performance.

The report called for transformational change across the whole system of government, advocating a much more ambitious and integrated approach to public service improvement at the local level and a more engaged leadership style by the Welsh Assembly Government. This was strongly reflected in the Government's response in November 2006 (Delivering beyond Boundaries) which accepted the Beecham report and set out a programme of action to implement the main recommendations.

At its heart was the commitment to work with local partners on a phased basis to establish Local Service Boards across Wales. Generally on the basis of one for each local authority, the Boards would be the local leadership team coming together to take joint action to achieve better outcomes for citizens where this depends on working across organisational boundaries. A senior official from the Welsh Assembly Government would participate in each Board to support the local team and build stronger links between the different spheres of government.

As well as consulting on the proposals early in 2007, the Welsh Assembly Government identified six local strategic teams with whom it would work through 2007-08 in developing the Local Service Board approach. That work is now underway.

Procurement policy

Our procurement policy rests on ensuring that our activities:

- are ethical, accountable and compliant with procedural, legal and international obligations;
- achieve continuing improvement in value for money based on the whole-life cost and quality of goods, services and works that we buy; and,
- advance the sustainable development agenda, including helping to improve the competitiveness of our suppliers.

In 2006-7 Welsh Assembly Government Procurement underwent significant change with the consolidation of its internal Corporate Procurement Services team within Value Wales. In addition, the financial year saw the appointment of Martin Sykes, the first permanent Chief Executive of Value Wales.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Through Value Wales, the Welsh Assembly Government continues to lead on developing best practice in procurement for the public sector in Wales through initiatives such as: its training and development programme; the development of the Procurement route planner; and the provision of tools and guidance to drive forward sustainable procurement. In addition, the development of the All Wales Sourcing Plan represented the very real development of an all embracing strategic approach to managing collaborative procurements and driving forward enhanced value for money. These developments have seen Value Wales report savings of £20 million across the public sector during the year.

Use of the buy4Wales/sell2Wales web-site remained a cornerstone of our policy of advertising contract opportunities above £25,000. The web-site was established by Value Wales to ensure that Welsh businesses have the opportunity to compete for Welsh public sector tenders. During 2006-07 tenders worth £2 billion across the Welsh public sector were advertised in this way. Also 23,289 companies, the majority of them small and medium Welsh enterprises, registered their interest in selling to the Welsh public sector through the buy4Wales/sell2Wales web-site.

The move toward e-procurement saw significant developments in 2006-7 with a significant number of electronic tenders and highly successful electronic reverse auctions facilitated by Value Wales on behalf of the wider Welsh Public sector. The Corporate Procurement Services team used these e-procurement tools to support several highly complex contracts within the Welsh Assembly Government.

**Sir Jon Shortridge
Permanent Secretary and Principal Accounting Officer
24 September 2007**

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

REMUNERATION REPORT 2006-07

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Salary and pension entitlements *

***This section is subject to audit.**

The following sections provide details of the remuneration and pension interests of Ministers and members of the Management Board during 2006-07.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Remuneration

	2006-07	
Ministers	Salary £	Benefits in kind (to nearest £100)
Lord Dafydd Elis-Thomas <i>Presiding Officer</i>	85,868	0
Dr John Marek <i>Deputy Presiding Officer</i>	71,147	0
Rhodri Morgan <i>First Minister</i>	122,682	0
Jane Davidson <i>Assembly Secretary</i>	85,868	0
Andrew Davies <i>Assembly Secretary</i>	85,868	0
Sue Essex <i>Assembly Secretary</i>	85,868	0
Dr Brian Gibbons <i>Assembly Secretary</i>	85,868	0
Edwina Hart MBE <i>Assembly Secretary</i>	85,868	0
Jane Hutt <i>Assembly Secretary</i>	85,868	0
Carwyn Jones <i>Assembly Secretary</i>	85,868	0
Alun Pugh <i>Assembly Secretary</i>	85,868	0

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

	2006-07		2005-06	
Officials	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Sir Jon Shortridge <i>Permanent Secretary</i>	180-185	0	175-180	0
Derek Jones <i>Senior Director</i>	130-135	0	120-125	0
Huw Brodie <i>Director</i>	90-95	0	85-90	0
Martin Evans <i>Director</i> (until 17/09/06)	55-60 (Full year equivalent 95-100)	0	95-100	0
Ann Lloyd <i>Senior Director</i>	175-180	0	155-160	0
Richard Davies <i>Director</i>	110-115	0	105-110	0
Bernard Galton <i>Director</i>	115-120	0	105-110	0
Hugh Rawlings <i>Director</i>	90-95	0	80-85	0
Gareth Jones <i>Director</i>	100-105	0	90-95	0
Jeff Godfrey <i>Director</i>	95-100	0	60-65 (90-95 full year equivalent)	0
Michael Harrington <i>Director</i>	90-95	0	45-50 (85-90 full year equivalent)	0
Steve Marshall <i>Senior Director</i>	150-155	0	25-30 (150-155 full year equivalent)	0

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

	2006-07		2005-06	
Officials	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Emyr Roberts <i>Director</i>	90-95	0	45-50 (85-90 full year equivalent)	0
Gareth Hall <i>Senior Director</i> (in post 01/04/06)	125-130	1,800	115-120 WDA	5,000
Christine Daws <i>Director</i> (In post 18/09/06)	60-65 (Full year equivalent 110- 115)	0	-	-
June Milligan <i>Director</i> (In post 29/05/06)	75-80 (Full year equivalent 90- 95)	0	-	-
Tony Jewell <i>Director</i> (In post 18/04/06)	145-150 (Full year equivalent 150-155)	0	-	-
Sir Adrian Webb <i>Non-Executive Director</i>	0-5	0	5-10	0
Kathryn Bishop <i>Non-Executive Director</i>	0-5	0	5-10	0

Salary

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

This report is based on payments made by the Department and thus recorded in these accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Benefits in kind

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

Pension Benefits

Ministers	Accrued pension at age 60 as at 31/3/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/07	CETV at 31/3/06	Real increase in CETV
	£000	£000	£000	£000	£000
Lord Dafydd Elis-Thomas <i>Presiding Officer</i>	25-30	0-2.5	469	406	21
Dr John Marek <i>Deputy Presiding Officer</i>	10-15	0-2.5	217	176	28
Rhodri Morgan <i>First Minister</i>	15-20	0-2.5	361	309	30
Jane Davidson <i>Assembly Secretary</i>	10-15	0-2.5	178	143	16
Andrew Davies <i>Assembly Secretary</i>	10-15	0-2.5	215	176	17
Sue Essex <i>Assembly Secretary</i>	10-15	0-2.5	278	224	28
Dr Brian Gibbons <i>Assembly Secretary</i>	30-35	0-2.5	470	412	18
Edwina Hart MBE <i>Assembly Secretary</i>	15-20	0-2.5	220	184	14
Jane Hutt <i>Assembly Secretary</i>	20-25	0-2.5	337	286	21
Carwyn Jones <i>Assembly Secretary</i>	10-15	0-2.5	122	98	8
Alun Pugh <i>Assembly Secretary</i>	10-15	0-2.5	145	110	17

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Officials	Accrued pension at age 60 as at 31/3/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/07	CETV at 31/3/06	Real increase in CETV
	£000	£000	£000	£000	£000
Sir Jon Shortridge <i>Permanent Secretary</i>	75-80 plus lump sum of 235-240	0-2.5 plus lump sum of 2.5-5	1,900	1,789	23
Derek Jones <i>Senior Director</i>	45-50 plus lump sum of 135-140	0-2.5 plus lump sum of 5-7.5	932	854	48
Huw Brodie <i>Director</i>	25-30 plus lump sum of 85-90	0-2.5 plus lump sum of 5-7.5	484	447	26
Martin Evans <i>Director</i> (until 17/09/06)	45-50 plus lump sum of 140-145	2.5-5 plus lump sum of 10-12.5	1,131	1,006	83
Ann Lloyd <i>Senior Director</i>	10-15 plus lump sum of 35-40	0-2.5 plus lump sum of 5-7.5	275	225	38
Richard Davies <i>Director</i>	45-50 plus lump sum of 140-145	0-2.5 plus lump sum of 2.5-5	756	725	10
Bernard Galton <i>Director</i>	40-45 plus lump sum of 120-125	0-2.5 plus lump sum of 2.5-5	726	695	13
Hugh Rawlings <i>Director</i>	35-40 plus lump sum of 105-110	0-2.5 plus lump sum of 5-7.5	773	698	39
Gareth Jones <i>Director</i>	30-35 plus lump sum of 95-100	0-2.5 plus lump sum of 2.5-5	552	524	14
Jeff Godfrey <i>Director</i>	20-25 plus lump sum of 70-75	0-2.5 plus lump sum of 5-7.5	397	359	32

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Officials	Accrued pension at age 60 as at 31/3/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/07	CETV at 31/3/06	Real increase in CETV
	£000	£000	£000	£000	£000
Michael Harrington <i>Director</i>	5-10	0-2.5	93	64	23
Steve Marshall <i>Senior Director</i>	0-5	2.5-5	48	6	25
Emyr Roberts <i>Director</i>	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 5-7.5	452	413	23
Gareth Hall <i>Senior Director</i> <i>(in post 01/04/06)</i>	0-5	0-2.5	27	0	23
Christine Daws <i>Director</i> <i>(In post 18/09/06)</i>	30-35 plus lump sum of 90-95	0-2.5 Plus lump sum of 5-7.5	577	517	40
June Milligan <i>Director</i> <i>(In post 29/05/06)</i>	25-30 plus lump sum of 80-85	2.5-5 plus lump sum of 7.5-10	450	355	52
Tony Jewell <i>Director</i> <i>(In post 18/04/06)</i>	0-5	0-2.5	31	22	6

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

**Sir Jon Shortridge
Permanent Secretary and Principal Accounting Officer
24 September 2007**

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

STATEMENT OF ACCOUNTING OFFICERS' RESPONSIBILITIES

- 1 Under Section 97 of the Government of Wales Act 1998 as modified by the Government of Wales Act 2006 (Transitional Provisions)(Finance) Order 2007, the Welsh Ministers are required to prepare the resource account for the National Assembly for Wales (as constituted by the 1998 Act) for the year ended 31 March 2007 in accordance with directions given to it by the Treasury. The Treasury direction requires the detailing of the resources acquired, held, or disposed of during the period.
- 2 The consolidated resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the National Assembly for Wales and the other entities within the group, their net operating cost, recognised gains and losses and cash flows for the financial period.
- 3 The Permanent Secretary is the Principal Accounting Officer for the Welsh Ministers by virtue of Section 133 of the 2006 Act. Before the section took effect he was the designated Principal Accounting Officer of the National Assembly for Wales under Section 98 of the 1998 Act with responsibility for the overall organisation, management and staffing of the National Assembly for Wales as then constituted. This included responsibility for National Assembly for Wales-wide systems in finance and other matters, where these are appropriate, and for the management of the National Assembly for Wales' net cash requirement. He is also responsible for preparing and signing the National Assembly for Wales' resource account.
- 4 In preparing the accounts the PAO is required to comply with the Financial Reporting Manual (FReM) prepared by the Treasury, and in particular to:
 - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the accounts; and
 - prepare the accounts on a going concern basis.
- 5 Under Section 98 of the Government of Wales Act 1998 the Treasury were able to designate other members of the National Assembly for Wales staff as additional Accounting Officers. The Treasury appointed the Clerk to the Assembly as the additional Accounting Officer responsible for the finances relating to the Assembly Parliamentary Service. The PAO designated the Director of the NHS as Accounting Officer of the National Health Service in Wales. The work of the Local Health Boards in Wales is governed by separate authority, and the Chief Executives of each of the Local Health Boards are appointed as Accountable Officers by the Director of the NHS in Wales.
- 6 The PAO has designated the Chief Executive of HCW as Accounting Officer for that executive agency.
- 7 These appointments do not detract from the Permanent Secretary's overall responsibility as PAO for the National Assembly for Wales accounts.

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

- 8 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, for safeguarding the National Assembly for Wales' assets, and for taking reasonable steps to prevent and detect fraud and other irregularities, are set out in the National Assembly for Wales Accounting Officers' Memorandum, issued by the Treasury.

- 9 The relationship between the PAO of the National Assembly for Wales, the other Accounting Officers and Sub-Accounting Officers, as described in paragraph 5 above, and their respective responsibilities, are set out in written agreements between the officials concerned.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

STATEMENT OF INTERNAL CONTROL 2006-07

1. Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of the Welsh Assembly Government's policies, aims and objectives, and for safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my appointment letter. I have delegated some of these responsibilities to the other Accounting Officers, as explained in the Statement of Welsh Assembly Government Accounting Officers' Responsibilities, the relationship between us being set out in a written statement.

Accountability arrangements in place include:

- appointment of Non-Executive Directors to the Welsh Assembly Government's Management Board;
- Corporate Governance Committee, chaired by a Non-Executive Director;
- work of Internal & External Audit;
- regular meetings with/and reports from other Accounting Officers;
- assurance gained from internal control questionnaires completed by heads of department;
- training for Accounting Officers and for all staff exercising financial responsibilities; and
- formal budgeting system in place and reporting against that system.

As allowed for in s133 (2) of the Government of Wales Act 2006, I have designated heads of department with responsibility for programme expenditure as Sub Accounting Officers (SAO). These responsibilities are set out in a formal memorandum and strengthen corporate governance arrangements further by placing personal responsibility with the designated SAOs for the propriety and regularity of the public finances for which they are answerable. The SAOs also have responsibility to see that appropriate advice is provided to Welsh Ministers on all matters of financial propriety and regularity and more broadly as to all considerations of prudent and economical administration, efficiency and effectiveness.

Sub Accounting Officers have established their own corporate governance committees to support them by monitoring and reviewing the risk, control and governance processes that have been established in the department and the associated assurance processes. I, however, retain overall responsibility for ensuring that appropriate internal controls are in place.

2. The Purpose of the System of Internal Control

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 Welsh Assembly Government policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Welsh Assembly Government for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

3. Capacity to Handle Risk

As Accounting Officer, I have taken personal responsibility for improving the National Assembly for Wales' capacity to handle risk. We continue to engage with HM Treasury's Assurance, Control and Risk Team and the dissemination of good practice via the Risk Improvement Manager Network. My Risk Improvement Manager is leading a programme of reviewing and improving risk management practice and supports senior management in ensuring that there is a clear and balanced account of risk judgements and management actions. To further build the capacity a series of facilitated risk management workshops for senior managers has been rolled out. Individual training has also occurred throughout the year, as business areas have consulted the Assembly's Risk Improvement Manager for advice on specific issues. The Risk Improvement Manager hosts a risk management site on the National Assembly for Wales intranet site, which acts as the focal point for written advice, guidance, tools and good practice on risk management.

I have in place a risk management policy. It outlines the process of risk management that aims to:

- a) Ensure that the National Assembly for Wales objectives are not adversely affected by significant risks that have not been anticipated;
- b) Ensure achievement of outputs and outcomes and provide reliable contingency arrangements to deal with the unexpected which might put service delivery at risk;
- c) Promote a more innovative, less risk averse culture in which the taking of appropriate risks in pursuit of opportunities to benefit the National Assembly for Wales is encouraged;
- d) Provide a sound basis for integrating risk management into our day to day decision making; and
- e) Promote excellent corporate governance and management practices.

Our approach to risk management is set out in our framework document, Risk Essentials, which sets out in detail the processes by which risks are identified and managed within the National Assembly for Wales.

Under this framework, departments are required to capture information on known risks on departmental risk registers (which include details of the risks, countermeasures and residual risk) and escalate concerns up the management chain as appropriate.

4. The Risk and Control Environment

The key elements of the Welsh Assembly Government's risk management strategy are set out in its risk management policy and risk management guide, Risk Essentials. The main processes that we have in place for identifying, evaluating, and managing risk are:

- Departmental risk registers – giving identification of key risks across all areas of the Welsh Assembly Government. Each department has developed, monitors and takes ownership of its own risk register, underpinned by lower level risk registers;
- Management Board risk register – which sets out the corporate risks facing the Welsh Assembly Government;
- regular review of both – members of the Management Board consider “risk of the month” and departmental “Top Ten” risk reports, and
- regular review and update of departmental risk registers by the departments themselves.

Our management of risk is embedded in policymaking, planning and delivery by:

- awareness raising through delivery of a training module to key staff;
- development of a policy making training course;

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

- establishment of a community of practice for project management experiences and good practice to be exchanged;
- training for project/programme managers and other staff who have an involvement in the management of risk;
- raising awareness of risk management with Welsh Ministers; and
- linking risk to the Welsh Assembly Government's Operational Plan.

Our risk environment involves managing risks that affect the public, and these are managed by:

- health and safety risk assessments at divisional and departmental levels; and
- oversight of the Welsh Assembly Government's compliance with statutory functions to the Corporate Governance Committee on a quarterly basis.

To review the control environment I require each head of department within the Welsh Assembly Government to complete an internal control questionnaire to provide assurance that key internal controls are in place in every department.

Our corporate IT network is compliant with government GSi Code of Connection. The Single Farm Payment system, related parts of the finance system and the corporate network that supports this are compliant with ISO 27001.

Where significant procurement is involved, the Office of Government Commerce (OGC) risk model is applied, and OGC gateway reviews are undertaken as required.

Major capital projects are managed through approved project management methodology, e.g. Projects in Controlled Environments (PRINCE 2). Project risk is assessed using the OGC Gateway Risk Potential Assessment model, and project risk registers are maintained for major capital projects.

The Welsh Assembly Government discharges its responsibilities for ensuring that Category 1 and 2 Responders discharge their duties defined in the Civil Contingencies Act 2004. It does this through the Wales Resilience Forum, chaired by the First Minister that oversees the activities of those organisations charged with preparing for, and responding to emergencies in Wales. The Welsh Assembly Government acts in a co-ordinating role preparing for wide area disruptive challenges that may affect Wales such as Pandemic Influenza and Avian Influenza.

5. Review of Effectiveness

The Welsh Assembly Government has an Internal Audit Service, which submits regular reports to the Corporate Governance Committee, including the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement. The Corporate Governance Committee reports to the Management Board.

As Accounting Officer, I also 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;
- Welsh Assembly Government officials, who have responsibility for the development and maintenance of the internal control framework and who are required to provide certificates of assurance relating to their system of internal control; and
- comments made by the external auditors in their management letter and other reports.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

The Corporate Governance Committee has advised me on the implications of the result of my review of the effectiveness of the system of internal control, and a plan to ensure continuous improvement of the system is in place. In particular, and since the end of the financial year, I have approved the Outline Business Case for a Finance Change Programme intended to secure improvements in financial planning, budgeting and reporting across the Welsh Assembly Government.

As a consequence of the incorporation of several former Assembly Sponsored Public Bodies within the Welsh Assembly Government on 1 April 2006, a number of Departments have embarked on extensive re-organisation changes, each of which are being overseen by the relevant Sub-Accounting Officer and which are intended to enhance their operational effectiveness.

Similar information for Health Commission Wales (Specialist Services), the Local Health Boards and other subsidiary companies is disclosed in their respective accounts.

**Sir Jon Shortridge
Permanent Secretary and Principal Accounting Officer
24 September 2007**

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

**THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO
THE NATIONAL ASSEMBLY FOR WALES**

I certify that I have audited the consolidated financial statements of the National Assembly for Wales (as constituted by the Government of Wales Act 1998) for the year ended 31 March 2007 under Section 97 of that Act. These comprise the Operating Cost Statement and the Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Statement of Operating Costs by National Assembly for Wales Aims and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Principal Accounting Officer and Auditor

The Principal Accounting Officer is responsible for preparing the Annual Report, including a Remuneration Report, and the Financial Statements in accordance with the Government of Wales Act 1998 and Welsh Ministers' Directions made there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officers' Responsibilities.

My responsibility is to audit the consolidated financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland) issued by the Auditing Practises Board.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government of Wales Act 1998 and Welsh Ministers' directions issued there under. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Permanent Secretary's Report, Permanent Secretary's Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements. I also report 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.

In addition, I report to you if the National Assembly for Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on Internal Control on pages 28 to 31 reflects the National Assembly for Wales' compliance with HM Treasury's guidance report if it does not. I am not required to consider whether the Statement covers all risks and controls, or form an opinion on the effectiveness of the National Assembly for Wales' corporate governance procedures or its risk and control procedures.

I also 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 report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Principal Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Assembly for Wales' 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the consolidated financial statements give a true and fair view, in accordance with the Government of Wales Act 1998 and directions made there under by Welsh Ministers, of the state of affairs of the National Assembly for Wales' and related bodies' affairs as at 31 March 2007 and the net operating cost, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government of Wales Act 1998 and Welsh Ministers' Directions issued there under; and
- information given within the Annual Report, which comprises the Permanent Secretary's Report, Permanent Secretary's Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

Please see my report on pages 96 to 116 of these financial statements.

Jeremy Colman
Auditor General for Wales
Date: 25 October 2007

Wales Audit Office
2-4 Park Grove
Cardiff
CF10 3PA

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

**Operating Cost Statement
For the year ended 31 March 2007**

	Note	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
		NAW	Consolidated	NAW	Consolidated
		£000	£000	£000	£000
PROGRAMME COSTS					
Expenditure	4	13,061,235	13,144,092	12,281,975	12,340,561
Income					
Non EU Income	6	(1,050,743)	(1,136,572)	(875,511)	(944,178)
EU Income	6	(500,641)	(500,641)	(464,504)	(463,476)
		(1,551,384)	(1,637,213)	(1,340,015)	(1,407,654)
Net Programme Costs		11,509,851	11,506,879	10,941,960	10,932,907
ADMINISTRATION COSTS					
Staff Costs	2	224,023	229,297	226,037	232,392
Assembly Parliamentary Services (APS) Staff Costs	2	4,354	4,354	4,277	4,277
Other Administration Costs	3b	112,966	115,367	112,998	118,674
APS Other Administration Costs	3a	19,411	19,411	16,578	16,578
Gross Administration Costs		360,754	368,429	359,890	371,921
Administration Income	6	(5,161)	(4,726)	(6,338)	(6,035)
APS Income	6	(177)	(177)	(122)	(122)
Net Administration Cost		355,416	363,526	353,430	365,764
Corporation tax		-	-	494	516
NET OPERATING COST		11,865,267	11,870,405	11,295,884	11,299,187

All activities are continuing.

The Notes on pages 39 to 95 form part of these accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

**Statement of Recognised Gains and Losses
For the year ended 31 March 2007**

	Note	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
		NAW £000	Consolidated £000	NAW £000	Consolidated £000
Net Gain on revaluation of tangible assets	20	476,080	480,223	603,027	606,504
Donated Assets	19	-	226	10	210
EU Deferred Grant	18	2,198	2,198	1,247	1,247
Mergers previous year		-	-	317	317
Assets transferred to NHS Bodies		-	(5,516)	-	(4,184)
Actuarial (loss)/gain on other pension schemes		(26,240)	(25,164)	2,100	2,150
Actuarial (loss)/gain on Assembly Members Pension Scheme	40d	(2,055)	(2,055)	804	804
		449,983	449,912	607,505	607,048
Prior Year Adjustments					
Merger previous year		-	-	6,659	6,659
Mergers this year	37	763,609	762,902	-	-
Assembly Members' Pension Scheme deficit		-	-	(571)	(571)
Movement on Government Grant reserve		-	-	(264)	(504)
Prior year adjustment WDA		-	-	110	110
Gains and losses recognised since the last annual report		1,213,592	1,212,814	613,439	612,742

The Notes on pages 39 to 95 form part of these accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Balance Sheet as at 31 March 2007

	Note	As at 31 March 2007		RESTATED As at 31 March 2006	
		NAW	Consolidated	NAW	Consolidated
		£000	£000	£000	£000
Fixed Assets					
Intangible Assets	7	2,621	2,656	154	193
Tangible Assets	8	10,787,865	10,961,523	10,270,182	10,444,450
Investments	9	2,509,530	2,484,032	2,241,554	2,230,804
AM's Pension Scheme Surplus	40d	-	-	33	33
		13,300,016	13,448,211	12,511,923	12,675,480
Current Assets					
Development Assets	11	354,763	354,763	271,020	271,020
Stocks	12	13,996	14,702	8,604	9,315
Debtors due within one year	13	193,735	254,416	266,779	321,590
Short term assets & loans	9	-	27,908	-	41,666
Cash at bank and in hand	14	20,772	70,414	59,609	88,794
		583,266	722,203	606,012	732,385
Debtors due after more than one year	13	-	43,846	68	45,863
		583,266	766,049	606,080	778,248
Creditors: amounts falling due					
Within 1 year	15	(360,885)	(644,391)	(470,023)	(749,478)
Net Current Liabilities		222,381	121,658	136,057	28,770
Total Assets less Current Liabilities		13,522,397	13,569,869	12,647,980	12,704,250
Creditors: amounts falling due					
After more than one year	15	(9,794)	(50,400)	(1,857)	(45,875)
Provisions for Liabilities and Charges	16	(454,084)	(533,741)	(394,060)	(479,695)
Pension fund deficits	40b/d	(65,906)	(67,012)	(37,140)	(36,990)
National Loans Fund Loans	27	(11,843)	(11,843)	(11,875)	(11,875)
		12,980,770	12,906,873	12,203,048	12,129,815
Taxpayers' Equity					
General Fund	17	8,792,233	8,598,159	8,463,605	8,273,108
EU Deferred Grant Reserve	18	10,588	10,588	8,808	8,808
Pension fund reserve	40b/d	(65,906)	(67,012)	(37,140)	(36,990)
Donated Assets	19	10	4,945	10	4,919
Revaluation Reserve	20	4,243,845	4,360,193	3,767,765	3,879,970
		12,980,770	12,906,873	12,203,048	12,129,815

Sir Jon Shortridge
Permanent Secretary and Principal Accounting Officer
Date: 24 September 2007

The Notes on pages 39 to 95 form part of these accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

**Cash Flow Statement
For the year ended 31 March 2007**

	Note	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
		NAW £000	Consolidated £000	NAW £000	Consolidated £000
Net cash outflow from operating activities	21	(11,365,049)	(11,369,279)	(10,748,752)	(10,760,065)
Capital expenditure and financial investment and associated receipts	21	(307,082)	(296,840)	(200,331)	(210,772)
Net interest ex Wales Tourist Board		-	-	41	41
Non operating receipts surrenderable to Consolidated Fund		787,868	787,868	726,496	726,496
Payments of amounts due to the Consolidated Fund via Wales Office		(832,772)	(832,772)	(696,401)	(696,401)
EU Grant Deferral	18	2,198	2,198	1,247	1,247
Donations	19	-	226	-	477
Financing from Consolidated Fund via Wales Office	21	11,676,000	11,676,000	10,884,421	10,884,421
Financing movements with subsidiaries		-	14,219	823	24,353
Decrease in cash in the year		(38,837)	(18,380)	(32,456)	(30,203)

Notes to the Cash Flow Statement are at Note 21.

The Notes on pages 39 to 95 form part of these accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

**Consolidated Statement of Operating Costs by National Assembly for Wales Aims and Objectives
For the year ended 31 March 2007**

Aim: *Wales: A Better Country* sets out:

- the National Assembly for Wales Government's guiding vision of a fairer, more prosperous, healthier and better educated country rooted in our commitment to social justice and to putting health and wealth creation that is sustainable at the heart of policy-making;
- the radical agenda it has for public services in Wales, with our programme for delivering the manifesto commitments;
- the priority issues which are broader than any one section of government and where smarter working and working together can make a bigger and longer-lasting impact; and
- The way it wants to deliver jointly with its partners in local government, business, the trade unions and the voluntary sector.

	Year ended 31 March 2007			RESTATED Year ended 31 March 2006		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objectives:						
▪ promoting a diverse, competitive, high-added value economy, with high quality skills and education, that minimises demands on the environment	1,479,404	(290,987)	1,188,417	1,477,914	(270,406)	1,207,508
▪ action on social justice that tackles poverty and poor health, and provides people and their communities with the means to help themselves and break out of the poverty trap	4,411,443	(1,645)	4,409,798	4,091,523	(3,198)	4,088,325
▪ action in our built and natural environment that enhances pride in the community, supports bio-diversity, promotes local employment and helps to minimise waste generation, energy and transport demands	550,537	(243,500)	307,037	507,571	(220,036)	287,535
▪ strengthening Wales' cultural identity and helping to create a bilingual country	122,011	(3,846)	118,165	115,378	(3,625)	111,753
▪ ensuring all our children and future generations enjoy better prospects in life, and are not landed with a legacy of problems bequeathed by us	1,549,088	(13,098)	1,535,990	1,397,917	(15,857)	1,382,060
▪ supporting people to live healthy and independent lives	5,400,038	(1,089,040)	4,310,998	5,122,695	(900,689)	4,222,006
	13,512,521	(1,642,116)	11,870,405	12,712,998	(1,413,811)	11,299,187

Note 31 explains the methodology used for the allocation of resources to Welsh Assembly Government objectives.

The Notes on pages 39 to 95 form part of these accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Notes to the National Assembly for Wales Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006–07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the National Assembly for Wales to prepare an additional primary statement. The *Statement of Operating Cost by Departmental Aim and Objectives* and supporting note analyse the National Assembly for Wales' income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the National Assembly for Wales for the purpose of giving a true and fair view has been selected. The National Assembly for Wales accounting policies has been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the National Assembly for Wales by reference to their current costs. The accounts comply with the Code of Practice contained in the *Financial Reporting Manual*.

1.2 Basis of Consolidation

The core department now comprises prior National Assembly for Wales functions, plus the following merged functions – the Welsh Development Agency, the National Council for Education and Training for Wales, the Qualifications, Curriculum and Assessment Authority for Wales, Wales Tourist Board, Health Professions Wales, Student Loans for Wales, Tir Gofal, Dysg and the funding of Arriva Trains Wales.

These accounts comprise a consolidation of the core department, its executive agency, HCW, the 22 Local Health Boards, Design Commission for Wales (a National Assembly for Wales owned company limited by guarantee), Finance Wales PLC, Welsh Development Management Ltd, International Business Wales Ltd, Ryder Cup Wales 2010 Ltd and 5 Tec companies (National Assembly for Wales owned companies limited by guarantee which have ceased trading). These consolidated companies produce and publish their own annual reports and accounts, with the exception of the Tecs which are being wound up. Newport Unlimited (a company limited by guarantee in which the National Assembly for Wales has a two-third share) is not consolidated within these financial statements as the company is financially 'dormant'.

1.3 Tangible fixed assets

Land and buildings (including Dwellings)

The National Assembly for Wales and its related bodies capitalise freehold property. The National Assembly for Wales capitalise leasehold property where the original lease was for greater than 100

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

years and land & buildings surplus to requirements. Leased property, where the original lease was for less than 100 years, is treated as a revenue cost. Freehold land and buildings and leasehold land and buildings, where the original lease was for greater than 100 years, have been restated at current cost using professional valuations either every five years, or annually, with appropriate indices in intervening years for non annual valuations. The exceptions are: surplus land, which is included at its market value where held for immediate disposal; and properties of a specialised nature held at depreciated replacement cost. The indices used for 2006-07 were taken from the Investment Property Databank (IPD) UK Annual Index (2007).

Roads and Infrastructure

The National Assembly for Wales has developed a computer model to estimate the value of the roads network. The roads network consists of the major trunk roads and associated structures in Wales. The model observes the principles of the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. In determining the gross valuation the National Assembly for Wales has capitalised the annual cost of maintaining the network.

Vehicles, Information Technology, Plant and Equipment and Fixtures and Fittings

Plant and equipment, information technology, fixtures and fittings, and vehicles have been restated at their net current replacement cost using the appropriate indices from the Producer Price Indices – MM22, produced by the Office for National Statistics.

Assets from the ASPB and other body mergers have been included in the fixed asset note, restating the opening balances and these have then been adjusted through the General Fund during 2006-07 to bring them into line with the National Assembly for Wales accounting policies.

Heritage Assets

The National Assembly for Wales holds a number of non-operational heritage assets where the cultural, educational and historical value is unlikely to be fully reflected in a financial value derived from a market mechanism or price. These assets are of a specialist nature and reliable valuations either cannot be obtained or could only be obtained at a prohibitive cost. The National Assembly for Wales therefore does not capitalise these assets in the accounts. Further information on the non-operational heritage assets owned by the National Assembly for Wales can be found at note 39 to the consolidated financial statements.

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

1.4 Intangible Fixed Assets

Local Health Boards capitalise computer software licences as intangible fixed assets, where expenditure of at least £5,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic life.

From 2006-07, the National Assembly for Wales capitalises computer software licenses where expenditure of at least £5,000 has occurred. This is a new policy and no restatement of prior year figures is required. Website development costs are not capitalised as the website is not capable of directly generating income.

1.5 Depreciation

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

- the annual maintenance charge;

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

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

Depreciation is provided at rates calculated to write-off the value of other intangible and tangible fixed assets by equal instalments over their estimated useful lives. Lives are in the following ranges:

Leasehold land & buildings	Remaining life
Dwellings	Remaining life
Freehold buildings	up to 60 years
Information technology	3 to 5 years
Intangible software assets	3 to 5 years
Plant & equipment	3 to 20 years
Fixtures & fittings	5 to 10 years
Motor vehicles	5 to 10 years

Freehold Land and Assets under construction are not depreciated.

Impairments of tangible fixed assets are charged to the operating statement in the period in which they have occurred.

1.6 Donated Assets

Donated tangible fixed assets are capitalised at their valuation on receipt. The value of donated tangible assets and the donated element of part-donated assets are reflected in a donated asset reserve. This reserve is credited with the value of the original donation and any subsequent revaluation and indexation; an amount equal to the depreciation charge (for assets used in the course of the business) is released from this reserve to the Operating Cost statement.

1.7 Research and Development

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

1.8 Works to Properties in Care

Expenditure on the fabric of properties in the care but not ownership of the National Assembly for Wales is charged to the Operating Cost Statement as it is incurred. Subsequent expenditure on the fabric of ancillary structures at properties in care is treated in the same manner.

1.9 Investments and Interests in Joint Ventures

Loans and Public Dividend Capital (PDC) issued by the National Assembly for Wales are shown at historical cost less any necessary impairment.

Investments previously managed by the former Welsh Development Agency, are shown at cost, less provisions for diminution in value. Interests in unincorporated joint ventures are shown at the lower

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

of cost and recoverable amounts, any shortfall being charged to the operating cost statement. Subsequent rises in anticipated future receipts are brought to account only when realised.

Short term investments previously managed by the former Welsh Development Agency, are shown as current assets, and valued at the lower of cost and net realisable value.

Student loans are adjusted by estimating future write-offs in respect of the non-recovery of loans, and making a provision – see Note 1.25 Provisions.

1.10 Development Assets

Development assets, consisting of land and buildings, are shown at the lower of current replacement cost and net realisable value, any carrying value being written off to the Operating Cost Statement. Movements arising on the revaluation of development assets in excess of historical cost are reflected in the general fund this year as they arise from a change in accounting policy.

1.11 Stock

Stock is valued at the lower of replacement cost and net realisable value, with the exception of oak wood, which is valued at current replacement cost. The National Assembly for Wales does not consider there to be a material difference between the replacement cost and historic cost of stocks. Stocks with a finite useful life are written-off at the end of this period.

1.12 Income

Operating income relates directly to the operating activities of the National Assembly for Wales and the related bodies.

Income from the European Union in respect of the European programmes, funds and initiatives is brought to account in line with grants payable in respect of these amounts and is shown in Note 6. These funds are paid to the Wales European Funding Office (which is part of the Department for The Economy and Transport). These funds are then transferred to the relevant department within the Welsh Assembly Government. These transfers are between departments and are accounted for within Note 4.

Additionally income comprises the amounts, excluding VAT, receivable from admissions to monuments and sale of publications and souvenirs.

1.13 Administration & Programme expenditure

The operating cost statement is analysed between administration and programme income and expenditure. Administration costs reflect the cost of running the National Assembly for Wales and HCW, together with associated operating income. Programme costs reflect all expenditure by the Local Health Boards and non-administration costs, (including payments of grants and other disbursements) by the National Assembly for Wales and HCW.

1.14 Cost of Capital charge

A charge, reflecting the cost of capital utilised by the National Assembly for Wales and its related bodies, is included in operating costs. The charge for each item in the balance sheet is calculated on

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

the basis of the average net book value of that item over the year. The charge is calculated at the government's standard rate for 2006-07 of 3.5% per cent in real terms on all assets less liabilities, except for:

- cash balances held by the Office of the Paymaster General;
- amounts repayable from the Consolidated Fund included in debtors;
- and amounts owing to the Consolidated Fund included in creditors;
- donated assets and heritage assets;
- Student Loans where the applicable rate is 2.2%.

The cost of capital has been restated for 2005-06, but has not been adjusted for balance sheet contra adjustments.

1.15 Value Added Tax (VAT)

In general the National Assembly for Wales cannot recover VAT and therefore expenditure is inclusive of VAT. Expenditure on contracted-out services where VAT is recoverable is accounted for net of VAT.

1.16 Pensions

The majority of present and past employees of the National Assembly for Wales and HCW are covered by the provisions of the Civil Service Pension Scheme which are described in Note 40a. The defined benefit elements of the scheme are unfunded and non-contributory except in respect of dependants' benefits. The National Assembly for Wales recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payments to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the National Assembly for Wales recognises the contributions payable for the year.

Former Welsh Development Agency staff, and current Finance Wales PLC staff contribute to the Local Government Pension Scheme administered by Rhondda Cynon Taff County Borough Council, which is a multi-employer funded scheme. Further information regarding the Agency's pension scheme is provided in Note 40b.

Former Wales Tourist Board staff contribute to the British Tourist Boards' Pension Scheme. This is a funded defined benefit scheme based on final pensionable pay. The assets are held by the Pension Scheme under a cash accumulation contract with the Prudential Assurance Company Ltd. Further information is provided in Note 40c.

Former Dysg staff have retirement benefits provided by the Teachers Pension Agency and the Local Government Superannuation scheme.

Former Health Professions Wales staff participate in a joint superannuation scheme (FPS 1655), together with the Nursing and Midwifery Council, NHS Education for Scotland, Department of Health and the Nurses Welfare Trust.

Former Tir Gofal staff participate in the Gwynedd Pension Fund and the Principal Civil Service Pension Scheme (PCSPS).

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Former CAF/CASS staff participate in the West Yorkshire Pension Scheme administered by the City of Bradford Metropolitan District Council, and the PCSPS.

The Members of the Assembly are covered by a separate contributory pension scheme, with defined benefits. The National Assembly for Wales contributes amounts to this scheme, in accordance with the recommendations of the scheme's actuary. Further information is provided at Note 40d to these accounts.

Employees of Local Health Boards participate in the NHS pension scheme. The NHS pension scheme is a multi employer, unfunded, defined benefit scheme. As its share of underlying scheme assets and liabilities cannot be identified, it is accounted for as a defined contribution scheme, with the costs equal to contributions payable to the scheme for the accounting period. The provisions of this Scheme are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). Employer contributions are set at a rate specified by the National Assembly for Wales as advised by the Government Actuary. The contribution rate for 2006-07 was 14% (2005-06: 14%). These costs are included in Note 4 – Programme costs.

1.17 Early departure costs

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

For employees and ex-employees of the Welsh Development Agency in the Rhondda Cynon Taff Pension Scheme, the National Assembly for Wales meets the additional cost of benefits beyond the scheme benefits in respect of employees who retire early. No provision had been made by the Welsh Development Agency for future costs.

1.18 The Royal Commission for Ancient and Historical Monuments (Wales)

The Royal Commission is an executive non-departmental public body empowered by Royal Warrant to maintain a national record of ancient and historical sites in Wales. The National Assembly for Wales, under directions from Treasury, operates the finance function of the Commission and consequently includes its expenditure in these accounts.

1.19 Operating leases

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

1.20 Grants payable and recoverable

The National Assembly for Wales provides grants to sponsored bodies and external organisations. For 2006-07, a change of estimation for grant schemes administered by the National Assembly for

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Wales was used for creditor balances to include all schemes not just those over £5 million. Grant debtor balances were only compiled for material schemes over £5 million.

In accordance with the Financial Reporting Manual, matters such as the period covered by the claims, the timing of the submission of the claims and the timing of the payments were taken into consideration when establishing the entitlement to grant and the basis for the creditor and debtor calculations.

Certain grant claim expenditure may be subject to scrutiny by local authority auditors. Audit of the majority of these claims had not been completed by the time these accounts were produced. Any adjustments arising from the audit will therefore be made in future accounting periods. These are not likely to be material.

The Single Payment Scheme (Common Agriculture Policy payments to farmers) expenditure has been accounted for in the year in which payments were made. Creditors have been included based on an estimate of payments still to be made at 31 March 2007, with an equal amount of debtor reflecting the value to be reimbursed by the European Community.

1.21 Private Finance Initiative / Public Private Partnership transactions

Where the substance of the transaction is that the risks and rewards of ownership remain with the National Assembly for Wales, the assets and liabilities remain on the National Assembly for Wales balance sheet. Where the risks and rewards are transferred to the private sector the transaction is accounted for in the operating statement through service charges.

1.22 Provision for Doubtful Debts

The National Assembly for Wales provides in full for doubtful debts after 6 months unless there is reasonable certainty that the debt will be paid. For Regional Selective Assistance grants provisions are made on notification that the company assisted is unlikely to meet its repayment commitment.

1.23 Exchange Rate Gains and Losses

The Wales European Funding Office, which is part of the Department for The Economy and Transport, requests programme funding from the European Commission at the euro equivalent level to the sterling required and pays out funds in sterling. The exchange gain or loss on these transactions is calculated and accounted for only at the end of the Programme.

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

1.24 Losses and Special Payments (NHS)

The cost of clinical negligence cases and other losses and special payments are brought to account when there is reasonable expectation of settlement. Disputed cases are recorded as contingent liabilities.

1.25 Provisions

Staff Costs

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

The National Assembly for Wales is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. Ex-chairs of ex-Assembly Sponsored Public bodies had pension liabilities which transferred from the merger, and are fully provided for.

NHS Provisions

The Local Health Boards provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the treasury's discount rate of 2.2% in real terms.

From 2006-07 the liability for the Welsh Risk Pool within the Department for Health and Social Services is treated as a provision instead of a contingent liability. The prior year has been restated accordingly.

Other Provisions

The responsibility for former Training and Enterprise Council company liabilities has been transferred to the National Assembly for Wales from the National Council for Education and Training for Wales. The main liability is for the resolution of employment tribunal cases referred to as the 'Astley' case. These, and other other liabilities are of uncertain amount at the balance sheet date, and are included on the basis of the best estimate of expenditure required to settle the obligations.

Student Loans

Student loans made under the terms of the student loans scheme are subsidised loans. Provisions are established to reflect:

- i) estimated future write-offs for non-recovery;
- ii) over the whole life of the loan, the difference between the cost of capital charge and the interest earned; and
- iii) debt sale subsidy

Consolidated Subsidiaries

In 2005-06 the Welsh Development Agency, via its subsidiary Finance Wales PLC fully provided for the assets of the Wales Innovation Fund. In 2006-07, as a result of the merger, Finance Wales PLC accounts for these assets within its own consolidated account, releasing this provision.

As stated in other provisions, the subsidiaries provisions for Tec costs has been released, and re-provided as a core account provision.

1.26 Deferred Income

Deferred Income is recognised where income has been received with an obligation to use the monies for a specific purpose, but these monies have not yet been spent.

1.27 Financial instruments

Finance Wales plc, a subsidiary company of the National Assembly for Wales, 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.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

2. Staff Numbers and Costs

The average number of whole-time equivalent persons employed (including senior management, cabinet ministers, assembly members and special advisers) during the period was 9,571 (2005-06 – 9,632 Restated).

The breakdown of this figure is as follows:

	Assembly Members	Special Advisers	Officials	Temporary Staff	Total
Total	60	7	8,921	583	9,571
Of which:					
Assembly	60	7	5,514	505	6,086
LHBs			3,298	67	3,365
HCW			30	9	39
Subsidiaries			79	2	81
Objectives:			Total	Officials	Agency Staff
▪ promoting a diverse, competitive, high-added value economy, with high quality skills and education, that minimises demands on the environment			2,127	2,041	86
▪ action on social justice that tackles poverty and poor health, and provides people and their communities with the means to help themselves and break out of the poverty trap			573	561	12
▪ action in our built and natural environment that enhances pride in the community, supports bio-diversity, promotes local employment and helps to minimise waste generation, energy and transport demands			1,157	1,028	129
▪ strengthening Wales' cultural identity and helping to create a bilingual country			469	457	12
▪ ensuring all our children and future generations enjoy better prospects in life, and are not landed with a legacy of problems bequeathed by us			1,099	957	142
▪ supporting people to live healthy and independent lives			4,079	3,877	202
Subtotal			9,504	8,921	583
▪ Assembly Members			60		
▪ Special Advisors			7		
Total			9,571		

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

The aggregate payroll costs of Assembly Members, Assembly staff and HCW staff were as follows (the cost of LHB staff is included within Note 4 – Programme Costs):

	Assembly Members £000	Assembly Officials £000	Special Advisers £000	Other Staff £000	Year ended 31 March 2007 Total £000	RESTATED Year ended 31 March 2006 Total £000
Salaries	3,274	171,326	275	14,744	189,619	191,785
Social Security Costs	330	14,563	19	346	15,258	14,392
Other Pension Costs	750	33,026	38	602	34,416	32,962
Sub Total	4,354	218,915	332	15,692	239,293	239,139
Less:						
Recoveries in Respect of Outward Secondments	-	(2,073)	-	(102)	(2,175)	(1,280)
Recharged to programme costs	-	(3,205)	-	(262)	(3,467)	(1,190)
Total net costs	4,354	213,637	332	15,328	233,651	236,669
Of which:						
Assembly members	4,354	-	-	-	4,354	4,277

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

Pension information for the three main schemes covering employees is provided in Note 40.

Similar information for HCW, LHBs and subsidiary companies is disclosed in their respective accounts.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

3a. APS Other Administration Costs

	Year ended 31 March 2007		Year ended 31 March 2006	
	NAW £000	Consolidated £000	NAW £000	Consolidated £000
Members' expenses & support costs	6,602	6,602	5,911	5,911
Assembly accommodation & IT	9,366	9,366	7,170	7,170
Other expenses	2,267	2,267	3,026	3,026
Rentals under operating leases:				
Hire of vehicles and office equipment	164	164	112	112
Non Cash items:				
Depreciation	375	375	90	90
Cost of capital charge	73	73	69	69
Pension Finance Cost (Net)	564	564	200	200
Total Other Assembly costs	19,411	19,411	16,578	16,578

3b. Other Administration Costs

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW £000	Consolidated £000	NAW £000	Consolidated £000
Accommodation	12,954	13,003	13,954	14,001
Central administration	26,826	27,237	30,801	31,862
Rentals under operating leases				
- accommodation	7,369	7,369	5,730	5,730
- hire of vehicles and office equipment	926	926	639	639
Travel, subsistence and hospitality	10,921	11,153	10,843	11,157
IT & Telecommunications	26,439	26,442	22,490	22,612
Audit Fees	430	549	537	664
Relocation costs*	1,002	1,002	-	-
Other Expenses	7,473	9,697	14,376	16,952
Election expenses	75	75	-	-
	94,415	97,453	99,370	103,617
Non Cash Items:				
Depreciation	7,742	7,825	6,648	6,784
Cost of capital charge	5,109	4,484	3,471	2,988
Impairment of tangible fixed assets	2,862	2,862	380	380
(Gain)/loss on disposal of fixed assets	50	52	26	26
Merger and other provisions	2,713	2,713	4,770	6,536
Provision for early retirement and pension costs	135	135	423	423
Pension finance	(60)	(157)	(2,090)	(2,080)
	18,551	17,914	13,628	15,057
Total Other Administration Costs	112,966	115,367	112,998	118,674

* these costs are subject to UK taxation

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

4. Programme Costs

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
<u>Programme expenditure:</u>				
Health and Social Services	5,044,003	5,120,432	4,829,910	4,863,069
Local Government	3,854,879	3,854,879	3,567,586	3,567,586
Social Justice and Regeneration	431,924	431,924	406,490	406,490
Environment, Planning and Countryside	535,181	535,215	493,066	492,917
The Economy and Transport**	1,042,013	1,034,173	1,038,408	1,027,807
Education and Lifelong Learning	1,449,816	1,449,816	1,324,825	1,329,224
Culture, Sport and Welsh Language	118,094	118,094	107,665	107,665
Public Services & Performance	17,529	17,529	10,714	10,714
Welsh Administration Ombudsman	4,106	4,106	1,413	1,413
Auditor General for Wales Funding	3,962	3,962	4,657	4,657
Audit Fee	-	1,616	-	1,647
	12,501,507	12,571,746	11,784,734	11,813,189
<u>Non-Cash Costs:</u>				
Cost of Capital	427,019	424,444	413,659	411,072
Depreciation	(7,658)	(1,904)	52,303	57,811
Released from Donated Asset Reserve	-	(249)	-	(304)
Impairment of tangible fixed assets	356	356	58	108
Profit on disposal of development assets	(19,549)	(19,549)	(8,101)	(8,101)
Profit on disposal of fixed assets	(893)	(3,464)	(165)	(2,055)
Deficit on revaluation of joint ventures	84	78	750	750
Deficit on revaluation of development assets*	42,660	42,660	-	-
Investment diminution Finance Wales	-	7,475	7	4,499
(Gain)/Loss on Wales Innovation Fund	-	(550)	-	203
Student loans non cash	(5,107)	(5,107)	(123)	(123)
Increase/ (Decrease) in Provisions	123,234	128,574	39,272	63,931
Release of EU Grant	(418)	(418)	(419)	(419)
	559,728	572,346	497,241	527,372
	13,061,235	13,144,092	12,281,975	12,340,561

* In 2005-06 £21,816 is included in The Economy and Transport programme costs

** Includes £111,374,000 (2005-06: £104,813,000) classed as depreciation

This note reflect the consolidated programme costs of the National Assembly for Wales with the exception of the Local Health Boards were all costs are included.

5. Funding to the Auditor General for Wales and audit fees

The funding to the Auditor General for Wales (the Auditor General) as disclosed at Note 4, comprises the net cost of his office and the Auditor General's gross salary. The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the National Assembly for Wales for 2006-07 is £430,000 (2005-06 restated: £531,000) and has been included in the audit fees disclosed at Note 3b.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

6. Operating Income

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Programme Income				
Non-EU Income:				
Income from Health and Social Services	117,123	117,123	88,063	88,063
The Economy and Transport properties	20,288	20,288	8,940	8,940
The Economy and Transport investment	81	81	2,139	2,139
Regional Selective Assistance	3,756	3,756	6,077	6,077
External rents	529	529	303	303
Income from Monument Activities	3,800	3,800	3,542	3,542
Science Research Investment Fund	12,482	12,482	13,679	13,679
Other programme income	2,981	8,590	10,289	16,591
Other Health income	-	80,220	-	62,365
Inland Revenue health funding contributions	889,703	889,703	742,479	742,479
	1,050,743	1,136,572	875,511	944,178
EU Income:				
Common Agricultural Policy	242,670	242,670	216,498	216,498
European Structural Funds Programmes	257,971	257,971	248,006	246,978
	500,641	500,641	464,504	463,476
	1,551,384	1,637,213	1,340,015	1,407,654
APS Income (including sales and rentals)	177	177	122	122
	1,551,561	1,637,390	1,340,137	1,407,776
Administration Income				
External rents	-	-	21	21
Fees & charges	4,407	4,407	3,765	3,765
Care Standards Inspectorate for Wales Income	33	33	1,818	1,818
Notional charge to HCW	435	-	304	-
Other income	286	286	430	431
	5,161	4,726	6,338	6,035
	1,556,722	1,642,116	1,346,475	1,413,811

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

7. Intangible fixed assets

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW £000	Consolidated £000	NAW £000	Consolidated £000
Gross replacement cost				
At 1 April	725	1,066	513	854
Accounting policy write-off	(126)	(362)	-	-
Accounting policy amortised	117	117	-	-
Additions	84	95	212	212
Reclassifications	3,307	3,307	-	-
At 31 March	4,107	4,223	725	1,066
Amortisation				
At 1 April	571	873	490	762
Charged in year	915	930	81	111
Disposals	-	(236)	-	-
At 31 March	1,486	1,567	571	873
Net Book Value at 31 March	2,621	2,656	154	193
Net Book Value at 1 April	154	193	23	92

Prior to the merger the Wales Tourist Board, Tir Gofal and the Local Health Boards separated out intangible assets for software licenses. The other merging bodies and the National Assembly for Wales, purchased packaged IT equipment and treated these packaged units as tangible assets. These assets are identified in the re-stated figures for 2005-06. From 1 April 2006 onwards the National Assembly for Wales has changed its accounting policy with regard to intangible assets, and now separates the value of intangible software licenses from tangible assets. No restatement of the prior year was therefore required.

The National Assembly for Wales has a programme of renewing IT assets with its contracted supplier Merlin. These assets were held as Assets under Construction in tangible assets in last year's accounts during the roll-out of equipment. These assets have now been reclassified into tangible and intangible components, with the intangible element identified in the reclassification figures above.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

8. Tangible fixed assets

	Roads & Infrastructure	Land & Buildings Exc Dwellings	Dwellings	Vehicles
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2006 RESTATED	11,356,298	344,370	2,176	439
Additions	-	9,663	-	92
Donated assets	-	-	-	-
Disposals	(1,429)	(8,956)	-	-
Accounting policy write-off	-	(561)	-	-
Impairments	(555)	(100)	-	-
Revaluations	521,495	25,673	146	8
Reclassification	-	(22,881)	-	-
Transfers	-	386	-	-
At 31 March 2007	11,875,809	347,594	2,322	539
Depreciation				
At 1 April 2006 RESTATED	1,448,221	22,001	62	219
Charged in year	102,847	6,442	27	70
Disposals	(258)	(1,577)	-	-
Accounting policy write off	-	(274)	-	-
Impairments	(339)	-	-	-
Revaluations	(41,084)	566	(13)	4
At 31 March 2007	1,509,387	27,158	76	293
Net Book Value				
At 31 March 2007	10,366,422	320,436	2,246	246
Net Book Value At 31 March 2006 RESTATED	9,908,077	322,369	2,114	220

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

8contd Tangible fixed assets

	Information Technology	Plant & Equipment	Fixtures & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2006 RESTATED	33,048	19,041	6,130	208,187	11,969,689
Additions	812	557	3,119	65,724	79,967
Donated assets	-	226	-	-	226
Disposals	(1,272)	(447)	(7)	-	(12,111)
Accounting policy write off	(7,787)	(1,648)	(724)	-	(10,720)
Impairments	-	-	-	(2,901)	(3,556)
Revaluations	8	224	173	10,679	558,406
Reclassification	6,473	733	-	(15,032)	(30,707)
Transfers	-	303	-	(689)	-
At 31 March 2007	31,282	18,989	8,691	265,968	12,551,194
Depreciation					
At 1 April 2006 RESTATED	20,394	9,208	2,412	22,722	1,525,239
Charged in year	5,498	1,069	787	-	116,740
Disposals	(1,233)	(404)	(4)	-	(3,476)
Accounting policy write off	(7,577)	(1,555)	(663)	-	(10,069)
Impairments	-	-	-	-	(339)
Revaluations	3	111	34	1,955	(38,424)
At 31 March 2007	17,085	8,429	2,566	24,677	1,589,671
Net Book Value					
At 31 March 2007	14,197	10,560	6,125	241,291	10,961,523
Net Book Value					
At 31 March 2006 RESTATED	12,654	9,833	3,718	185,465	10,444,450

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

Most of the freehold land and buildings (with exceptions noted below) were valued on 31 March 2005 by GVA Grimley, Chartered Surveyors, on the basis of open market value for existing use in accordance with the 'Appraisal and Valuation Manual', produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation. Long leaseholds (over 100 years) are capitalised on the same basis as above. Specialised properties are valued on a depreciated replacement cost basis, in accordance with the 'Appraisal and Valuation Manual', produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation.

Properties and land managed by the Department for The Economy and Transport and CADW were valued on an annual basis by King Sturge, Chartered Surveyors during 2006-07.

On 31 March 2006 two additional properties, Pwllpeirian Farm and a landholding on Snowdon, were valued by the Valuation Office Agency. These were valued on the basis of open market value for existing use in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institute of Chartered Surveyors.

In intervening financial years, between formal 5 yearly valuations, freehold land and buildings are valued using latest available indices at March in each financial year. IT, plant and equipment are valued on the basis of the monthly indices, provided by the Office for National Statistics, for each asset class.

The cost of maintaining the roads network of £102,847,000 (2005-06: £104,813,000) is included as depreciation charged in year. The net value of detrunked roads transferred under 'disposals/write-offs' was £nil (2005-06: £nil). Payments on Account include an amount for the A55 PFI scheme.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

9. Loans and Investments

	Restated Balance at 1 April 2006	Capitalised interest/ Additions/ Issues	Disposals/ Repayments	Balance at 31 March 2007
	£000	£000	£000	£000
Public Dividend Capital	1,316,267	87,435	(21,266)	1,382,436
Investments	19,283	1,947	(717)	20,513
Interests in Joint Ventures	10,834	13,945	(447)	24,332
Mortgages & other loans	3,447	4,864	(3,877)	4,434
Student Loans	880,973	186,697	(15,353)	1,052,317
Total	2,230,804	294,888	(41,660)	2,484,032

	Book Values £000
Public Dividend Capital:	
Health and Social Services	1,382,436
Investments	20,513
Interests in Joint Ventures	24,332
Student Loans	1,052,317
Other Loans:	
LHB	
Education & Local Government	1,320
Staff Loans	1,154
Housing Loans & Mortgages	118
Other	1,842
	<u>4,434</u>

The fair value of the above loans and investments was £2,482,367 (2005-06: £2,230,083 Restated) as at 31 March 2007.

The above interest 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 in the following locations:

Llanelli Gate, Dafen
Hawtin Park, Blackwood
Land at Duffryn, Newport

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Land at Cleppa Park, Newport
 Heath Hospital, Cardiff
 Science Park, Bridgend
 Oakdale, Blackwood
 Parc Amanwy, Ammanford
 Swansea Vale
 River Usk Riverfront , Newport
 Land south of George St, Newport
 Land at Rhyd-y-Car, Merthyr
 Penrhyndeudraeth, Gwynedd
 Cross Hands, Carmarthenshire
 Junction 33 M4

Short term investments held as current assets

Investment funds held in Finance Wales PLC

	As at		RESTATED	
	31 March 2007		As at	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Investment funds held in Finance Wales PLC	-	22,200	-	36,420
Loans Finance Wales PLC	-	5,708	-	5,246
	-	27,908	-	41,666

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

10. Movements in working capital other than cash

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Increase in stock	89,135	89,130	26,714	27,044
(Decrease) in debtors	(73,112)	(69,191)	(94,225)	(86,028)
Less increase in Finance Wales loans in non-cash	-	(6,218)	-	-
(Increase)/Decrease in creditors	101,199	100,562	2,271	17,362
NLF	32	32	-	-
	117,254	114,315	(65,240)	(41,622)
Adjustment for capital creditors movement	14,392	15,361	116	1,025
Development assets revaluation	(26,663)	(26,663)	-	-
Development assets profit	(19,549)	(19,549)	(8,101)	(8,101)
Adjustment for accrual movement in loans	5,151	5,151	(1,615)	(1,615)
Adjustments for accrual movement fixed assets	4,255	4,255	-	-
Adjustment Fixed Assets to Development Assets	(27,400)	(27,400)	-	-
Less movement in amounts payable to the Consolidated Fund and other non-operating cost balances	(44,904)	(44,904)	30,095	30,095
	22,536	20,566	(44,745)	(20,218)

11. Stock of Development Assets

	As at 31 March 2007		RESTATED As at 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
As at 1 April	271,020	271,020	248,984	248,984
Transfers	27,400	27,400	(1,573)	(1,573)
Additions	57,416	57,416	74,370	74,370
Disposals	(27,736)	(27,736)	(28,945)	(28,945)
Deficit on revaluation	(42,660)	(42,660)	(21,816)	(21,816)
Revaluations	69,323	69,323	-	-
As at 31 March	354,763	354,763	271,020	271,020

Development assets includes certain land and buildings at a value where tenants have been provided with options to purchase within certain limited time periods.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

12. Stocks

	As at 31 March 2007		As at 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Road salt	213	213	135	135
Cadw/LHB Raw materials and consumables	123	829	144	855
Cadw Goods for Resale	585	585	634	634
Telecommunication spares	3,129	3,129	2,959	2,959
Assembly shop	29	29	20	20
Anti-viral drugs	8,958	8,958	3,782	3,782
Fire Service Devolution	959	959	930	930
	13,996	14,702	8,604	9,315

13. Debtors

	As at 31 March 2007		RESTATED As at 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	77,421	68,866	90,199	95,413
Deposits & advances	294	294	20	20
European Union	76,207	76,207	143,723	143,723
Other debtors	25,051	36,762	12,662	13,235
Capital debtors	-	-	-	1,081
Primary Care Trusts	-	456	-	425
NHS Trusts	-	11,341	-	6,519
Welsh Risk Pool	-	37,223	-	32,561
Other tax	7,328	7,329	6,904	6,904
Provisions for irrecoverable debt	-	(1,186)	-	(605)
Prepayments and accrued income	7,434	17,124	13,271	22,314
	193,735	254,416	266,779	321,590
Amounts falling due after more than one year:				
Welsh Risk Pool	-	20,248	-	29,927
Finance Wales loans	-	22,055	-	15,837
Other debtors	-	1,543	68	99
	-	43,846	68	45,863
Total Debtors	193,735	298,262	266,847	367,453

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Debtors contd

Intra-Government Balances

	As at 31 March 2007		As at 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Balances with other central government bodies	22,813	51,564	18,408	11,549
Balances with local authorities	19,410	19,410	7,605	10,511
Balances with NHS Trusts	256	12,053	17,066	24,015
Balances with public corporations and trading funds	-	-	1	1
Subtotal: intra-government balances	42,479	83,027	43,080	46,076
Balances with bodies external to government	151,256	171,389	223,699	275,514
	193,735	254,416	266,779	321,590
Amounts falling due after more than one year:				
Balances with other central government bodies	-	20,248	-	29,927
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	1
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	-	20,248	-	29,928
Balances with bodies external to government	-	23,598	68	15,935
	-	43,846	68	45,863
Total debtors	193,735	298,262	266,847	367,453

14. Cash at bank and in hand

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Balance at 1 April	59,609	88,794	92,065	118,997
Net cash inflow/(outflow)	(38,837)	(18,380)	(32,456)	(30,203)
Balance at 31 March	20,772	70,414	59,609	88,794

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances were held at 31 March:

Balance at OPG	16,231	34,740	1,404	8,502
Commercial banks & cash in hand	4,541	35,674	58,205	80,292
	20,772	70,414	59,609	88,794

The Government of Wales Act 2006 established the Welsh Consolidated Fund from 1 April 2007. Cash drawn down but unused from the Exchequer during 2006-07 is repayable to the Welsh Consolidated Fund in 2007-08. None of the balance as at 31 March 2007 is repayable.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

15. Creditors

Creditors: Amounts falling due within one year

	As at		RESTATED	
	31 March 2007		As at	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Trade creditors	302,419	425,866	310,372	438,010
Other creditors	29,008	31,567	26,039	30,039
Tax and social security	2,468	4,042	980	1,667
Accruals & deferred income:				
European Union	13,635	27,183	28,488	28,488
Other	13,144	103,198	59,027	165,336
Amounts payable to the Consolidated Fund via Wales Office	211	211	45,117	45,117
NHS Trusts	-	49,852	-	37,868
Primary Care Trusts	-	931	-	843
Capital Creditors	-	416	-	530
General Practice Fund Holders (GPFH)	-	6	-	438
Staff Pensions	-	1,119	-	1,142
	360,885	644,391	470,023	749,478

Creditors: Amounts falling due after more than one year

Finance lease on Merthyr building and retentions on Highways contracts	9,794	9,794	483	483
Trade creditors	-	166	1,374	166
NHS Trusts	-	186	-	337
Finance Wales PLC	-	39,972	-	44,612
Staff Pensions	-	282	-	277
	9,794	50,400	1,857	45,875

Total creditors	370,679	694,791	471,880	795,353
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**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Intra-Government Balances

	As at 31 March 2007		As at 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Balances with other central government bodies	18,244	10,973	5,698	-
Balances with local authorities	42,736	42,736	60,711	69,673
Balances with NHS Trusts	-	50,783	3,738	50,346
Balances with public corporations and trading funds	-	-	2	77
Subtotal: intra-government balances	60,980	104,492	70,149	120,096
Balances with bodies external to government	299,905	539,899	399,874	629,382
	360,885	644,391	470,023	749,478
Amounts falling due after more than one year:				
Balances with other central government bodies	-	-	-	166
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	186	-	337
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	-	186	-	503
Balances with bodies external to government	9,794	50,214	1,857	45,372
	9,794	50,400	1,857	45,875
Total creditors	370,679	694,791	471,880	795,353

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

16. Provisions for liabilities and charges

NAW

Year ended 31 March 2007

	Staff Costs	NHS Provisions	Other - Merge r	Student Loans	Other - EU funds	Other - Transferre d liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2006 –RESTATED	885	253,660	956	138,559	-	-	394,060
Amount utilised in year	(273)	(47,075)	(413)	(18,297)	-	-	(66,058)
(Decrease) / Increase in provision	135	74,124	(87)	40,571	7,599	3,740	126,082
Balance at 31 March 2007	747	280,709	456	160,833	7,599	3,740	454,084

Consolidated

Year ended 31 March 2007

	Staff Costs	NHS Provisions	Other	Student Loans	Subsidiari es	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2006 – RESTATED	885	335,470	956	138,559	3,825	479,695
Amount utilised in year	(273)	(56,728)	(413)	(18,297)	(3,825)	(79,536)
(Decrease) / Increase in provision	135	79,464	11,252	40,571	-	131,422
Transfer of provision Wales Innovation Fund	-	-	-	-	2,160	2,160
Balance at 31 March 2007	747	358,206	11,795	160,833	2,160	533,741

Staff Costs

The National Assembly for Wales meets the additional costs of benefits for employees in PCSPS, beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The National Assembly for Wales provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

Pension commitments have arisen from the mergers of former Assembly Sponsored Public Bodies for unfunded commitments to ex- Chairs. These provisions have been transferred to the National Assembly for Wales.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

LHB additional pension liabilities arising from early retirements are not funded by the scheme, except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement at the time the LHB commits itself to the retirement, regardless of the method of payment.

NHS Provisions

Continuing Care

In February 2003, the Health Services Ombudsman concluded that efforts should be made to remedy any financial injustice to patients where the criteria for access to continuing NHS funded care, or the way they were applied, were not clearly appropriate or fair. The costs prior to 1st April 2003 (i.e. former Health Authority liabilities) are the responsibility of the National Assembly for Wales. All costs and provisions post 1st April 2003 are the responsibility of the 22 Local Health Boards.

Hepatitis C

The Skipton Fund is a body set up to manage the UK wide ex-gratia payments to individuals infected with hepatitis C from NHS blood products. Jane Hutt AM made the announcement on 23 August 2003 and the fund was opened on 5 July 2004. Lump sums of £20k will be paid out in general cases and a figure of £25k is paid for those with an advanced illness.

Incorrect methodology used to recover drugs prescription payments

The methodology adopted by a former Health Authority during 1999-00 to recover advance payments for the prescription of certain drugs was incorrectly applied. The provision represents the potential over recovery of payments for relevant pharmacists affected by the incorrect methodology.

Agenda for Change costs – Health care students

The provision is for the expected reimbursement of salary costs resulting from the Agenda for Change assimilation of NHS staff for Health Care students for the period 1 October 2004 to 31 March 2007.

Electronic Staff Records

The provision is for the Welsh share of the overall Department of Health liability, in accordance with the contract with McKesson to 2015, for IT hardware and maintenance of the NHS Electronic Staff Records system.

Welsh Risk Pool

This represents a provision for the expected future reimbursements of the Welsh Risk Pool. This represents a change of accounting policy and a prior period adjustment has been made accordingly.

Other merger costs

Merger related provisions of £456,000 for accommodation changes and legacy system costs resulting from the ASPB mergers.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Other transferred liabilities

The National Council for Education and Training for Wales had subsidiary companies from a prior merger, which transferred to the National Assembly for Wales. The subsidiary companies had outstanding liabilities for a legal case referred to as the Astley case, and for liquidation costs of the companies. The National Assembly for Wales has now agreed to accept these liabilities directly so that the companies can be wound up. Until claims arising from these cases are settled there remains uncertainty as to the amount of the liability. They also had merger provisions for legacy systems, and a provision for repayment of European funds for the Knowledge Exploitation Fund which has transferred on merger to the Department for Education and Lifelong Learning.

Student Loans

The Student loans write-off provision is estimated to meet the future cost of loans that are not likely to be recovered due to the death of the student, their income not reaching the income threshold, or not being able to trace the student. Each year, the Department for Education and Lifelong Learning will estimate the future cost of bad debts based on the percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student loans Company.

The interest subsidy is the difference between the interest paid by students and the cost of capital on loans. The interest subsidy provision is estimated to meet the cost of the interest over the life of the loan and is offset by the annual interest capitalised. The calculation of the subsidy includes the application of an inflation adjustment on the loan balances (2006-07: 2.4%, 2005-06: 3.2%) to reflect the full extent of the subsidy, which is credited to the General Fund.

The debt sale subsidy is the additional cost to the National Assembly for Wales of government subsidies contractually due to the purchases of the debts beyond the costs that the National Assembly for Wales would have incurred had the debts remained in the public sector. The debt sale subsidy provision is estimated to meet the cost of this subsidy over the expected life of loans sold.

EU funds provision

Provision is made where it is considered likely that income from the European Union in respect of the European programmes, funds and initiatives is repayable.

Subsidiaries

As noted in the 'other' provisions section above, the provisions held by Tec subsidiary companies have transferred to the National Assembly for Wales.

The National Assembly for Wales' subsidiary Finance Wales PLC has a joint venture with the Wales Innovation Fund Ltd. Finance Wales PLC fully provides for the assets of the company.

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

17. Reconciliation of net operating cost to changes in general fund

The General Fund represents the total assets less liabilities of the National Assembly for Wales, to the extent that the total is not represented by other reserves and financing items.

	Year ended		RESTATED	
	31 March 2007		Year ended	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Net operating cost	(11,865,267)	(11,870,405)	(11,295,884)	(11,299,187)
Net funding from Consolidated Fund	11,676,000	11,676,000	10,884,421	10,884,421
Loan repayments payable to the Consolidated Fund	(119)	(119)	(110)	(110)
Merger asset movement	(385)	(385)	202	202
Actuarial Gain/(Loss) on Pension Scheme	-	-	2,904	2,904
Property revaluation write-off	-	-	63	63
Roads adjustment	(1,175)	(1,175)	-	-
Transfer to pension fund deficit	504	407	(510)	(510)
Prior year adjustment	(33)	(33)	-	21
Transferred from Revaluation Reserve	221	5,187	67	1,665
Development asset gain	69,323	69,323	-	-
Increased share of JV	-	(543)	-	-
Tir Gofal net assets transfer	53	53	72	72
	(120,878)	(121,690)	(408,775)	(410,459)
Notional charges and income:				
Cost of Capital	432,201	429,001	417,199	414,129
Services provided to HCW	(435)	-	(304)	-
Student loans inflation adjustment	17,740	17,740	18,555	18,555
Net (decrease)/increase in the general fund	328,628	325,051	26,675	22,225
Balance at 1 April	8,463,605	8,273,108	8,436,930	8,250,883
Balance at 31 March	8,792,233	8,598,159	8,463,605	8,273,108

18. European Deferred Grant Reserve

	Year ended		Year ended	
	31 March 2007		31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Balance at 1 April	8,808	8,808	7,980	7,980
In-year Addition	2,198	2,198	1,247	1,247
Released to Operating Cost Statement	(418)	(418)	(419)	(419)
Balance at 31 March	10,588	10,588	8,808	8,808

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

19. Donated Asset Reserve

	Year ended 31 March 2007		Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Balance at 1 April	10	4,919	-	4,848
In-year Addition	-	226	10	210
Revaluation and Indexation	-	49	-	97
Depreciation	-	(249)	-	(236)
Balance at 31 March	10	4,945	10	4,919

20. Revaluation Reserve

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Balance at 1 April	3,767,765	3,879,970	3,164,738	3,273,466
In year revaluation	587,673	596,782	707,907	712,982
Add back non-reserve movements:				
Cash backed depreciation	(111,374)	(111,374)	(104,813)	(104,813)
	4,244,064	4,365,378	3,767,832	3,881,635
Of which:				
Roads	451,207	451,207	576,680	576,680
Land & Buildings	16,033	25,265	15,570	20,578
IT, Plant & Equipment	386	212	277	344
Payments on Account & Assets under Construction	8,673	8,724	10,567	10,567
	476,299	485,408	603,094	608,169
Adjustment to WDA b/f figures	2	2	-	-
Transfer to the General Fund in respect of realised element of revaluation reserve	(221)	(5,187)	(67)	(1,665)
Balance at 31 March	4,243,845	4,360,193	3,767,765	3,879,970

The revaluation reserve reflects the balance of adjustments made to take account of price changes and revaluation of tangible fixed assets.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

21. Notes to Cash Flow Statement

	Note	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
		NAW £000	Consolidated £000	NAW £000	Consolidated £000
Reconciliation of operating cost to operating cash flows					
Net operating cost		11,865,267	11,870,405	11,295,884	11,299,187
Provisions utilised	16	66,058	79,536	8,537	23,884
Asset write-out		(242)	(242)	-	-
Non-cash transactions: Administrative costs	3	(19,563)	(18,926)	(13,987)	(15,416)
Programme costs	4	(559,728)	(572,346)	(497,241)	(527,372)
Notional recharges to HCW	6	435	-	304	-
Loans and investments non-cash adjustments		(9,714)	(9,714)	-	-
Movements in working capital other than cash	10	22,536	20,566	(44,745)	(20,218)
Net cash outflow from operating activities		11,365,049	11,369,279	10,748,752	10,760,065
Analysis of capital expenditure and financial investment					
Issue of loans		281,664	276,402	198,035	194,257
Repayment of loans		(31,769)	(28,676)	(42,954)	(43,773)
Payments to acquire intangible and fixed assets		59,810	61,670	57,290	77,181
Receipts from disposal of fixed assets		(2,623)	(12,556)	(12,040)	(16,893)
Net cash outflow from investing activities		307,082	296,840	200,331	210,772
Analysis of financing					
From Consolidated Fund via Wales Office	17	11,676,000	11,676,000	10,884,421	10,884,421
EU Deferred Grant	18	2,198	2,198	1,247	1,247
Donation	19	-	226	-	210
Financing movements subsidiaries		-	-	823	24,353
(Increase)/Decrease in cash	14	38,837	18,380	32,456	30,203
Net cash requirement		11,717,035	11,696,804	10,918,947	10,940,434

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

22. Capital Commitments

	Year ended 31 March 2007		RESTATED Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Capital commitments for which no provision has been made in these accounts were as follows:				
Roads Construction	189,274	189,274	220,809	220,809
Health authorities	-	128	-	256
Ex WDA contracted but not provided for	19,622	19,622	99,609	99,609
Management & Central Services	3,172	3,172	6,717	6,717
Fire Service Equipment	998	998	1,333	1,333
APS	152	152	-	-
Location Strategy	867	867	-	-
	214,085	214,213	328,468	328,724

23. Commitments under operating leases

At 31 March 2007 the National Assembly for Wales and its related bodies were committed to making the following payments during the next year in respect of operating leases expiring:

	As at 31 March 2007		RESTATED As at 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Land and Buildings:				
Within one year	640	703	837	1,318
Between two and five years	1,775	2,583	2,403	3,526
After five years	10,016	11,516	8,580	9,917
	12,431	14,802	11,820	14,761
Other:				
Within one year	140	435	210	297
Between two and five years	627	922	411	644
After five years	33	33	-	216
	800	1,390	621	1,157
	13,231	16,192	12,441	15,918

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

24a. Other Financial Commitments

The National Assembly for Wales and its related bodies were committed to making the following annual payments against contracts expiring:

	As at		RESTATED	
	31 March 2007		As at 31 March 2006	
	NAW £000	Consolidated £000	NAW £000	Consolidated £000
Within one year	6,380	6,380	-	1,430
Between two and five years	118	118	-	-
After five years	14,694	14,694	12,324	12,324
	21,192	21,192	12,324	13,754

Siemens Business Services provide IT hardware, software and support services, known as 'MERLIN', to the National Assembly for Wales. This contract began on 1 May 2004 and covers a period of 10 years.

In March 2007 the (then) National Assembly for Wales entered into a commitment (revocable only by legislation) with Cardiff City Council to provide funding in respect of the Council's obligations under the Cardiff Bay Barrage Act 1993 for maintenance and operation of the Cardiff Bay Barrage.

24b. PFI Revenue Commitments

The National Assembly for Wales was committed to making the following annual payments against contracts expiring:

	As at		As at	
	31 March 2007		31 March 2006	
	NAW £000	Consolidated £000	NAW £000	Consolidated £000
Within one year	-	-	-	-
Between two and five years	-	-	-	-
After five years	14,980	14,980	14,980	14,980
	14,980	14,980	14,980	14,980

Contractors were commissioned by the National Assembly for Wales under the PFI scheme to build and maintain a carriageway across Anglesey. The contract commenced in December 1998 and is for a period of 30 years, after which time the ownership of the A55 will revert to the National Assembly for Wales. The net capital valuation of the A55 using reversionary interest calculations at 31 March 2007 was £113,914,000 (2005-06 £105,240,000). This value will increase each year as the date for the National Assembly for Wales taking ownership of this asset draws nearer.

In addition to the above, from 2000/01 the Welsh Development Agency had been contractually committed to pay £5.1m annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. This scheme was transferred from the Cardiff Bay Development Corporation in April 2000, and was transferred to the National Assembly for Wales in April 2006. 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.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

25. Contingent Liabilities

	Year ended		RESTATED	
	31 March 2007		Year ended	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Legal Claims – Alleged medical or employer negligence	-	(79,961)	-	(86,198)
Potential contractual obligations	(20,850)	(20,850)	(19,726)	(19,726)
Redundancy costs – Higher Education Institutions	-	-	(2,500)	(2,500)
Potential taxation liabilities	(58)	(58)	(58)	(58)
Compensation Claims	(251)	(251)	(40)	(40)
Other	(8,737)	(23,976)	-	(3,663)
	(29,896)	(125,096)	(22,324)	(112,185)

The National Assembly for Wales has inherited a number of unquantifiable contingent liabilities resulting from the wind up of the former Cardiff Bay Development Corporation (CBDC). Obligation for the payment of such liabilities was passed to the National Assembly by way of a local Statutory Instrument, The Cardiff Bay Development Corporation (Transfer of Property, Rights and Liabilities) Order 2000, made under S165 of the 1980 Local Government Planning and Land Act (as amended).

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

The National Assembly for Wales has a maximum liability to underwrite at last resort, costs regarding contaminated land at the Brofiscin tip of £20 million. The Environment Agency is assessing who is responsible for costs which will impact on the likelihood and magnitude of the costs to be incurred.

In special circumstances the National Assembly acts as guarantor and provides letters of comfort for its sponsored bodies. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability. The value of these guarantees at 31 March 2007 was £96.6 million.

HCW has £388,000 of contingent liabilities reflecting the difference between the value of work invoiced by English and Welsh Trusts compared to the liability that HCW will accept. The difference has largely arisen as a result of the divergent contracting regimes in England and Wales.

Negligence claims are disputed and until they are resolved, the LHBs liability, if any, cannot be determined. In accordance with the requirements of FRS 12, no provision has been made in the 2006-07 accounts for these items.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

26. Interest

	Year ended 31 March 2007		Year ended 31 March 2006	
	NAW	Consolidated	NAW	Consolidated
	£000	£000	£000	£000
Interest Payable:				
National Loans Fund	1,724	1,724	1,728	1,728
Health Service	-	-	-	182
Other	-	2,162	199	2,931
	1,724	3,886	1,927	4,841
Interest Receivable:				
National Loans Fund Investments	(1,724)	(1,724)	(1,728)	(1,728)
Dividend received on PDC investments	(63,463)	(63,463)	(61,584)	(61,584)
Other loan interest (including Health and Student loans)	(23,110)	(25,283)	(20,778)	(26,652)
	(88,297)	(90,470)	(84,090)	(89,964)

27. Loan Capital

	RESTATED National Loans Fund £000
Balance at 1 April 2006	11,875
Repayments during year	(32)
Balance at 31 March 2007	11,843
Amounts falling due within 1 year	31
Amounts falling due between 1 and 5 years	148
Amounts falling due after 5 years	11,664
Total	11,843

The National Loans Fund loans are repayable over periods of up to 60 years. They bear interest rates between 4.95% and 5.6%

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

28. Unhypothecated Supported Borrowing

Under the Local Government Act 2003, the National Assembly for Wales no longer issues credit approvals to local authorities, who are now responsible for managing their own borrowing requirements for capital expenditure purposes. The National Assembly for Wales now provides Unhypothecated Supported Borrowing to local authorities for the purposes of capital expenditure, this funding is paid as part of the annual local authority revenue settlement, and takes into account both capital and interest repayments.

Unhypothecated Supported Borrowing issued during the year was as follows:

	Year ended 31 March 2007	Year ended 31 March 2006
	£000	£000
Health & Social Services	5,388	5,388
Social Justice and Regeneration	79,225	77,949
Environment, Planning & Countryside	16,606	16,609
The Economy and Transport	16,478	16,478
Education & Lifelong Learning	45,699	45,699
Local Government	-	-
Total Unhypothecated Supported Borrowing	163,396	162,123

29. Losses and Special Payments

a) Losses (Excluding Local Health Boards)

	Year ended 31 March 2007			
	NAW		Consolidated	
	No of Cases	£000	No of Cases	£000
Cash Losses	684	200	684	200
Claims Abandoned	150	7,895	150	7,895
Fruitless Payments	12	20	12	20
Store Losses	7	7	7	7
	853	8,122	853	8,122

	Year ended 31 March 2006			
	NAW		Consolidated	
	No of Cases	£000	No of Cases	£000
Cash Losses	434	149	434	149
Claims Abandoned	136	3,787	136	3,787
Fruitless Payments	9	10	9	10
Store Losses	3	-	3	-
	582	3,946	582	3,946

Prior year refers to the National Assembly for Wales only. The figures have not been restated as the merged bodies did not collect information in this format.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

b) Special Payments (Excluding Local Health Boards)

	Year ended 31 March 2007			
	NAW		Consolidated	
	No of Cases	£000	No of Cases	£000
Special Payments	29	124	29	124
	29	124	29	124

	Year ended 31 March 2006			
	NAW		Consolidated	
	No of Cases	£000	No of Cases	£000
Special Payments	43	70	43	70
	43	70	43	70

Details on losses that exceed £250,000:

Abandoned claims	£000
Karavale Enterprises Ltd	1,785
A Hawkins	411
Euro Paper Products Ltd	264
The Box Specialists Ltd	275
Skytronics UK Ltd	630
Symes-Wu Industries (UK) Ltd	353
Scanagraph Ltd	270

c) Local Health Boards: Losses and Special Payments

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Cases	£000	No of Cases	£000
	Medical Negligence	25	4,497	55
Personal Injury	9	105	18	314
Fraud	-	-	27	5
Other	745	177	622	1,744
	779	4,779	722	11,247

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

30. Related Party Transactions

The National Assembly for Wales receives its funding from the Department for Constitutional Affairs, which is a related party.

The National Assembly for Wales has one separate agency – the Health Commission Wales Specialist Services. The National Assembly for Wales also funds its Assembly Sponsored Public Bodies. These bodies are regarded as related parties with which the National Assembly for Wales has had various material transactions during the period.

Arts Council of Wales
Care Council for Wales
Countryside Council for Wales
Higher Education Funding Council for Wales
Local Government Boundary Commission for Wales
National Library of Wales
National Museums & Galleries of Wales
Sports Council for Wales
Wales Centre for Health
Welsh Language Board

In addition, the National Assembly for Wales has had a number of material transactions with other government departments and central government bodies.

Basic Skills Agency
Cabinet Office
Children's Commissioner for Wales
Dental Practice Board
Department for Constitutional Affairs
Department for Education and Skills
Department for Environment, Food and Rural Affairs
Department for Health
Department for Transport
Department for Work and Pensions
Department of Trade and Industry
Environment Agency Wales
Estyn: Her Majesty's Inspectorate of Education & Training in Wales
Food Standards Agency
Foreign and Commonwealth Office
Forestry Commission
Further and Higher Education Bodies
General Social Care Council
General Teaching Council for Wales
Health Protection Agency
HM Treasury
Local Authorities in Wales
NHS Bodies in Wales
Office of Government Commerce
Office of Science and Technology
Planning Inspectorate
Police Authorities in Wales
Public Health Laboratory Service
Public Services Ombudsman
Rural Payment Agency

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

Treasury Solicitors Department
Trunk Road Agencies in Wales
Valuation Office Agency
The National Fallen Stock Company

During the year the National Assembly for Wales had a number of subsidiary companies:

- The National Assembly for Wales Broadcasting Company Ltd, a company limited by guarantee. The National Assembly for Wales and the broadcasting partners – the BBC, S4C and HTV had a broadcasting arrangement partnership. The company was dissolved on 27 March 2007.
- Newport Unlimited, which is a company limited by guarantee. The National Assembly for Wales has a two-thirds share with Newport County Council having a one third share. The company is dormant.
- Finance Wales PLC which is included in the consolidated account
- The Design Commission for Wales, which is a National Assembly for Wales owned ‘not-for-profit’ company limited by guarantee. It is a registered company with a board of Directors having been given the powers of management to run the company, with the National Assembly for Wales retaining overall control of its affairs.
- Five former Training and Enterprise companies inherited from the National Council for Education and Training for Wales, all of which are limited by guarantee and have no share capital. All the companies have ceased trading, and approval has been given to transfer remaining assets and liabilities to the National Assembly for Wales and wind the companies up. The company names are Elwa Trading Ltd, West Wales Training and Enterprise Council Ltd, North Wales Training and Enterprise Council Ltd, Mid Wales Training and Enterprise Council Ltd, and the Council of Welsh Tecs.
- Welsh Development Management Ltd - included in the consolidated account
- International Business Wales Ltd – included in the consolidated account
- Ryder Cup Wales 2010 Ltd – included in the consolidated account.

None of the Assembly’s Members, key managerial staff or other related parties has undertaken any material transactions with the National Assembly for Wales during the year.

Details of positions held by ministers are disclosed on the National Assembly for Wales’ website. No direct material transactions were conducted with these bodies.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

31. Resources by Welsh Assembly Government Objectives

Programme expenditure and income has been allocated in the 'Statement of Operating Costs by Assembly Aims and Objectives' based primarily on Main Expenditure Group outturn. Most of the National Assembly for Wales's expenditure relates to programme expenditure and has thus been allocated to its appropriate objective. Net administration costs and non-directly attributable capital charges have been allocated to objectives in the same proportions as programme expenditure by objective, as follows:

	RESTATED	
	2006-07 £000	2005-06 £000
▪ promoting a diverse, competitive, high-added value economy, with high quality skills and education, that minimises demands on the environment	41,137	41,597
▪ action on social justice that tackles poverty and poor health, and provides people and their communities with the means to help themselves and break out of the poverty trap	122,667	114,461
▪ action in our built and natural environment that enhances pride in the community, supports bio-diversity, promotes local employment and helps to minimise waste generation, energy and transport demands	15,309	14,199
▪ strengthening Wales' cultural identity and helping to create a bilingual country	3,393	3,228
▪ ensuring all our children and future generations enjoy better prospects in life, and are not landed with a legacy of problems bequeathed by us	43,075	39,107
▪ supporting people to live healthy and independent lives	150,157	141,332
TOTAL	375,738	353,924

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

32. Financial Instruments

In these accounts the National Assembly for Wales has adopted Financial Reporting Standard (FRS) 13 – Derivatives and Other Financial Instruments: Disclosures. The National Assembly for Wales issues financial instruments, in particular loans, to other public sector bodies in Wales such as NHS bodies. This lending occurs as part of its normal course of activities and the National Assembly for Wales does not undertake any trading activity in these financial instruments. The National Assembly for Wales has taken advantage of the exemption available for short-term debtors and creditors. For issues of public dividend capital, fair value was calculated as the net assets of the recipient body (stated after deducting any provisions for liabilities and charges) less the amount of any loan included in the balance sheet. Other loans were discounted over their remaining life using the National Loans Fund rate applicable to the terms of the repayment (4.45% and 4.55%).

The National Assembly for Wales has no borrowings and relies primarily on funding received from Parliament via the Wales Office for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk other than EU.

	Book Values	Fair Values	Basis of Fair
	£000	£000	Valuation
Financial Assets:			
Public Dividend Capital:			
Health and Social Services	1,382,436	1,382,436	<i>Note 1</i>
Student loans	1,052,317	1,052,317	<i>Note 2</i>
Investments	20,513	20,513	<i>Note 3</i>
Interests in Joint Ventures	24,332	24,332	<i>Note 3</i>
Other Loans:			
Education & Local Government	1,320	693	<i>Note 4</i>
Staff Loans & Advances of Salaries	1,154	872	<i>Note 4</i>
Housing Loans & Mortgages	118	82	<i>Note 4</i>
Other	1,842	1,122	<i>Note 4</i>
	4,434	2,769	
Notes:	2,484,032	2,482,367	

1 The net assets of the recipient bodies exceed the values of the investment loans and therefore the fair value of the loans is equal to the book value. The exception is Carmarthenshire NHS Trust where the value is temporarily lower.

2 The student loans interest rate is revised annually, so the fair value is not significantly different from the book value

3 The net assets of the investments in the Welsh Industrial Partnership exceed the value of the investment loan and therefore the fair value equals the book value.

4 The discount rates used are the National Loan Fund rate of between 4.95% and 5.6%.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

33. Interreg III

Interreg III is a community initiative, which promotes inter-regional co-operation in the EU. The Ireland/Wales Interreg IIIA programme is monitored by a committee made up of partnership interests in Ireland and Wales. The scheme is administered by the National Assembly for Wales, which holds a separate Euro bank account for this purpose.

The grant payments and income for the Welsh element of the scheme are included in the main account. The Welsh element of the bank balance has not been included because an auditable split between Irish and Welsh balances is not possible. Balances have been converted into sterling at the relevant balance sheet date exchange rate.

Income and Expenditure

		Year Ended 31 March 2007		Year Ended 31 March 2006	
		€000	€000	€000	€000
Income	EU Funding		11,641		8,140
	Bank Interest		-		18
			11,641		8,158
Grant Expenditure	Ireland	(2,901)		(6,686)	
	Wales	(5,449)		(6,988)	
		(8,350)		(13,674)	
Other Expenditure	Bank Charges	-		(4)	
	Exchange Loss	(8)		(57)	
Total Expenditure			(8,358)		(13,735)
Net (Expenditure) / Income			3,283		(5,577)

Balance Sheet as at 31 March 2007

		Year Ended 31 March 2007		Year Ended 31 March 2006	
		£000	€000	£000	€000
Debtors		143	212	26	37
Bank		170	250	161	233
Creditors		(2,438)	(3,594)	(4,623)	(6,685)
Net Assets		(2,125)	(3,132)	(4,436)	(6,415)
General Fund		(2,125)	(3,132)	(4,436)	(6,415)

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

34 Results of related companies

The National Assembly for Wales has interests in related companies, and where this 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.

Department for The Economy and Transport holding at 31 March 2007

Name of company	Description of investment	Proportion held	Share capital and reserves	Profit/ (Loss) for the year
		%	£	£
Welsh Development Management Ltd	1 ordinary £1 share	100	1	Nil
Finance Wales PLC	12,500 ordinary £1 shares	100	(732,992)	676,000

Finance Wales plc was a wholly owned subsidiary company of the Department for The Economy and Transport. The profit for the year of £676,000 (2005-06 – profit of £3,454,000) and its share capital and reserves of £1,950,000 (2005-6-£733,000), incorporates the results of its wholly owned subsidiary companies, Finance Wales Investments Ltd, Finance Wales Investments (2) Ltd, Finance Wales Investments (3) Ltd, Finance Wales Investments (4) Ltd, Xenos – the Business Angel Network Ltd and also its share of the loss of Wales Innovation Fund Ltd, an incorporated joint venture.

The National Assembly for Wales division also had a 49% interest in an associated undertaking known as Welsh Industrial Partnership Ltd. The value of the division's interest, shown at cost is £10,565,049, and is included in the investments at note 9.

Newport Unlimited

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

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. Contributions to revenue and capital programmes are expended by the relevant stakeholders.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

35. Costs of Merger

From 2005-06 the National Assembly for Wales established an Investment Fund Mergers budget to support additional costs for mergers that could not be met from existing budgets. The four Assembly Sponsored Public Bodies (ASPBs) which merged on 1 April 2006 incurred costs, and made provisions for future costs in their accounts for 2005-06. The table below sets out the costs supported from the Investment Fund. The figures for 2005-06 have been re-stated to include costs incurred by the former ASPB's. However, they do not include the element of future costs. These are set out in provisions as disclosed at Note 16 to these financial statements.

	2006-07	RE- STATED 2005-06
	£000	£000
Consultancy Fees	982	402
Additional Permanent Staff	1,432	710
Costs		
Information Technology	756	3,182
Human Resources	311	3,669
Accommodation	1,105	624
Training	115	384
Other	304	108
TOTAL	5,005	9,079

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

36. European Network on Young People and Tobacco – ENYPAT

Adolescent Smoking Cessation Programme

The Welsh Assembly Government co-ordinates a Europe-wide adolescent smoking cessation programme on behalf of the European Commission and the European Network on Young People and Tobacco (ENYPAT).

ENYPAT is a network for specialists working in the area of tobacco control amongst young people, funded by the ‘Europe Against Cancer Programme’ of the European Commission. Its aims and objectives are to contribute to the reduction of smoking amongst young people through European-wide collaboration and the exchange of information and expertise between various agencies.

The programme is administered by the National Assembly for Wales, which holds a separate Euro bank account for the purpose. Grant funding and expenditure on projects undertaken in Wales is included within the main account.

The Financial Reporting Manual requires disclosure of this information. For this scheme, responsibility for monitoring compliance with governing regulations falls to the European Commission.

Income and Expenditure

		Year Ended 31 March 2007		Year Ended 31 March 2006	
		€000	€000	€000	€000
Income:	EU		-		(372)
Expenditure:	Grant Payments	106		137	
	Administration		-	85	
			106		222
(Surplus)/Deficit			106		(150)

Balance Sheet

	Year Ended 31 March 2007	Year Ended 31 March 2006
	€000	€000
Debtors	-	-
Bank	121	306
Creditors	(77)	(156)
Net Assets	44	150
General Fund	44	150

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

37. Prior year adjustments

The National Assembly for Wales had eight Machinery of Government (MOG) changes effective from 1 April 2006 with the following:

Welsh Development Agency
Welsh Tourist Board
National Council for Education and Training for Wales
Qualification, Curriculum and Assessment Authority for Wales
Part of Health Professions Wales (the remainder transferred to Bro Morgannwg NHS Trust)
Wales Youth Agency
Dysg
Student Loans for Wales (previously part of the Department for Education and Skills)

The following transfers also took place:

The administration of the Tir Gofal/Cymen scheme was transferred from the Countryside Council for Wales to the National Assembly for Wales on 16 October 2006. The effect of this transfer on the current and prior year is shown at the end of this note. The restatements for current and prior year reflect the position as if the scheme had taken place on 1 April 2005 for comparative purposes. The accounts for Countryside Council for Wales show this effect as discontinued operations. Assets with a net book value of £104,085 and debtors with a net book value of £13,912 were transferred. No consideration took place in respect of these transfers.

The funding of the rail franchise with Arriva Trains Wales was transferred to the National Assembly for Wales on 1 April 2006. There were no movements to the balance sheet as a result, but the operating cost effect for the prior year has been adjusted for comparative purposes.

Student Loans for Wales a part of the Department for Education and Skills, was transferred to the National Assembly from July 2006. In accordance with HM Treasury instructions the merger became effective from 1 April 2006. The merger was completed in accordance with the merger accounting principles set out in the Financial Reporting Standard number 6.

The change in accounting treatment from Contingent Liabilities to Provisions for the Welsh Risk Pool has resulted in a prior year adjustment.

The Welsh Development Agency and the National Council for Education and Training for Wales had subsidiary companies consolidated into their accounts. These companies are now subsidiary companies of the National Assembly for Wales, requiring a prior year adjustment of its consolidated account for comparative purposes.

The Design Commission for Wales, a subsidiary company is for the first time included in the consolidated resource account. In line with accounting standards, a corresponding prior year adjustment has been made.

The prior year figures disclosed in the Net Operating Cost Statement, Balance Sheet, Cash Flow and supporting notes have been restated to take account of the mergers, transfers and Risk Pool changes. The net effect on the financial statements, as reported in the Statement of Recognised Gains and Losses, is a £762,902 increase in taxpayers' equity. The main financial effects are outlined below:

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

Operating Cost re-statement Core account	Year ended 31 March 2006		
	NAW £000	Prior year adjustment £000	NAW restated £000
PROGRAMME COSTS			
Expenditure	12,140,679	141,296	12,281,975
Income			
Non EU Income	(855,743)	(19,768)	(875,511)
EU Income	(462,617)	(1,887)	(464,504)
Net Programme Costs	10,822,319	119,641	10,941,960
ADMINISTRATION COSTS			
Staff Costs	154,699	71,338	226,037
Assembly Parliamentary Services (APS) Staff Costs	4,277	-	4,277
Other Administration Costs	72,466	40,532	112,998
APS Other Administration Costs	16,578	-	16,578
Gross Administration Costs	248,020	111,870	359,890
Administration Income	(6,228)	(110)	(6,338)
APS Income	(122)	-	(122)
Net Administration Cost	241,670	111,760	353,430
Corporation tax	-	494	494
NET OPERATING COST	11,063,989	231,895	11,295,884
Balance sheet restatement Core account	As at 31 March 2006		
	NAW £000	Prior year adjustments £000	NAW re-stated £000
Fixed Assets			
Intangible Assets	-	154	154
Tangible Assets	10,250,607	19,575	10,270,182
Investments	1,347,680	893,874	2,241,554
AM's Pension Scheme Surplus	33	-	33
	11,598,320	913,603	12,511,923
Current Assets			
Stocks	8,604	271,020	279,624
Debtors due within one year	256,208	10,571	266,779
Short term investment funds	-	-	-
Cash at bank and in hand	5,094	54,515	59,609
	269,906	336,106	606,012
Debtors due after more than one year	-	68	68
	269,906	336,174	606,080
Creditors: amounts falling due			
Within 1 year	(406,371)	(63,652)	(470,023)
Net Current Liabilities	(136,465)	272,522	136,057
Total Assets less Current Liabilities	11,461,855	1,186,125	12,647,980
Creditors: amounts falling due			
After more than one year	(483)	(1,374)	(1,857)
Provisions for Liabilities and Charges	(10,058)	(384,002)	(394,060)
Pension fund deficits	-	(37,140)	(37,140)
National Loans Fund Loans	(11,875)	-	(11,875)
	11,439,439	763,609	12,203,048
Taxpayers' Equity			
General Fund	7,674,128	789,477	8,463,605
EU Deferred Grant Reserve	8,808	-	8,808
Pension fund reserve	-	(37,140)	(37,140)
Donated Assets	10	-	10
Revaluation Reserve	3,756,493	11,272	3,767,765
	11,439,439	763,609	12,203,048

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

Operating Cost re-statement Consolidated account	Year ended 31 March 2006		
	Consolidated	Prior year adjustment	Consolidated re-stated
	£000	£000	£000
PROGRAMME COSTS			
Expenditure	12,207,065	133,496	12,340,561
Non EU Income	(918,108)	(26,070)	(944,178)
EU Income	(462,617)	(859)	(463,476)
Net Programme Costs	10,826,340	106,567	10,932,907
ADMINISTRATION COSTS			
Staff Costs	156,367	76,025	232,392
Assembly Parliamentary Services (APS) Staff Costs	4,277	-	4,277
Other Administration Costs	72,312	46,362	118,674
APS Other Administration Costs	16,578	-	16,578
Gross Administration Costs	249,534	122,387	371,921
Administration Income	(5,924)	(111)	(6,035)
APS Income	(122)	-	(122)
Net Administration Cost	243,488	122,276	365,764
Corporation tax	-	516	516
NET OPERATING COST	11,069,828	229,359	11,299,187

Balance sheet restatement Consolidated account	As at 31 March 2006		
	Consolidated	Prior year adjustments	Consolidated re-stated
	£000	£000	£000
Fixed Assets			
Intangible Assets	39	154	193
Tangible Assets	10,424,734	19,716	10,444,450
Investments	1,343,965	886,839	2,230,804
AM's Pension Scheme Surplus	33	-	33
	11,768,771	906,709	12,675,480
Current Assets			
Stocks	9,315	271,020	280,335
Debtors due within one year	339,485	(17,895)	321,590
Short term investment funds	-	41,666	41,666
Cash at bank and in hand	18,072	70,722	88,794
	366,872	365,513	732,385
Debtors due after more than one year	-	45,863	45,863
	366,872	411,376	778,248
Creditors: amounts falling due			
Within 1 year	(663,725)	(85,753)	(749,478)
Net Current Liabilities	(296,853)	325,623	28,770
Total Assets less Current Liabilities	11,471,918	1,232,332	12,704,250
Creditors: amounts falling due			
After more than one year	(1,263)	(44,612)	(45,875)
Provisions for Liabilities and Charges	(91,867)	(387,828)	(479,695)
Pension fund deficits	-	(36,990)	(36,990)
National Loans Fund Loans	(11,875)	-	(11,875)
	11,366,913	762,902	12,129,815
Taxpayers' Equity			
General Fund	7,484,488	788,620	8,273,108
EU Deferred Grant Reserve	8,808	-	8,808
Pension fund reserve	-	(36,990)	(36,990)
Donated Assets	4,919	-	4,919
Revaluation Reserve	3,868,698	11,272	3,879,970
	11,366,913	762,902	12,129,815

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Tir Gofal/Cymen Scheme

The restatements above for the prior year include £26,743,000 in respect of the Tir Gofal/Cymen scheme. The comparative amount for 2006-07 is the Countryside Council for Wales figures up to 16 October 2007 of £14,206,000 shown as discontinued operations in their accounts. The remainder of the year is shown within the National Assembly for Wales programme costs for the Department of Environment, Planning and Countryside and administration costs.

	To 16 October 2007 £000	2005-06 £000
EXPENDITURE		
Tir Cymen scheme	363	1,351
Tir Gofal scheme	12,301	23,147
Staff costs and Council Members remuneration	1,363	2,221
Depreciation	52	24
Transfers to National Assembly for Wales	127	-
	14,206	26,743

38. Costs of separating the National Assembly for Wales

The Government of Wales Act 2006 has replaced the current structure of the Assembly with a legally separate governmental body (the Welsh Assembly Government) and legislature (the National Assembly for Wales). Additional costs incurred in implementing the separation in 2006-07 were £1,794,487(2005-06: £117,000). These costs relate to IT costs £1,256,729 and additional direct staff costs £537,758.

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

39. Heritage Assets

In accordance with the National Assembly for Wales's accounting policy a number of non operational heritage assets have not been valued for inclusion in the Balance Sheet. These assets are managed by two departments in the National Assembly for Wales: Cadw; and the Royal Commission for Ancient and Historic Monuments in Wales (RCAHMW).

Cadw is the National Assembly's historic environment service and discharges the National Assembly for Wales's statutory responsibilities relating to the historic environment. Its mission is to protect, conserve and to promote an appreciation of the built heritage of Wales. It defines built heritage as 'the physical remains of people's activities within the Welsh landscape' and these remains include a large variety of sites, monuments, architectural ruins and historic buildings.

There are currently 129 monuments in the guardianship of the National Assembly for Wales, only 10 of which are roofed buildings. These monuments include:-

- Castles and Medieval Houses;
- Religious sites;
- Roman sites;
- Post medieval sites and Industrial sites; and
- Prehistoric sites.

Of these the Castles and Town Walls built by King Edward I in Gwynedd and the Blaenavon Industrial Landscape are listed as World Heritage Sites.

A full list and information on all the sites in the guardianship of the National Assembly for Wales can be found on the Cadw website: www.cadw.wales.gov.uk

The RCAHMW has a national role to provide for the survey and recording of ancient and historical monuments and constructions connected with, or illustrative of, the contemporary culture, civilisation and conditions of the life of the people in Wales from the earliest times (including the ancient and historical monuments and constructions in, on or under, the sea bed within the United Kingdom territorial sea adjacent to Wales) by compiling, maintaining and curating the National Monuments Record of Wales (NMRW).

The NMRW comprises information gathered from RCAHM survey programmes and from donations of material from other organisations and private individuals. Currently the heritage assets comprise of over 1.25 million photographs, over 70,000 plans and drawings and 50,000 historic maps in addition to thousands of surveys and reports.

Further details can be found in Coflein, an online interactive mapping and database for the NMRW which can be found at www.rcahms.org.uk

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

40. Pensions

Following the mergers and transfers that took place throughout the year, employees transferred on pre-existing terms and conditions including pensions. Employees of the National Assembly for Wales may belong to a pre-transfer scheme unless they have opted to transfer to the National Assembly for Wales' terms and conditions. The material scheme disclosures are shown below.

40a. Principal Civil Service Pension Scheme

The Principal Civil Service Pension scheme covers the following employees:

pre-merger National Assembly for Wales staff;
new staff to the National Assembly for Wales;
former National Council for Education and Training for Wales staff;
former Qualifications, Curriculum and Assessment Authority for Wales staff;
some former Tir Gofal staff

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the National Assembly for Wales is not advised of its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £26,046,537 were payable to the PCSPS (2005-06: £23,800,626) at one of four rates in the range 17.1 to 25.5 per cent (2005-06: 16.2 to 24.6 per cent) of pensionable pay, based on salary bands. Rates for 2006-07 will be in the range 17.1 to 25.5 per cent. Employer contributions are to be reviewed every four years following a full scheme valuation by the Scheme Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £185,983 (2005-06: £93,783) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable earnings. Employers also match employee contributions up to 3 per cent of earnings (which are included in the pension figures in Note 2). In addition, employer contributions of £7,941 (2005-06: £6,357), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2005-06: £7,324). Contributions prepaid at the date were nil (2005-06: nil).

5 individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £10,816.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

40b. Former Welsh Development Agency Employees

Former Welsh Development Agency and Finance Wales PLC employees transferred to the National Assembly for Wales on 1 April 2006 but remain on their existing terms and conditions and pension arrangements, until new arrangements are agreed.

The Agency participated 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 was carried out at 31 March 2004 and the principal assumptions used by the independent qualified actuaries in updating the latest valuations of the fund for FRS 17 purposes, together with the funding position in respect of the Agency are shown.

The agreed employer's contribution rate was 17.9% of pensionable earnings.

Main financial assumptions used

	At 31 March 2007	At 31 March 2006	At 31 March 2005
Rate of increase in Salaries	4.7%	4.0%	4.0%
Rate of increase in pensions in payment	3.2%	2.5%	2.5%
Rate of increase to deferred pensions	3.2%	2.5%	-
Discount rate	5.3%	5.4%	6.1%
Inflation assumption	3.2%	2.5%	2.5%

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2007	Value at 31 March 2007	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006
		£000		£000
Equities	7.7	1,062,120	7.3	1,006,980
Property	6.7	-	6.3	230
Government bonds	4.7	153,800	4.3	150,870
Corporate bonds	5.3	18,770	4.9	21,690
Other	5.6	71,410	4.6	47,760
Total	7.2	1,306,100	6.8	1,227,530

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Funding position

	2006-07	2005-06
	£000	£000
Share of assets	84,240	78,130
Estimated funded liabilities	(135,720)	(105,650)
Estimated unfunded liabilities	(11,840)	(9,620)
Surplus/(deficit)	(63,320)	(37,140)

Analysis of the amount charged to operating cost

	2006-07	2005-06
	£000	£000
Current service cost	3,650	4,650
Past service cost	970	1,650
Total operating charge	4,620	6,300

Analysis of the amount credited to other finance income

	2006-07	2005-06
	£000	£000
Expected return on pension scheme assets	5,300	4,400
Interest on pension scheme Liabilities	(6,260)	(6,470)
Net return	(960)	(2,070)

Analysis of amount recognised in the statement of recognised gains and losses

	2006-07	2005-06
	£000	£000
Actual return less expected return on pension scheme assets	(1,720)	11,540
Experience gains and losses arising on the scheme liabilities	(400)	-
Changes in assumptions underlying the present value of the scheme liabilities	(24,120)	(9,390)
Actuarial gain/(loss) recognised in SRGL	(26,240)	2,150

Movement in surplus during the year

	2006-07	2005-06
	£000	£000
Deficit in scheme at beginning of the year	(37,140)	(37,640)
Movement in year:		
Current service cost	(3,650)	(4,650)
Contributions	5,640	6,770
Past service costs	(970)	(1,650)
Other finance income	(960)	(2,070)
Actuarial gain	(26,240)	2,100
Surplus/(deficit) at the end of the year	(63,320)	(37,140)

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

History of experience gains and losses

	2006-07	2005-06
Difference between the expected and actual return on scheme assets		
▪ Amount (£000)	(1,720)	11,540
▪ Percentage of scheme assets	-2.0%	14.20%
Experience gains and losses on scheme liabilities		
▪ Amount (£000)	(400)	-
▪ Percentage of the present value of scheme liabilities	-0.3%	0.00%
Change in assumptions		
▪ Amount (£000)	(24,120)	(9,390)
▪ Percentage of the present value of scheme liabilities	-16.3%	7.92%
Total amount recognised in statement of recognised gains and losses		
▪ Amount (£000)	(26,240)	2,150
▪ Percentage of the present value of scheme liabilities	-17.8%	1.81%

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

40c. Former Wales Tourist Board employees

Wales Tourist Board employees transferred to the National Assembly for Wales on 1 April 2006 but remain on their existing terms and conditions and pension arrangements, until new arrangements are agreed.

The Board was a participant in the British Tourist Boards' Pension Scheme providing pension benefits and life assurance for all permanent staff. It is a funded defined benefit scheme based upon final pensionable pay. The assets are held by the Pension Scheme under a cash accumulation contract with the Prudential Assurance Company Limited.

The scheme is a multi-employer defined benefit scheme including other tourist boards where the employers' contributions are affected by a surplus or deficit in the scheme, but each employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. As a consequence the Board has accounted for its contributions to the scheme as if it were a defined contributions scheme in accordance with Non-Departmental Public Body guidance.

The Pension Scheme Actuary has performed an interim valuation for the purposes of the transitional disclosures. This was based upon membership data at 1 April 2006, updated to 31 March 2007.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases to salaries and pension in payment. It was assumed for the interim valuation that investment returns in the long term would be 7.1% per annum; that salary increases would average 3.3% per annum; and that pensions would increase in payment at 3.3% per annum.

The 2007 interim valuation showed that the value of the scheme's assets was £186.4 million and that the actuarial value of those assets represented 102.9% of the benefits that had accrued to members at that date, after allowing for expected future increases in earnings.

During the year the National Assembly for Wales contribution to the scheme was 4.8% of pensionable salaries (2005/2006: 2.9% of pensionable salaries). The National Assembly for Wales contributions in the year amounted to £203,000 (2005/2006: £109,000), plus additional contributions of £Nil to secure augmented benefits for staff retiring early (2005/2006: £Nil).

The Actuary has recommended an increase in employers' contributions to the equivalent of 5.4% payable over the 15 years following valuation. This will be phased in as follows:

Year Contribution

2004/2005 1.0%

2005/2006 2.9%

2006/2007 4.8%

2007/2008 onwards 6.7%

A provision has been made in these accounts for the accruing costs of the previous Chairman's future pension entitlement (Note 16).

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

0d. Assembly Members' Pension Scheme

The Assembly Parliamentary Service operates a pension scheme for Assembly Members providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the National Assembly for Wales and are managed by an appointed Investment Manager.

A full actuarial valuation was carried out at 31 March 2005 and updated to 31 March 2006 by a qualified independent actuary.

The major assumptions of the actuary were:

	At 31 March 2007	At 31 March 2006	At 31 March 2005
Rate of increase in Salaries	5.0%	4.0%	4.0%
Rate of increase in pensions in payment	3.4%	2.5%	2.5%
Discount rate	5.4%	5.4%	6.1%
Inflation assumption	3.4%	2.5%	2.5%

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2007	Value at 31 March 2007	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005
		£000		£000		£000
Equities	7.8%	9,114	6.2%	8,073	6.6%	4,880
Bonds	4.9%	452	4.2%	445	4.6%	363
Cash	5.3%	707	4.8%	467	5.1%	723
Total market value of assets		10,273		8,985		5,966
Present value of scheme liabilities		(12,859)		(8,952)		(6,537)
Surplus/deficit in the scheme		(2,586)		33		(571)

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Analysis of the amount charged to operating profit

	2006-07	2005-06
	£000	£000
Current service cost	1,263	941
Past service cost	-	-
Total operating charge	1,263	941

Analysis of the amount credited to other finance income

	2006-07	2005-06
	£000	£000
Expected return on pension scheme assets	571	407
Interest on pension scheme Liabilities	(622)	(427)
Net return	(51)	(20)

Analysis of amount recognised in the statement of recognised gains and losses

	2006-07	2005-06
	£000	£000
Actual return less expected return on pension scheme assets	(171)	1,657
Experience gains and losses arising on the scheme liabilities	(22)	-
Changes in assumptions underlying the present value of the scheme liabilities	(1,862)	(853)
Actuarial (loss)/gain recognised in SRGL	(2,055)	804

Movement in surplus during the year

	2006-07	2005-06
	£000	£000
Surplus/Deficit in scheme at beginning of the year	33	(571)
Movement in year:		
Current service cost	(1,263)	(941)
Contributions	750	761
Past service costs	-	-
Other finance income	(51)	(20)
Actuarial gain (loss)	(2055)	804
Surplus/(deficit) at the end of the year	(2,586)	33

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

History of experience gains and losses

	2006-07	2005-06	2004-05
Difference between the expected and actual return on scheme assets			
▪ Amount (£000)	(171)	1,657	423
▪ Percentage of scheme assets	(2%)	18%	7%
Experience gains and losses on scheme liabilities			
▪ Amount (£000)	(22)	-	-
▪ Percentage of the present value of scheme liabilities	-	-	-
Total amount recognised in statement of recognised gains and losses			
▪ Amount (£000)	(2,055)	804	423
▪ Percentage of the present value of scheme liabilities	(16%)	9%	6%

Further information on the Assembly Members' Pension Scheme can be found in the annual report and accounts for the scheme for the year ending 31 March 2007.

Report of the Auditor General for Wales on the 2006-07 Consolidated Resource Accounts

In this report, and without qualifying my audit opinion, I set out a range of matters relating to the merger into the Welsh Assembly Government on 1 April 2006 of four Assembly Sponsored Public Bodies, and comment on other important financial management developments within the Welsh Assembly Government.

My report is set out in four parts, addressing:

1. The project management of the merger process;
2. Continuity of business during and after the merger itself;
3. The impact of the merger on the production and publication of the 2006-07 accounts; and
4. The Welsh Assembly Government's plans to transform its financial management and reporting arrangements.

Part 1: Assembly Government officials put in place robust project management arrangements in response to the First Minister's announcements, with the full involvement of the Assembly sponsored bodies earmarked for merger

The Assembly Government ensured that prior to the merger the National Assembly for Wales had considered and passed all of the legislation necessary to enact the changes announced by the First Minister

- 1.1 Following the First Minister's announcements in July and November 2004 that four Assembly Sponsored Public Bodies¹ (ASPBs) were to be merged into the Welsh Assembly Government, robust project management arrangements were established to oversee the merger process.
- 1.2 This was a particularly complex and large-scale reorganisation, involving the transfer of some 1,600 staff from the former ASPBs to the Assembly Government's own employment, together with the wide range of statutory responsibilities, powers and functions previously undertaken by those bodies. A range of project tasks such as the harmonisation of terms and conditions for all staff and the design and implementation of consistent internal control frameworks had to be implemented across the enlarged Assembly Government organisation. In addition, the assimilation of the widely differing business cultures that existed amongst the merging bodies also posed a significant set of challenges for staff and management alike.

¹ From 1 April 2007, such bodies were renamed Assembly Government Sponsored Bodies (AGSBs)

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

1.3 In order for the mergers to take place on 1 April 2006, extensive amendments to existing primary legislation were required, together with the approval of four Statutory Instruments in November 2005. Other enabling mechanisms included:

- National Assembly for Wales approval of the relevant Motions delegating transfer powers to the First Minister;
- Delegations from the First Minister to Welsh Ministers;
- Delegations from the Welsh Ministers to Assembly Government officials; and
- Amendment of the Permanent Secretary's own delegation arrangements (made under section 62(3) of the Government of Wales Act 1998) to reflect the intended post-merger management structures for the new Department for Education, Lifelong Learning and Skills² (DELLS), and the new Department for Enterprise, Innovation and Networks³ (DEIN).

Assembly Government officials put in place a sound project management structure, which played a crucial role in both overseeing and delivering the merger

1.4 The timing of the ASPB mergers meant that Assembly Government officials were able to designate the management of the merger process itself as a core project within their wider internal 'Change Programme', which they had already created in response to *Making the Connections*⁴. The existence of that Change Programme meant that Assembly Government officials considered themselves well placed to take on the challenge of the mergers.

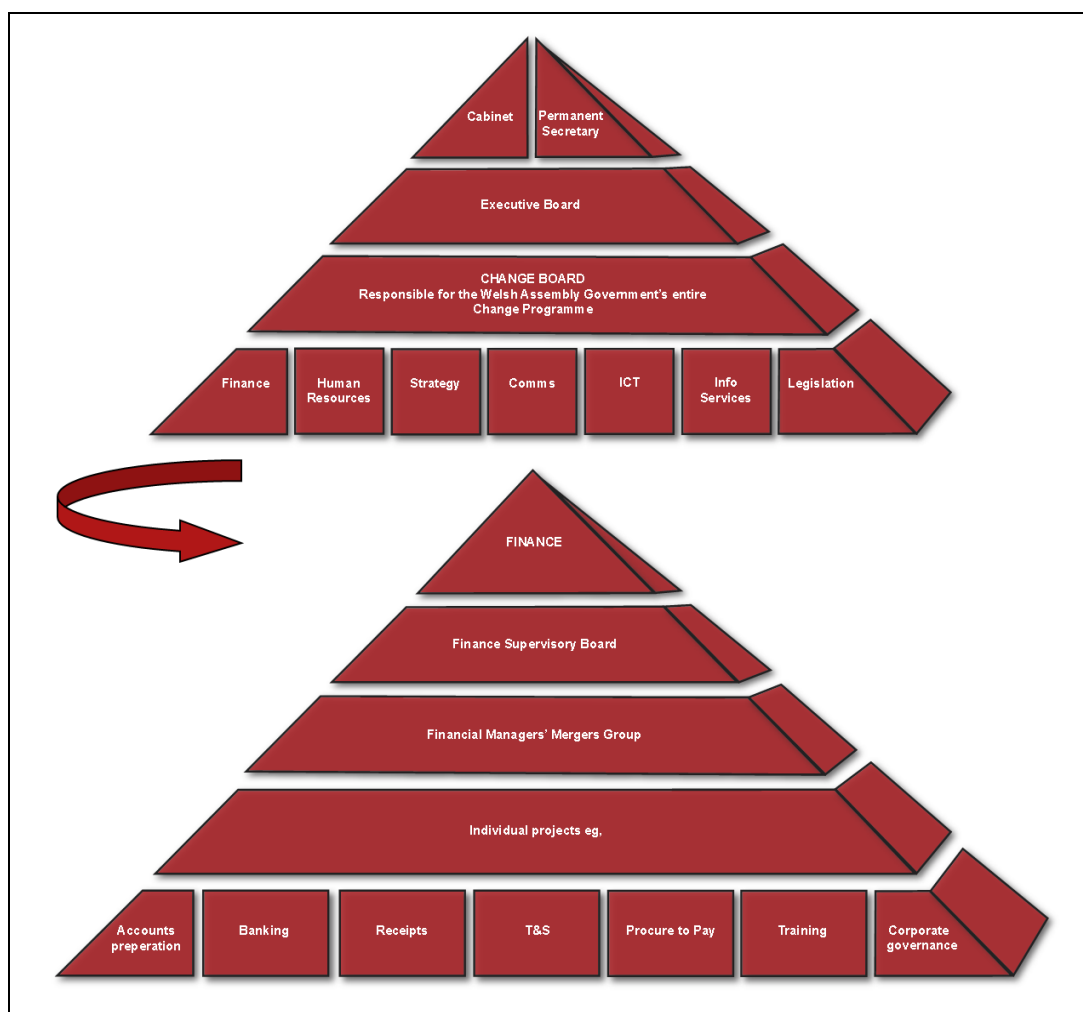
1.5 The **Change Programme Board** (the Board), a sub-committee of the Assembly Government's Executive Board chaired by the Permanent Secretary, was designated as the programme board for the merger process. The Board met monthly from March 2005 and determined that the merger programme would be managed in accordance with the principles outlined by the Office of Government Commerce in '*Managing Successful Programmes: OGC's Best Practice Guide*', with individual projects adopting the PRINCE 2 methodology. The Board set out in its Programme Definition Document the management structure for the project, the accountability arrangements, the responsibilities of individual project teams and how the various inter-dependencies would be managed. Assembly Government officials told me that the complexity of the project management arrangements reflected the nature and scale of the merger process, and drew on lessons learned from previous change programmes elsewhere in the public sector. The Assembly Government's project management structure for the ASPB merger process is set out in Exhibit 1.

² Since renamed as the Department for Culture, Education, Lifelong Learning and Skills (DCELLS)

³ Since renamed as the Department for the Economy and Transport (DE&T)

⁴ *Making the Connections – Delivering better public services in Wales* - National Assembly for Wales, Oct 2004

Exhibit 1 shows the Project Management Structure that supported the ASPB merger process



In addition to the sound structure, the leadership and involvement of the sponsored bodies' senior managers and other officers played an equally important role in the delivery of the merger

- 1.6 Shortly after the First Minister's announcement in July 2004, the Chief Executives of the merging ASPBs, the Assembly Government's Corporate Directors and the trade unions came together to establish the **Merger Working Group**. The Group initially conducted a scoping study to investigate costs and benefits, identify risks, consider the operational structures, and to determine the various strands of project work needed in preparation for the merger. As the overall project progressed, the role of the Group evolved to complement the formal project management structures that Assembly Government officials had put in place.
- 1.7 To oversee the financial management aspects of the merger project, a **Finance Supervisory Board** was created, comprising the Finance Directors of the merging organisations, chaired by the Assembly Government's Principal Finance Officer. The Board met monthly to supervise progress on several individual finance projects, each of

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

which was the responsibility of a discrete project team. These projects included banking, receipts, procure to pay and financial accounts.

1.8 Staff from all of the merging bodies joined each project team, in order that their differing working practices and operational needs could be identified and addressed. Each project manager (all were existing Assembly Government officials) met together fortnightly and reported to the **Financial Managers' Mergers Group**, which dovetailed with the monthly Finance Supervisory Board meetings. This scheduling enabled effective two-way communication between the project managers and the Supervisory Board.

1.9 Similar working arrangements were also in place across the merger project, and created a robust communication network throughout the project management structure. Such a network ensured that the Change Board was able to advise the Executive Board in a complete and timely manner on progress throughout the various stages of the merger project.

In the months leading to the merger, the sponsored bodies put in place robust governance processes that ensured a well-managed handover of responsibilities to the Assembly Government

1.10 The former ASPBs put in place sound governance arrangements that ensured a smooth transition to the enlarged Assembly Government Departments. In doing so, their Audit Committees played an important compliance and due diligence role as part of the handover.

1.11 Good practice was exhibited in particular by the Audit Committee of the former Welsh Development Agency, which prepared a formal 'handover' statement for consideration by the Corporate Governance Committee of the DEIN. That statement described the role, composition, Terms of Reference and function of the Audit Committee. It also contained specific details on various key matters that had been considered during the 2005-06 financial year. The statement concluded by confirming the Committee's satisfaction with the adequacy and effectiveness of the governance, internal control and risk management systems that had operated within the Welsh Development Agency during the 2005-06 financial year.

1.12 Each of the Audit Committees of the merging ASPBs prepared a summary of key governance issues as at the merger date. These summaries were considered in detail by the relevant Assembly Government departmental Corporate Governance Committee at its first meeting following the merger, ensuring strong continuity of governance oversight and scrutiny.

Both pre and post-merger, the Assembly Government strengthened its departmental governance arrangements, helped in part by adopting where appropriate the good practice of the former sponsored bodies.

1.13 The Corporate Governance Work-stream [see Exhibit 1] advised on the construction of appropriate governance structures for the enlarged Assembly Government. These were designed to provide sufficient assurance to the Permanent Secretary (as Principal Accounting Officer), whilst not hampering the effective and efficient conduct of work within the enlarged departments of DELLS and DEIN, each of which was headed by a newly-appointed sub-Accounting Officer.

1.14 The work-stream concluded at an early stage that modification, rather than radical change to existing Assembly Government governance structures would be required.

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

This was because prior to the announcement of the mergers, the Assembly Government's corporate governance arrangements were already evolving to meet the needs of the new departmental sub-Accounting Officers which had been created in April 2005. These arrangements included the establishment of departmental Corporate Governance Committees, which were well placed to take on the roles previously performed by the Audit Committee of each merging ASPB. They also included the issue of a comprehensive Assembly Government Corporate Governance handbook and the post-merger delivery of detailed governance training to appropriate Assembly Government officials.

- 1.15** Each of the merging ASPBs had previously operated in accordance with the Treasury's best-practice guidance on the operation of Audit Committees in the public sector. Each had appointed an independent non-executive member to the position of Chair of the Audit Committee, and adopted a robust approach to constructive challenge of the senior management team.
- 1.16** The Assembly Government has largely replicated these arrangements in its post-merger governance structures and processes. Each department's Corporate Governance Committee, which broadly equates to the Audit Committee within an ASPB, is chaired by an independent person. The respective chairs of the Corporate Governance Committees for DELLS and DEIN have been drawn from the membership of the relevant Ministerial Advisory Panels.
- 1.17** Both the Permanent Secretary's own corporate governance committee and the committees for two of the five Assembly Government departments that had not been directly affected by the merger also operate with an independent external chair. The other three Assembly Government departments have each appointed a senior official from another department to undertake this important role.

Part 2: Assembly Government officials rightly prioritised the need for the continuity of all essential financial services and reporting

Although the merger process placed significant additional demands on the Assembly Government and its sponsored bodies, they planned and delivered the merger while also successfully maintaining their day-to-day operations

- 2.1** I am pleased to report that, during the period immediately before and after the date of the merger, I have observed no evidence that either the Assembly Government itself or the merging ASPBs experienced any widespread reduction in the level of service provided to their external customers and other stakeholders in respect of financial matters.

Assembly Government officials put in place satisfactory arrangements for the post-merger preparation of the 2005-06 accounts of the former ASPBs

- 2.2** At the merger date, responsibility for the preparation and submission for audit of the closing 2005-06 accounts of the merged ASPBs passed from the Accounting Officers of those bodies to the sub-Accounting Officers of the relevant Assembly Government departments. Whilst the accounts preparation and audit processes were more inherently complicated than in previous years, the Assembly Government was able to produce the various sets of draft financial statements for audit on a timely basis and to satisfactory standards.
- 2.3** In each case, the sub-Accounting Officer responsible for the final accounts of the merged ASPB was able to sign those accounts broadly in line with the planned dates agreed with my audit staff. In signing the Statement on Internal Control within each set of accounts, the sub-Accounting Officer was able to derive appropriate assurances over the satisfactory operation of systems of control within the ASPB for the 2005-06 financial year from the reports provided to him by his Corporate Governance Committee. The conclusions in those reports were themselves informed by the issues raised within the formal written statements of the Audit Committees of the former ASPBs.
- 2.4** Staff of the Wales Audit Office completed their audits of the 2005-06 accounts of the merged ASPBs with satisfactory results, and I was therefore able to issue unqualified audit opinions on each of those accounts well within the statutory deadlines for their publication

The Assembly Government terminated on a timely basis most of the financial arrangements that it did not need to retain post-merger, although officials did not fully explore opportunities to negotiate cost reductions for all ongoing contracts

- 2.5** Wherever possible (for example, in the provision of anti-virus software), the Assembly Government terminated all Information Communications Technology (ICT) contracts held by the merged ASPBs prior to the merger, replacing them with services procured under its own 'Merlin' ICT outsourcing arrangement.
- 2.6** My staff also found in some cases that officials had negotiated lower maintenance charges for the various ICT services that needed to be accessed by staff of the former ASPBs beyond the merger date. These reductions in costs were generally secured by

paying for fewer user licences for those systems, as they were expected to be operated only for information archiving purposes.

- 2.7** Where other transferred ICT service contracts could not be replaced by the Merlin arrangements, my staff found that there had been few changes to the contract terms. Indeed, Assembly Government officials did not explore opportunities to negotiate such cost reductions, as departmental budget allocations equal to the cost of the existing contracts had already been made. Instead, they intend to address the continuing appropriateness of these contracts (which have a total value of some £1.5 million) as each comes up for renewal, in order to establish whether any efficiency savings can be made.

While Assembly Government officials had put sound arrangements in place to manage the merger process, it did give rise to some significant, although isolated, impacts on financial management

- 2.8** In certain specific aspects of the post-merger financial management arrangements operated by Assembly Government officials, I have identified some areas where adverse impacts arose.

The post-merger integration of the various ASPBs' payrolls into the Assembly Government's own payroll system proved more problematic than expected

- 2.9** Responsibility for salary and other payments to the former staff of both ACCAC and ELWa was transferred to the Assembly Government's payroll system on 1 April 2006. For the WDA and WTB staff, the services of the former WDA's external payroll provider were deliberately retained for a further six months following the merger, in order that a phased migration might reduce the level of potential risks of error.
- 2.10** The Assembly Government's Internal Audit Service (IAS) carried out a review of the ACCAC and ELWa payroll integration processes to review the controls over the migration of payroll data from the two bodies and to ensure that no duplicate payments were made. Based on this work, IAS was able to provide only limited assurance to the Permanent Secretary that the payroll integration process had been managed effectively. This was because Assembly Government officials had not retained the results of their payroll migration testing, and also the lack of a complete centrally-held audit trail which meant that overall reconciliations could not be performed by the internal audit team.
- 2.11** Phase two of the payroll integration involved approximately 1,400 employees of the former WDA and WTB. Assembly Government officials implemented the IAS recommendations from the ACCAC and ELWa payroll migration review, and undertook this element of the integration in a more robust manner. Identified good practice included:
- the use of an electronic data migration process, rather than the manual data transfer that was adopted for the ACCAC and ELWa payroll information;
 - the participation of a representative of the external payroll service provider on the project team that planned and managed the phase two integration; and
 - the use of a parallel payroll data system to test the integrated payroll arrangements using dummy data before the system went live.
- 2.12** For phase two, IAS provided an enhanced level of assurance that the migration of the former WDA and WTB payrolls had been implemented successfully. However, while IAS found no instances of erroneous payments to Assembly Government staff, it remained unable to confirm for either phase of the payroll project that duplicate or erroneous

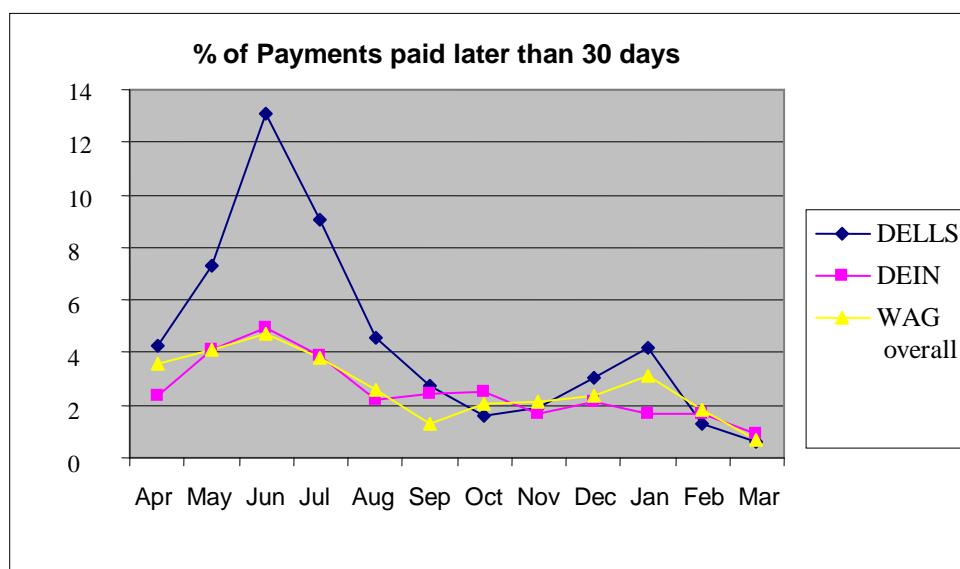
**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

payments could not have arisen. My staff have reviewed the results of the IAS work and discussed their findings with them, and I am accordingly satisfied that any potential under or over-payments that might have occurred would not have given rise to material levels of error in the 2006-07 accounts.

For 2006-07, overall prompt payment performance was maintained above the public-sector benchmark of 95 per cent, although the absorption of ELWa into DELLS created a short-term decline in that department's payment performance in the period following the ASPB mergers

- 2.13** The Late Payment of Commercial Debts (Interest) Act 1998 requires public bodies to pay suppliers' undisputed invoices within 30 days of receipt of goods or service or valid invoice, whichever is the later. The overall performance for the National Assembly for Wales in 2006-07 was 97.4%, as disclosed on page 7 of the accounts accompanying this report.
- 2.14** My staff undertook work to establish whether there had been any significant changes in payment performance as a result of the mergers. They found that, for the six months following the merger, DELLS experienced a significant decline in its prompt payment performance. This was largely due to the absorption of ELWa into DELLS, as that ASPB had only achieved a prompt payment performance of 70 per cent in its final year of existence. My staff also found that, for the same period, DEIN was one of the three poorest performing departments of the Assembly Government against the prompt payment target although, as Exhibit 2 indicates, its performance remained above the 95% target throughout the year.

Exhibit 2 shows the monthly percentage of invoices paid outside the 30 day target during 2006-07 for the two departments created to effect the merger, and that overall Assembly Government performance remained above the 95 per cent prompt payment target throughout the year



- 2.15** On the date of the merger, the Assembly Government introduced its new purchase order and grant-administration systems (known as 'e-purchases' and 'e-grants') on a phased basis in order to streamline its payment arrangements. In doing so Assembly

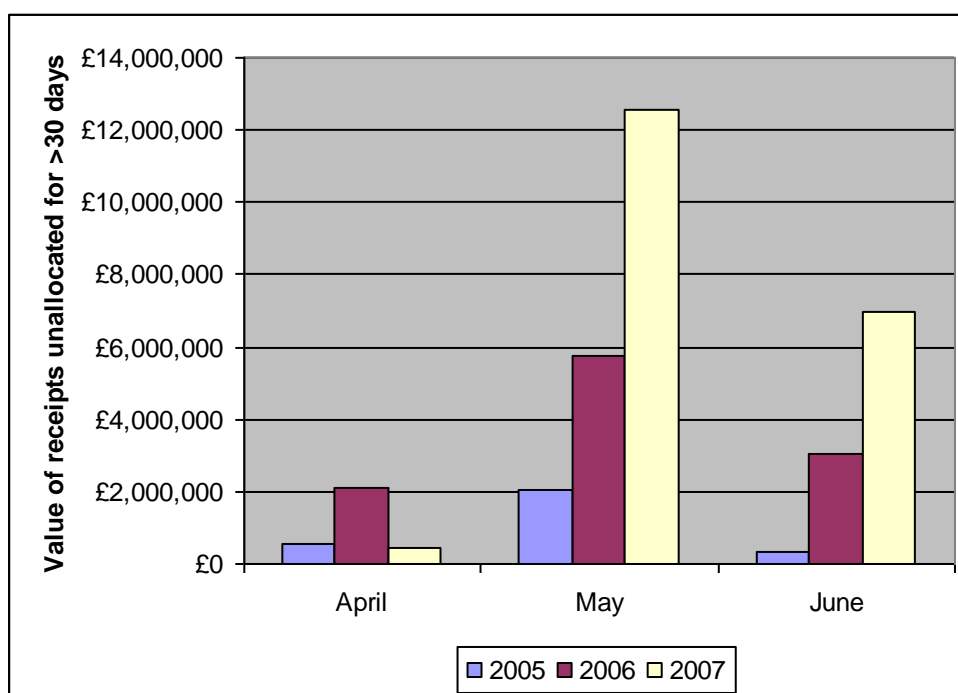
The National Assembly for Wales Consolidated Resource Accounts 2006-2007

Government officials embraced some of the electronic-based working practices of some of the merged ASPBs. Assembly Government officials told my staff that in the first few months following the merger there had been delays in setting up certain internal delegation arrangements within the new systems to allow invoices to be authorised for payment. I note that the Assembly Government's overall prompt payment performance remained above the 95 per cent target throughout the year and exceeded 99 per cent for the month of March 2007.

Since the merger, the significant increase in receipt transaction volumes has led to a decline in the timeliness of their allocation by Assembly Government officials to the relevant department

- 2.16** When the Assembly Government receives cash payments, it is important to allocate them swiftly to the relevant department. If this is not done, management information in each department will be inaccurate and it would even be possible for debt recovery action to be taken against people who had already paid. Following the merger, there were significant delays in allocating payments to departments, mainly because there were many more such payments but also because some of the payments involved more administration than in the previous Assembly Government systems. Exhibit 3 compares the relative performance of the Assembly Government's receipts allocation processes for the first quarters of 2005-06, 2006-07 (the immediate post-merger period) and 2007-08 (the current financial year).

Exhibit 3 shows the value of receipts that took longer than 30 days to be allocated in the first quarter of the financial year for 2005-06, 2006-07 and 2007-08



The Assembly Government's financial reporting arrangements capture many, although not all, of the merger-related costs

- 2.17** Following the First Minister's announcements of the ASPB mergers in 2004, the Assembly Government stated publicly that it had identified a provisional budget of some £11.9 million for costs relating to the merger, and that recurring annual savings of some £10 million would be generated from 2009, once the merger process was completed. The provisional cost estimate (which comprised £4.7 million for 2005-06 and £7.2 million for 2006-07) excluded all redundancy costs, as these could not be assessed at that stage.
- 2.18** The Assembly Government was required to include in its resource accounts the costs of the ASPB mergers and the other inward transfers of functions (including the Wales Youth Agency), to comply with UK accounting standards. Note 35 to the account discloses the merger costs that were either incurred by the ASPBs in the pre-merger period or which were funded from the Assembly Government's Investment Fund Mergers budget. This latter category represents the element of the total merger costs incurred by the Assembly Government that could not be funded from savings elsewhere within departmental running cost budget allocations for the 2005-06 and 2006-07 financial years. No separate recording of costs funded from those budget allocations was made by Assembly Government officials and, in the absence of a detailed time recording system to capture the staff time spent on merger-related activities, it is therefore not possible to identify the total expenditure incurred on the ASPB merger process.
- 2.19** Exhibit 4 summarises by organisation the recorded costs of the merger to date, together with expected future costs as at 31 March 2007, and reconciles this to the total costs reported in Notes 16 and 35 to the 2006-07 accounts. Exhibit 5 then provides an analysis of those total recorded costs by type of expenditure, as this information is not disclosed within the accounts themselves. (The figures in both exhibits are shown in £000's, for consistency with the rounding convention used in the accounts.)

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

Exhibit 4 shows that merger-related costs totalling £10.8 million have been incurred against the original £11.9 million forecast for the ASPB mergers. Total reported costs, including redundancies and the transfer of the Wales Youth Agency into the Assembly Government, amount to £14.5 million

Merged Body	Note 35		Estimate of Future costs - Note 16 £'000	Total £'000
	2005-06 (restated) £'000	2006-07 £'000		
ACCAC	154			154
ELWa	597			597
WDA	938			938
WTB	110			110
NAW consolidated account	3,983	3,244	456	7,683
Culture	-	282	-	282
Health Professions Wales	-	273	-	273
Tir Gofal	-	806	-	806
sub-Total (actual expenditure against budget)	5,782	4,605	456	10,843
add: WDA Redundancy costs	3,297			3,297
add: Transfer of the Wales Youth Agency	-	400	-	400
TOTAL (per 2006-07 accounts)	9,079	5,005	456	14,540

Exhibit 5 provides an analysis by cost category of the merger-related costs reported in Notes 16 and 35 to the 2006-07 accounts

Type of Expenditure:	Note 35		Estimate of Future costs Note 16 £'000	Total £'000
	2005-06 (restated) £'000	2006-07 £'000		
Redundancy	3,297	-	-	3,297
Other staff costs	1,082	1,743	-	2,825
IT costs	3,182	756	-	3,938
Accommodation	624	1,105	456	2,185
Consultancy	402	982	-	1,384
Training	384	115	-	499
Other	108	304	-	412
Total	9,079	5,005	456	14,540

The Assembly Government is yet to realise the totality of its planned merger-related savings, but achieved savings to date are ahead of the original forecasts

- 2.20** The identification and delivery of savings arising from the merger is being led by each of the relevant departments and is overseen by an Efficiencies Project Board comprising Assembly Government Directors. Assembly Government officials anticipate that the Organisational Development projects currently underway in the four departments which absorbed the vast majority of the ex-ASPB staff will, when completed, deliver the majority of the planned savings. Of the estimated annual savings of £10 million, some £1.5 million was scheduled to be realised by 31 March 2007. Assembly Government officials have calculated that the actual savings achieved by that date totalled some £3.5 million in real terms. I intend to continue to monitor the progress being reported against the £10 million target and to examine the final out-turn at the conclusion of the process in 2010.

Assembly Government officials reasonably decided to minimise the operational and financial risks of the merger by maintaining their existing financial systems in the short term

- 2.21** Given the relatively short pre-merger window, Assembly Government officials decided not to take the immediate opportunity afforded by the merger process to introduce a new finance system to meet their existing and future business needs.
- 2.22** Instead, Assembly Government officials reasonably opted to continue to use their own existing financial systems in the post-merger period, thereby intending to reduce the risk of any loss of service to both internal users and external stakeholders. This allowed them to gain a fuller understanding of the financial and management-information needs of their enlarged business operations in the post-merger period, and then to determine whether a new finance system would be required in the medium-term.

By making only minimal changes to core systems at the merger date, Assembly Government officials did not take the opportunity to overhaul their financial coding structure

- 2.23** Prior to the merger, Assembly Government officials decided not to overhaul the financial coding structure of their main accounting system, in order for it to accommodate more effectively the coding structures operated by the merging ASPBs. Assembly Government officials informed my staff that while they had recognised that a change of this nature would be beneficial and indeed desirable, from a risk management perspective they determined that the Finance Division did not have sufficient capacity to undertake the changes successfully and to time; particularly as many Finance staff were already committed to merger-related matters.
- 2.24** The lack of a revised and compatible accounting structure created the need for a manual alignment, post-merger, of the various coding structures. Rather than using an automated transfer process to migrate the balances and transactions of the former ASPBs into the Assembly Government's financial records, a largely manual transfer process was used, which proved to be less efficient and more prone to error.
- 2.25** Assembly Government officials also opted to undertake the initial data migration on a summarised basis, rather than at the level of individual transactions (as is more usual in such cases in both the public and private sector). For example, the total debtor balances of each ASPB as at 31 March 2006 were transferred into the Assembly Government's

ledgers, but they did not transfer the individual debtor balances until several months later. This meant that some former ASPB staff had to access multiple systems during that period to obtain meaningful management information on pre-merger transactions.

Staff from the former ASPBs experienced a reduction in the usefulness of the management information available to them

- 2.26** The merger project did consider the management information needs of the enlarged Assembly Government and, in particular, the provision of appropriate training for incoming staff on the Assembly Government's own systems and business processes. The introduction of the new e-purchases and e-grants systems was an example of this. However, the project did not give detailed consideration to the nature and quality of management information that would be required within the Assembly Government following the merger, and whether the simple continuation of its existing arrangements would meet the business needs of staff of the merged ASPBs.
- 2.27** During the course of their audit work on the 2006-07 accounts, my staff established that many former ASPB staff had experienced a deterioration in the overall utility of the management information available to them, compared with their previous systems and reporting arrangements. As a consequence, some staff of the former ASPBs had developed a range of local data capture and reporting arrangements to supplement the Assembly Government's core business information systems. For example, the DEIN continued the use of a separate and self-contained reporting package (that had previously been operated by the WDA) to provide certain key business information that was deemed critical to managing its operations and budgets.
- 2.28** One significant issue for former staff of the WDA and WTB was that they were long-accustomed to using finance systems that operated on a commitment-recording basis. Whilst the Assembly Government's main accounting system is capable of recording transactions on this basis, it is not currently configured to be used in that way; although its new e-purchases and e-grants systems were acquired to enhance the functionality of the main accounting system. One effect of this was that the financial information produced by the main accounting system was perceived by some former WDA and WTB staff to be of less relevance and usefulness to them.
- 2.29** The use of local arrangements to address shortcomings in the core financial system, such as the purchase of additional systems or use of local spreadsheets, is in my view invariably inefficient from an organisation-wide perspective. Such arrangements increase the inherent risk of errors and inconsistencies; give rise to the need for further control checks and staff effort in ensuring consistency between systems that rarely talk to each other; and fail to address the underlying weaknesses that are perceived to exist in the reporting capabilities of the core system.
- 2.30** In Part 4 of this report, I comment on the actions that Assembly Government officials are taking to transform their financial management arrangements.

Part 3: Production of the 2006-07 consolidated resource account was finalised earlier than for 2005-06, although slippages in the merger accounting process meant that the ambitious project timetable was not fully achieved

Assembly Government officials overran their planned timetable significantly in collating the various assets and liabilities inherited from the former sponsored bodies into a restated Opening Balance Sheet as at 1 April 2006

- 3.1** The changes brought about by the First Minister's announcement of the ASPB mergers were required to be accounted for in the 2006-07 accounts that accompany this report. This complex process involved the review and harmonisation of accounting policies, and also the restatement of balance sheet figures and adjustments to the previously-reported results of the National Assembly for Wales for the 2005-06 financial year. All this was required in order to produce an Opening Balance Sheet as at 1 April 2006 that reflected the accounting consequences of the merger on that date of the four Assembly Sponsored Public Bodies and the transfer of certain other functions into the Welsh Assembly Government.
- 3.2** The Assembly Government's Resource Accounts Team rightly identified the construction of the Opening Balance Sheet as a project in its own right, to be completed in advance of the production of the 2006-07 annual accounts. This required the identification and reconciliation of all of the former ASPBs' individual assets and liabilities, together with gaining a sound understanding of their previous accounting practices and records. (Many of the business transaction types generated by the activities of the former ASPBs were new to Assembly Government finance staff, and they had to establish how to account correctly for each of these.) The original intention was for this work to be performed in autumn 2006, and for the Opening Balance Sheet then to be audited and agreed by December 2006.
- 3.3** The planned milestone dates for this activity and other key accounts preparation tasks, together with the actual dates of completion for each, are shown in Exhibit 6.

**The National Assembly for Wales
Consolidated Resource Accounts 2006-2007**

Exhibit 6: Planned and achieved milestone dates for the merger accounting and 2006-07 accounts production processes

Activity	Planned date for completion	Actual date completed	Comments
Transfer of the accounting records of the merged ASPBs to the Assembly Government's financial systems	October 2006	October 2006	
Closure of the various ASPB bank accounts	12 October 2006	November 2006 & January 2007	ELWa, WDA, ACCAC = Nov 2006; WTB = Jan 2007
Construction of the Opening Balance Sheet as at 1 April 2006 and the provision of supporting information for audit	October 2006 (for both Phases I and II)	Phase I = January 2007 Phase II = 23 August 2007	Phase I = Merged ASPBs Phase II = other merged activities and functions
Month 9 'soft close' process	February 2007	n/a	Process incomplete and only partially successful
Completion of 31 March 2007 bank reconciliation	1 June 2007	14 August 2007	The 28 February 2007 bank reconciliation was completed on 16 July 2007
Production of 2006-07 draft 'core' account for audit	18 June 2007	19 June 2007	The 19 June draft was not wholly complete. A complete draft was submitted for audit on 3 August 2007
Production of 2006-07 draft consolidated account for audit	3 August 2007	17 August 2007	The 17 August draft also had some omissions. A complete draft was submitted for audit on 10 September 2007
Signature of the audited 2006-07 consolidated accounts by the Principal Accounting Officer	31 August 2007	24 September 2007	The accounts were signed five days earlier than in the previous year
Submission to HM Treasury of the 2006-07 Whole of Government Accounts data return for the National Assembly for Wales	28 September 2007	27 September 2007	The Treasury deadline of 30 September 2007 was achieved

3.4 Assembly Government officials planned to complete the transfer of balances and transactions in sufficient time for my staff to audit the 1 April 2006 opening balance sheet by October 2006. However, they were unable to meet this original timetable. Whilst the balances of the merging ASPBs were migrated, as planned, onto to the Assembly Government's own accounting system in October 2006, and were reviewed by the Wales Audit Office shortly afterwards, the more detailed transaction-level work was

The National Assembly for Wales Consolidated Resource Accounts 2006-2007

still being collated by Assembly Government officials and its size and complexity meant that it was not fully available until the very end of 2006.

- 3.5** The revised timetable agreed by the Assembly Government's Resource Accounting Project Board stated that the remainder of the opening balance sheet material would be presented for audit in early January 2007, with an agreed deadline for audit completion of 16 February 2007. However, after analysing in greater detail the range of changes that would need to be reflected in the amended opening balance sheet, the Assembly Government's Resource Accounts Team decided instead to conduct this work in two discrete phases:
- Phase I - accounting for the merger of the four ASPBs; and
 - Phase II - the implementation of accounting and disclosure changes resulting from the remaining transfers of functions to the Assembly Government. These included the Welsh arm of the Learning and Skills Development Agency, the Countryside Council for Wales's Tir Gofal Scheme, and the functions previously carried out by Health Professions Wales.

- 3.6** Despite separating the work into these two phases, Assembly Government officials were unable to complete it within the revised timescales. To help alleviate the knock-on effect of these slippages on the audit timetable, they further divided the submission for audit of the Phase I work into two sub-elements; dealing firstly with WDA and ELWa, and then ACCAC and the WTB.

The delay in producing the 1 April 2006 opening balance sheet, together with the poor quality of the data received, led Assembly Government officials to truncate an important component of their planned process for preparing the 2006-07 consolidated resource account

- 3.7** Assembly Government officials and the Wales Audit Office considered jointly how problems identified during the 2005-06 accounts preparation and audit process could be addressed in 2006-07, to ensure that the Assembly Government could meet the increasingly demanding timetable required by the Treasury for faster closing of the accounts of public bodies.
- 3.8** One of the agreed actions was the completion by Assembly Government officials of a 'soft close' at Month 9 (that is, as at 31 December 2006) of certain balance sheet items with the aim of reducing the volume of work to be undertaken in preparing the accounts at the financial year-end.
- 3.9** Such 'soft close' exercises are commonplace amongst organisations which produce timely year-end financial accounts, and their use is becomingly increasingly widespread amongst Whitehall departments, the vast majority of whom publish their annual accounts before the Parliamentary summer recess. Final signing of the 2006-07 accounts by the Principal Accounting Officer was therefore scheduled for 31 August 2007, a full month ahead of the date achieved in the previous year.
- 3.10** This was the first time that a 'soft close' process on this scale has been attempted by the Welsh Assembly Government. It is not a straightforward process and it was likely from the outset that there would be some difficulties. However, the degree of slippage in the timetable for the Opening Balance Sheet reported above, and the generally poor quality of returns received from individual Assembly Government departments in respect of their Month 9 balances led eventually to a truncation of the 'soft close' project for the 2006-07

accounts. Despite these setbacks the 'soft close' process did help inform the preparation of the annual consolidated resource account.

A significant backlog in the timely completion of monthly bank reconciliations was allowed to develop during the 2006-07 financial year

- 3.11** A further impact of the increased level and complexity of financial work arising from the merger was on the timely completion of the Assembly Government's monthly bank reconciliations. Such reconciliations are a key financial control for any organisation, as they involve agreeing the balance reported by the bank at the month end with the body's own financial ledgers and cashbook. It is standard practice for bank reconciliations to be completed and reviewed very shortly after each month end as a minimum.
- 3.12** I note with considerable concern that the monthly reconciliations of the Assembly Government's own bank accounts were allowed to fall behind during the 2006-07 financial year.
- 3.13** Unsurprisingly, when Assembly Government officials finally started to tackle the backlog of reconciliations that had built up, they found this to be a larger and more complex task than they had anticipated as some items proved hard to trace. The 28 February 2007 reconciliation was not completed until 16 July 2007, and the crucial year-end reconciliation as at 31 March 2007 was only finalised on 14 August 2007. The backlog of outstanding monthly reconciliations for the 2007-08 financial year was finally cleared in September 2007, and since then Assembly Government officials have been checking transactions against bank statements on a daily basis.
- 3.14** One further consequence of the delays in finalising the year-end bank reconciliation was that Assembly Government officials were only able to establish in August 2007 that the Assembly Government had not drawn down the full balance of Exchequer funds that it required for the 2006-07 financial year. Instead, it had inadvertently used other, non-Exchequer, sources of income to cover elements of its Exchequer-funded operations. Because of the requirement to establish the 1 April 2007 opening balance for the new Welsh Consolidated Fund (which is not permitted to maintain overdrawn balances), Assembly Government officials have recently had to obtain special Treasury consent for a further notional draw-down of £685,000 of Exchequer funds, in order to establish an opening £nil balance on the Welsh Consolidated Fund.

These problems meant that Assembly Government officials missed their ambitious target for publishing the 2006-07 consolidated resource account, although the account was still finalised earlier than for 2005-06 and by the Treasury's deadline

- 3.15** It is clear that the significant delays in the compilation of the 1 April 2006 opening balance sheet, coupled with the only partial completion of the Month 9 'soft close' project, have had a significant impact on the overall process for the preparation and audit of the 2006-07 Consolidated Resource Accounts. I also consider that the failure of Assembly Government officials to finalise bank reconciliations in a timely manner over many months represents a significant and unacceptable breach in a key internal financial control. In my view, this should have been identified and addressed more promptly by senior management when the problem first arose, with additional staff resources deployed if necessary to make good the backlog. I note that the Permanent Secretary initiated urgent corrective action as soon as he became personally aware of this problem on 23 July 2007.

The National Assembly for Wales
Consolidated Resource Accounts 2006-2007

- 3.16** It is disappointing that the intention of Assembly Government officials to bring forward the timetable for production and audit of the 2006-07 accounts by one month has only been partially achieved. My staff have worked closely with Assembly Government officials over recent months to try to make up the lost ground in the accounts production and audit process and it is pleasing that, as a result of intense and sustained efforts by both parties, the cumulative impact of the delays and difficulties recorded in this report was reduced to a slippage of just three weeks in the overall project timetable. I also note that I have been able to give an unqualified audit opinion on the 2006-07 accounts, and that the statutory and Treasury deadlines for submission of audited information have been met.
- 3.17** It will be important that Assembly Government officials conduct a thorough 'lessons learned' exercise this autumn, in readiness for the 2007-08 accounts process, and my staff stand ready to assist in that review.

Part 4: The Assembly Government has initiated an ambitious transformation of its financial management arrangements. Whilst it is too early to assess the success of this complex programme, continued top-level ownership of the change process will be essential if the planned benefits are to be realised.

Assembly Government officials have rightly recognised the need to change fundamentally their financial management arrangements in order to respond to a wide range of business-critical challenges, including the consequences of the ASPB mergers

4.1 In light of their experiences of the ASPB mergers, Assembly Government officials have recognised the need for fundamental change to their financial management arrangements, if they are to successfully meet the wide-ranging challenges and pressures that they face in the near future. The Assembly Government faces a wide range of business-critical challenges, and I comment below on some of the most important:

- The establishment of the new **Finance Committee** of the National Assembly for Wales is expected to lead to a significant increase in detailed scrutiny of the Assembly Government's financial management arrangements. The provision of briefing and other information for that Committee will require that management information be produced on a more timely, consistent and reliable basis;
- The Government of Wales Act 2006 also introduces a tightening of the Assembly Government's internal **budgeting timetables**, requiring in turn a flexible and effective finance system to support that increasingly complex process;
- The **creation of the Welsh Consolidated Fund** from 1 April 2007 necessitates considerable improvements in the Assembly Government's cash management and forecasting arrangements. This is particularly important since, unlike under the previous banking arrangements that were operated for the Assembly Government by the Paymaster General's Office, it is not possible to incur an overdraft on the Consolidated Fund;
- Whilst the initial stages of the ASPB mergers have been completed, there remains much further work to **integrate the financial management functions**. Assembly Government officials have identified a range of problems caused by weaknesses in their existing systems and processes, and I have commented on some of these in this report;
- As with all public sector bodies, there is a requirement from HM Treasury that statutory annual accounts should be produced to an earlier timetable. Whilst the Assembly Government has made some progress in this area over recent years, there is empirical evidence that most Whitehall departments are considerably more advanced in their '**faster closing**' procedures. For most of these bodies (as in much of the private sector), the year-end accounts process has become a natural extension of robust and timely in-year reporting of financial results. By contrast, the Assembly Government's

current accounts preparation process requires a substantial and manually-intensive single annual exercise to obtain, review and present information for audit. This is a major barrier to achieving improvements in performance and it is therefore important that these weaknesses are addressed; and

- Within the Welsh public sector context, the successful delivery by the Assembly Government of some of the key goals identified in the **Beecham Review** is reliant in large part on an improved financial management environment.

4.2 It is probable that a significant failure in any of these key areas would have serious operational consequences for the Assembly Government, and also create the potential risk of reputational damage.

The Assembly Government has embarked on a complex and ambitious Change Programme intended to transform its financial management arrangements, modernise its business processes and support wide-ranging improvements in service delivery

4.3 In July 2007, the Strategy Sub-Committee of the Permanent Secretary's Management Board approved the Outline Business Case for a 'Corporate Finance Change Programme'. This complex and ambitious £9 million transformation programme originated from an internal review commissioned by the Director of Finance shortly after she took up post in 2006. That review examined whether the Assembly Government's existing finance function was best placed to meet its future challenges.

4.4 The underlying aim of the Change Programme is to '*create a reliable and future-proof technological platform to meet the ongoing organisational requirements over the next ten years*⁵. I fully support the Change Programme's objectives, which are intended to:

- provide consistent, timely and reliable financial information for departmental and corporate senior management teams, staff and external stakeholders, both on a monthly basis and at the year-end;
- standardise financial business processes and activities across the entire Assembly Government in order to deliver the most effective and efficient service;
- automate processes and minimise duplication;
- deliver an integrated finance system on a resource accounting basis (thereby meeting HM Treasury's accounting and reporting requirements); and
- deliver these changes in the most effective, value for money way.

4.5 I intend to provide appropriate support to the Assembly Government, as its independent external auditor, in helping to ensure the success of this important project. A senior member of the Wales Audit Office will attend meetings of the Project Board as an observer, and we will draw on our experience of similar previous projects at other public sector bodies in identifying and disseminating shared learning and good practice with the members of the project team.

⁵ *Corporate Finance Change Programme* paper CPP (07) presented to Corporate Performance Planning Committee meeting, 3 April 2007

It is too early to assess whether the Change Programme will deliver all of the planned benefits, but robust risk management and continuing top-level ownership of the change process will be vital ingredients in its success.

4.6 I am encouraged by what I have seen so far in terms of strong senior management and stakeholder support within the Assembly Government for the aims of the Change Programme, and by the results of the independent Gateway Review that has recently been undertaken.

4.7 To help ensure successful implementation of the Change Programme, I consider it vital that the Assembly Government should:

- continue to exercise robust risk management in respect of the Change Programme and its constituent sub-projects;
- retain senior management and stakeholder support;
- instil across its various departments a stronger appreciation of the importance of robust financial management, ensuring that this is fully embedded into decision-making processes; and
- foster an organisation-wide desire for success and for acceptance of the cultural changes that a programme of this size and complexity will inevitably require.

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25 October 2007

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