



Llywodraeth Cymru  
Welsh Government

# Welsh Government Consolidated Accounts 2016-2017



## Overview from the Permanent Secretary



Shan Morgan

I am pleased to be presenting my first consolidated accounts on behalf of the Welsh Government. I took up the role of Permanent Secretary towards the end of 2016-17 and I am grateful to my predecessor, Sir Derek Jones, for his sound financial management across the reporting period. I would like to thank Derek more generally for the solid foundations that I can build on as Permanent Secretary.

The last financial year set in motion a significant period of change. It began with the formation of the new Cabinet in May 2016 followed by the publication of 'Taking Wales Forward', the programme for government for this Assembly term. The First Minister also published 'Securing Wales' Future', a white paper jointly developed with Plaid Cymru, setting out the issues that are vital for Wales as the UK moves to leave the European Union. Work continued to embed the Well-being of Future Generations Act at the heart of government. There were historic changes to the devolved landscape in Wales too including the Wales Act 2017 receiving Royal Assent in January, bringing important new powers. The Welsh Government's legislative programme for the fifth Assembly commenced in May 2016 introducing wide ranging Bills relating to the abolition of the right to buy, new

taxes and public health. You will see more detail on these areas in the annual report along with a specific focus on the timetable for devolved taxes.

I have spent my first months listening to and getting to know the staff in the organisation and have been impressed by the talent, professionalism and commitment I have seen and by the real pride that colleagues take in serving their communities and stakeholders. The scale and speed of the changes ahead are unprecedented and my top priority is to make sure that the civil service of the Welsh Government is properly equipped to support Ministers and help them deliver their objectives. I have introduced an initiative to future-proof our organisation to meet the challenges ahead by building a strong, skilled and sustainable workforce, capable of responding effectively to changing priorities.

I am very grateful to colleagues inside and outside the Welsh Government for the warm welcome they have given me. I am delighted to have the opportunity to contribute to the future of Wales by ensuring that public resources are used to the best possible effect and deliver services that make a real difference to people's lives.

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## **Government of Wales Act 2006**

Accounts of the Welsh Government are prepared pursuant to Section 131 of the Government of Wales Act 2006 for the year to 31 March 2017, together with the Certificate and Report of the Auditor General for Wales thereon.

Laid before the Assembly on 31 August 2017 pursuant to the Government of Wales Act Section 131

# The Welsh Government at a glance

## Overview

The Welsh Government is the devolved government for Wales. With an annual budget of around £14bn net of £1.8bn income, the Government works across key areas of public life such as health, education, the economy, agriculture and the environment.

It was formally created in 2007 under the Government of Wales Act, which established a division of functions between the National Assembly for Wales (the legislature) and the Welsh Assembly Government (the executive). The Wales Act 2014 has since legally changed the name to the Welsh Government. The Welsh devolution settlement has evolved dramatically since the establishment of the Assembly in 1999, and will

continue to expand through new powers which will come on stream next year.

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

## Taking Wales Forward

Following the formation of the new Government the document Taking Wales Forward was published in September 2016 outlining the Government's key priorities for delivering improvements in the economy and public services, aimed at making a difference for everyone, at every stage in their lives. It focuses on enabling people to live healthy and fulfilled lives and make the most of every opportunity, and supporting them when help is needed most.

To drive forward delivery a national strategy is being developed, to set out in more detail the interdependent actions that will be taken to develop innovative solutions to the challenges faced and help maximise the impact of public funds. The strategy has been prepared in the context of the Well-being of Future Generations Act, and this will inform its implementation.

## The Cabinet



From May 2016, the Cabinet and Ministers are:

Rt. Hon Carwyn Jones	First Minister
Jane Hutt	Leader of the House and Chief Whip
Mark Drakeford	Cabinet Secretary for Finance and Local Government
Vaughan Gething	Cabinet Secretary for Health, Well-being and Sport
Lesley Griffiths	Cabinet Secretary for Environment and Rural Affairs
Carl Sargeant	Cabinet Secretary for Communities and Children
Ken Skates	Cabinet Secretary for Economy and Infrastructure
Kirsty Williams	Cabinet Secretary for Education
Alun Davies	Minister for Lifelong Learning and Welsh Language
Rebecca Evans	Minister for Social Services and Public Health
Julie James	Minister for Skills and Science
Mick Antoniw	Counsel General



# What the Welsh Government spends

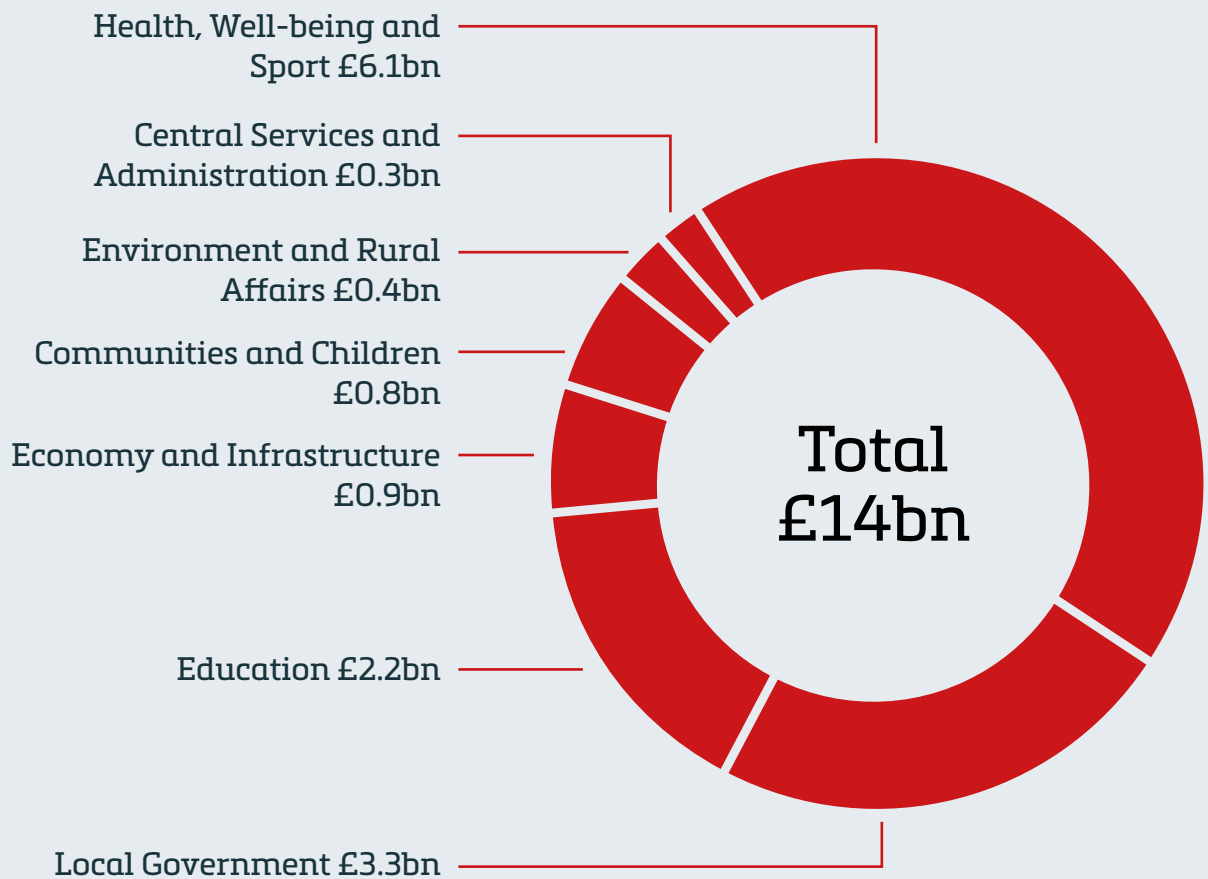
The level of funding available for devolved public expenditure in Wales is set through UK Government Spending Reviews. This is a Treasury-led process to allocate resources across all

UK Government Departments and Devolved Administrations. Adjustments to the level of funding for Wales – negative or positive – are determined through the Barnett Formula.

## Expenditure in 2016-17

Expenditure is around £14.0bn which is net of £1.8bn income. The majority of this income is funding from National Insurance funds for Health, Well-being and Sport. A further £0.4bn is funding from the European Union.

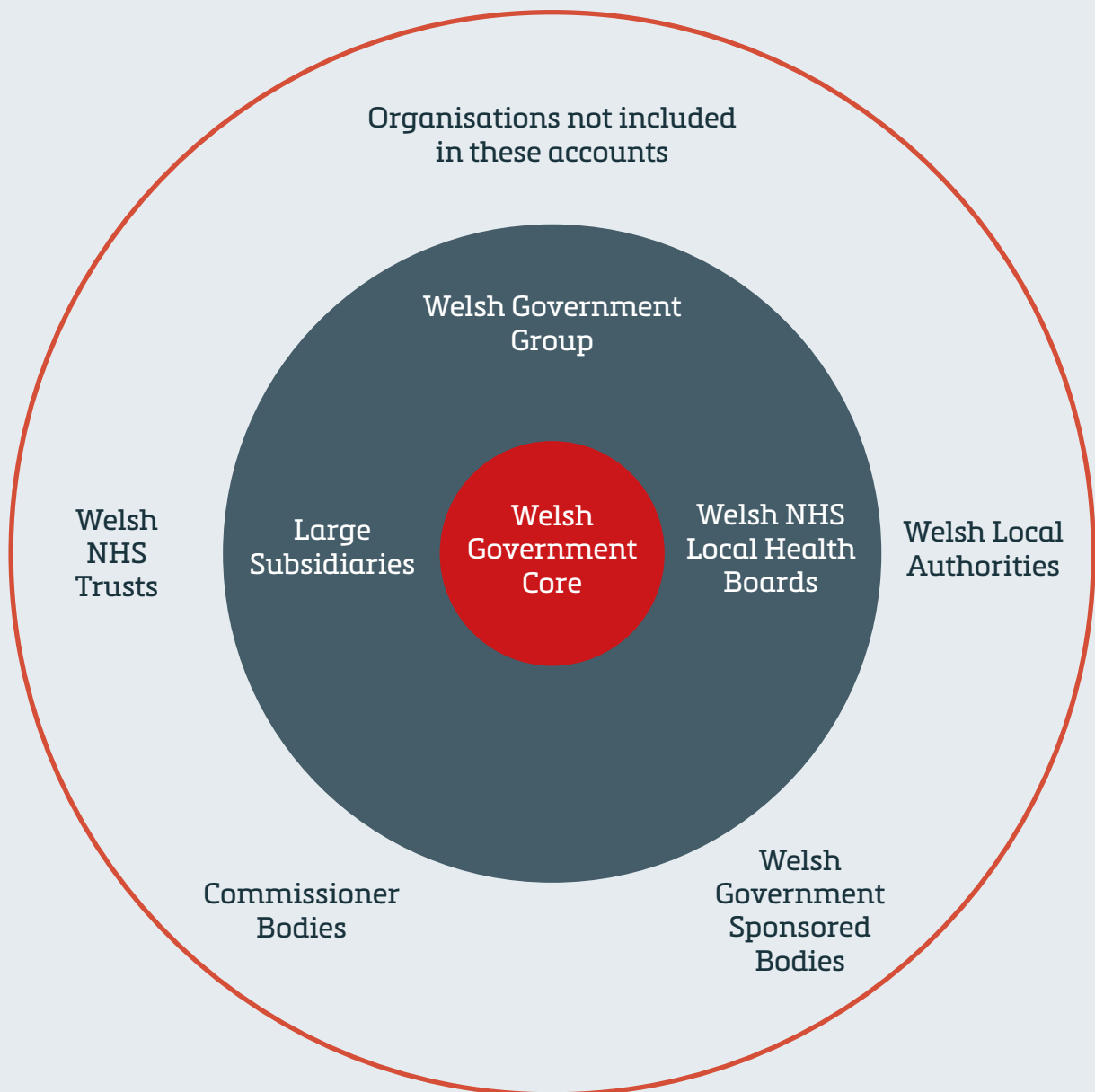
The net expenditure as authorised by Welsh Ministers is shown below:



# Welsh Government Accounting Boundaries 2016-17

Given the extent of devolved responsibilities, the Welsh Government Accounts for 2016-17 cover the Welsh Government core (the Welsh Government itself) and the Welsh Government Group (consolidation with Welsh NHS Local Health Boards, Finance Wales, Regeneration Investment

Fund for Wales LLP, WG Holdco Ltd and Careers Choices). Whilst the Welsh Government funds the Welsh NHS Trusts, Welsh Government Sponsored Bodies and Commissioner Bodies they are not consolidated into the Welsh Government accounts.



## Welsh Government balance sheet

Described in the Accounts as the 'Statement of Financial Position' the Welsh Government's Balance Sheet contains three major items:

- Property, plant and equipment – consisting primarily of the current valuation of the Road Network asset (£16bn), and the Local Health Boards property portfolio (£3bn)
- Financial assets – primarily the current valuation of the Welsh Student Loans book (£3bn).

### Welsh Government Road Network

As the highway authority for trunk roads and motorways in Wales, the Welsh Government is directly responsible for the maintenance operation and management of this £16bn asset. There are over 75 miles of motorway and over 1,000 miles of trunk road.

Key components of the network include bridges, tunnels, retaining walls and gantries. There are over 3,700 such structures on the motorway and trunk road network across Wales with an estimated value of approximately £4.6bn. There are five road tunnels on the network across Wales.





## Local Health Boards property portfolio

NHS infrastructure includes land and buildings, but also other significant physical assets including vehicles, medical equipment, Information Management Technology equipment and infrastructure. The estate has a combined asset value of £3bn and covers all healthcare settings including acute, primary and community care.

The NHS has 26 main hospital sites across Wales which are operated by the local health boards although there are around 70 other smaller hospital sites. The Local Health Board estate is mainly made up of buildings valued at over £2.1bn, land £0.4bn and assets under construction £0.2bn.



The estate has a combined asset value of £3bn

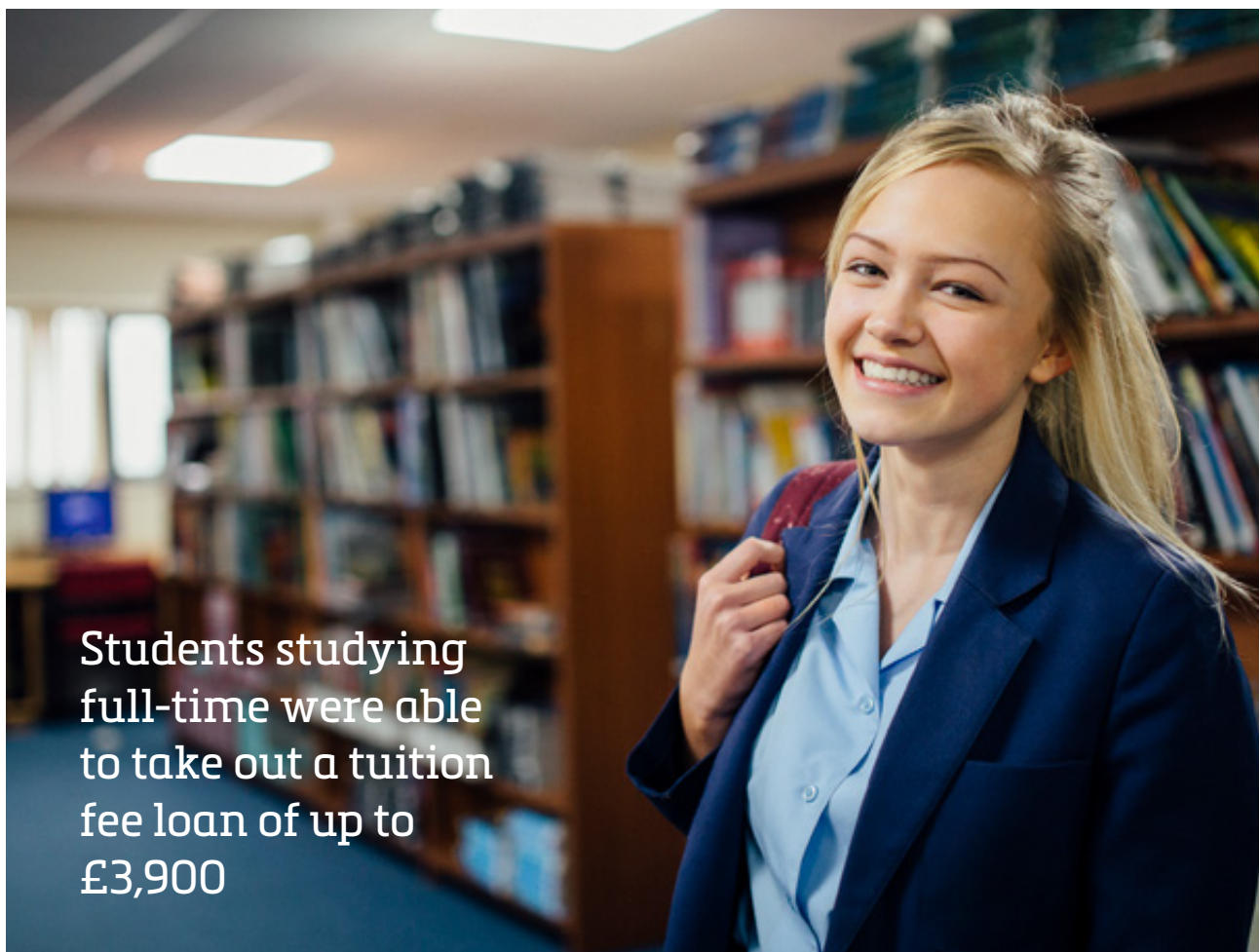
## Student Loan Book

Welsh Ministers have a legal duty to provide financial support to students from Wales, studying higher education courses in the UK. Costs are demand-led and can be volatile. For budgeting purposes, the cost of providing student loans is estimated using a forecasting model. Sensitivity analysis is undertaken to measure the impact of changes in key modelling assumptions (for example, student numbers).

A range of student support loans were available to eligible Welsh students in the academic year 2016-17. Students studying full-time were able to take out a tuition fee loan of up to £3,900.

A loan for living costs was also available to students, the amount of which depends on a student's household income (i.e. is means-tested). The maximum amounts for loans for living costs also depended on where a student was living while they studied.

In addition to repayable student loans, eligible students also received a range of other grants, which do not have to be repaid. These included a tuition fee grant and Welsh Government Learning Grant for full-time students, and a course grant for part-time students. Targeted grants for students with a dependant child or adult, travel grants and Disabled Students' Allowances were also available.



## Financial administration

Highlights of financial administration during the reporting period include:



**102,810**

invoices paid with a total value of **£783m** and **96%** were paid within **10** days.



**395** grants schemes administered totalling

**£13.8bn**

Ranked **6th** out of 22 Government bodies for Cash Management.

**42%** of Welsh Government procurement spend in the financial year 2016-2017 was with Welsh companies.





## European transition



Following the Referendum on the UK's membership of the European Union (EU) in June 2016, a dedicated European Transition team was put in place to lead the development of strategic policy, and co-ordinate Welsh Government's work on leaving the EU. The team has worked closely with the existing Welsh Government team in Brussels and across relevant policy departments.

A European Advisory Group was set up to advise the Welsh Government on the implications for Wales of the UK's exit from the EU and how challenges can be overcome, and opportunities taken, to secure a prosperous future and maintain a continued, positive relationship for Wales with Europe. The group, chaired by the Cabinet Secretary for Finance and Local Government, draws on a wealth of experience, comprising business leaders, politicians, trade unions and others with European expertise.

A Cabinet Sub-Committee on European Transition was established to shape and drive the Welsh Government's work, give strategic direction and ensure the best outcome is secured for the people of Wales as the UK leaves the European Union.

A new forum for engagement between the UK Government and the devolved governments was established as part of the existing Joint Ministerial Committee (JMC) architecture to discuss requirements for future relationships with the EU in preparation for negotiations.

The Welsh Government has remained pro-active in responding to the challenges and in January published a White Paper, 'Securing Wales' Future: Transition from the European Union to a new relationship with Europe' jointly with Plaid Cymru. This clearly sets out our strategic interests and priorities and offers a viable position for the UK as it enters into exit negotiations with the EU.

On 15 June 2017 a further policy document 'Brexit and Devolution' was published setting out a blueprint for a major constitutional renewal of the UK to meet the challenges Brexit poses for the devolved nations and the future governance of the UK as a whole.

As negotiations start with the EU, the Welsh Government will continue to play an active role to seek to secure the best outcome for the people of Wales.

## The devolved landscape in Wales

### The Wales Act 2017

On 31 January 2017 the Wales Act received Royal Assent. This brought to an end an 18 month period of negotiation between the Welsh and UK Governments on the content of the Bill, which itself was preceded by the UK Government's St David's Day process.

The Wales Act 2017 marks a significant change to the devolved landscape in Wales, most notably the move to a reserved powers model of devolution. Currently, the Assembly can only legislate in relation to the 21 conferred subjects listed in the Government of Wales Act 2006. Under the reserved powers model, the Assembly will instead be able to legislate in relation to

any subject not expressly reserved to the UK Parliament. This brings the Welsh devolution settlement into line with the systems of devolution in Scotland and Northern Ireland.

As well as amending the legislative competence of the Assembly, the Wales Act 2017 also enhances the executive powers of the Welsh Ministers in a number of policy areas. These include new powers over elections, water, transport and energy as well as the creation of a new office of the President of Welsh Tribunals. Further executive powers are likely to follow in 2018 via a series of transfer of functions orders which will accompany the coming into force of the principal Wales Act provisions.

### Assembly Bill receiving Royal Assent in 2016-17

#### Tax Collection and Management (Wales) Act 2016 – received Royal Assent on 25 April 2016

This Act establishes the Welsh Revenue Authority (WRA) whose general functions (exercised on behalf of the Crown) are the collection and management of devolved taxes. The Act provides for the membership and governance of the WRA. The Act also establishes a legal framework for the collection and management of devolved

taxes, including provisions relating to tax returns; enquiries and assessments by the WRA; the WRA's powers of investigations and penalties; reviews and appeals of the WRA decisions; and the conferral of criminal enforcement powers.



## The 2016-17 Legislative Programme

Following the election in May 2016 six Bills were introduced into the Assembly by the Welsh Government.

### **Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017**

This Act establishes a devolved tax, land transaction tax, to replace stamp duty land tax in Wales and received Royal Assent on 24 May 2017. The Act establishes the key principles of the tax, including the types of transactions liable to the tax, the procedure which will be used to set and vary tax rates and bands, the reliefs which

may apply to a transaction, and the calculation to be used to determine the amount of tax charged on a transaction. The Act also confers powers on the WRA to tackle devolved tax avoidance through the introduction of a general anti-avoidance rule.

### **The Abolition of the Right to Buy and Related Rights (Wales) Bill**

The Abolition of the Right to Buy and Related Rights (Wales) Bill was introduced to the Assembly in March 2017. It will end the Right to Buy and Right to Acquire in Wales. These rights can be exercised currently by certain social tenants and allow such tenants to purchase their homes from

their landlord at a discount. Ending the right to buy will protect social housing stock for future generations and encourage new social housing stock to be built without the risk of it being sold within a short time frame.



## **The Additional Learning Needs and Education Tribunal (Wales) Bill**

The Additional Learning Needs and Education Tribunal (Wales) Bill was introduced in December 2016. For children and young people aged 0 to 25, the Bill seeks to ensure equity of rights and improved transition between settings; establishes a single statutory plan – the individual development plan; creates new

statutory roles within health and education to ensure collaboration and integration and that learners' needs are met; and is underpinned by a strengthened code, with mandatory requirements and statutory guidance to support the primary legislation.

## **The Landfill Disposals Tax (Wales) Bill**

This Bill was passed by the Assembly on 27 June 2017 and establishes a devolved tax, landfill disposals tax, to replace existing landfill tax in Wales. The Bill sets out the circumstances in which a disposal of material will be subject to landfill disposals tax and sets out a number

of exemptions and reliefs, penalties and other matters of detail. Landfill disposals tax will apply to unauthorised disposals as well as to disposals made at authorised landfill sites, which is different from the existing UK landfill tax.

## **The Trade Union (Wales) Bill**

The Trade Union (Wales) Bill was introduced in the Assembly in January 2017 and was passed by the Assembly on 18 July 2017. The Bill reverses the effect of provisions in the Trade Union Act 2016 that have an adverse effect on the social partnership approach to managing public services in Wales. It disapplies sections in the 2016

Act, in so far as they apply to devolved Welsh authorities, which impose a 40% ballot threshold for industrial action, requirements on publication and restriction of facility time, and conditions on the payment of trade union subscription fees by way of a deduction from an employee's wages.

## **The Public Health (Wales) Act**

The Public Health (Wales) Act was passed by the Assembly on 16 May 2017, and received Royal Assent on 3 July. It will improve and protect the health and well-being of the nation. Specifically, it protects children from second hand smoke and intimate piercing; enables the better planning of public toilet provision; and provides for the

safe regulation of special procedures such as tattooing, piercing, acupuncture and electrolysis. The Act also requires public bodies to assess how their decisions affect people's mental and physical health; and makes the planning of pharmacy services more responsive to the needs of communities.

## Devolved taxes in Wales

Over the next two years responsibility for some of the tax revenue raised in Wales is passing to the Welsh Government and the National Assembly, which means in future they will be able to vary taxes, thereby influencing the level of funding available for public services.

Two years ago Wales took full financial responsibility for the money raised by non-

domestic rates (NDR). Until then there had been an element of pooling of NDR revenue with England but, from 2015, the money raised by NDR in Wales is what has been spent in Wales.

Including NDR and council tax, by April 2019 some £5bn for Welsh public services will be raised from taxes set in Wales.

## Wales Act 2014

The new fiscal powers have been provided by the Wales Act 2014. In April 2018, two fully-devolved Welsh taxes will be introduced - land transaction tax (replacing stamp duty land tax) and landfill disposals tax (replacing landfill tax). They will be the first “made-in-Wales” taxes for almost 800 years. Primary legislation has been passed by the National Assembly to implement the taxes.

The Welsh taxes will be managed by the Welsh Revenue Authority (WRA), the first non-Ministerial department to be created by the Welsh Government. Legislation to establish the WRA was included in the Tax Collection and Management (Wales) Act 2016, and the organisation will be in place in autumn 2017.

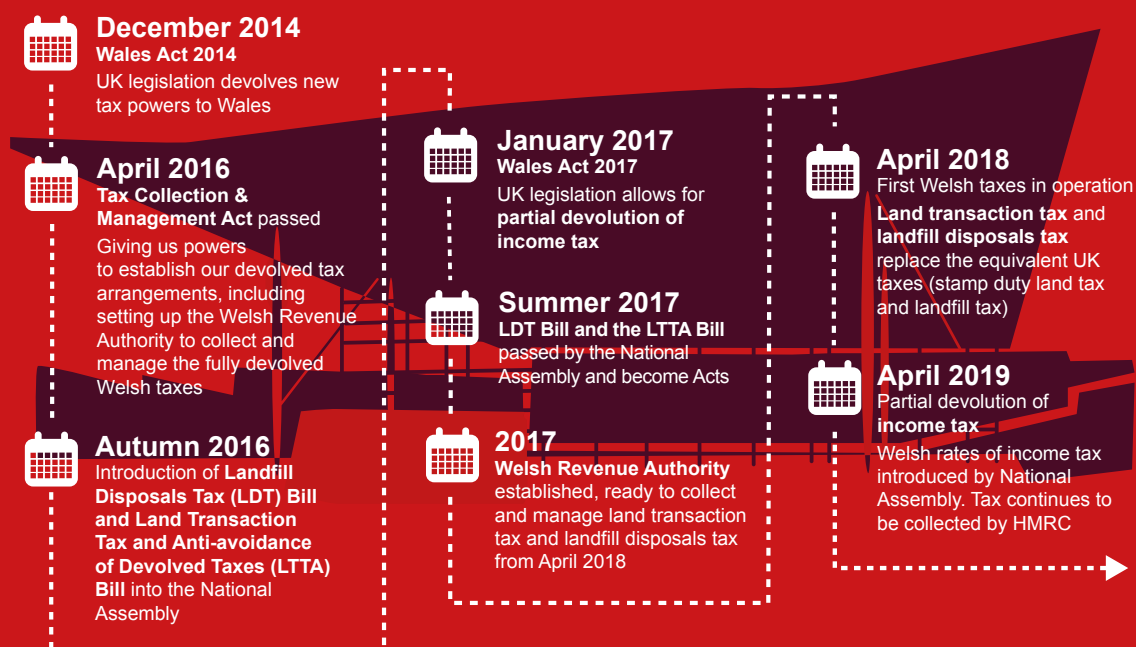
The introduction of Welsh Rates of Income Tax, in April 2019, will potentially have the widest impact on Welsh citizens. Income tax has been partially devolved to Wales, so while the National Assembly will be responsible for setting the annual rates to be paid by Welsh taxpayers on non-savings non-dividend income, the UK Government will retain responsibility for many other aspects –

including setting the personal allowance and the income thresholds which the tax rates will apply to, and for the taxation of income from savings and dividends. The tax will continue to be collected by HMRC. The Welsh Government has committed to not increase the rates of income tax during the current National Assembly.

The Wales Act 2014 also provides for the creation of new Welsh taxes – either additional UK taxes devolved to Wales or taxes newly created by the National Assembly. Any new tax would need to meet the challenging assessment criteria set by HM Treasury, and would need to be agreed by both the Assembly and the Houses of Parliament.

Alongside the tax powers, the Wales Act 2014 has also provided new borrowing powers for the Welsh Government. Following recent negotiations with the UK Government, these currently stand at £1bn of capital borrowing to invest in infrastructure and £500m of revenue borrowing to cover cash-flow fluctuations (now that part of the Welsh Government’s spending will be dependent on tax revenue).

## Tax devolution timetable



## Fiscal Framework

When the tax devolution measures are implemented, roughly 80% of the Welsh Government's spending will continue to be decided by the block grant. The negotiations on how the block grant should be reduced in return for the tax revenue being retained in Wales were therefore extremely important. The methodology for "off-setting" the grant is a complex process, requiring calculation of how the various tax revenues are expected to change in the future. However an approach was agreed by the Welsh Government and UK Government in December 2016 as part of a Fiscal Framework.

A key element of the framework involves reform of the Barnett formula, as applied to Wales.

The Fiscal Framework will implement the solution recommended by the Holtham Commission - a funding floor. This will mean that increases in spending on policy areas devolved to Wales will be multiplied by a factor of 115%, reflecting the

characteristics of the population. Initially, while relative funding in Wales is temporarily above that level, the multiplier will be 105%. This agreement will deliver extra resources for Welsh public services and addresses the issue of fair funding for the long term, thereby enabling the Welsh Government to agree to the partial devolution of income tax.

The Fiscal Framework also included agreement on a higher capital borrowing limit for Wales (increasing from £500m under the Wales Act 2014 to £1 bn); a Wales Reserve (to enable the Welsh Government to store unspent resources from tax receipts and the block grant - effectively a 'savings account'); and a role for bodies independent of government to contribute expert advice with regard to any future disagreement between the Welsh and UK Governments on the implementation of the Fiscal Framework.

## Composition of Welsh Government funding following tax devolution

### Tax policy for Wales

In June 2017, the Cabinet Secretary for Finance and Local Government issued a tax policy framework underpinned by five principles. Welsh taxes should:

- raise revenue to fund public services as fairly as possible
- deliver Welsh Government policy objectives, in particular supporting jobs and growth
- be clear, stable and simple
- be developed through collaboration and involvement

- contribute directly to the Well-being of Future Generations Act goal of creating a more equal Wales.

The Cabinet Secretary will be leading discussions with citizens, businesses and other stakeholders over the coming months as tax policy is further refined, including input from a programme of work to gather evidence to inform longer term thinking. The overall goal is to deliver a clear, stable, progressive and robust Welsh tax regime.

## £16bn per year



### 2018–19

With fully devolved taxes

92%

Funding from UK Government



0%

Welsh rates of income tax



6%

Non-domestic rates



2%

Fully devolved taxes\*



Overall capital borrowing limit **£0.5bn**

### 2019–20

After partial devolution of income tax

79%

Funding from UK Government



13%

Welsh rates of income tax



6%

Non-domestic rates



2%

Fully devolved taxes\*



Overall capital borrowing limit **£1bn**

\*Land transaction tax and landfill disposals tax



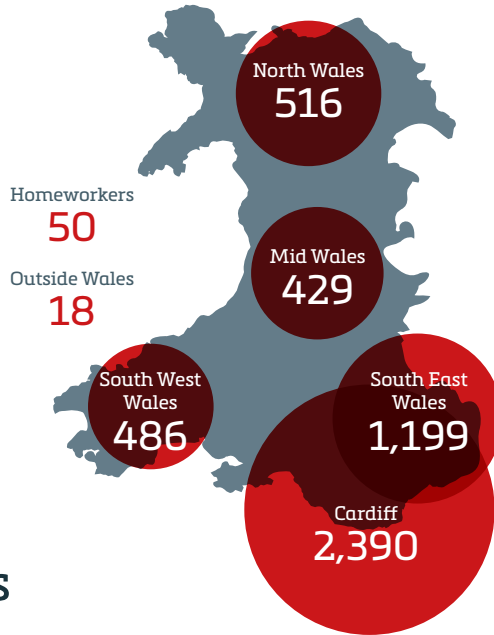
# The Civil Service

The civil service is the non-political administration that supports the Welsh Government's First Minister, Cabinet Secretaries and Ministers. The core strengths of the civil service provide a solid foundation for the organisation – political neutrality; efficient administration; good governance; and sound management of public funds.

Staff work within one of four Groups – headed by the Permanent Secretary, two Deputy Permanent Secretaries, and the Director General for Health and Social Services (also Chief Executive of NHS Wales).

## Welsh Government staff

At the end of the financial year, the Welsh Government civil service had 5,088 full time equivalent staff, a fall of over 80 staff during the year.



## Welsh Government offices

As at April 2017 there are **30 properties**

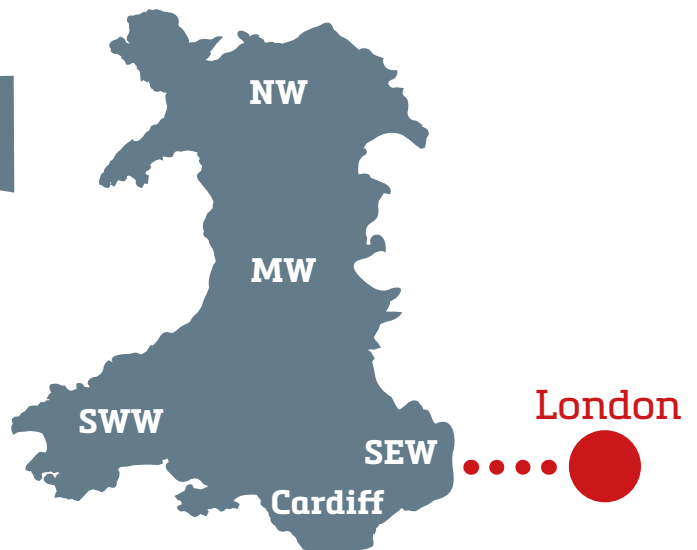


with **23** offices and **7** non-office sites compared to 2010 when there were **75** properties with **65** offices and **10** non-office sites.

The 2015-20 Location Strategy published last financial year continues to position the estate across **5** geographical areas in Wales, and a small but important office in London.

The strategy provides the potential to reduce to a total of **24** properties, with estimated gross savings of **£3.46m** and annual running cost savings of **£2.52m**.

Capital receipts from freehold disposals are estimated at between **£6.25m** and **£7.8m**.



# Sustainability reporting

## Environmental Management on the administrative estate

The Welsh Government aims to continue to improve the environmental performance of its administrative estate, working closely with technical specialists to enhance energy, water and waste management, with a view to meeting Government targets.

In 2016–17 carbon emissions reduced by 9% on the previous year. The Welsh Government has now exceeded its 2020 emissions target by achieving a 50% reduction on the 2010–11 baseline. There has been a further reduction in water consumption, while the recycling rate has surpassed the target of 80%.

The overall amount of waste recorded has increased although this is believed to be a result of improved methods of data collection and monitoring.

During 2016-17 the Welsh Government implemented an Environmental Strategy, following on from the 5 year Carbon Strategy, implemented in 2015-16. This new strategy provides the framework to ensure the administrative estate operates in an increasingly sustainable and efficient manner.

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

<b>Greenhouse Gas Emissions</b>		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
Non-Financial Indicators ('000 tCO <sub>2</sub> e)	Total Gross Emissions	10.4	10.4	9.2	8.4	6.9	6.3	
	Gross Emissions Scope 1 (Gas)	1.9	1.9	1.5	1.3	1.1	1.1	
	Gross Emissions Scope 2 (Electricity)	8.8	8.5	7.7	7.1	5.8	5.2	
Related Energy Consumption (GWh)	Electricity	16.0	15.9	14.2	13.4	11.8	11.6	
	Gas	8.6	10.2	8.4	7.1	5.8	5.8	
Financial Indicators (£million)	Expenditure on Energy	2.0	2.3	2.3	2.1	2.1	2.1	
	CRC Allowances (2012 onwards)	0.18	0.10	0.11	0.16	0.10	0.10	
	Expenditure on official business travel	-	-	4.3	4.5	4.7	4.8	
<b>Waste</b>		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
Non-Financial Indicators (tonnes)	Total Waste (tonnes)		665	609	583	500	498	563
	Non-Hazardous Waste	Landfill	268	202	184	127	112	104
		Reused/Recycled	448	365	361	314	322	396
		Composted (food)	76	42	38	59	64	63
<b>Water</b>		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
Non-Financial Indicators (cu.m/person/yr)		10	8	10	8	8	7	

## Administrative performance

The organisation aims to be transparent, accessible and efficient in its administrative approach. Highlights of performance during the reporting period include:

- **12,142** items of Ministerial correspondence received with 10,851 (89.3%) responded to within the 17 working day deadline.
- **817** Freedom of Information requests received with 673 (86%) responded to within the statutory deadline.

- **83,919** telephone calls were received by the First Point of Contact Centre.

The organisation operates a customer complaints procedure which is delivered in line with the Public Services Ombudsman for Wales' operating model.

## Developing the organisation

### The Well-being of Future Generations

The Well-being of Future Generations Act came into effect in April 2016. In the first year following the commencement of the well-being duty and associated duties on the Welsh Government flowing from the Act, actions have been taken which include:

- Develop an innovative approach to the first 'Well-being of Wales' annual report, due to be published in September 2017, including establishing links to the United Nations Sustainable Development Goals.
- Develop the first statutory Future Trends Report for Wales which was published in May 2017 and continue work to ensure it supports public bodies to look to the longer term in their decisions.
- Design an initial set of Government well-being objectives, published in November 2016, to maximise our contribution to the seven well-being goals, and associated well-being statement.
- Review and revise the well-being objectives as part of the development of a national strategy.
- Share our experience of developing objectives with other public bodies subject to the Act.
- Support the establishment of Public Services Boards and the preparation of their local well-being assessments.

- Improve the way in which teams plan, manage, monitor and report on the work they do to provide better coherence and integration, better understand the relationship to the well-being goals, and how the five ways of working can help teams plan their work.
- Begin to develop a more integrated and strategic approach to appraising the impact of what we do using the Well-being goals and ways of working as a useful framework.

### Implementing the Welsh Language Standards

During the reporting period the emphasis has been on embedding the standards in working practices across the organisation to help ensure the language is more visible and audible across Welsh Government offices.

The longer term focus is better and more strategic workforce planning, as required by the standards. The Welsh Government's 2016-17 annual report on compliance with the Welsh Language Standards is now published on our website.

### Preparing for the Future programme

A business improvement programme ran from February 2015 to March 2017 with the aim of developing the organisation to better meet the needs of Ministers by identifying ways to be agile, flexible, capable and affordable. Highlights from the programme include:

- The Welsh Cabinet Office was created to provide greater strategic capability to support the First Minister and Cabinet in driving and coordinating the business of government.
- A common approach to business planning has been adopted across the organisation making plans more visible, improving progress reporting and encouraging collaborative working.
- A pilot of a new approach to resourcing to swiftly move people to posts to meet ministerial and business priorities. Feedback has informed longer term improvements to resourcing arrangements.
- New telephony and business communications tools were introduced across the organisation. The tools included instant messaging, enhanced voicemail services and Presence (which gives an overview of colleagues' availability and location).
- A flexible working pilot was undertaken at the Merthyr office to identify how flexible practices could benefit colleagues in delivering their business objectives and included the introduction of different working spaces and the trialling of shorter, clearer HR policies. Following the evaluation, the Board agreed for further roll out across the organisation to be explored.
- Analysis of grants administration was undertaken and centralisation of administration at Group level commenced.
- Early work to identify future workforce capability needs and skills gaps in light of the changing landscape.

- A new hub for leadership learning and development material published on the staff intranet.
- Improvements to commercial governance resulting in £4.7m of procurement savings.

### Future-proofing our organisation

The new future-proofing initiative is focused on building a strong, skilled and sustainable civil service for the Welsh Government that is properly equipped to support Ministers and help them deliver their objectives. It aims to ensure that capability, confidence, leadership and resilience are in place to meet the exceptional set of challenges ahead and to give a strong foundation for the future.

It will involve colleagues at all levels in building an inclusive, high-performing culture that is genuinely collaborative and focused on outcomes

– reflecting the commitment to the well-being of future generations.

Learning and development programmes are being refreshed to make sure investments are in the right skills, and more innovative and pro-active approaches to exchanges and secondments are being explored; progression arrangements are being considered; and performance management and appraisal processes are being improved.

The future-proofing work is a long term approach and will be the focus for continuous improvement during 2017–18 and beyond.

### Becoming a fairer place to work

During 2016-17 the Diversity and Inclusion Steering Group developed a Diversity and Inclusion Action Plan 2017-2020 following consultation across the organisation. The plan sets out how the Welsh Government will meet its Strategic Equality Plan objective ‘to be an exemplar in the equality, diversity and inclusion agenda by 2020’.

The Board agreed that in addition to its target of women making up 50% of the senior civil service (SCS) by 2020, it would introduce two further targets of increasing the total number of Black, Asian and Minority Ethnic (BAME) staff from 2% to 2.5% by 2020 and increasing the number of disabled staff from 4.8% to 5.8% by 2020.

A number of actions were delivered to help meet these targets including:

- Ensuring all SCS adverts use inclusive language.
- Developing a new mandatory objective for line managers to focus on leadership and delivering the Diversity and Inclusion Action Plan.
- A reverse mentoring pilot.
- A gender neutral toilets pilot.
- A leadership programme for the diversity networks.
- Development of a workplace adjustment policy.
- Training for mental health first aiders.
- Stonewall Allies training for SCS and Executive Bands.



- Development of an outreach programme.
- ‘Equalities Week’ was held in June 2016 to raise awareness of equality and diversity issues and the role of the diversity networks.

A number of benchmarking schemes were used to assess the equality and diversity work undertaken. The Welsh Government was placed 25th in the UK in the 2017 Stonewall Workplace Equality Index, 5th in Wales and the 3rd ranked government organisation in the UK.

In September 2016, the Welsh Government was accredited as a Disability Confident organisation

at Level 2. Work is underway to apply for Disability Confident Level 3.

The Welsh Government received a ‘gold status’ certificate and was 2nd out of 16 government departments in the a:gender health check 2016. a:gender is the support network for employees in government departments who have changed or need to change permanently their perceived gender, or who identify as intersex.

### Welsh Government Apprentices and Learning and Development

The Welsh Government recruited 20 new apprentices last year, all of whom are undertaking a NVQ level 2 in Business Administration.

In addition, existing staff have been offered the opportunity to undertake an 18 month apprenticeship, studying towards NVQ level 4 in Leadership and Management. There are currently 16 members of staff on this scheme.

500 learning and development activities have been run aimed at all levels, from junior grades to members of the Senior Civil Service. These activities were further complemented by a diverse range of online learning solutions. 239 colleagues were supported to complete accredited Welsh Language training, from Foundation to Advanced Level.



### Statement Of Accounting Officer's Responsibilities

Under Section 131 of the Government of Wales Act 2006, the Welsh Ministers are required to prepare the annual consolidated resource accounts for the Welsh Government in accordance with directions given by HM Treasury. The Treasury directions require the detailing of the resources acquired, held, or disposed of during the period.

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 Welsh Government and the other entities within the group at the end of the period and of their net expenditure and cash flows for the financial period.

The Principal Accounting Officer (PAO) for the Welsh Ministers has responsibility for the overall organisation, management and staffing of the Welsh Government. This includes responsibility for Welsh Government-wide systems in finance and other matters, where these are appropriate, and for the management of the Welsh Government's net cash requirement. The PAO is also responsible for preparing and signing the Welsh Government's consolidated resource account.

In preparing the accounts, the PAO is required to comply with the Financial Reporting Manual (FRoM) 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 FRoM,

have been followed and disclose and explain any material departures in the accounts; and prepare the accounts on a going concern basis.

Under Section 133(2) of the Government of Wales Act 2006 the PAO is able to designate other members of the Welsh Government staff as Additional Accounting Officers. The PAO also designates the Chief Executive of the NHS as Accounting Officer of the National Health Service in Wales. The work of the Local Health Boards 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 Chief Executive of the NHS in Wales. These appointments do not detract from the PAO's overall responsibility for the Welsh Government accounts.

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 Welsh Government's assets and for taking reasonable steps to prevent and detect fraud and other irregularities, are set out in the Welsh Government Accounting Officers' Memorandum, issued by HM Treasury. The relationship between the PAO of the Welsh Government and other Accounting Officers, as described above, and their respective responsibilities, are set out in written agreements between the officials concerned.

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### Disclosure of information to auditors

As the Additional Accounting Officer, I confirm that there is no relevant audit information of which the Auditor General for Wales is unaware. I have taken all the necessary steps to make myself aware of any relevant information and to establish that the external auditor is aware of that information.

## Governance Statement

### Introduction

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

### The Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Welsh Government is directed and controlled and the activities through which it accounts to the National Assembly for Wales and engages with stakeholders. It enables the organisation to monitor the achievement of its policies, aims and objectives and whether value for money has been obtained.

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

The governance framework and internal control system are also supported by an on-going process of risk management, designed to identify and prioritise the risks to the achievement of the Welsh Government's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and then to manage them efficiently, effectively and economically. The governance framework has been developed to comply with the requirements of good governance and is supported by "Managing Welsh Public Money", which sets out the principles for dealing with resources in Welsh public sector organisations. Managing Welsh Public Money was last updated in January 2016 will be reviewed and updated further during 2017/18.

### Welsh Public Bodies

The Welsh Government delivers its aims and objectives, in part, through a number of public bodies, including Welsh Government Sponsored Bodies (WGSBs), subsidiary companies and other government-funded public bodies. Accounting Officers (or Chief Executives) appointed to each body are responsible for their organisation's management of public finances and are required to sign a governance statement which is published in their body's annual accounts. The relationship with the Welsh Government is defined in an appropriate form of written document for each body.

### The Board

As Permanent Secretary and PAO, I am supported by the Welsh Government Board, which consists of both Non-Executive and Executive members. The Board advises me in taking key strategic decisions about how the Welsh Government Civil Service is developed to support the First Minister, Cabinet Secretaries and Ministers and ensures the Welsh Government delivers the objectives and strategies set out in Ministers' programme for government "Taking Wales Forward" and implements our obligations under the Well-being of Future Generations Act. Sir Derek Jones, KCB chaired the Board up to the date of my appointment. I chaired the Board meetings in February and March 2017. Both I and my predecessor met regularly with Board members on a bilateral basis and with the Non-Executive Directors collectively on a monthly basis. Looking forward, I have agreed with the First Minister that he will engage with the Board at least once a year.

## Board Membership and Attendance

Attendance  
at Meetings

Shan Morgan, Permanent Secretary (Feb-March 2017)	2/2
Derek Jones, Permanent Secretary (April 16-January 2017)	6/6
James Price, Deputy Permanent Secretary, Economy, Skills & Natural Resources	7/8
Owen Evans, Deputy Permanent Secretary, Education & Public Services	8/8
Andrew Goodall, Director General, Health & Social Services (NHS Chief Executive)	8/8
David Richards, Director, Governance	8/8
Jeff Godfrey, Director, Legal Services	7/8
Peter Kennedy, Director, Human Resources	8/8
Gawain Evans, Director, Finance	8/8
Gillian Baranski, Board Equality & Diversity lead	8/8
Natalie Pearson, Deputy Director, Engagement and Innovation	8/8
Sioned Evans, Chair, Operations Committee	6/8
Elan Closs Stephens, Non-Executive Director	7/8
James Turner, Non-Executive Director	8/8
Adrian Webb, Non-Executive Director	7/8
Ann Keane, Non-Executive Director	6/8

## Board Self-Assessment of Performance

At its meeting on 17 March 2017, the Board reviewed its performance collectively over the reporting period, supported by a structured evaluation. Overall, the Board believed it had worked effectively and delivered the appropriate support and oversight to the Permanent Secretary. However, it did agree to review its Terms of Reference and agenda structure and changes have already been put into

effect to place greater emphasis on oversight and monitoring of the delivery of the Welsh Government's cross-cutting strategies and the objectives of the Wellbeing of Future Generations Act. During 2017-18 I will also be reviewing the Terms of Reference of all the Board's Sub-Committees to ensure they are consistent with and support the new Terms of Reference for the Board.

### Board Sub-Committees

My predecessor and I were also advised by two non-executive led Board Sub-Committees (the Audit and Risk Committee and the Remuneration Committee) and one executive Board Sub-Committee (the Operations Committee).

#### **Board Sub Committee: Audit & Risk**

The Welsh Government's Audit and Risk Committee (ARC) supports me on assurance matters. This Committee was chaired by a Non-Executive Director and advised, throughout the year, first Sir Derek and then myself in our capacity as PAO. ARCs also operated at Group-level during 2016/17, with their Chairs also being members of the Welsh Government ARC. There were no changes in membership or structure of the Welsh Government ARC in the year.

#### **Board Sub Committee: Operations**

The Operations Committee supports me and senior leaders with the internal running of the organisation on an operational level, allowing the Board to maintain a strategic focus. The Committee provided advice on, and oversight and management of, the running of the Welsh Government and operated during the whole of the year.

#### **Board Sub Committee: Remuneration**

The Board's second sub-committee is the SCS Remuneration Sub-Committee, and is responsible for Senior Civil Service (SCS) pay and conditions, senior succession planning and recruitment and all SCS personal cases. A Non-Executive Director chaired the Committee. The Committee met six times during the year; Sir Derek attended four meetings and I attended two. The Remuneration Committee does not set my own pay which is dealt with by the UK Cabinet Office.



### The Senior Leadership Team

Throughout 2016-17, my predecessor and I were supported by a leadership team of two Deputy Permanent Secretaries and a Director General, each leading a Welsh Government Group. I will take the opportunity afforded by the imminent replacement of the two Deputy Permanent Secretaries to review the leadership of the Welsh Government at that level during 2017/18. The Group structure is further sub-divided into directorates which align to the areas of responsibility devolved to the Welsh Government to administer.

I am mindful of the legal obligations placed upon the Welsh Government to deliver its work in line with the goals and ways of working set out in the Well-being of Future Generations Act. The implementation of a new business planning tool during 2016 is supporting the alignment of all Welsh Government work with the well-being objectives. Ways of working have been revised as well as processes and procedures, including

formal documents such as grant award letters. However, it is the work undertaken internally to raise the awareness of staff and encourage behaviours that build on cross-organisational working that will deliver the Well-being objectives effectively. The cross-cutting strategies currently being adopted by the Welsh Government will strengthen the integrated delivery of services.

The officials in the Senior Leadership Team are designated as Additional Accounting Officers (AAOs) to give them personal responsibility and accountability for the proper and regular use of public finances and the achievement of value for money on my behalf. Certain specific Directors are also designated as AAOs to further strengthen corporate governance and accountability arrangements, both for the use of public funds and in accounting to the Public Accounts Committee.

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### Business Group

The Business Group exists to facilitate the sharing of information to ensure all Directors are aware of current issues across the organisation. During 2016/17, meetings were chaired by the Director

of Governance and attended by staff at Director level and above, including Sir Derek and then myself, and were held regularly during the year.

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### Whistle-Blowing

The Whistle-Blowing Panel met regularly through the year to consider whistle-blowing cases, to ensure action was taken promptly but with great care, to maintain confidentiality. The Panel reported to the Board in March 2017. The Whistle-blowing and Civil Service Code policy explains what staff should do if they suspect a colleague of wrongdoing. Information is also published on the Intranet.

Six cases were reported to the Panel this year. Two were related to Business Appointment Rules for staff who had left the employ of Welsh Government: both were not found to be substantiated. Three related to staffing matters and were resolved internally. One related to an external matter and was referred to the relevant local authority.

At the end of the year, we reviewed our arrangements using the UK Cabinet Office's Whistle-Blowing Healthcheck tool and were pleased to confirm our arrangements are robust and in-line with good practice with only a small number of improvements needed around awareness-raising with staff.

In addition to the Whistle-Blowing Panel, the External Assurance Panel addresses concerns raised in relation to organisations which receive public money from the Welsh Government.

It provides a consistent, proportionate and appropriate response to concerns about how Welsh Government funding has been handled by our delivery partners and the beneficiaries of our grant schemes. The Panel provides advice to officials and identifies systemic issues which need to be addressed. Ten cases were considered by the Panel in the year. Five of these remain active and five were closed during the year.

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### Principal Accounting Officer's Annual Review of Effectiveness

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework including the system of internal control, for which I take assurance from a wide range of activities. My review of the effectiveness of the system of internal control is informed by the work of Internal Audit and those Welsh Government officials with responsibility for the development and maintenance of the internal control framework. I take assurance from management responses to issues identified by the External Auditor (the Auditor General for Wales) in his annual Management Letter and other reports and also from management responses to reports published by the Public Accounts Committee and other National Assembly for Wales Scrutiny Committees undertaking their own enquiries.

I am also advised on the effectiveness of the system of internal control by the Board and the Audit and Risk Committee. Their advice has informed my review for 2016/17. In addition, Sir Derek Jones, KCB was Permanent Secretary and Principal Accounting Officer (PAO) for the majority of the financial year ended 31 March 2017. The assurances he gave to me on stepping down on 3 February 2017 contributed to the range of assurances which have informed my evaluation of the effectiveness of the system of internal control.

Led by the First Minister and the Cabinet, Cabinet Secretaries and other Ministers which he appointed, the Welsh Government's responsibilities cover key areas of public life. A wide range of internal controls are in place to provide for the sound stewardship of resources. From my review of the effectiveness of the governance framework, I am satisfied that risk has been well managed and that systems of internal control continue to improve.

### Internal Audit

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

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

The Head of Internal Audit, in her Annual Assurance Opinion report, provided me with “reasonable” assurance on the operation of the framework of governance, control and risk management within the Welsh Government. This was supported by the provision of “reasonable” assurances by each of the Senior Leaders in respect of their Groups.

### European Funds Audit Team

In addition, the Welsh Government submitted to the European Commission its final closure declaration for the 2007-2013 Structural Funds Operational Programmes in February 2017. The declaration included a Final Control Report and Opinion from the European Funds Audit Team (EFAT). This report was based on all the

audit work carried out by EFAT in accordance with its audit strategy for the Programmes and also included the information required by the Annual Control Report for the period 1 January 2015 to 31 December 2016.

The Final Closure Report concluded that the final statements of expenditure and the applications for payment of the final balance for the Programmes was valid and the underlying transactions of expenditure were legal and regular and, therefore, an ‘unqualified opinion’ was provided. The declaration is currently being considered by the European Commission.

### Audit Committee Annual Report

Based on its work over the reporting period, in the Committee’s Annual Report for 2016/17, the Audit & Risk Committee provided reasonable assurance on the adequacy of internal audit arrangements for the Welsh Government and on the reliability, integrity and comprehensiveness of the available assurances provided to the PAO in respect of governance, risk management and control. In particular, the Audit & Risk Committee has noted the better tracking of Wales Audit Office report recommendations over the year and also the benefits of earlier engagement by officials in the report clearance process. I am satisfied the Audit & Risk Committee, together with the Group Audit & Risk Committees, have operated effectively and provided good support in monitoring and reviewing risk, control and governance processes.

### Annual Internal Control Questionnaires and Assurance Statements

I also required the senior leaders to complete an Internal Control Questionnaire for their Group and their own personal Statement of Assurance to provide me with their assessment of the effectiveness of their Group’s frameworks of internal control.

### Internal Control Issues

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

#### Fraud Matters

Towards the end of 2016, the Welsh Government received anonymous correspondence alleging fraud in the use of Welsh Government grants by NSA Afan, a charity based in Port Talbot. The Welsh Government conducted an investigation to consider whether there had been proper stewardship of public funds and to look at the way that grants had been spent and accounted for. This investigation provided sufficient evidence of financial irregularities and concerns about the effectiveness of the organisation's governance and control framework that the Welsh Government no longer had confidence in NSA Afan's ability to manage and safeguard public funds. For this reason, Welsh Government funding was terminated. Officials continue to work with the Charity Commission and the police to address this matter further.

Governance Statements in previous years have included commentary on frauds identified in the Concessionary Bus Pass scheme and, while two convictions were secured last year, related police investigations remain ongoing. Nevertheless, I have received assurances from officials on the outcome of steps taken to improve our capability to counter fraud, including the deployment of data analytics to interrogate management information. This has proved very effective during the year.

#### Arms Length Body Governance

The Auditor General for Wales confirmed his qualification of Natural Resources Wales

(NRW) accounts for 2015/16 on the grounds of "regularity" and, subsequently, the PAC has issued its own report on NRW's handling of significant contracts for the sale of timber. Both the Auditor General for Wales and Public Accounts Committee have made recommendations for the improvement of governance arrangements within NRW, including the decision-making process for letting such contracts. I have been assured that the management of NRW is pursuing action plans to address the issues raised regarding this transaction.

Following issues arising in relation to a number of Arms Length Bodies the Welsh Government has initiated a wide-ranging review of its governance arrangements for, and sponsorship of, Welsh Government funded public bodies, including its "Arms Length Bodies". At present, sponsorship is organised in a dispersed manner across a wide number of policy teams. The review will consider whether this arrangement delivers sufficiently robust engagement with and support of sponsored bodies and will also provide assurance as to the appropriateness of the governance and oversight protocols currently in place. The Welsh Government has been assisted in this review by the timely publication of a discussion paper on the governance of "Arms Length Bodies" by the Auditor General for Wales, who also hosted a seminar in November for senior officials to discuss the report. The Welsh Government will draw on this paper as it undertakes its review and delivers its recommendations.

### Grants Management, Including Due Diligence Checks

Following the publication of a report by the Auditor General for Wales, in February 2017 the PAC took evidence on the Welsh Government's decision-making in respect of its package of funding to Kancoat, a metal-coil-coating business. Between 2013 and 2014, a package of £3.4m had been provided to support the company comprising commercial loan, property support and business grant. The business failed towards the end of 2014. Subsequently, the policy team involved undertook its own lessons-learned exercise and the Welsh Government has also taken on board the recommendations made by the PAC in its report to strengthen its framework for decision-making in respect of such investments. I have been assured that improvements have been made to processes and procedures, with progress being confirmed by recent Internal Audit work in this area.

On two occasions in the year, it came to light that charges had not been secured on premises funded by Welsh Government grants in the past. Securing a charge is a standard pre-condition before giving such a grant - to protect public money in the event of a recipient organisation failing (allowing the grant to be recovered) - but this was not done in these cases by the grant recipient. Inquiries by officials have not identified further cases and due diligence checks have been strengthened around confirmation that charges are in place.

The Auditor General for Wales has undertaken a review of the initial funding for the Circuit of Wales and his report was published just after the year end. The Auditor General identified matters which had not been confirmed sufficiently by the Welsh Government before providing funding to the Development Company. The Welsh Government is now reviewing its processes for the extent and nature of due diligence checks required prior to award and payment of grants. Following recent evidence sessions, the Public Accounts Committee will publish its own report and recommendations, to which the Welsh Government will respond in due course.

## Information Governance

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

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

The Welsh Government’s corporate IT systems and associated security policies continue to be compliant with ISO 27001, the international standard for information security management, and are aligned with recommended practice and procedures. This was confirmed by the programme of audit work carried out by Internal Audit, the positive conclusion of an inspection of our cryptographic handling arrangements by the Communications Electronics Security Group (the UK National Technical Authority for Information Assurance) and by the positive assurance I have received from the Welsh Government Senior Information Responsible Owner (SIRO).

I am pleased to report the number of data losses in 2016/17 is lower than for 2015/16. Three data loss incidents were reported to the Information Commissioner’s Office during the year but no further action was taken because the Commissioner’s view was Welsh Government controls, such as staff training, clear policies and desk instructions were already in place. Minor incidents not needing to be reported are set out below:

Summary of Other Protected Personal Data Related Incidents			
Incidents deemed by the Data Controller not to fall within the criteria for reporting to the ICO but recorded centrally are set out in the table below			
Type	Nature of incident	2015/16	2016/17
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	5	5
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	1	2
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-	-
IV	Unauthorised disclosure	33	21
V	Other	3	5



While the reduction in “unauthorised disclosures” is welcome, and I take assurance from work undertaken by Internal Audit in the year which confirmed management arrangements in this area are adequate and sufficient, we are not complacent and continue to work to address the reasons for their occurrence.

### Local Accountability

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

#### Local Authorities

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

Funding is also provided to Authorities through grants which can be used only for the specific purposes for which they are provided. Additionally, Unitary Authorities receive some specific grants from UK Government Departments for non-devolved functions, income from nationally-set non-domestic rates distributed by the Welsh Government, from locally-set council tax and from fees, charges and other sources of income. Unitary Authorities also receive Welsh Government grants for capital spending, which is supplemented by their own borrowing capacity.

Similar arrangements apply to the provision for Police and Crime Commissioners, who are funded through a mix of RSG and redistributed non-domestic rates from the Welsh Government and Police Grant from the Home Office, from specific grants and from council tax. Other Authorities are funded through arrangements such as levies and precepts.

Each Authority is accountable for how it uses the funding in delivering the functions for which it is responsible. Unitary Authorities have an appointed officer under section 151 of the Local Government Act 1972 who has statutory duties to ensure there is proper administration of financial affairs. Authorities are held to account by their scrutiny functions and they are also subject to annual improvement audits conducted by the Auditor General for Wales covering value for money as well as governance and capacity matters.

In respect of funding provided for specific purposes, individual grant terms and conditions are the responsibility of the relevant policy departments. It is a requirement of these terms and conditions to have due regard to the Grant Centre of Excellence Minimum Standards for Grant Funding. Adherence to these standards should ensure compliance with the Welsh Government's governance and financial arrangements, relevant law, policy and good practice. With regard to funding provided by the UK Government in respect of non-devolved functions, the arrangements for accountability will be agreed between the Local Authorities and the relevant UK Government Department.

Under the Local Government Support and Intervention Protocol, at the end of 2016/17, no Local Authorities were classed as being in "special measures". Improvement and Support Conferences, including representatives from the WAO, Estyn, CSSIW and the WLGA, continue to be held regularly to discuss where early additional support could be offered to support Local Authority improvement.

### Health

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

In his Governance Statement for 2016/17 the NHS Chief Executive has reported that all LHBs and NHS Trusts have declared their assessment within their respective Annual Governance Statements and, generally, sound systems of internal control were in place to support the delivery of their policy aims and objectives for 2016/17. All seven LHBs and three NHS Trusts have reported a conclusion of no significant governance issues within their Annual Governance Statements, but all have noted areas of governance where improvements are required.

2016/17 is the third year the accounts of the LHBs & NHS Trusts have been prepared under the NHS three-year financial regime that was introduced under the NHS Finance (Wales) Act, effective from 1 April, 2014. Four of the ten organisations have not achieved their financial duty to break even over three years: Abertawe Bro Morgannwg achieved break even in 2014/15 and 2015/16 but failed to do so in 2016/17; Cardiff and Vale University Health Board failed to do this in 2014/15 and 2016/17 but achieved break-even in 2015/16; Betsi Cadwaladr and Hywel Dda University Health Boards have failed to break even in all three years. Consequently,

these four organisations have failed to meet their statutory financial duty for the first three-year period and, as a result, have received qualified regularity opinions from the Auditor General for Wales on their 2016/17 accounts.

The four health boards which failed to break even in 2016-17 incurred deficits of £148m in 2016/17 and have accumulated deficits over the three-year period of the financial duty assessment of £254m. Overall, in 2016/17, the LHBs and NHS Trusts incurred a net deficit of £148m. Actions were taken throughout 2016/17 to manage the deficits incurred within the health and social services budget. Consequently, there has been no breach of the Health, Wellbeing and Social Services budget allocation and no breach of the Welsh Government's budget overall.

The Welsh Government responded to the financial performance concerns in the four health boards in deficit through the NHS escalation framework. Betsi Cadwaladr UHB was placed into special measures in June 2015. Although financial issues were not an explicit reason for placing it into special measures, the Health Board's financial position has been monitored along with the other areas of concern.

The other three Boards in deficit were placed into targeted intervention in September 2016 and Welsh Government has been working with these organisations to provide challenge and support. This included undertaking financial governance reviews, which have reviewed the governance and decision making processes adopted by the organisations in the development of their financial plans, the governance of their in-year financial performance reporting and engagement with the Board on these matters. These reviews have concluded recently and Welsh Government will be considering the lessons to be learned and follow-up action required.

These progressive interventions by the Welsh Government in the four health boards demonstrate the intent to encourage stronger financial discipline in Local Health Board budgeting to better manage the finite resources available while securing the sustainable delivery of health services.

### Risk Profile

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

On a day-to-day basis, operational risks arise, in general, from the challenge of ensuring sufficient capacity and capability to advise on, and to deliver, the key policy objectives of the First Minister and his Cabinet.

The capacity to respond to a civil emergency has also been monitored through the year in light of the risk of a terrorist incident.

As would be expected, the Board identified the uncertainties around the outcome of the UK’s transition from the European Union as its most critical new risk identified in the year. UK transition presents both risk threats and risk opportunities and these are being mitigated, in the case of threats, and potential exploited, in the case of opportunities, through the active communication of Wales’ priorities and through arrangements to guide policy, analytical, legal and other related work, led by the newly created Welsh Government European Transition Team and supporting the European Advisory Group, to ensure effective engagement. Following events after the year end, the Welsh Government is also undertaking work to better understand and address the potential risk in relation to fire safety issues identified in tower blocks in Wales.

### Capacity to Handle Risk

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

Corporately, the Board is responsible for overseeing the implementation of the risk management policy and process. In June 2016, the Board adopted an updated format for the Corporate Risk Register which has supported and strengthened its oversight of

the key risks facing the Welsh Government which might prevent or hinder the organisation from achieving its strategic objectives, principally, those risks which are so critical they cannot be managed at Group level and those of a corporate nature whose impact would be felt across the whole organisation.

Corporate risks have been reviewed regularly by the Board through the year and have also been discussed at the Audit & Risk Committee. Mitigating risk is a management responsibility and each Director General/Deputy Permanent Secretary was responsible for managing risk and opportunity in respect of their Group's key objectives. Group risks were reviewed regularly by senior management teams and by the Group Audit & Risk Committees and were informed by risk registers maintained by projects and programmes and at Divisional level.

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### Ministerial Direction

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

### Conclusion

The system of internal control has been in place in the organisation for the year ending 31 March 2017 and up to the date of approval of the Annual Report and Consolidated Accounts. It accords with HM Treasury guidance. I have reviewed the evidence provided to me by my review of the effectiveness of the governance framework and am satisfied the organisation has maintained a sound system of internal control during this time, and that action is being taken to further improve internal controls and to tackle weaknesses where they have been identified.

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**Shan Morgan**

**Permanent Secretary and Principal Accounting Officer**

Date: 2 August 2017

## Remuneration And Staff Report 2016-17

### Remuneration Policy

The remuneration of senior civil servants is set at UK Government level following independent advice from the Review Body on Senior Salaries. The Welsh Government has delegated responsibility for the remuneration of non-SCS staff.

The Review Body also advises on the pay and pensions of Ministers where pay is determined by the Ministerial and Other Salaries Act 1975. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com)

### Service Contracts

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

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

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

### Welsh Government Annual Pay Policy Statement

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

The Pay Policy Statement covers the Welsh Government's definition of both “senior posts”

and “lowest-paid employees” and the relationship between the remuneration of senior posts and that of the lowest-paid employees. It also covers:

- a) demonstrable evidence of affordability and value for money,
- b) the number of senior posts within the body with a remuneration package of more than £100,000 in bands of £5,000,
- c) the approach to internal talent management,
- d) the approach to performance related pay,
- e) the approach to providing support for lower paid staff,
- f) the highest and lowest pay points, and
- g) the severance policies operated and how and in what circumstances these can be varied.

### Remuneration (including salary) and pension entitlements

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

The following sections provide details of the remuneration and pension interests of the Ministers and the most senior management (i.e. Board members).

### Remuneration

The remuneration of the First Minister and his Cabinet team and of the members of the Board, who served during the year, is noted below. These costs are reflected in the accounts of the National Assembly for Wales Commission and not the Welsh Government. Ministerial salaries include their salaries as Assembly Members of £64,000 (2015-16: £54,391). Benefits in kind related to Assembly Members responsibilities are not included in the table below. On leaving the Assembly three ministers also received Resettlement Grants as defined in Section 9.3 of the ‘Determination of the Fifth Assembly May 2015’ as follows: Leighton Andrews - £56,175; Huw Lewis - £51,824; Edwina Hart - £64,878.



## Single total figure of remuneration

Ministers	Salary 2016-17	Salary 2015-16	Pension benefits (to nearest £1000) <sup>1</sup> 2016-17	Pension benefits (to nearest £1000) <sup>1</sup> 2015-16	Total (to nearest £1000) 2016-17	Total (to nearest £1000) 2015-16
	£	£	£	£	£	£
<b>Rt. Hon Carwyn Jones</b> First Minister	139,319	132,965	146,000	59,000	285,000	192,000
<b>Mark Drakeford</b> Cabinet Secretary	99,531	95,149	69,000	40,000	169,000	135,000
<b>Vaughan Gething</b> Deputy Welsh Minister to 19/05/16 then Cabinet Secretary from 20/05/16	97,503	80,027	66,000	35,000	164,000	115,000
<b>Lesley Griffiths</b> Cabinet Secretary	99,531	95,149	99,000	42,000	199,000	137,000
<b>Jane Hutt</b> Welsh Minister to 19/05/16 then Leader of the House from 20/05/16	99,531	95,149	179,000	47,000	279,000	142,000
<b>Carl Sargeant</b> Cabinet Secretary	99,531	95,149	101,000	42,000	201,000	137,000
<b>Ken Skates</b> Deputy Welsh Minister to 19/05/16 then Cabinet Secretary from 20/05/16	97,503	80,027	42,000	28,000	140,000	108,000
<b>Kirsty Williams</b> Cabinet Secretary (from 20/05/2016)	86,559	-	88,000	-	175,000	-
<b>Mick Antoniw</b> Counsel General (from 29/06/2016)	75,556	-	74,000	-	150,000	-
<b>Rebecca Evans</b> Welsh Minister	84,519	80,027	52,000	33,000	137,000	113,000
<b>Julie James</b> Welsh Minister	84,519	80,027	51,000	33,000	136,000	113,000
<b>Alun Davies</b> Welsh Minister (from 20/05/2016 )	73,575	-	57,000	-	131,000	-
<b>Leighton Andrews</b> Welsh Minister (to 06/05/2016)	9,305	95,149	3,000	44,000	12,000	139,000
<b>Edwina Hart MBE CSTJ</b> Welsh Minister (to 04/05/2016)	4,590	95,149	1,000	46,000	6,000	141,000
<b>Huw Lewis</b> Welsh Minister (to 04/05/2016)	4,590	95,149	1,000	44,000	6,000	139,000
<b>Theodore Huckle</b> Counsel General (to 18/05/2016)	12,818	96,340	5,000	40,000	18,000	136,000

1 Pension benefits are calculated on a formula basis which can create an in year distortion where a pay rise results in an increased entitlement to pensions receivable. In these years the formula requires the increase in pension entitlement to be multiplied by a factor of 20 which bears no resemblance to the actual pension entitlement. The pension benefits are more accurately reflected in the CETV figures below.

Ministers	Accrued Pension at pension age as at 31/03/17 £000	Real increase in pension at pension age £000	CETV at 31/03/17 £000	CETV at 31/03/16 £000	Real increase in CETV £000
<b>Rt. Hon Carwyn Jones</b> First Minister	50-55	7.5-10	603	495	73
<b>Mark Drakeford</b> Cabinet Secretary	10-15	2.5-5	241	167	56
<b>Vaughan Gething</b> Deputy Welsh Minister to 19/05/16 then Cabinet Secretary from 20/05/16	15-20	2.5-5	177	136	25
<b>Lesley Griffiths</b> Cabinet Secretary	25-30	5-7.5	414	325	65
<b>Jane Hutt</b> Welsh Minister to 19/05/16 then Leader of the House from 20/05/16	55-60	7.5-10	967	815	152
<b>Carl Sargeant</b> Cabinet Secretary	30-35	5-7.5	324	256	47
<b>Ken Skates</b> Deputy Welsh Minister to 19/05/16 then Cabinet Secretary from 20/05/16	5-10	2.5-5	77	54	11
<b>Kirsty Williams</b> Cabinet Secretary (from 20/05/2016)	30-35	2.5-5	297	240	37
<b>Mick Antoniw</b> Counsel General (from 29/06/2016)	20-25	2.5-5	392	310	61
<b>Rebecca Evans</b> Welsh Minister	10-15	2.5-5	95	68	15
<b>Julie James</b> Welsh Minister	10-15	2.5-5	168	119	35
<b>Alun Davies</b> Welsh Minister (from 20/05/2016 )	15-20	2.5-5	227	181	31
<b>Leighton Andrews</b> Welsh Minister (to 06/05/2016)	35-40	0-2.5	564	560	2
<b>Edwina Hart MBE CSTJ</b> Welsh Minister (to 04/05/2016)	40-45	0-2.5	658	635	0.5
<b>Huw Lewis</b> Welsh Minister (to 04/05/2016)	30-35	0-2.5	388	387	0.4
<b>Theodore Huckle</b> Counsel General (to 18/05/2016)	10-15	0-2.5	148	144	3

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

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

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

The contribution made by the Assembly is currently 15.6% of Members aggregate salaries. Members not subject to ‘Transitional Protection’ pay contributions at the rate of 10.5%. Those members who are subject to ‘Transitional Protection’ continue to pay contributions at their existing rate of either 6% or 10% depending on whether they are accruing benefits on a 50th or 40th basis respectively.

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

### **Single total figure of remuneration**

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

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

Senior officials	Salary 2016-17 £000	Salary 2015-16 £000	Pension benefits (to nearest £1000) 2016-17 £000	Pension benefits (to nearest £1000) 2015-16 £000	Total (to nearest £1000) 2016-17 £000	Total (to nearest £1000) 2015-16 £000
<b>Shan Morgan</b> Permanent Secretary (from 06/02/2017)	20-25 (full year equivalent 155-160)	-	85-90	-	110-115	-
<b>Sir Derek Jones KCB</b> Permanent Secretary (to 03/02/2017) <sup>1</sup>	135-140 (full year equivalent 165-170)	160-165	25-30	50-55	165-170	215-220
<b>Andrew Goodall</b> <sup>2</sup> Director General	195-200	195-200	*	*	195-200	195-200
<b>Owen Evans</b> Deputy Permanent Secretary	140-145	135-140	50-55	50-55	195-200	185-190
<b>James Price</b> Deputy Permanent Secretary	140-145	135-140	80-85	60-65	225-230	195-200
<b>David Richards</b> Director of Governance	100-105	100-105	10-15	10-15	110-115	110-115
<b>Jeff Godfrey</b> Director Legal Services	105-110	105-110	10-15	40-45	120-125	150-155
<b>Natalie Pearson</b> Head of Engagement and Communication (from 01/09/2015)	75-80	45-50 (full year equivalent 75-80)	10-15	15-20	85-90	60-65
<b>Gillian Baranski</b> Equality and Diversity Champion from (01/09/2015)	105-110 (full year equivalent 115-120)	55-60 (full year equivalent 95-100)	55-60	5-10	165-170	65-70
<b>Sioned Evans</b> Chair of Operations Group (from 01/12/2015)	75-80	25-30 (full year equivalent 75-80)	25-30	10-15	100-105	35-40
<b>Peter Kennedy</b> Director of HR (from 01/09/2015 )	90-95	50-55 (full year equivalent 90-95)	10-15	15-20	105-110	70-75
<b>Gawain Evans</b> Director of Finance (from 20/10/2015)	85-90	35-40 (full year equivalent 85-90)	60-65	50-55	145-150	90-95
<b>Elan Closs Stephens</b> Non-Executive Director	10-15	10-15	-	-	10-15	10-15
<b>James Turner</b> Non-Executive Director	10-15	10-15	-	-	10-15	10-15
<b>Sir Adrian Webb</b> <sup>3</sup> Non-Executive Director	10-15	25-30	-	-	10-15	25-30
<b>Ann Keane</b> <sup>4</sup> Non-Executive Director (from 01/01/2016)	20-25 <sup>3</sup>	5-10 (full year equivalent 10-15)	-	-	20-25	5-10

- 1 Sir Derek Jones was fee paid for the last month which has reduced his 2016-17 pension benefit calculation.
- 2 Andrew Goodall is seconded from Aneurin Bevan University Health Board. Pension Benefit has been excluded above because the arithmetic calculations (£210-215,000) 2015-16: £280-285,000 are based on figures which are not indicative of the benefit received. He opted out of the pension scheme during 2015-16 and back into the pension scheme during 2016-17 which has impacted on this calculation, and likewise this has affected his accrued pension and increase in pension figures below.
- 3 Sir Adrian Webb's salary includes additional fees of £853 paid in April 2017 but carried out in 2015-16 (2015-16:£13,965) for commissioned work within the Welsh Government.
- 4 Ann Keane's salary includes additional fees of £8,629 (2015-16:£nil) for commissioned work within the Welsh Government.

Senior officials	Accrued Pension at pension age as at 31/03/17 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/17 £000	CETV at 31/03/16 £000	Real increase in CETV £000
<b>Shan Morgan</b> Permanent Secretary (from 06/02/2017)	70-75 plus lump sum of 120-125	2.5-5 plus lump sum of 5-7.5	1,492	1,434	83
<b>Sir Derek Jones KCB</b> Permanent Secretary (to 03/02/2017) <sup>1</sup>	80-85 plus lump sum of 240-245	0-2.5 plus lump sum of 2.5-5	1,725	1,714	24
<b>Andrew Goodall</b> Director General	45-50 plus lump sum of 120-125	(7.5-10) plus lump sum of (2.5-5)	740	698	42
<b>Owen Evans</b> Deputy Permanent Secretary	15-20	2.5-5	226	186	24
<b>James Price</b> Deputy Permanent Secretary	45-50	2.5-5	588	521	37
<b>David Richards</b> Director Governance	45-50 plus lump sum of 145-150	0-2.5 plus lump sum of 0-2.5	1,086	1,078	10
<b>Jeff Godfrey</b> Director Legal Services	40-45 plus lump sum of 130-135	0-2.5 plus lump sum of 2.5-5	952	923	12
<b>Natalie Pearson</b> Head of Engagement and Communication	20-25 plus lump sum of 70-75	0-2.5 plus lump sum of 0-2.5	479	448	8
<b>Gillian Baranski</b> Equality and Diversity Champion	20-25	2.5-5	421	341	59
<b>Sioned Evans</b> Chair of Operations Group	15-20 plus lump sum of 45-50	0-2.5 plus lump sum of 0-2.5	304	275	12
<b>Peter Kennedy</b> Director of HR	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 2.5-5	520	483	11
<b>Gawain Evans</b> Director of Finance	30-35 plus lump sum of 95-100	2.5-5 Plus lump sum of 7.5-10	608	532	51

### Salary

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

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

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

### Benefits in kind

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

### Pay multiples

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

The banded remuneration of the highest paid director in the Welsh Government in the financial year 2016-17 was £195,000-200,000 (2015-16: £195,000-200,000). This was 5.7 times (2015-16: 5.8) the median remuneration of the workforce, which was £34,750 (2015-16: £34,750). Based on the Permanent Secretary's banded remuneration the ratio is 4.6 (2015-16: 4.7). In 2016-17 and 2015-16 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £17,200 to £199,000 (2015-16: £17,200 to £199,000).

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



## Cash Equivalent Transfer Values

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

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

## Real increase in CETV

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

## Staff Numbers and Costs

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

	Permanently employed staff	Other staff	Special Advisers	Total 2016-17	Total 2015-16
<b>Total</b>	<b>74,189</b>	<b>1,982</b>	<b>7</b>	<b>76,178</b>	<b>74,185</b>
Of which:					
Welsh Government	4,978	126	7	5,111	5,293
Local Health Boards	68,446	1,856	-	70,302	68,104
Subsidiaries	765	-	-	765	788
Of the Welsh Government total:					
Regulatory & delivery bodies	718				
Tribunals	29				

## Gender Breakdown of Welsh Government staff (unaudited)

	Male	Female
Board Members	60%	40%
Senior Civil Service	59%	41%
All Staff	41%	59%

## Staff costs

	Permanently employed staff	Other Staff	Year ended 31 March 2017 Total	Year ended 31 March 2016 Total
Welsh Government	£m	£m	£m	£m
Salaries	198	5	203	209
Social Security Costs	22	-	22	18
Other Pension Costs	48	-	48	49
<b>Total</b>	<b>268</b>	<b>5</b>	<b>273</b>	<b>276</b>
Recoveries from secondments	(1)	-	(1)	(1)
<b>Net staff costs</b>	<b>267</b>	<b>5</b>	<b>272</b>	<b>275</b>
<b>Consolidated</b>				
Salaries	2,714	157	2,871	2,760
Social Security Costs	260	-	260	198
Other Pension Costs	355	-	355	343
<b>Total</b>	<b>3,329</b>	<b>157</b>	<b>3,486</b>	<b>3,301</b>
Recoveries from secondments	(1)	-	(1)	(1)
<b>Net staff costs</b>	<b>3,328</b>	<b>157</b>	<b>3,485</b>	<b>3,300</b>

Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances, and private office allowances. Special advisors were paid a total of £433,693 (2015-16 - £620,225) for the year, inclusive of pension and social security costs, and have been included within the figures above. The social security and pension costs for temporary and seconded staff under the core figures for other staff have been included in salaries as they are invoiced on a gross basis. Salaries of Welsh Ministers are paid by the National Assembly for Wales Commission and are reflected in those accounts.

### Pensions

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

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

October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 3% and 8.05% of pensionable earnings for **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum, **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during his period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of

pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice.gov.uk/my-civil-service/pensions](http://www.civilservice.gov.uk/my-civil-service/pensions)

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

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

For 2016-17, employers contributions of £39,714,603 were payable to the PCSPPS (2015-16: £39,831,454) at one of four rates in the range 20.0 to 24.5 per cent (2015-16: 20.0 to 24.5) of pensionable earnings based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme

valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £184,495 (2015-16: £165,822) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8 to 14.75 per cent of pensionable earnings. Employers also match employee contributions up to 3 per cent of earnings. In addition, employer contributions of £7,007, 0.5 per cent of pensionable pay, were payable to the PCSPPS 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 (2015-16: nil). Contributions prepaid at the date were £nil (2015-16: £nil).

3 individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £21,125.

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

## Reporting of Civil Service and other compensation schemes – exit packages

There was no flexible early retirement, approved early retirement or flexible early severance in 2016-17 or 2015-16.

For 2016-17 21 (2015-16: 42) employees have left or agreed to leave between 31 March 2016 and 31 March 2017. Compensation payments are £709,287 (2015-16: £1,830,696). For each case a payback period is calculated which is then approved by the Director of HR.

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

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band 2016-17	Total number of exit packages by cost band 2015-16
<b>Exit package cost band</b>				
<£10,000	-	1	1	12
£10,000 - £25,000	-	5	5	6
£25,000 - £50,000	-	12	12	8
£50,000 - £100,000	-	3	3	12
£100,000 - £150,000	-	-	-	4
£150,000 - £200,000	-	-	-	-
£200,000+	-	-	-	-
<b>Total number of exit packages by type</b>	-	<b>21</b>	<b>21</b>	<b>42</b>
<b>Total resource cost £</b>	-	<b>709,287</b>	<b>709,287</b>	<b>1,830,696</b>

The costs included in the table provide the total cost to the organisation of any exit. In some instances these are cash payments, but in other instances costs include items such as early access to pension costs, pension costs between leaving date and scheme retirement age.



## Sickness absence (unaudited)

Sickness absence levels across the Welsh Government continued to decrease during the year, as the measures introduced during the previous year continued to have a positive impact. During 2016-17 a number of additional measures were introduced with the aim of maintaining this momentum, alongside the continuation of training and awareness sessions to make staff aware

of their individual and collective responsibilities. The year has also seen the commencement of the development of a new Health and Wellbeing Strategy for the Welsh Government, to provide a more targeted approach to the way in which we manage sickness absence and the way in which we support and encourage staff to return to work as soon as they are able.

Welsh Government Sickness Absence	2016-17	2015-16	2014-15
Days Lost (short term)	17,354	18,967	20,631
Days Lost (long term)	22,876	23,977	23,161
Total Days Lost (12 month period)	40,230	42,944	43,792
Total staff years	5,155	5,307	5,519
Total staff employed in period (headcount)	5,691	5,964	6,134
Total staff employed in period with no absence (headcount)	2,529	2,479	2,500
% staff with no sick leave	44%	42%	41%
Average working days lost	7.8	8.1	7.9

## Accountability Disclosures

Losses Statement	2016-17	Reclassified 2015-16
Total number of losses	118	131
Total value of losses (£000)	2,180	6,995

Details of losses over £300,000: Store losses - expired drug stocks of £1,684,038.

Special Payments	2016-17	Reclassified 2015-16
Total number of Special Payments	8	21
Total value of Special Payments (£000)	543	241

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

## Summary Of Resource Outturn

	Budget 2016-17 Net expenditure £m	Outturn 2016-17 Net expenditure £m	Outturn compared with Budget Variance £m
<b>AMBIT</b>			
Health, Well-being and Sport	6,147	6,063	84
Local Government	3,342	3,340	2
Education	2,226	2,175	51
Economy and Infrastructure	887	823	64
Communities and Children	768	768	-
Environment and Rural Affairs	371	370	1
Central Services and Administration	320	307	13
<b>Total Resource and Capital requirements</b>	<b>14,061</b>	<b>13,846</b>	<b>215</b>
<b>Income</b>	<b>2,106</b>	<b>1,815</b>	<b>291</b>
<b>Gross expenditure</b>	<b>16,167</b>	<b>15,661</b>	<b>506</b>

The above table shows the new AMBIT format following the election in May 2016. The previous AMBIT structure applied to the 2015-16 financial year shown below:

	Outturn 2015-16 Net expenditure £m
<b>AMBIT</b>	
Health and Social Services	5,512
Local Government	3,472
Education and Skills	1,782
Economy, Science and Transport	1,285
Communities and Tackling Poverty	735
Natural Resources	394
Central Services and Administration	304
<b>Total Resource and Capital requirements</b>	<b>13,484</b>
<b>Income</b>	<b>1,823</b>
<b>Gross expenditure</b>	<b>15,307</b>

## Variance explanations over £10m

### Health, Well-being and Sport £84m

i) Alignment technicality: £92m underspend

The budget included within the Second Supplementary Budget Motion 2016-17 (and used in the Summary of Resource Outturn) does not reflect the resources consumed by the NHS bodies in Wales in line with the budgets set by HM Treasury and those used for financial management within Welsh Government, only the cash paid to these bodies. This creates an alignment issue which for 2016-17 totalled £92m. The variance comprises: £29m in timing differences, primarily capital projects where expenditure was incurred but for which cash was not drawn; and £63m reflecting the cash requirements of health boards. This issue will largely be resolved by the designation of the NHS bodies in Wales implemented in the Annual Budget Motion 2017-18.

ii) NHS Risk Pool Provisions: £15m overspend

The largest element was associated with the Lord Chancellor's announcement of her intent to revise the personal injury discount rate before the end of the financial year, affecting all clinical negligence claim settlements.

iii) Revenue £7m: underspend

The Second Supplementary Budget included an allocation of £7.5m to help address overspends

being forecast in health boards. However, improvement in their financial position meant that for the most part this was not needed.

### Education £51m underspend

The variance was associated with the student loans budget which is demand led and difficult to forecast. The annual impairment (write down in the expected value) of the loan book calculated by statistical modelling was £28m less than budgeted. In addition, the value of student loans issued and repayments made was £23m less than anticipated.

### Economy and Infrastructure £64m underspend

Most of the variance related to expenditure outside normal management controls such as provisions and asset impairments following independent valuation of the investment property portfolio. There was also a change in the roads valuation modelling following the use of a new algorithm affecting the useful life of roads and thus the annual depreciation charge requirement.

### Central Services and Administration £13m underspend

There were three main elements. An underspend of £4m occurred in the Invest to Save Fund. There was a £3m underspend associated with impairment and depreciation charges on the Welsh Government estate. Finally, there was a £6m underspend relating to pension charges for staff in the Local Government Pension Scheme which are dependent upon annual actuarial valuations and, therefore, difficult to forecast.

## Net Cash Requirement

	Outturn 2016-17 £m	Outturn 2015-16 £m
<b>Authorised for issue from Welsh Consolidated Fund</b>	<b>13,754</b>	13,584
Funding drawn down	<b>(13,507)</b>	(13,471)
Undrawn funding	<b>247</b>	113

## NOTES

### Reconciliation of outturn and CSoCNE

	Outturn 2016-17 £m	Outturn 2015-16 £m
<b>Net Resource Outturn</b>	<b>13,846</b>	13,484
Less: Capital, loans & adjustments	<b>(844)</b>	(849)
<b>Expenditure per the CSoCNE</b>	<b>13,002</b>	12,635

### Reconciliation of resources to cash requirement

	Budget 2016-17 £m	Outturn 2016-17 £m	Outturn compared with Budget £m	Outturn 2015-16 £m
<b>Net resource outturn</b>	<b>14,061</b>	<b>13,846</b>	<b>215</b>	<b>13,484</b>
Depreciation	206	257	(51)	(223)
Impairments	(292)	(321)	29	160
Movements in provisions	(203)	(194)	(9)	(26)
Movements in working capital	(18)	(76)	58	12
Other	-	43	(43)	72
<b>Net cash requirement</b>	<b>13,754</b>	<b>13,555</b>	<b>199</b>	<b>13,479</b>

**Shan Morgan**

**Permanent Secretary and Principal Accounting Officer**

Date: 2 August 2017

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

I certify that I have audited the financial statements of Welsh Government and the Group for the year ended 31 March 2017 under the Government of Wales Act 2006. These comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Resource Outturn, the Losses Statement and the information in the Remuneration and Staff Report that is described in that report as having been audited.

### Respective responsibilities of the Principal Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Principal Accounting Officer is responsible for preparing the financial statements, in accordance with the Government of Wales Act 2006 and HM Treasury directions made there under and for ensuring the regularity of financial transactions.

My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Welsh Government and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Welsh Government and the Group; and the overall presentation of the financial statements.

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

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



### Opinion on Financial Statements

In my opinion the financial statements:

- give a true and fair view of the state of Welsh Government and the Group's affairs as at 31 March 2017 and of its net cash requirement, net resource outturn and net operating cost for the year then ended; and
- have been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 2006.

### Opinion on Regularity

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

### Opinion on other matters

In my opinion:

- the Statement of Resource Outturn, the Losses Statement and the part of the Remuneration and Staff Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government of Wales Act 2006; and
- the information in the Annual Report and the Accountability Report is consistent with the financial statements.

### Matters on which I report by exception

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

- the Governance Statement does not reflect compliance with HM Treasury guidance;
- adequate accounting records have not been kept;
- the financial statements, Statement of Resource Outturn, Losses Statement and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns;
- information specified by HM Treasury regarding the remuneration and other transactions is not disclosed; or
- I have not received all of the information and explanations I require for my audit.

### Report

I have no observations to make on these financial statements.

**Huw Vaughan Thomas**  
Auditor General for Wales  
3 August 2017

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Financial Statements

## Consolidated Statement of Comprehensive Net Expenditure For the year ended 31 March 2017

	Note	2016-17		Restated 2015-16	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services		(33)	(49)	(37)	(51)
Other operating income		(1,655)	(1,964)	(1,663)	(1,930)
<b>Total operating income</b>	<b>2</b>	<b>(1,688)</b>	<b>(2,013)</b>	<b>(1,700)</b>	<b>(1,981)</b>
Staff costs	3	272	3,485	275	3,300
Expenditure	3	14,156	11,159	13,957	11,175
Provision expense	3	262	330	103	146
<b>Total operating expenditure</b>		<b>14,690</b>	<b>14,974</b>	<b>14,335</b>	<b>14,621</b>
<b>Net expenditure for the year</b>		<b>13,002</b>	<b>12,961</b>	<b>12,635</b>	<b>12,640</b>
<b>Other comprehensive net expenditure</b>					
Items which will not be reclassified to net operating costs:					
Net (gain)/loss on revaluation of property, plant and equipment		(548)	(560)	407	341
Actuarial (gain)/loss on pension scheme liabilities		(9)	(24)	(11)	(20)
<b>Comprehensive net expenditure for the year</b>		<b>12,445</b>	<b>12,377</b>	<b>13,031</b>	<b>12,961</b>

The Notes on pages 62 to 92 form part of these accounts

## Consolidated Statement of Financial Position as at 31 March 2017

	Note	As at 31 March 2017		Restated As at 31 March 2016	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Non-current assets:</b>					
Property, plant and equipment	4	16,265	19,168	15,233	18,087
Intangible assets	5	14	25	16	25
Financial assets	7	3,635	3,218	3,414	3,028
Trade and other receivables	9	15	301	14	233
<b>Total non-current assets</b>		<b>19,929</b>	<b>22,712</b>	<b>18,677</b>	<b>21,373</b>
<b>Current assets:</b>					
Assets classified as held for sale		-	4	-	3
Inventories	8	194	255	192	252
Trade and other receivables	9	236	380	309	415
Cash and cash equivalents	10	141	299	143	350
<b>Total current assets</b>		<b>571</b>	<b>938</b>	<b>644</b>	<b>1,020</b>
<b>Total assets</b>		<b>20,500</b>	<b>23,650</b>	<b>19,321</b>	<b>22,393</b>
<b>Current liabilities:</b>					
Trade and other payables	11	(824)	(1,592)	(820)	(1,549)
Provisions	12	(263)	(261)	(231)	(244)
<b>Total current liabilities</b>		<b>(1,087)</b>	<b>(1,853)</b>	<b>(1,051)</b>	<b>(1,793)</b>
<b>Total assets less current liabilities</b>		<b>19,413</b>	<b>21,797</b>	<b>18,270</b>	<b>20,600</b>
<b>Non-current liabilities</b>					
Trade and other payables	11	(115)	(181)	(125)	(192)
Provisions	12	(664)	(684)	(502)	(514)
Other liabilities	14	(83)	(118)	(74)	(104)
<b>Total non current liabilities</b>		<b>(862)</b>	<b>(983)</b>	<b>(701)</b>	<b>(810)</b>
<b>Total assets less liabilities</b>		<b>18,551</b>	<b>20,814</b>	<b>17,569</b>	<b>19,790</b>
<b>Taxpayers' equity &amp; other Reserves</b>					
General fund		10,511	12,387	10,234	12,072
Revaluation reserve		8,040	8,427	7,335	7,718
<b>Total equity</b>		<b>18,551</b>	<b>20,814</b>	<b>17,569</b>	<b>19,790</b>

The Notes on pages 62 to 92 form part of these accounts

**Shan Morgan**  
**Permanent Secretary and Principal Accounting Officer**  
 Date: 2 August 2017

## Consolidated Statement of Cash Flows for the year ended 31 March 2017

	Note	Year ended 31 March 2017		Restated Year ended 31 March 2016	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Cash flows from operating activities</b>					
Net operating cost		(13,002)	(12,961)	(12,635)	(12,640)
Non-cash transactions		336	572	164	314
Income payable to Welsh Consolidated Fund		(1)	(1)	-	-
Movements in working capital other than cash	15	11	(97)	(77)	(61)
Use of provisions	12	(67)	(143)	(77)	(152)
<b>Net cash outflow from operating activities</b>		<b>(12,723)</b>	<b>(12,630)</b>	<b>(12,625)</b>	<b>(12,539)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(284)	(474)	(258)	(443)
Proceeds of disposal of property, plant and equipment		4	7	2	3
Purchase of intangible assets		(1)	(5)	(1)	(4)
Purchase of development assets		(39)	(39)	(15)	(15)
Proceeds of disposal of development assets		28	28	36	36
Issue of loans and investments		(582)	(533)	(638)	(521)
Repayment of loans		95	95	89	93
<b>Net cash outflow from investing activities</b>		<b>(779)</b>	<b>(921)</b>	<b>(785)</b>	<b>(851)</b>
<b>Cash flows from financing activities</b>					
From Welsh Consolidated Fund (Supply) – current year		13,507	13,507	13,471	13,471
Capital element of payments for finance leases and on balance sheet PFI contracts		(9)	(9)	(9)	(9)
<b>Net Financing</b>		<b>13,498</b>	<b>13,498</b>	<b>13,462</b>	<b>13,462</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the WCF</b>		<b>(4)</b>	<b>(53)</b>	<b>52</b>	<b>72</b>
Movements in non-operating receipts due to be surrendered to Welsh Consolidated Fund		2	2	(122)	(122)
<b>Net decrease in cash and cash equivalent in the period after adjustment for receipts and payments to the WCF</b>	10	<b>(2)</b>	<b>(51)</b>	<b>(70)</b>	<b>(50)</b>
<b>Cash and cash equivalents at the start of the year</b>	10	<b>143</b>	<b>350</b>	<b>213</b>	<b>400</b>
<b>Cash and cash equivalents at the end of the year</b>	10	<b>141</b>	<b>299</b>	<b>143</b>	<b>350</b>

The Notes on pages 62 to 92 form part of these accounts

## Welsh Government Group Statement of changes in Taxpayers' Equity

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
<b>Balance at 31 March 2015</b>	<b>11,875</b>	<b>7,419</b>	<b>19,294</b>
Welsh Consolidated fund – net funding	13,471	-	13,471
Net operating cost for the year	(12,640)	-	(12,640)
Revaluation gains and losses	-	(341)	(341)
Transfers between Reserves	(640)	640	
Other adjustments	6	-	6
<b>Balance at 31 March 2016</b>	<b>12,072</b>	<b>7,718</b>	<b>19,790</b>
Welsh Consolidated fund – net funding	13,507	-	13,507
Net operating cost for the year	(12,961)	-	(12,961)
Revaluation gains and losses	-	560	560
Transfers between Reserves	(149)	149	-
Other adjustments	(82)	-	(82)
<b>Balance at 31 March 2017</b>	<b>12,387</b>	<b>8,427</b>	<b>20,814</b>

## Welsh Government Core Statement of changes in Taxpayers' Equity

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
<b>Balance at 31 March 2015</b>	<b>10,063</b>	<b>7,092</b>	<b>17,155</b>
Welsh Consolidated fund – net funding	13,471	-	13,471
Net operating cost for the year	(12,635)	-	(12,635)
Revaluation gains and losses	-	(407)	(407)
Transfers between Reserves	(650)	650	-
Other adjustments	(15)	-	(15)
<b>Balance at 31 March 2016</b>	<b>10,234</b>	<b>7,335</b>	<b>17,569</b>
Welsh Consolidated fund – net funding	13,507	-	13,507
Net operating cost for the year	(13,002)	-	(13,002)
Revaluation gains and losses	-	548	548
Transfers between Reserves	(157)	157	-
Other adjustments	(71)	-	(71)
<b>Balance at 31 March 2017</b>	<b>10,511</b>	<b>8,040</b>	<b>18,551</b>

The Notes on pages 62 to 92 form part of these accounts

## Notes to the accounts

### 1. Statement of accounting policies

The consolidated financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Welsh Government for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Welsh Government (for the reportable activity) are described in Appendix A or as footnotes to the relevant note. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Welsh Government to prepare additional primary statements. The summary of Outturn which shows actual outturn against budget and supporting notes which reconcile outturn to net operating cost, and resources to cash requirement.

### 1.1 Accounting convention

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

### 1.2 Basis of Consolidation

The accounts comprise a consolidation of the Welsh Government, the seven Local Health Boards, Finance Wales plc, Regeneration Investment Fund for Wales LLP, WG Holdco Limited and Career Choices Dewis Gyrfa Limited. These consolidated organisations produce and publish their own annual reports and accounts. Subsidiary companies are consolidated from final accounts, apart from Finance Wales plc, there being no material difference between draft and final accounts. Transactions between entities included in the consolidation are eliminated.

Design Commission for Wales, Hybu Cig Cymru Cyf – Meat Promotion Wales Limited, Life Sciences Hub Wales Limited, Sector Development Wales Partnership Limited, Welsh Development Management Limited, Innovation Point Limited, Transport for Wales, International Business Wales Limited and Local Health Board NHS Charities have not been consolidated because their expenditure does not exceed £15m (2015-2016: £10m).



## 2. Operating Income

	Year ended 31 March 2017		Year ended 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Income from sale of goods and services</b>				
Income from property and investments	26	28	31	34
Other	7	21	6	17
	<b>33</b>	<b>49</b>	<b>37</b>	<b>51</b>
<b>Other non-EU operating income</b>				
Inland Revenue health funding contributions	1,141	1,141	1,103	1,103
Student loans interest receivable	64	64	61	61
Health income	40	326	53	321
Other	26	32	19	16
<b>Other EU operating income:</b>				
European Structural Funds Programmes	100	118	182	184
Common Agricultural Policy	280	279	240	240
Other EU income	4	4	5	5
	<b>1,655</b>	<b>1,964</b>	<b>1,663</b>	<b>1,930</b>
	<b>1,688</b>	<b>2,013</b>	<b>1,700</b>	<b>1,981</b>

### 3. Expenditure

	Year ended 31 March 2017		Restated Year ended 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Expenditure</b>				
Grants <sup>1</sup>	<b>13,761</b>	<b>7,439</b>	13,565	7,453
Goods and services <sup>1</sup>	<b>296</b>	<b>3,415</b>	309	3,497
Rentals under operating leases	<b>8</b>	<b>32</b>	9	44
PFI and other service concession arrangements	<b>16</b>	<b>16</b>	13	13
Student loan book fair value	<b>306</b>	<b>306</b>	(197)	(197)
Depreciation	<b>(262)</b>	<b>(122)</b>	219	358
Amortisation	<b>5</b>	<b>8</b>	3	6
Donated and government granted assets	-	<b>(9)</b>	-	(4)
Impairments	<b>15</b>	<b>63</b>	37	6
Loss on disposals	<b>15</b>	<b>15</b>	3	3
Pension finance	<b>(3)</b>	<b>(3)</b>	(3)	(3)
Release of EU grant	<b>(1)</b>	<b>(1)</b>	(1)	(1)
	<b>14,156</b>	<b>11,159</b>	13,957	11,175
<b>Provisions</b>				
Increase in provisions	<b>262</b>	<b>330</b>	103	146
	<b>14,418</b>	<b>11,489</b>	14,060	11,321

<sup>1</sup>Expenditure on Grants and Goods and Services reflects the Ambit Resource Outturn allocation.

#### Staff Costs

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

**Audit Fees**

The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2016-17 is £379,141 (2015-16: £386,000) and has been included within Goods and Services disclosed above. Also included above are fees levied by the Auditor General for Wales in respect of other accounts prepared by Welsh Ministers as follows:

	Year ended 31 March 2017	Year ended 31 March 2016
	£	£
NHS Summarised Account	33,716	34,000
National Non Domestic Rate Account	9,951	9,950
Whole of Government Account	36,715	39,207
Welsh Consolidated Fund	16,475	16,475

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

#### 4. Property, plant and equipment

	Network Assets	Land	Buildings including Dwellings	Information Technology, Fixtures and Fittings	Payments on account & Assets under construction	Total
	£m	£m	£m	£m	£m	£m
<b>Cost or Valuation for the year ended 31 March 2016</b>						
At 1 April 2015	17,952	386	2,279	760	503	21,880
Additions	60	8	19	45	294	426
Disposals	(7)	(1)	(1)	(38)	-	(47)
Transfers	-	1	-	-	(1)	-
Impairments	(25)	1	34	(4)	-	6
Revaluations	(527)	8	79	-	-	(440)
Reclassification	157	-	105	14	(285)	(9)
<b>Restated as at 31 March 2016</b>	<b>17,610</b>	<b>403</b>	<b>2,515</b>	<b>777</b>	<b>511</b>	<b>21,816</b>
<b>Depreciation for the year ended 31 March 2016</b>						
At 1 April 2015	2,754	-	236	513	2	3,505
Charged in year	209	-	82	66	-	357
Disposals	(1)	-	-	(38)	-	(39)
Impairments	1	-	3	-	-	4
Revaluations	(111)	-	13	-	-	(98)
<b>Restated as at 31 March 2016</b>	<b>2,852</b>	<b>-</b>	<b>334</b>	<b>541</b>	<b>2</b>	<b>3,729</b>
<b>Restated carrying amount at 31 March 2016</b>	<b>14,758</b>	<b>403</b>	<b>2,181</b>	<b>236</b>	<b>509</b>	<b>18,087</b>
Carrying amount at 31 March 2015	15,198	386	2,043	247	501	18,375
<b>Asset financing: for the year ended 31 March 2016</b>						
Owned	14,377	392	2,075	234	509	17,587
Finance Leased	-	-	12	1	-	13
On-balance sheet PFI contracts	381	11	94	1	-	487
<b>At 31 March 2016</b>	<b>14,758</b>	<b>403</b>	<b>2,181</b>	<b>236</b>	<b>509</b>	<b>18,087</b>

#### 4. Property, plant and equipment (continued)

	Network Assets	Land	Buildings including Dwellings	Information Technology, Fixtures and Fittings	Payments on account & Assets under construction	Total
	£m	£m	£m	£m	£m	£m
<b>Cost or Valuation for the year ended 31 March 2017</b>						
At 1 April 2016	17,610	403	2,515	777	511	21,816
Additions	89	-	33	90	298	510
Disposals	-	(2)	(7)	(63)	-	(72)
Transfers	(34)	-	-	(2)	-	(36)
Impairments	-	1	(46)	(4)	(15)	(64)
Revaluations	558	11	-	-	-	569
Reclassified to held for sale	-	(1)	-	-	-	(1)
Reclassification	1	1	163	11	(176)	-
<b>At 31 March 2017</b>	<b>18,224</b>	<b>413</b>	<b>2,658</b>	<b>809</b>	<b>618</b>	<b>22,722</b>
<b>Depreciation for the year ended 31 March 2017</b>						
At 1 April 2016	2,852	-	334	541	2	3,729
Charged in year	(271)	-	84	65	-	(122)
Disposals	-	-	(2)	(63)	-	(65)
Transfers	(5)	-	-	(2)	-	(7)
Impairments	-	-	3	-	-	3
Revaluations	13	-	3	-	-	16
<b>At 31 March 2017</b>	<b>2,589</b>	<b>-</b>	<b>422</b>	<b>541</b>	<b>2</b>	<b>3,554</b>
<b>Carrying amount at 31 March 2017</b>	<b>15,635</b>	<b>413</b>	<b>2,236</b>	<b>268</b>	<b>616</b>	<b>19,168</b>
<b>Asset financing: for the year ended 31 March 2017</b>						
Owned	15,204	401	2,143	266	616	18,630
Finance Leased	-	-	2	1	-	3
On-balance sheet PFI contracts	431	12	91	1	-	535
<b>At 31 March 2017</b>	<b>15,635</b>	<b>413</b>	<b>2,236</b>	<b>268</b>	<b>616</b>	<b>19,168</b>
<b>Core department at 31 March 2017</b>	<b>15,635</b>	<b>33</b>	<b>123</b>	<b>30</b>	<b>444</b>	<b>16,265</b>
<b>LHB's and subsidiaries at 31 March 2017</b>	<b>-</b>	<b>380</b>	<b>2,113</b>	<b>238</b>	<b>172</b>	<b>2,903</b>
Core department at 31 March 2016	14,758	35	127	29	284	15,233
LHB's and subsidiaries at 31 March 2016	-	368	2,054	207	225	2,854

#### 4. Property, plant and equipment (continued)

##### Network Assets

During the year the valuation service supplier WDM Limited recommended a change in software used to estimate the residual life of Network Assets. This change was required as the previous software had reached its upper limit for future traffic prediction. The change aligns the Welsh Government with the rest of the UK, and leads to more accurate calculations for recommendations of maintenance treatment and residual life. The revised method has resulted in Network Assets having a longer estimated future life and therefore a one-off credit adjustment to depreciation was made in the year to reflect the current modelled prediction of total depreciated replacement cost.

##### Land and Buildings, including Dwellings

Most of the Welsh Government Core freehold land and buildings were valued on 31 March 2015 by GVA Grimley, Chartered Surveyors, on the basis of open market value for existing use in accordance with the 'Appraisal and Valuation Manual', produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation. Freehold land and buildings and leasehold land and buildings, where the original lease was for greater

than 100 years, have been restated at open market value for existing use using professional valuations either every five years, or annually, with appropriate indices in intervening years for non-annual valuations. Specialised properties are valued on a depreciated replacement cost basis, in accordance with the 'Appraisal and Valuation Manual'. In intervening financial years, between the formal 5 yearly valuations, freehold land and buildings are valued using the latest available indices at March in each financial year to provide a reasonable estimate of valuation

The Welsh Government Group figures include the Local Health Board (LHB) Land and Buildings which were revalued by the District Valuation Service with an effective date of 1st April 2012. The valuation has been prepared in accordance with the terms of the Royal Institution of Chartered Surveyors' Valuation Standards, 6th edition. LHBs are required to apply the revaluation model set out in IAS 16 and value its capital assets at fair value. Fair value is defined by IAS16 as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. This has been undertaken on the assumption that the property is sold as part of the continuing enterprise in occupation.



## 5. Intangible assets

	Information Technology			
	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Cost or valuation</b>				
At 1 April	40	63	31	52
Additions	1	5	1	3
Disposals	(15)	(15)	-	-
Reclassifications	2	2	8	8
<b>At 31 March</b>	<b>28</b>	<b>55</b>	<b>40</b>	<b>63</b>
<b>Amortisation</b>				
At 1 April	24	38	21	32
Charged in year	5	8	3	6
Disposals	(15)	(16)	-	-
<b>At 31 March</b>	<b>14</b>	<b>30</b>	<b>24</b>	<b>38</b>
<b>Net Book Value at 31 March</b>	<b>14</b>	<b>25</b>	<b>16</b>	<b>25</b>
Net Book Value at 1 April	16	25	10	20

## 6. WG Core Capital and other commitments

### 6.1 Capital commitments

Contracted capital commitments not otherwise included within these financial statements

	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Property, plant and equipment	201	289	255	343
Investments and loans	264	264	-	-
	<b>465</b>	<b>553</b>	<b>255</b>	<b>343</b>

## 6.2 Commitments under leases

### 6.2.1 Commitments under operating leases

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

	As at 31 March 2017		As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Buildings				
Not later than one year	7	27	7	25
Later than one year and not later than five years	24	64	22	65
Later than five years	54	94	47	87
	<b>85</b>	<b>185</b>	<b>76</b>	<b>177</b>

### 6.2.2 Commitments under finance leases

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

Minimum Lease Payments	As at 31 March 2017		As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	1	2	1	2
Later than one year and not later than five years	5	6	5	8
Later than five years	-	-	1	1
	<b>6</b>	<b>8</b>	<b>7</b>	<b>11</b>
Less interest element	(2)	(2)	(2)	(3)
	<b>4</b>	<b>6</b>	<b>5</b>	<b>8</b>

### 6.3 Commitments under PFI contracts

The Local Health Boards have ten PFI contracts, eight of which are on the Statement of Financial Position. Only one of these contracts has an individual total commitment of greater than £500m. Details of the individual schemes are included in the Local Health Board statutory accounts.

#### 6.3.1 Off-balance sheet

##### Bute Avenue PFI contract

Since 2000 the Welsh Government has been committed to pay £5.1m annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. The private sector partner maintains for 25 years (from 2000/01) the Bute Avenue road network. After this time the road will be transferred to Cardiff County Council. The road is not an asset of the Welsh Government. The total charged in the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions was £8,460,103 (2015-16: £8,331,067); and the payments to which the Welsh Government is committed, are as follows:

	As at 31 March 2017	As at 31 March 2016
	£m	£m
Not later than one year	19	16
Later than one year and not later than five years	68	70
Later than five years	64	82
	<b>151</b>	<b>168</b>

6.3.2 On balance sheet

**A55 PFI contract**

The A55 road network is maintained by contractors for a period of 30 years (from 1998), after which time the ownership of the A55 will revert to the Welsh Government. The road is treated as an asset of the Welsh Government and unitary payments comprise of two elements – imputed finance lease charges and service charges.

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI or other service concession transactions was £7,807,773 (2015-16: £4,947,291). Total future obligations under on-balance sheet PFI and other service concession arrangements are given in the table below for each of the periods.

**Minimum Lease Payments**

	As at 31 March 2017	As at 31 March 2016
	£m	£m
Not later than one year	12	11
Later than one year and not later than five years	48	48
Later than five years	83	96
	<b>143</b>	<b>155</b>
Less Interest Element	(23)	(27)
	<b>120</b>	<b>128</b>

**Service elements due in future periods**

	As at 31 March 2017	As at 31 March 2016
	£m	£m
Not later than one year	10	8
Later than one year and not later than five years	32	34
Later than five years	24	33
	<b>66</b>	<b>75</b>

## 6.4 Other Financial Commitments

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

	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	385	385	257	259
Later than one year and not later than five years	292	292	385	387
Later than five years	89	89	9	9
	<b>766</b>	<b>766</b>	<b>651</b>	<b>655</b>

The Other Financial Commitments figures includes committed Capital Grants as at 31 March 2017, however, no data was collected for committed Capital Grants as at 31 March 2016, therefore it is not within the comparative.

The Welsh Government provides grant funding for a number of entities on an annual basis. These grants have been committed to within the latter part of the year ended 31 March 2017 in order to provide security to the recipient organisation. As they relate to the year ending 31 March 2018 and are funded by the Welsh Government's budget allocation for the year ending 31 March 2018 they have not been disclosed within the above commitments.

## 7. Financial assets - Investments and loans

	Student Loans	NHS Trusts Public Dividend Capital	Other Financial assets	Total
	£m	£m	£m	£m
<b>Balance at 31 March 2015</b>	<b>2,029</b>	<b>158</b>	<b>178</b>	<b>2,365</b>
Additions	394	9	118	521
Loan repayments	(96)	-	(21)	(117)
Capitalised interest	60	-	-	60
Fair value adjustment	198	-	1	199
<b>Balance at 31 March 2016</b>	<b>2,585</b>	<b>167</b>	<b>276</b>	<b>3,028</b>
Additions	439	8	109	556
Loan repayments	(108)	-	(14)	(122)
Capitalised interest	65	-	-	65
Fair value adjustment	(306)	-	(3)	(309)
<b>Balance at 31 March 2017</b>	<b>2,675</b>	<b>175</b>	<b>368</b>	<b>3,218</b>
<b>WG Core only</b>				
<b>At 31 March 2017</b>	<b>2,675</b>	<b>175</b>	<b>785</b>	<b>3,635</b>
<b>At 31 March 2016</b>	<b>2,585</b>	<b>167</b>	<b>662</b>	<b>3,414</b>

### 7.1 Student Loans

Student loans are recorded within Investments and loans at amortised cost. The gross book value is £3,560m, and the running total of impairments is £885m. This represents the gross value of the loans issued, discounted to net present value, calculated by the HE Student Loan Repayment Model (the model). The net present value calculation also takes into account an estimate of the value of student loans issued which will not be repaid because of policy reasons due to death, disability, age of the student or loan or other policies. The repayment model estimates the present value of future cash flows and irrecoverable amounts because of policy decisions. The carrying value is also considered to be a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions.



Key assumptions used within the model are:

Variable	Assumption used
Discount rate	The Welsh Government have considered the principles under IAS 39 and have used the rate as set out in the PES paper, which is RPI plus 0.7%. This is the HM Treasury long term discount rate representing the Government's long term cost of capital.
RPI Inflation	The model uses RPI rates in line with OBR forecasts (received November 2016) until 2020-21. Future RPI is then assumed to be 3.27% from 2021-22 to 2034-35, and then a step change to 3.00% from 2035-36 onwards.
Graduate earnings	The Student Loan Repayment model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2022-23. Future earnings growth is then assumed to be 4.3% from 2026-27, as this is the long-term forecast, with a linear change from the 2023-24 value each year up to 2025-26. Additionally, the UK Government made a policy decision to freeze the £21,000 repayment threshold for all post 2012 loans for 5 years from 2016 to 2021.
Graduate Income Distribution	The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical data for the Labour Force Survey, the British Household Panel and administrative data held by the Student Loans Company.
Base rates	The model assumes that Bank of England base rates will be in line with OBR forecasts until 2036-37, and then set at 4.9%. A base rate cap is applied to the base rate from 2016-17 onwards, reducing the base rate to the cap level between 2027-28 and 2035-36.
There are a number of other assumptions used in the modelling, but changing these to other reasonable outcomes does not have a significant impact on the value of the loan books. Many of the assumptions are independent of each other and could change at the same time.	

Student loans are subject to credit risk and interest rate risk. Details are provided in Note A15.

### 7.2 NHS Trusts Public Dividend Capital

The Welsh Government 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 Welsh Government does not undertake any trading activity in these financial instruments. The Welsh Government has taken advantage of the exemption available for not accounting 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 Statement of Financial Position.

### 7.3 Other Financial Assets

Other financial assets comprise: Welsh Government financial interests in joint ventures, other loans and investments; Invest to Save loans with Local Authorities; and, assets held by Finance Wales PLC.

## 8. Inventories

	As at 31 March 2017		As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Development Assets	165	165	161	161
Drugs	24	47	26	48
Telecommunication spares	2	2	3	3
Road salt	2	2	2	2
Other consumables	1	39	-	38
	<b>194</b>	<b>255</b>	<b>192</b>	<b>252</b>

## 9. Trade receivables, financial and other assets

	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Amounts falling due within one year:				
Trade receivables	99	213	162	230
Other tax	16	16	15	15
Prepayments and accrued income	121	151	132	170
EU accrued income	-	-	-	-
	<b>236</b>	<b>380</b>	<b>309</b>	<b>415</b>
Amounts falling due after more than one year:				
Trade receivables	11	19	13	13
Prepayments	4	4	1	1
Other receivables	-	278	-	219
	<b>15</b>	<b>301</b>	<b>14</b>	<b>233</b>
<b>Total trade receivables and other assets</b>	<b>251</b>	<b>681</b>	<b>323</b>	<b>648</b>

## 10. Cash and cash equivalents

	As at 31 March 2017		As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	143	350	213	400
Net change in cash and cash equivalent balances	(2)	(51)	(70)	(50)
Balance at 31 March	<b>141</b>	<b>299</b>	<b>143</b>	<b>350</b>
The following balances were held at:				
Government Banking Service	139	153	142	154
Commercial banks & cash in hand	2	146	1	196
	<b>141</b>	<b>299</b>	<b>143</b>	<b>350</b>

## 11. Trade and other payables

	As at 31 March 2017		As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Amounts falling due within one year:				
Taxation and social security	6	61	5	48
Trade and other payables	488	860	466	799
Deferred European Union Income	56	56	61	61
Other accruals and deferred income	262	599	276	625
Amounts payable to the Welsh Consolidated Fund	3	3	3	3
Obligations under finance leases and PFI contracts	9	13	9	13
	<b>824</b>	<b>1,592</b>	<b>820</b>	<b>1,549</b>
Amounts falling due after more than one year:				
Obligations under PFI	110	177	120	187
Obligations under finance leases	5	4	5	5
	<b>115</b>	<b>181</b>	<b>125</b>	<b>192</b>
<b>Total trade payables and other liabilities</b>	<b>939</b>	<b>1,773</b>	<b>945</b>	<b>1,741</b>

## 12. Provisions for liabilities and charges

	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
<b>Balance at 1 April</b>	<b>733</b>	<b>758</b>	<b>707</b>	<b>764</b>
Provided in the year	284	459	103	320
Provisions not required written back	(23)	(93)	-	(174)
Transfer	-	(36)	-	-
Provisions utilised in year	(67)	(143)	(77)	(152)
<b>Balance at 31 March</b>	<b>927</b>	<b>945</b>	<b>733</b>	<b>758</b>
<b>Analysis of expected timing of discounted flows:</b>				
Not later than one year	263	261	231	244
Later than one year and not later than five years	253	322	204	219
Later than 5 years	411	362	298	295
<b>Balance at 31 March</b>	<b>927</b>	<b>945</b>	<b>733</b>	<b>758</b>

### WG Group Only

	Other	Health	Total
	£m	£m	£m
<b>Analysis of expected timing of discounted flows:</b>			
Not later than one year	3	258	261
Later than one year and not later than five years	-	322	322
Later than 5 years	-	362	362
	<b>3</b>	<b>942</b>	<b>945</b>

The above WG Group figures are not significantly different from those for the Core.

**(i) Other Provisions**

This includes various potential pension and employment liabilities in respect of previous employees and various commercially sensitive provisions which underwrite projects with the aim of improving economic growth prospects.

**(ii) Health Provisions**

The Welsh Government has various minor health related provisions including LHB employment liabilities, the Skipton Fund (Hepatitis C infection claims) and the NHS Electronic Staff Records system; as well as expected future re-imbursements of the Welsh Risk Pool. The Welsh Risk Pool (WRP) assists Welsh NHS bodies with risk management and settlement of disputed claims for alleged medical or employer negligence. The Welsh Risk Pool balance as at 31 March 2017 is £867m (2015-16: £682m).

The Welsh Risk Pool provision has seen a substantial increase in 2016-17 of £185 million.

A significant proportion of this increase is due to the impact of changes in the personal injury discount rate announced by the Lord Chancellor on 27th February 2017, effective from 20th March 2017. The rate changed from 2.5% (the level maintained since 2001) to -0.75%. The decision will result in higher pay outs for the lump sum element of personal injury claims, including those affected by medical negligence. Few Welsh Risk Pool claims have been settled since the introduction of the new rate, however the claims assessed as requiring a provision at 31 March 2017 have been adjusted to reflect the expected impact of the rate upon settlement, increasing the provision for future liabilities this financial year.

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

**13. Contingent Liabilities**

	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Legal Claims – alleged medical/ employer negligence	854	891	787	852
Potential contractual obligations under the WDA Act 1975	10	10	10	10
Other legal and contractual claims	39	70	11	11
	<b>903</b>	<b>971</b>	<b>808</b>	<b>873</b>

### **Legal Claims – alleged medical/employer negligence (restated)**

This note has been amended to reflect that under the Wales Act 2006 the Welsh Government must meet the liabilities of the Welsh Risk Pool should the NHS bodies cease to exist.

### **Other legal and contractual claims**

Details on restricted and as yet un-quantified potential liabilities are not shown due to their sensitivity to commercial and legal confidentiality.

### **Unquantified contingent liabilities**

Final claims to the EC will not be agreed for some years. Should the value of the Euro weaken significantly in that period, the flexibility within programmes may not be sufficient to contain all potential exchange losses. It is not possible to assign a value due to the range of variables.

### **Financial guarantees, Indemnities and Letters of Comfort**

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

#### **Guarantees:**

In special circumstances the Welsh Government acts as a guarantor for its sponsored bodies. None of these guarantees are material.

#### **Indemnities:**

The Welsh Government has 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 Welsh Government has committed to indemnify Housing Stock Transfer organisations against the financial consequences of any future withdrawal of, or amendment to the VAT Mitigation Scheme. The liabilities cover eight organisations for £411.7 million and the period of liability varies. There are no current concerns regarding the continuation of the scheme, and the potential of the liability maturing is considered to be too remote to include as a contingent liability.

The Government Indemnity Scheme provides indemnities to enable the National Library of Wales, the National Museum of Wales, and other eligible institutions to borrow objects and artworks. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability. The value of these guarantees at 31 March 2017 was £42 million.

#### **Letters of comfort:**

The Welsh Government has a maximum liability to underwrite at last resort, costs regarding contaminated land at the Brofiscin tip of £0.5 million.

#### **Other:**

Details on restricted and as yet un-quantified potential liabilities are not shown due to their sensitivity to commercial and legal confidentiality.



**14. Other liabilities**

	As at 31 March 2017		As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Pension fund deficits	72	107	63	83
National Loans Fund (falling due after 5 years)	11	11	11	11
Finance Wales bank loans	-	-	-	10
	<b>83</b>	<b>118</b>	<b>74</b>	<b>104</b>

**15. Movements in working capital other than cash**

	As at 31 March 2017		Restated As at 31 March 2016	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
(Increase)/decrease in inventories	(3)	(3)	24	24
(Increase)/decrease in receivables:				
current	73	35	(65)	(29)
non-current	(1)	(68)	-	(127)
Increase/(decrease) in payables:				
current	5	44	(71)	26
non-current	(9)	(20)	(9)	(20)
	<b>65</b>	<b>(12)</b>	<b>(121)</b>	<b>(126)</b>
Student Loans interest	(65)	(65)	(60)	(60)
Development assets movement	5	5	(25)	(25)
Adjustments for accrual movement: fixed assets	-	(31)	(1)	20
PFI/Finance lease capital element	9	9	9	9
Other adjustment	-	-	(1)	(1)
Less movement in amounts payable to the Welsh Consolidated Fund and other non-operating cost balances	(3)	(3)	122	122
	<b>11</b>	<b>(97)</b>	<b>(77)</b>	<b>(61)</b>

## 16. Related Party Transactions

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

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

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

**Lesley Griffiths** (Cabinet Secretary for Environment and Rural Affairs) and **Ken Skates** (Cabinet Secretary for Economy and Infrastructure) are both Vice-Presidents of the Llangollen International Eisteddfod which received £4,037 in 2016-17.

The husband of **Kirsty Williams** (Cabinet Secretary for Education) is a partner in a farming business which in 2016-17 received £65,851 support under the EU's Common Agriculture Policy and the Welsh Government's Glastir scheme for common land.

**James Price, Peter Kennedy** and **Sioned Evans** (board members) are also on the board of Transport for Wales which received grant funding of £8,889,957.

The husband of **Gillian Baranski** (board member) is a partner in the legal company Geldards LLP who competed for a procurement contract for Legal Services with the Welsh Government. The company was paid £2,178,489 in 2016-17 for these Legal services.

**Sir Adrian Webb** (non-executive director) is the Chair of the Big Lottery Fund which received funding in 2016-17 of £2,766,058 from Communities programmes.

**James Turner** (non-executive director) is also a non-executive director of Aber Instruments which received Welsh Government funding of £2,079 in 2016-17.

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

### 16.1 Results of Consolidated wholly owned companies

	Year ended 31 March 2017		Year ended 31 March 2016	
	Profit/(Loss) £	Share Capital & Reserves £	Profit/(Loss) £	Share Capital & Reserves £
Finance Wales PLC (i)	13,374,878	125,561,047	(1,336,066)	105,565,806
Regeneration Investment Fund for Wales LLP	5,145,738	35,165,845	(199,315)	30,020,116
WGC Holdco Limited	Nil	55,300,000	Nil	55,300,000
Careers Choices Dewis Gyrfa Limited	(1,852,000)	(27,679,000)	(1,256,000)	(14,562,000)

(i) Investment of 49,999 ordinary £1 shares, 25p part paid. These accounts have been consolidated using draft figures, being not materially different to those disclosed.

### 16.2 Associate Undertakings

The Welsh Government had an interest in Welsh Industrial Partnership LLP, an associate

undertaking; with no significant influence (49%). The company was dissolved on 20/12/2016.

### 16.3 Other minor subsidiaries and interests

The Welsh Government has a number of other minor subsidiaries for which no trading results are disclosed in these consolidated accounts. These include:

- DCFW Limited - Design Commission for Wales / Comisiwn Dylunio Cymru
- Hybu Cig Cymru Cyf / Meat Promotion Wales Limited
- Sector Development Wales Partnership Limited
- Life Sciences Hub Wales Limited
- Welsh Development Management Limited
- International Business Wales Limited
- Innovation Point Limited
- Transport for Wales

The Welsh Government owns 50% of the issued share capital of the International Convention Centre Wales Limited, with the other 50% being held by The Celtic Manor Resort Limited.

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

Airbus Group Endeavr Wales (formerly EADS Foundation Wales) – a joint interest in a company limited by guarantee. Joint ownership is held with Airbus Defence and Space Ltd (formerly Cassidian Holdings Limited) and Cardiff University.

Local Health Board NHS charities are not included in the consolidated accounts as the balances are not material.

## 17. Restatement of 2015-16 Comprehensive Net Expenditure and Statement of Financial Position

### Changes in Accounting Policy

Further to application guidance by HM Treasury on IAS 16 Property, Plant and Equipment published in 2014 the treatment of maintenance expenditure that maintains the service potential of the road network has been capitalised. This required the 2015-16 figures to be restated. This has not resulted in any net material differences to the amounts and balances reported for the financial year ended 31 March 2016.

### Other prior period adjustments

The 2015-16 Trade Debtors have been restated to reflect debts that were due in excess of one year. The timing of provisions for the Welsh Risk Pool have been restated for 2015-16 replacing draft figures with final figures, and to reflect provisions due in less than one year. This has not resulted in any net material differences to the amounts and balances reported for the financial year ended 31 March 2016.

	Balance at 31 March 2016 per 2015-16 signed accounts	Changes in Accounting Policy	Other prior period adjustments	Restated balance as at 31 March 2016
WG Core	£m	£m	£m	£m
Consolidated Statement of Comprehensive Net Expenditure				
Goods and Services	369	(60)	-	309
Depreciation	159	60	-	219
Consolidated Statement of Comprehensive Financial Position				
Network Assets at cost: Additions	-	60	-	60
Network Assets at cost: Revaluations	(467)	(60)	-	(527)
Amounts falling due within one year: Trade and other receivables	175	-	(13)	162
Amounts falling due after more than one year: Trade and other receivables	-	-	14	14
Current liabilities: provisions	-	-	(231)	(231)
Non-current liabilities: provisions	(733)	-	231	(502)

WG Goup	£m	£m	£m	£m
Consolidated Statement of Comprehensive Net Expenditure				
Goods and Services	3,557	(60)	-	3,497
Depreciation	298	60	-	358
Consolidated Statement of Comprehensive Financial Position				
Network Assets at cost: Additions	-	60	-	60
Network Assets at cost: Revaluations	(467)	(60)	-	(527)
Amounts falling due within one year: Trade receivables	243	-	(13)	230
Amounts falling due after more than one year: Trade receivables	-	-	13	13
Current liabilities: provisions	-	-	(244)	(244)
Non-current liabilities: provisions	(758)	-	244	(514)

## Appendix A – Accounting Policies

### A.1 Property, Plant and Equipment

#### Land and buildings (including Dwellings)

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

#### Network Assets

The road network is valued at its depreciated replacement cost in line with the guidance in the Financial Reporting Manual for specialist assets for which market valuations are not available. To produce this valuation requires the use of assumptions, estimates and professional judgement. The model used to produce the valuation is known as the Roads Authorities' Asset Valuation Systems (RAAVS), run by external consultants W.S. Atkins. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years. This valuation was carried out in 2014-15. Interim valuations use a series of standard costs to value the individual components of the network assets and indices to revalue these on an annual basis.

The trunk road network is recognised as a single infrastructure asset in accordance with the applicable guidance outlined in the FReM. However, it comprises four distinct

elements that are accounted for differently: land; the road pavement; structures (such as bridges and culverts); and communications (such as variable message signs).

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

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

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

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

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

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

The indexation factors applied are:

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

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

**Information Technology and Fixtures and Fittings**

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

**Heritage Assets**

The Welsh Government holds a number of non-operational heritage assets where the cultural, educational and historical value is unlikely to be fully reflected in a financial value derived from a market mechanism or price. These assets are of a specialist nature and reliable valuations either cannot be obtained or could only be obtained at a prohibitive cost. The Welsh Government, therefore, does not capitalise these assets in the accounts.

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

**A.2 Depreciation**

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

- annual maintenance charge;

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

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

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

Lives are in the following ranges:

Network surface	20 to 50 years
Network structures	20 to 120 years
Network communication	15 years
Leasehold land & buildings	Remaining life
Dwellings	Remaining life
Freehold buildings	up to 60 years
Information technology	3 to 10 years
Intangible software assets	2 to 10 years
Fixtures & fittings	3 to 20 years

Freehold Land and Assets under construction are not depreciated.

Impairments of tangible fixed assets are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred.

### **A.3 Research and Development**

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

### **A.4 Financial Assets**

#### **Loans and Public Dividend Capital**

Loans and Public Dividend Capital (PDC) issued to public bodies outside of the consolidated boundary are shown at historical cost less any necessary impairment to represent fair value. Other investments, in the form of joint ventures are shown at fair value.

#### **Student Loans**

The Welsh Government's accounting policy is to recognise an addition to the student loan book once the Student Loans Company (SLC) has issued the loan to the student. Student loan repayments are collected by the SLC and Her Majesty's Revenue and Customs (HMRC). For repayments made via the SLC, the Welsh Government recognises the repayment when the SLC has received the cash and updated the borrower record. For repayments collected via the tax system, this is recognised when the amounts which HMRC estimate as being due to the Welsh Government for the financial year are received. Student loans values are shown net

of estimated future write-offs in respect of the non-recovery of loans and are reviewed annually.

The carrying value is considered to be a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions. This valuation technique is used to estimate the present value of future cash flows and an estimate of irrecoverable amounts because of policy decisions.

A statistical model is used to estimate the total value of the loans issued and future repayments by graduates. This makes a number of assumptions including the amount of loans that will be taken out, the earnings levels of Welsh graduates, interest rates, when loans will start to be repaid, the amount of loans that will have to be written off (due to age, death or policies such as partial cancellation and repayment thresholds) and how much repayments made in the future are worth in today's money (net present value). As a substantial asset, changes to the assumptions used in the modelling can have a large effect on the loan funding and the non-cash adjustments valuing the loan book.

The model holds data on the demographic and behavioural characteristics of students in order to predict their likely repayments of loans. The model depends on a complex set of assumptions, and particularly on borrowers' earnings. The model is long term in nature, but uses the latest Office for Budget Responsibility (OBR) short and long term forecasts for RPI, base rates and earnings growth. The valuation of the student loan book is uncertain as it is highly dependent on macroeconomic circumstances and graduate earnings over the next 30 years, as well as a number of other complex assumptions, for around four million borrowers. Further information on the core assumptions and a simplified model is provided on the Department for Education website.



The forecasting model for Wales contains the same main assumptions as England. However, there are a number of specific Wales only amendments that are made to reflect information and policies that are unique to Wales. The main differences are as follows:

- The inclusion of Welsh borrower data from the SLC
- The inclusion of Welsh student number projections
- The inclusion of information relating to loans for Welsh students; and the.
- Partial cancellation of student loans scheme.

Each year the carrying value of HE loans in the accounts is compared with the latest outputs from the HE student loan repayment model, which is re-run using current assumptions. If there is a significant difference, a review is undertaken to determine the reasons for the variance. The carrying value would only be adjusted if there is sufficient evidence to suggest that the divergence constituted a permanent reduction in the carrying value.

### **Non-current Assets**

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

### **A.5 Inventories**

Development assets, comprising land held for future development and built properties not required for own use, which are held with the ultimate intention for resale, are shown at the lower of historic cost and professional asset valuation, any impairment on revaluation being written off to the SOCNE. Material reversals of prior year impairments are written back to the SOCNE where there is current evidence of increased value resulting from earlier year's expenditure.

Other Inventories are valued at the lower of replacement cost and net realisable value. The Welsh Government does not consider there to be a material difference between the replacement cost and historic cost of stocks. Stocks with a finite useful life are written-off at the end of their lives.

### **A.6 Operating Income**

Operating income relates directly to the operating activities of the Welsh Government and the related bodies.

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

Health revenue includes Health Funding Contributions payable by HM Revenue and Customs which are subject to audit by the National Audit Office. The audit of these transactions 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.

### **A.7 Value Added Tax (VAT)**

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

### **A.8 Pensions**

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

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

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

Employees of Local Health Boards participate in the NHS pension scheme. Information on this scheme can be found in the LHB Summarised Accounts.

### **A.9 Early departure costs**

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

For pre-merger employees and ex-employees of the former Welsh Development Agency in the Rhondda Cynon Taff Pension Scheme, the Welsh Government meets the additional cost of benefits beyond the scheme benefits in respect of employees who retire early.

### **A.10 Operating leases**

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

### **A.11 Grants**

Grants payable or paid are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs.

### **A.12 Private Finance Initiative / Public Private Partnership transactions**

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession

arrangements, following the principles of the requirements of IFRIC 12. The LHB, therefore, recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

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

- a) Payment for the fair value of services received;
- b) Payment for the PFI asset, including finance costs; and
- c) Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

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

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

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

### A.13 Exchange Rate Gains and Losses

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

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

### A.14 Provisions

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

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

### A.15 Financial Instruments

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

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

### **Credit Risk**

The Welsh Government's objective is full recovery of debt, which we actively pursue. The policy is to operate normal credit control procedures for the management of risk of default by trade debtors through the Accounts Receivable function. Due to the nature and value of debtors, the credit risk associated is deemed as minor. Provisions for doubtful debts are made once debts are over 6 months old.

The Welsh Government has a statutory obligation to issue student loans, and is not permitted to withhold loans on the basis of poor credit rating. Exposure to the risk of non-repayment of loans is managed and monitored, and the impact is accounted for via an annual impairment review.

### **Market Risk**

Foreign Currency Risk - the Welsh Government is exposed to negligible currency risk on its foreign currency transactions, except for funds received from the European Union to the Welsh European Funding Office. Private sector mitigation options are not available. However, total funding received from the European Commission is managed to ensure the available funding is flexibly allocated to projects, enabling targeted expenditure levels to be met. Funding claims from the Commission are also prompt to limit delays between incurring expenditure and its reimbursement.

### **Interest Rate Risk**

The amount of student loan interest repayable is subject to the fluctuations in the market interest rate and RPI. This can lead to a risk in accurately forecasting the amount of interest payable and therefore the possible impairment of future cash flows.

### **Liquidity Risk**

The Welsh Government only borrows from the National Loans Fund, and relies primarily on

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

### **A.16 Newly issued accounting standards not yet effective**

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

Standards which may have a material impact if adopted are:

IFRS 12 Disclosure of interests in other entities – clarifies the disclosure requirements around assets held for sale, held for distribution or as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

IFRS 9 Financial Instruments - IFRS 9 addresses classification, measurement and impairment of financial assets and is still under consideration by HM Treasury with a view to adopt within the 2018-19 FReM.

IFRS 15 Revenue from Contracts with Customers – IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This standard will be included within the 2018-19 FReM.

IFRS 16 Leases - effective 1 January 2019. IFRS 16 will provide a single model for all leases that will bring all leases on Statement on Financial Position unless the lease term is 12 months or less or the underlying asset has a low value. HM Treasury are reviewing the implications of this amendment on the UK Public Sector with a view to include in the 2019-20 FReM.

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

- IFRS 1 First time adoption of IFRS
- IFRS 4 Insurance Contracts adapted for IFRS 9
- IAS 28 Investments in associates and joint ventures
- IFRS 2 Share based payment
- IFRS 17 Insurance Contracts to replace IFRS 4
- IAS 7 Statement of Cash Flows
- IAS 12 Income Taxes
- IAS 40 Investment Property Transfers of Investment Property
- IFRIC Interpretation: 22: Foreign Currency Transactions and Advance Consideration

## Appendix B - Glossary (Unaudited)

**Amortisation** – this is the method of spreading the cost of a non-current intangible asset over its useful life.

**Annually Managed Expenditure (AME)** – this is a separate annually managed spending limit called AME which has a shorter term view than the DEL limit. AME is more volatile than DEL expenditure and therefore is more difficult to explain or control as it is spent on programmes which are demand-led.

**Capital spending** - spending on the purchase of assets, above a certain threshold, which are expected to be used for a period of at least one year. It includes the purchase of buildings, equipment and land. The threshold is set by each body: items valued below it are not counted as capital assets, even if they do have a productive life of more than one year.

**CFER – Consolidated Fund Extra Receipts**

This is income which cannot be retained and is passed over to HM Treasury.

**Contingent liabilities** – contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Welsh Government's control. An example is legal action where the Welsh Government may need to pay legal costs if it loses the case. These details are not disclosed if doing so could seriously prejudice the outcome of legal claims.

**Departmental Expenditure Limits (DEL)** – this is the spending budget which is allocated to the Welsh Government by the Spending Review. It is normally categorised as capital DEL and resource DEL. This expenditure includes the running of the services and the everyday cost of resources such as staff. The DEL limit is tightly controlled by HM Treasury. Expenditure is deemed to be DEL unless HM Treasury has specified otherwise.

**Depreciation** - a measure of the wearing out, consumption or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technological or market changes.

**Devolved administrations** - the administrations established in Scotland, Wales and Northern Ireland under the Scotland Act 1998, the Government of Wales Act 1998 and the Northern Ireland Act 1998.

**FReM** – Financial Reporting Manual. This is the HM Treasury technical accounting guide to the preparation of financial statements for government.

**IFRS** – International Financial Reporting Standards. The Financial Statements of Government adopted IFRS from 2009-10 as the basis for preparation of their accounts which were previously prepared under UK- based Generally Accepted Accounting Principles (UK GAAP).

**Intangible** – intangible assets are non-physical assets, for example, developed computer software and website development costs.

**Losses** – losses are made up of remissions and write-offs. Remission is the process used to identify and separate receivables which the Welsh Government has decided not to pursue, for example on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

**PFI** – Private Finance Initiative (PFI) is a way of creating 'public-private partnerships' by funding public infrastructure projects with private capital.

**Provisions for liabilities** – provisions are recognised when the Welsh Government has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will be settled and an amount has been reliably estimated.



**Resource accounting** - the system under which budgets, Estimates and accounts are constructed in a similar way to commercial audited accounts, so that both plans and records of expenditure allow in full for the goods and services which are to be, or have been, consumed - i.e. not just the cash expended.

**Total Managed Expenditure, TME** - a Treasury budgeting term which covers all current and capital spending carried out by the public sector.

**Welsh Consolidated Fund** - a neutral place to hold the public money allocated to Wales by the UK Government, via the Secretary of State for Wales, and also that received from other sources.

**Welsh Government Sponsored Bodies (WGSBs)** - the name in Wales for Non Departmental Public Bodies established by the Welsh Ministers.

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WG32164

ISBN 978 1 78859 493 6 (digital)

ISBN 978 1 78859 495 0 (print)





