



Llywodraeth Cymru
Welsh Government

Welsh Government Consolidated Accounts 2019-2020



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 2020, together with the Certificate and report of the Auditor General for Wales thereon.

Laid before the Senedd Cymru pursuant to the Government of Wales Act 2006 Section 131.

Overview from the Permanent Secretary



Shan Morgan

I am pleased to present my fourth consolidated accounts on behalf of the Welsh Government.

This year has unquestionably been dominated by the sheer scale and impact of the global COVID-19 crisis. No part of the Welsh Government has been untouched by the fall-out from the pandemic, which has seen us shift a large proportion of our resources to respond to this unprecedented and complex set of challenges. Staff at all grades, from all areas of the workforce have played their part in supporting our Ministers to protect people in Wales – often in incredibly challenging personal circumstances. I am tremendously proud of the professionalism, commitment and energy that the whole organisation has displayed over the past few months, and very grateful to our partners in local government, the public service and third sector who we have worked with very closely.

The pandemic came on top of the huge amount of work and preparation that was needed across the whole organisation to support the First Minister and Cabinet on the UK's exit from the European Union. Since entering the Transition Period in January 2020, we have maintained an impressively high level of strategic and operational preparedness, planning for the future and the implementation phase of the Exit process. In spring time, negotiations on the UK's future relationship with the EU began within the framework of the Political Declaration agreed. The Welsh Government has sought a dynamic role in the negotiations with the UK Government in order to protect and advance our range of interests, and is similarly engaged in seeking to influence UK Governments' trade negotiations with the rest of the world. There still remains significant uncertainty as to whether or when

a new relationship between the UK and the EU will be agreed – but in any scenario we will face a whole series of operational and policy challenges, including delivery of new areas of responsibility, in a significantly changed operating context.

At the start of this reporting period the Welsh Government launched Prosperity for All: A Low Carbon Wales. This was our first statutory climate change mitigation plan, which set out 100 policies and proposals to decarbonise, enabling us to comply with our first carbon budget and create the foundations for further emission reduction. Our sustainable development and environmental legislation is recognised as world leading and we are seeking to use this legislation to set a new pace of change, to trigger a wave of action both in the UK and internationally.

This year, the Welsh Government also declared a climate emergency as a further demonstration of our commitment to tackling one of the greatest challenges facing current and future generations and marked 5 years since the Well-being of the Future Generations (Wales) Act 2015 became Welsh law. A world first, which has changed the way we plan for the future.

We also saw an increase in extreme weather events and dealt with the aftermath of two devastating storms. Ciara and Dennis had a severe impact on people and property across the whole of Wales. During this time we saw exceptional rainfall and river levels, with many rivers reaching flood record levels. The damage has been significant to livelihoods, communities and organisations, including our own, as a number of our offices were forced to close due to severe flooding. Colleagues from across the organisation, Natural Resources Wales, Emergency Services, Local Authorities and the

NHS were placed under immense pressure to respond effectively to those affected by the flooding across the country. Business continuity plans were quickly put in place so critical business activity could continue to support Ministers during this difficult time. Staff from across Wales created temporary office space to welcome and support colleagues affected by the floods and the introduction of ‘Smart Working’ made a great difference in our abilities to maintain business operations, with many people being able to work from home. As it soon transpired, this was a relatively small-scale practice run for the huge shift in culture and working practices that we were forced to make, practically overnight, to continue working successfully during the COVID-19 lock-down.

While the COVID-19 crisis, preparing for EU exit and flooding have stretched the organisation to its limits, we have done everything possible to maintain momentum in delivering the most critical commitments in the Programme for Government. Inevitably, that has required stringent prioritisation for Ministers and the civil service.

In challenging times, some people may think that we cannot afford to focus on dignity and respect, inclusive leadership and developing our capability – I believe the opposite. I am delighted to say that there are a number of changes we have made in this reporting period through my Future-proofing initiative that have had a substantial impact on the way we work. Investment in new ICT equipment and the introduction of ‘Smart Working’ – which is our business-focussed approach to support greater flexibility, resilience and productivity – has encouraged us all to re-think our approach to work. I cannot imagine how we would have coped

in the past six months if we had not already made this investment in our kit and culture and our 'Smart Working' approach will help us to reduce our environmental impact and work more productively well into the future. Indeed, recent staff surveys show that levels of engagement and communication across the whole of Welsh Government have never been higher.

We continue to build the capability and skills of our workforce and have renewed our focus on improving the quality and accessibility of opportunities available to colleagues by launching our online Learning Lab. This is something I will want to build on in the year ahead as we find new ways of strengthening our capability while working remotely.

I am delighted that 2020 saw the launch of the Welsh Government's internal Welsh Language Strategy. This will deliver our commitment under Cymraeg 2050 to be an exemplar in the use and promotion of the Welsh language.

We ran two new assessment and development gateways before the COVID-19 crisis meant that we were forced to pause internal promotions and also introduced a number of development programmes, including for women aspiring to senior leadership and BAME colleagues – which have been enthusiastically received. In addition, I strengthened my organisation-wide 'Let's Talk Respect' campaign to embed the positive behaviours we expect to see from all of our staff, ensuring the Welsh Government is a place to work where people feel enabled to reach their full potential, be themselves and call out unwelcome behaviour.

That work has taken on an even sharper focus with the events of recent months when the disproportionate impact of COVID-19 on our minority ethnic communities and the Black Lives Matter campaign have resonated across the world. As the head of the Welsh Government civil service I have been clear that there is no place for racism in this organisation and I have reiterated that in a message of support for BAME colleagues which was sent to every member of staff. The extensive preparations and guidance on safe working at home and in the office which we have developed for staff during the global crisis includes an individual risk assessment tool which is available for everyone but particularly important for colleagues from our BAME communities given the emerging evidence on the disproportionate impacts of the virus.

I have been struck that the COVID-19 crisis has helped further embed in the Welsh Government the five ways of working set out in the Well-being of Future Generations Act. For example, our Track, Trace and Protect programme and the shielding initiative were co-created successfully with stakeholders and customers. Strengthening this approach across the Welsh Government will be a priority for the coming year. Throughout our response, we have turned to our well established social partnership structures, to support our effective working with public and private sector employers and trade unions. These structures have a long history of allowing us to work collaboratively in our shared interests and we have been able to hone them further in advance of our draft legislation.

There will be a lot of lessons we can learn from this crisis period that will help us shape the organisation for the future and I intend to involve the whole organisation in that conversation. This will include learning from the experience of remote working in relation to maintaining a dispersed workforce across Wales and reducing our private transport carbon footprint.

Finally, I am incredibly proud of how the civil service has responded to the enormous pressure we have been under, but I do not take the resilience and well-being of individuals and the organisation for granted. This has been an exceptionally hard and challenging year for the whole of the public service in Wales. The continuing tight budget situation means that the civil service of the Welsh Government remains stretched and that ruthless prioritisation has been essential to manage effectively and deliver quality services within budget during the COVID-19 crisis. With the support of the First Minister and his Ministerial colleagues my senior team and I have focused hard on deploying our resources to top priorities. The Executive Committee keeps this under constant review.

Shan Morgan

Permanent Secretary

Introduction by Welsh Government Group ARAC Chair

This is the first time a commentary by the chairperson of the Welsh Government Audit and Risk Assurance Committee (ARAC) has been presented as part of the Welsh Government's annual consolidated accounts.

As a Non-Executive Director of the Welsh Government Board I served on ARAC throughout the year and in March 2020 took over the position of Chairperson from my predecessor Ann Keane. I would like to take this opportunity to formally thank Ann for her expert stewardship and leadership of the committee.

The Welsh Government ARAC comprises myself as an external independent Non-Executive Director of the Welsh Government Board and three external independent chairpersons of the separate Audit and Risk Assurance Committees for each of the Welsh Government's operational groups namely Economy, Skills and Natural Resources (ESNR), Education and Public Services (EPS) and Health and Social Services (HSS). These are collectively referred to as the Group ARACs.

The purpose of the Welsh Government ARAC is to provide support and advice to the Principal Accounting Officer on matters of risk management, internal control and governance and adopts the principles and guidance set out in HM Treasury Audit and Risk Assurance Committee Handbook.

The Group ARACs have their own committees comprising external independent members and work to terms of reference aligned to the requirements of the Welsh Government ARAC.

The Group ARACs meet quarterly with their respective Directors General and officials and report formally at each meeting of the Welsh Government ARAC.

During the year the committee refreshed its terms of reference and welcomed new members into each of the Group ARACs which included appropriate induction for new members. In addition, the committee worked with officials and the secretariat to develop and embed a new set of operational standards for the committee which are working well.

Activity throughout the year routinely included review of the Corporate Risk Register, assurance reports, advisory reports and internal audit planning including resourcing. The Group ARACs regularly scrutinised the risk registers for their respective operational groups. I am pleased to report that engagement of officials with both the Welsh Government ARAC and Group ARACs was good throughout the year.

Each Welsh Government ARAC meeting is also attended by staff from Audit Wales and appropriate and relevant matters were addressed accordingly.

The workflow of the Welsh Government ARAC and Group ARACs was briefly interrupted in the spring due to the COVID-19 crisis. Fortunately, the interruption was short lived, and all activity was resumed using appropriate digital technologies and platforms. This activity included an additional extraordinary meeting of the Welsh Government ARAC on 22 May 2020 to address relevant issues emerging under the COVID-19 crisis.

As Chair, I would like to thank the auditors, senior officials, Directors and Deputy Directors for supporting the ongoing work of the committee.

The Auditor General for Wales has qualified the 2019-20 annual accounts on the basis of a difference of opinion with Welsh Government officials on the interpretation of accounting standard IAS 37 and its application in respect of grant support for small business and the leisure, hospitality and retail sectors announced by Ministers in March 2020. In accordance with its Terms of Reference, the Welsh Government ARAC met to discuss the matter on two specific occasions and heard from both Audit Wales and Welsh Government officials. Both provided detailed and informative papers setting out their positions and the rationale for their conclusions. Having considered IAS 37, all the evidential information provided to date and by careful analysis of the reality of the exceptional circumstances the committee concluded that the accounting treatment applied by Welsh Government officials is appropriate and consistent with the Welsh Government's accounting policy on and handling of grants. Nevertheless, an audit qualification is a serious matter, and the Welsh Government will need to carefully consider the potential implications.

Gareth Lynn

Non-Executive Director and Chairperson
of the Welsh Government Audit and
Risk Assurance Committee

Contents

What's in the Report and Accounts: A Snapshot **2**

Part One:

Introduction to Welsh Government: The Welsh Government at a Glance	4
The Cabinet	5
The Civil Service	6
Welsh Government Performance Framework	8
Welsh Government Key Reports	12
Welsh Government Funding Flows	13
Fiscal Framework and Tax Policy	13
Borrowing by Welsh Ministers	14
Welsh Government Consolidated Accounts Context	14
Welsh Government Top Areas of Spend	17
Managing the Legislative Programme	19
Preparing for EU Exit	21
The Future of Regional Investment in Wales	23
Responding to Flooding	24
Responding to COVID-19	26
Decarbonisation	31
Meeting our Commitment to the Well-being of Future Generations	32
Digital Agenda	36
Our Commitment to Dignity and Respect	38
Respecting Human Rights	41
Working Bilingually	42
Working in Partnership	43
Anti-bribery and Corruption	44
Handling Complaints	45

Part Two:

The Accountability Report	46
The Governance Statement	48

Part Three:

The Accounts	105
--------------	-----

What's in the Report and Accounts: A Snapshot

Each year, the Welsh Government publishes an annual Report and Accounts. As well as providing a detailed picture of how we have managed our finances and met our statutory obligations, the Report gives us the opportunity to share some information with you about how the organisation has been run throughout the year.

It does not provide an account of progress on the Welsh Government's delivery programme, Prosperity for All. This is available in the Welsh Government Annual Report www.gov.wales/welsh-government-annual-report-2019 which can be found on our website.

The Report and Accounts is split into three key elements.

In line with guidance from HM Treasury, due to the current global crisis, **Part One** of the report has been reduced this year to allow resources to focus on the COVID-19 response. Our key priorities are still covered. The report starts by providing an overview of what the Welsh Government is responsible for, membership of the Cabinet, the senior leadership of the organisation during the accounting year, and our performance framework.

Whilst Welsh Ministers determine the policy ambitions and delivery priorities that make up the Government's programme, the effective performance of the organisation in delivering that programme is the responsibility of the Permanent Secretary and the senior leadership team. This report gives an over-arching picture of how the organisation has responded during a period of exceptional challenge. This includes the approach we have taken to managing the complex preparations for EU exit, our response to the early impact of COVID-19 in Wales, and to the devastating flooding which took place earlier in the year. Fiscally, it includes Welsh Government funding flows, the fiscal framework and tax policy, borrowing by Welsh Ministers, Welsh Government consolidated accounts context, and our top areas of spend.

In common with many other public bodies in Wales, the Welsh Government is bound by and committed to the Well-being of Future Generations Act. There is an update on how we have put the Act into practice, and further information on how the organisation is meeting its responsibilities in relation to the Welsh Language (Wales) Measure 2011.

We have a long-established Partnership Working Agreement with our Trade Unions and this spirit of social partnership has been invaluable in helping us meet the challenges we currently face. The Trade Union Side works closely with the senior management team on all our main organisational improvement initiatives and is instrumental in the way we approach our commitment to fair employment, health and safety and diversity and inclusion.

Managing with integrity and propriety is also fundamental to our core values. There are updates on our commitment to dignity and respect, supporting human rights, tackling corruption, bribery and fraud. It also provides a summary of complaints against Welsh Government dealt with by the Public Service Ombudsman.

Part Two contains the Accountability Report. This part of the Report and Accounts provides information about how Ministers and senior staff are remunerated and gives an overview of the Welsh Government's financial outturn against the voted budget. Importantly, it also contains the annual Governance Statement from the Permanent Secretary in her role as Principal Accounting Officer (PAO). The Governance Statement outlines the controls that are in place to enable the PAO and Additional Accounting Officers (AAOs) to discharge her responsibilities to manage and control the organisation's resources.

Part Three is devoted to the accounts themselves. The accounts represent a comprehensive statement on the costs incurred by the Welsh Government and details of all its assets and liabilities.

Introduction to Welsh Government

The Welsh Government at a Glance

The Welsh Government is the devolved government for Wales which 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. Similarly under the Senedd and Elections (Wales) Act 2020 the National Assembly for Wales is now called Senedd Cymru, or the Senedd. The Welsh devolution settlement has evolved dramatically since the establishment of the Senedd in 1999 and continues to expand as new powers are devolved.

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 (Senedd Bills); and making subordinate legislation, such as regulations and statutory guidance. It also directly funds Welsh Government Sponsored Bodies.

On 1 April 2018, a new reserved powers model of devolution in Wales came into force, putting more decisions into the hands of Welsh Ministers. The new model makes it clear what is devolved (and is therefore the responsibility of the Senedd) and what is reserved (remaining the responsibility of UK Parliament).



The Cabinet



The Cabinet and Ministers are:

Rt. Hon Mark Drakeford	First Minister
Rebecca Evans	Welsh Minister for Finance and Trefnydd
Vaughan Gething	Welsh Minister for Health and Social Services
Lesley Griffiths	Welsh Minister for Environment, Energy and Rural Affairs
Julie James	Welsh Minister for Housing and Local Government
Jeremy Miles	Counsel General and Minister for European Transition*
Eluned Morgan	Welsh Minister for International Relations and the Welsh Language
Ken Skates	Welsh Minister for Economy, Transport and North Wales**
Kirsty Williams	Welsh Minister for Education
Hannah Blythyn	Deputy Minister for Housing and Local Government
Jane Hutt	Deputy Minister and Chief Whip
Julie Morgan	Deputy Minister for Health and Social Services
Dafydd Elis-Thomas	Deputy Minister for Culture, Sport and Tourism
Lee Waters	Deputy Minister for Economy and Transport

* From March 4, 2020, Counsel General and Minister for Brexit to March 3, 2020

** From February 5 2020, Welsh Minister for Economy and Transport to February, 4 2020

The Civil Service

The civil service is the non-political administration that supports the Welsh Government's First Minister and Ministers.

The core strengths of the civil service – political neutrality; efficient administration; good governance and the sound management of public funds, provide a solid foundation to support the Welsh Government.

The Senior Leadership Team

The Permanent Secretary is the head of the organisation, and the most senior civil servant in Wales. Staff work within one of five Groups headed by the Permanent Secretary and four Directors General.



Shan Morgan
Permanent Secretary

- Welsh Treasury
- Finance
- Governance and Ethics
- Corporate Services



Des Clifford Director General
Office of the First Minister Group

- Cabinet Division
- Cabinet Office
- Communications
- Constitution, Justice and European Transition
- International Relations and Trade
- Legal Services Department
- Office of the First Minister
- Office of the Legislative Counsel
- Social Partnership and Fair Work
- Welsh European Funding Office
- Welsh Tribunals



**Tracey Burke Director General
Education and Public Services Group**

- Care Inspectorate Wales
 - Communities and Tackling Poverty
 - Education
 - Healthcare Inspectorate Wales
 - Housing and Regeneration
 - Local Government
 - Office of Chief Digital Officer *
 - Welsh Language Division
- * Transferred to PSG 1 April 2020



**Andrew Goodall Director General
Health and Social Services Group/Chief Executive, NHS Wales**

- Cafcass Cymru
- HSS Finance
- Mental Health, Vulnerable Groups and NHS Governance
- Nursing
- Planning, Delivery and Performance
- Population Health
- Primary Care and Health Science
- Social Services and Integration
- Technology, Digital and Transformation
- Workforce and Corporate Services



**Andrew Slade Director General
Economy, Skills and Natural Resources Group**

- Business and Regions
- Culture, Sport and Tourism
- Economic Infrastructure
- Climate Change, Energy and Planning
- Environment and Marine
- ESNR – Finance and Operations
- Land, Nature and Food
- Office of the Chief Scientific Advisor
- Office of the Chief Veterinary Officer
- SHELL
- WG Commercial and National Procurement Services (Interim)

Welsh Government Performance Framework

The Welsh Government Performance Framework aims to drive improvements in the effectiveness of the Welsh civil service by assessing organisational performance and the responsibilities of the Permanent Secretary in respect to the running of the organisation.

Background

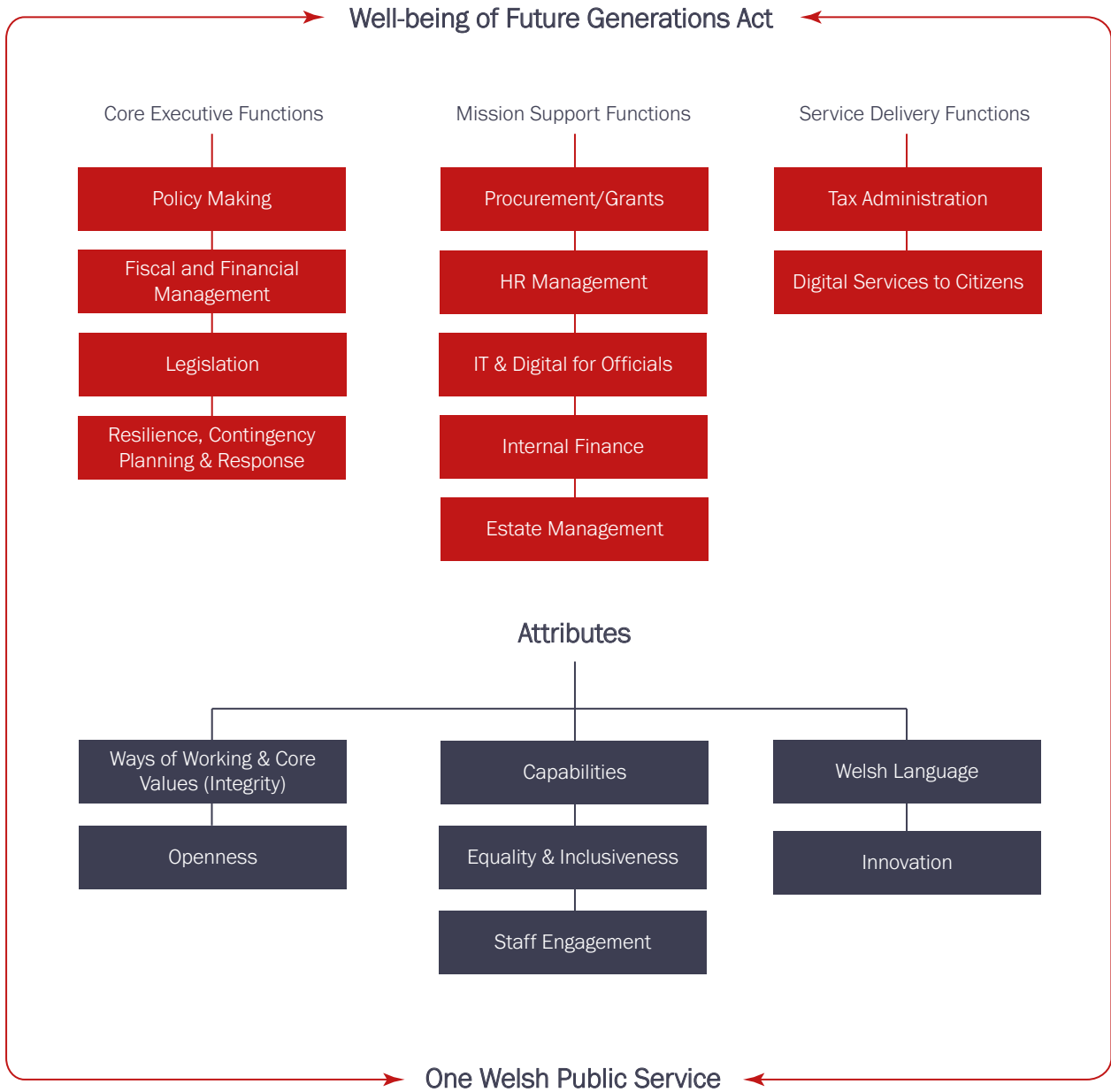
In March 2019, the Permanent Secretary commissioned a review of how organisational performance is measured in the Welsh Government and to make recommendations for improvement. Following a period of consultation, the International Civil Service Effectiveness Index (InCiSE) was adopted as the basis for our performance framework and adapted to align with Welsh Government strategies, priorities and objectives.

Work has continued in order to finalise the framework themes, establish governance arrangements and develop appropriate concepts and indicators to measure civil service performance. The framework introduction began with the first Board review in September 2020, with further work to complete population of the framework and incremental implementation across the organisation to follow.

The performance framework

The Welsh Government Performance Framework consists of 18 themes, making it broad and wide-ranging. The themes, agreed through consultation with the Board, other senior managers and researchers at InCiSE, are divided into two groups – functions ('what we do') and attributes ('how we do it').

Welsh Government Civil Service Performance Framework



Progress in populating the framework indicators

Our intention is to introduce the framework into the organisation incrementally as we develop and agree the indicators that will be most effective in helping us understand where improvement is happening and where we need to focus attention. We have continued work to identify business owners for individual or groups of themes and are working with them, as well as other Welsh Government employees with relevant knowledge and expertise, to identify and develop appropriate concepts and indicators.

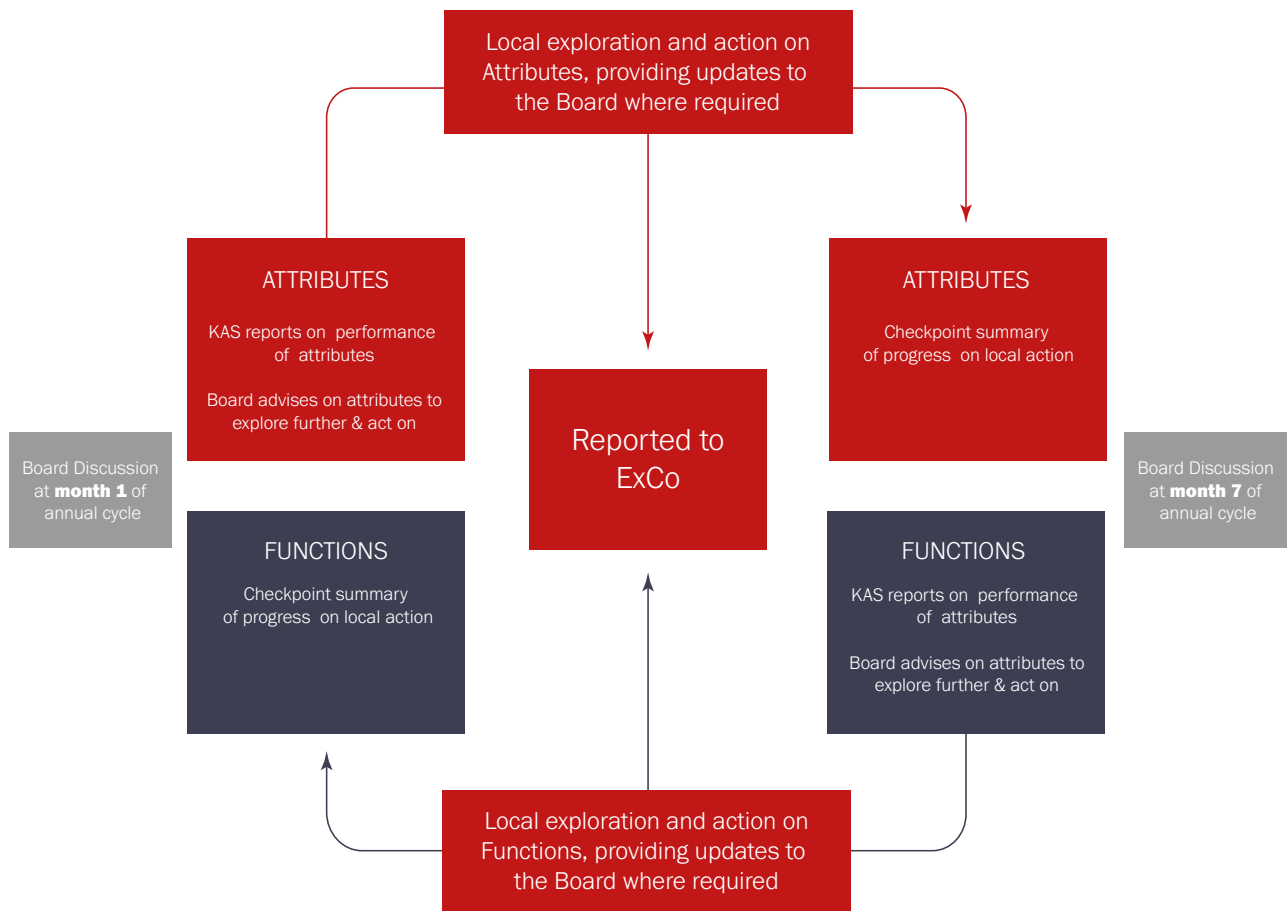
The aim is to identify concepts and indicators that reflect core activities, where change is within our control and where it is anticipated that it would be most beneficial to focus action and improvement. Given the wide-ranging nature of the framework, two or three indicators will be selected per theme. We have made good progress in populating the 18 themes of the framework with concepts and indicators agreed for eight of the themes and three further themes almost complete. The current crisis is inevitably impacting the available resource for the performance framework and more work will be needed on seven themes in the year ahead.

Governance arrangements for the framework

Clearly, a performance framework cannot in itself improve performance. Ensuring that themes and indicators are adequately considered and reflected on so that on-going action can be taken is fundamental to achieving improvement. Reporting on the framework will need to be pragmatic and capable of influencing organisational improvement. The performance framework will run on an annual cycle reporting to the Board in two sessions; one focussing on the 'attribute' themes in July and a second session on 'function' themes in January/February.

The Board will then decide on the specific themes where they want to direct further exploration in order to drive performance and change over the following six months.

The Board received the first performance overview of the 'attribute' themes in September 2020. Reporting consisted of high level performance ratings and narrative providing context and interpretation for all available indicators within these themes. Overleaf is a diagram illustrating how the framework operates within an annual cycle.









Further development and next steps

Work to populate gaps in the framework will now continue, working with business owners. Data collection mechanisms for indicators where data is not currently available will also need to be developed, as well as a ‘narrative’ to accompany themes and indicators to aid understanding of context and interpretation.

Welsh Government Key Reports

The annual Report and Accounts is just one of the key reports that covers the delivery and activities of the Welsh Government.

Key reports						
	Ministerial			Organisation	Statistical Data	
	Budget process	Outturn Report	Welsh Government Annual Report 2019	Annual report and Accounts	Well-being of Wales Report	Future Trends Report
Legislation 	Standing Orders 20.7		Well-being of Future Generations Act	GOWA – s131-136	Well-being of Future Generations Act	Well-being of Future Generations Act
Lead 	Minister for Finance and Trefnydd	Minister for Finance and Trefnydd	First Minister	Permanent Secretary	Chief Statistician	Deputy Minister and Chief Whip
Purpose 	Outlines budget proposals setting out financing plans, and the amounts of resources and cash which the government proposes to use for the following financial year and provisional amounts for the subsequent two years or for such other period as the Minister considers appropriate.	Details of the budget and outturn for each Main Expenditure Group along with an explanation of any variances. Variances are reported on the resources Departmental Expenditure Limits capital Departmental Expenditure Limits, Annually Managed Expenditure and non-cash.	Progress towards the government's 12 well-being objectives and the six priority areas that make a contribution to multiple objectives.	Details on how the Welsh Government is run including how it manages its finances and discharges its statutory obligations.	Progress made through the combined contribution of all public bodies, organisations and individuals towards the seven well-being goals using the 46 national well-being indicators.	Lays out likely future trends in economic, social, environmental and cultural well-being of Wales and any other analytical information that Welsh Ministers feel appropriate.
Timing 	Not specific but prior to the summer recess the Minister for Finance is required to write to business committee to agree the budget timetable.	After the Accounts are signed off and before the Budget.	As soon as is practicably possible following the end of the financial year.	By the 30 November each year.	As soon as is practicably possible following the end of the financial year – but reliant on National Survey data in June.	Within 12 months of an election – slides updated more regularly.
Timings This Year 	Outline draft budget 2 October Detailed draft budget 23 October Final budget 18 December	November	31 January 2020	30 October	September	Report published March 2017 Slides updated April 2019
Scrutiny 	Finance and subject Committees	Finance Committee	Plenary debate First Minister Scrutiny Committee	Public Accounts Committee	N/A	

Welsh Government Funding Flows

The infographic below demonstrates how our Welsh public services are funded following tax devolution.



Fiscal Framework and Tax Policy

The Welsh Government draft Budget provides detail on the government's financing, taxation and Main Expenditure Group (MEG) level allocations, and sets out the government's revenue and capital spending proposals, including detailed portfolio spending plans.

Details of the Welsh Government budgets www.gov.wales/welsh-government-budgets can be found on the Welsh Government website.

The draft Budget is supported by the Chief Economists Report www.gov.wales/welsh-budget-2019-chief-economists-report and the Welsh Tax Policy Report www.gov.wales/welsh-tax-policy-report-2019 which are both available on the Welsh Government website.

The Welsh Taxes Outlook www.obr.uk/welsh-taxes-outlook-december-2019/ is prepared by the Office of Budget Responsibility (OBR) and provides the assessment of the wider fiscal framework in which the Budget is set. This can be found on the OBR website.

Further information on the development of Welsh Government Tax Policy www.gov.wales/tax-policy-work-plan-2019 and our Fiscal Framework and Devolved Taxes www.gov.wales/welsh-taxes can be found on the Welsh Government website.

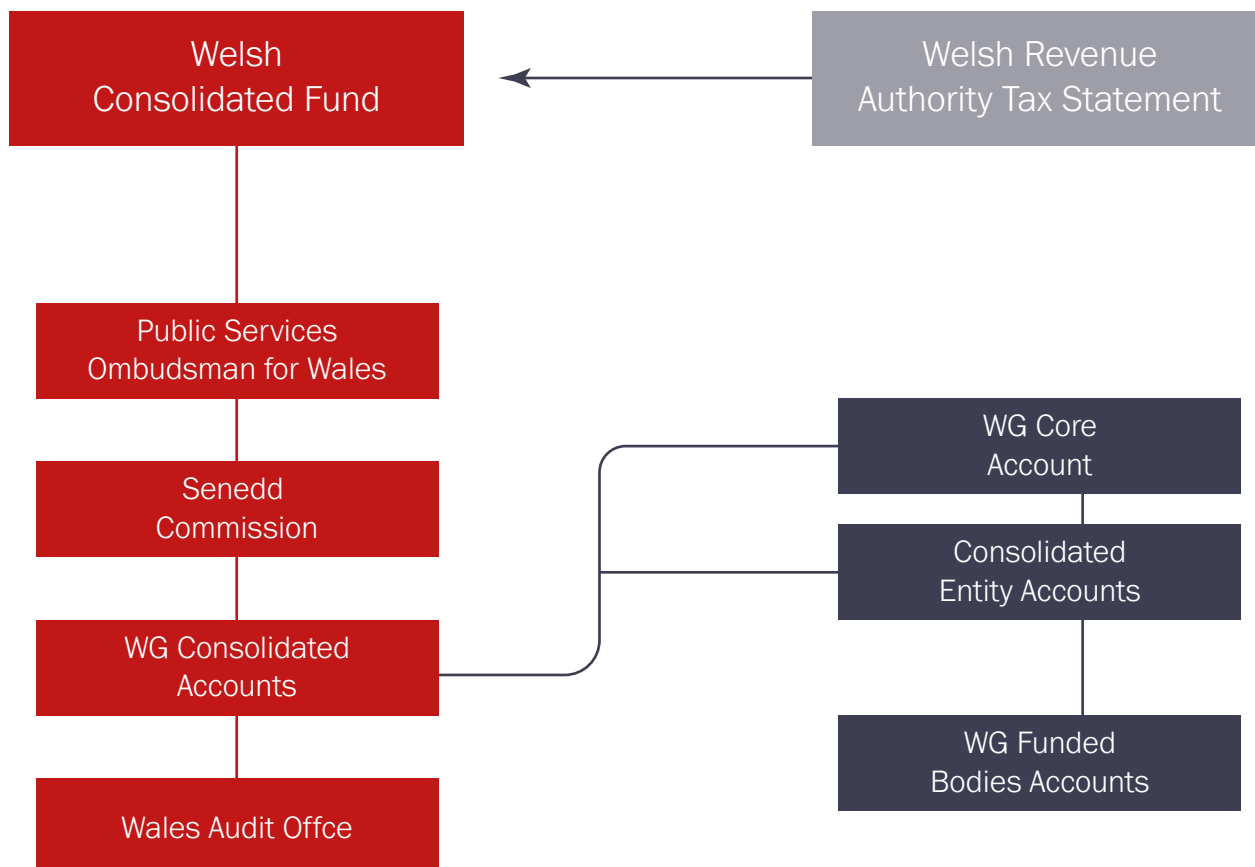
Borrowing by Welsh Ministers

Under Section 121 of Government of Wales Act 2006 (amended by Wales Act 2014 and 2017) additional borrowing powers were conferred on Welsh Ministers with effect from April 2018. Any sums borrowed and repaid under these provisions are done via the Welsh Consolidated Fund and therefore are reflected in those accounts.

In 2018-19 £65m was paid into the Welsh Consolidated Fund from the National Loans Fund. No borrowing powers were exercised in 2019-20. At 31 March 2020, the outstanding balance is £64m.

Welsh Government Consolidated Accounts Context

The fiscal activity of Wales is described in a suite of statutory accounts information:



The Welsh Consolidated Fund Account

This account receives UK Parliament voted receipts, National Insurance receipts, Welsh Rates of Income Tax payover and Devolved Tax receipts. Borrowing by Welsh Ministers is also paid into this account. Payments are made out of the Welsh Consolidated Fund to bodies covered by a Welsh Budget Motion or as Direct Charges.

The Welsh Revenue Authority Tax Statement

This reports on Devolved Tax receipts for the Landfill Transaction Tax and the Landfill Disposals Tax. www.gov.wales/sites/default/files/publications/2020-07/welsh-revenue-authority-annual-accounts-2019-2020.pdf

Accounts of the bodies funded directly from the Welsh Budget

- The Public Services Ombudsman for Wales
www.ombudsman.wales/annual-report-accounts/
- The Senedd Commission
www.business.senedd.wales/mglIssueHistoryHome.aspx?lId=2850
- The Welsh Government Consolidated Accounts
- The Wales Audit Office
www.audit.wales/publication/annual-report-and-accounts-2019-20

The Welsh Government Consolidated Accounts & Accounting Boundary

These accounts reflect the consolidated assets and liabilities, and the results of entities within the Welsh Government consolidation accounting boundary. The accounting boundary is similar to the concept of a group for corporate accounting, but is based on control criteria for the public sector. Further information on the accounting boundary is contained in the Financial Statements and Note 1.2 to the accounts.

Health Education and Improvement Wales is included in the Welsh Government Consolidated Accounts for the first time in 2019-20. The consolidated organisations produce and publish their own annual reports and accounts.

These accounts include the Welsh Government Core (the Welsh Government itself) and Welsh Government Group entities. These are:

Welsh Government Group

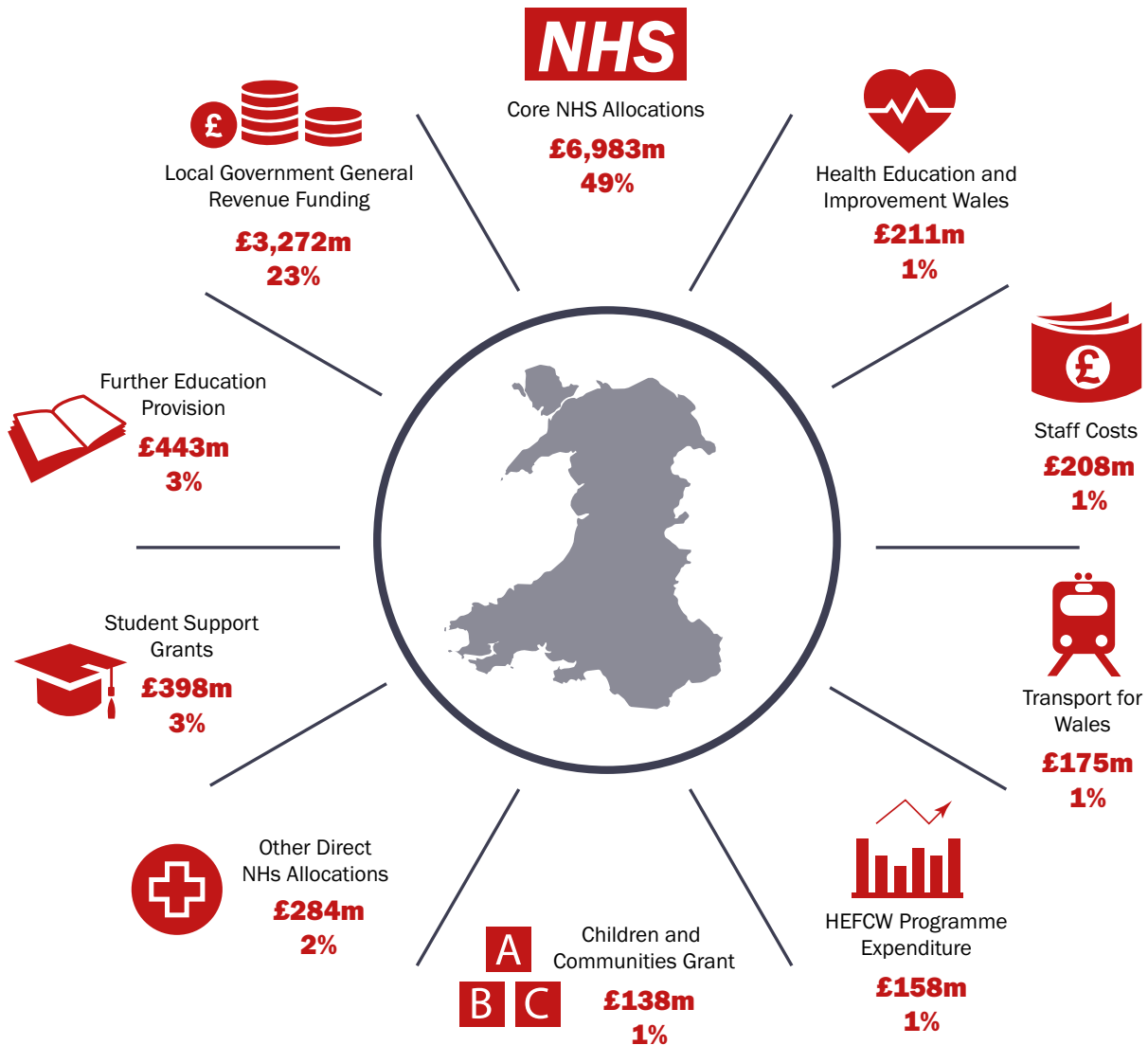
- Welsh NHS Local Health Boards & Trusts
- Health Education and Improvement Wales
- Development Bank of Wales
- WGC Holdco Limited
- Career Choices Dewis Gyrfa Limited
- Transport for Wales
- Regeneration Investment Fund for Wales LLP

Whilst the Welsh Government funds Welsh Government Sponsored Bodies and Commissioner Bodies, they are not consolidated into these accounts as they do not fall within the consolidation accounting boundary.

Welsh Government Top Areas of Spend

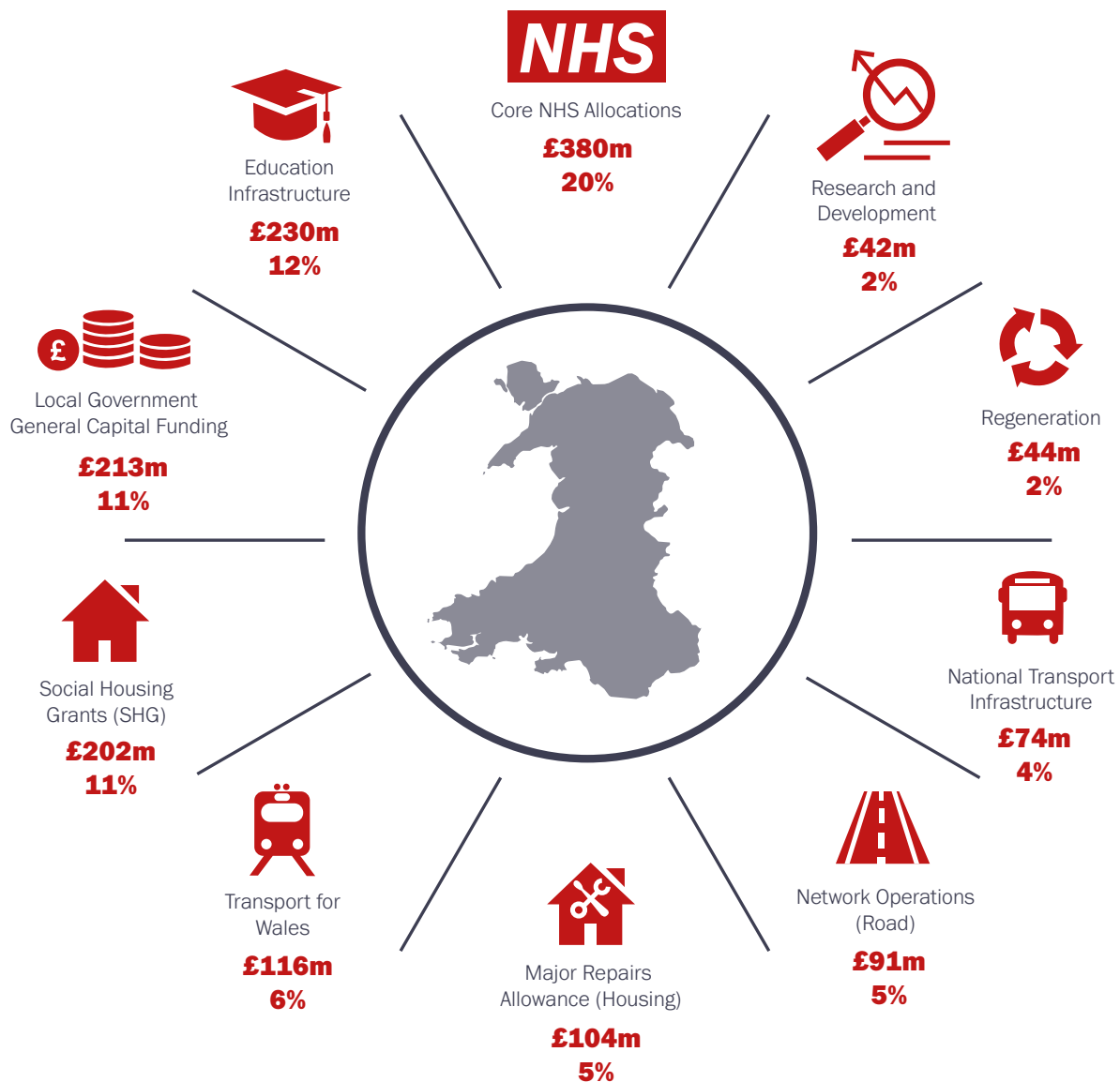
The following infographics show the top 10 areas of Revenue and Capital Spend for the Welsh Government in 2019-20, the analysis is by Budget Expenditure Line, as used in the Main Expenditure Group tables accompanying the Budget Motion.

The Welsh Government's top 10 revenue budget expenditure areas



Top 10 Total: **£12bn**
85% of the revenue budget

The Welsh Government's top 10 capital budget expenditure areas



Top 10 Total: **£1bn**
78% of the capital budget

Annually Managed Expenditure (AME)

HM Treasury recognises the volatility and demand led basis of certain programmes and the resultant difficulty in estimating costs over a period of time. As a result, these programme budgets are managed on an annual basis and funding cover is generally provided by HM Treasury. The budgets are classified as Annually Managed Expenditure (AME). Of these budgets within the Statement of Resource outturn £705.6m or 73% related to Student Loans issued net of repayments in the year.

Managing the Legislative Programme

The effective management of work on the Welsh Government's legislative activities is a key priority for the Permanent Secretary and her senior leadership team.

In 2019-20 four Welsh Government-proposed Bills became Acts:

- The Renting Homes (Fees etc.) (Wales) Act 2019
- The Legislation (Wales) Act 2019
- The National Health Service (Indemnities) (Wales) Act 2020; and
- The Children (Abolition of Defence of Reasonable Punishment) (Wales) Act 2020.

In addition the Government worked to respond to two non-Government Welsh Bills which became Acts in the period, the Public Services Ombudsman (Wales) Act 2019, and the Senedd and Elections (Wales) Act 2020. The second of these Acts has (among other changes) renamed the devolved legislature from the National Assembly for Wales to Senedd Cymru or the Welsh Parliament, commonly known as the Senedd.

The Welsh Government also introduced five other Bills into the Senedd during this period:

- The Health and Social Care (Quality and Engagement) (Wales) Bill – which has since received Royal Assent and become an Act of Senedd Cymru
- The Wild Animals in Circuses (Wales) Bill
- The Local Government and Elections (Wales) Bill
- The Renting Homes (Amendment) (Wales) Bill; and
- The Bus Services (Wales) Bill.

An extensive amount of Welsh subordinate legislation was also prepared and made during this period. Along with ongoing domestic legislation, a major element of this work was the need to prepare for the UK leaving the EU. By exit day on 31 January 2020, Welsh Ministers had made 51 correcting Statutory Instruments (SIs) in preparation for EU exit, and had consented to 158 UK correcting SIs and laid written statements about them. The Welsh Government also responded to UK Parliamentary Bills where these made provision in devolved areas and prepared Legislative Consent Memoranda for these Bills, including several related to European transition such as the Agriculture Bill and the Environment Bill.

Towards the end of the period covered by these accounts, the need to respond to the COVID-19 pandemic led the Welsh Government to review all its existing activity on primary and subordinate legislation, and revise its approach to legislation. The work during this period led to the First Minister setting out in a Written Statement how the government would focus its available resources on its key legislative priorities on 1 April 2020¹. Since then the Government's primary and subordinate legislative programme has been under continual review, and on 15 July 2020 the First Minister made a further statement on the legislative programme.² Since the start of the COVID-19 crisis, Welsh Ministers have made more than 70 items of subordinate legislation in response to the pandemic. The scale of the work required on the response to COVID-19 has meant that Ministers have had to take difficult decisions to

¹ www.gov.wales/written-statement-governments-approach-legislation-light-COVID-19

² www.record.assembly.wales/Plenary/6403#A59362

consult on Draft Bills on Tertiary Education and Research, and Social Partnership, rather than introduce these into the Senedd, and to withdraw the Bus Services (Wales) Bill. However the Local Government and Elections (Wales) Bill and the Renting Homes (Amendment) (Wales) Bill will continue their passage through Senedd scrutiny. The Government also introduced the Curriculum and Assessment (Wales) Bill in July 2020. Key priorities for subordinate legislation will also be taken forward following that prioritisation work.

The scale of the challenge to deliver the government's primary and subordinate legislative programme over the coming months remains considerable. Not least, a great deal of work will be required to prepare for the end of the transition period, once the shape of the UK's future relationship with the EU becomes clearer. Further COVID-19 related legislation will also be required, and what this will need to put in place will depend on the course of the pandemic in Wales. Consequently, the Welsh Government will continue to keep its legislative priorities under review.

Preparing for EU Exit

Throughout the year, work related to the UK's exit from the EU has been a key priority for the Welsh Government, requiring extensive and intensive work across the organisation as well as agility to respond rapidly to a changing UK political context.

A particular focus of work was preparing for a possible 'no-deal' exit at the start of the financial year and again at the end of October 2019, which involved all Groups in Welsh Government and close partnership working with public service partners. This included operationalising the Emergency Coordination Centre (Wales), which acts as our central hub for communications and briefing Welsh Ministers, and links directly to our counterparts for civil contingencies planning in the UK Government.

In September 2019³ the Welsh Government published a summary of our no-deal action plan, outlining the measures being developed to address, to the maximum extent possible, the potential impacts of a no-deal exit. This was complemented by the Welsh Government's Preparing Wales website⁴, offering advice to businesses, other organisations and the public on specific issues and actions they could take.

In an update published by the Audit Wales commenting on work in Wales to prepare for a possible no deal exit in September 2019⁵, building on an earlier report, the Auditor General for Wales noted: *"Planning for a no-deal Brexit has continued, and has been significantly strengthened in some areas, since March. There is evidence of a more collaborative approach across Wales' public services."*

The update also noted that: "Brexit planning constitutes the most comprehensive example of cross-government working that we have seen the Welsh Government undertake to date. There will undoubtedly be valuable lessons for the Welsh Government to draw from this experience and how its approach could perhaps be adapted for use in tackling other cross-cutting public service delivery challenges."

Although a 'no-deal' EU exit was avoided, the planning involved in preparing for that possibility has since proved valuable in responding to the COVID-19 pandemic. Following the General Election in December 2019, the UK formally left the EU at the end of January 2020, entering a transition period which is due to run until the end of December 2020 and in which – in broad terms – EU law still applies in the UK, and participation in EU programmes and the EU budget continues. During 2020 the UK Government and the EU will attempt to negotiate and agree a future relationship.

The Welsh Government has been active in seeking to influence these negotiations, publishing its negotiating priorities in January 2020⁶, and also seeking to contribute to the UK mandates for negotiations on Free Trade Agreements with other countries. Welsh Ministers have voiced significant concerns, though, that the priorities and evidence advanced by the Welsh Government for the future UK/EU relationship have not been reflected by the UK Government in its approach to those negotiations.

3 www.gov.wales/sites/default/files/publications/2019-09/preparing-for-a-no-deal-brexit_0.pdf

4 www.gov.wales/preparing-wales

5 www.audit.wales/system/files/publications/Brexit-follow-up-letter-september-2019-english.pdf

6 www.gov.wales/the-future-uk-eu-relationship-negotiating-priorities-for-wales.html

It remains uncertain at this point whether or when a new relationship between the UK and the EU will be agreed, but in any scenario there is a wide-ranging, complex and interconnected set of work that is required by the end of the transition period. This includes preparedness projects, legislation, policy and finance issues, and common frameworks⁷, all of which will build on work in these areas in 2019-20 and previously.

Effective governance to the work on EU exit at a Ministerial and senior official level was provided throughout 2019-20 by the Cabinet Sub-Committee on European Transition and Trade, the Welsh Government's Executive Committee, and the European Transition Officials Group, as well as departmental-specific governance fora. These arrangements have now been updated, following the UK's formal exit from the EU, to provide strong governance to our range of critical work on both the negotiations and implementation issues relating to the end of the transition period.

⁷ As the UK leaves the EU, powers previously exercised at an EU level that intersect with devolved competence flow back directly to the devolved governments. In some areas, the UK and the devolved governments are working together to develop UK-wide approaches through 'common frameworks'.

The Future of Regional Investment in Wales

For two decades the Welsh Government, in line with its devolved responsibilities for regional economic development, has delivered European Structural and Investment Fund programmes in partnership to create significant benefits for communities, people and business across Wales.

In our White Paper *Securing Wales' Future*⁸ (January 2017) and in *Regional Investment for Wales after Brexit*⁹ (December 2017), we set out the importance of continued devolved funding for regional investment of at least the level that Wales currently receives from the European Union (EU). We also highlighted the importance of partnership with stakeholders across Wales to develop a new framework for regionally-focused economic development outside the EU that will address challenges, and drive opportunities with creativity and ambition.

Between 28 February and 10 June the Welsh Government ran a public consultation which set out our thinking on the future of regional investment outside the EU and has the Well-being of Future Generations Act at its heart. It covered a set of proposals for investing replacement funding from the UK Government, with investments to be targeted and managed geographically so funding and decision-making is brought closer to the people they aim to benefit in all parts of Wales.

The proposals were aligned with Welsh Government plans for greater regional collaboration including the potential vehicles of the proposed Corporate Joint Committees being taken forward by the Local Government and Elections (Wales) Bill and the Regional Economic Frameworks being co-designed by Chief Regional Officer teams with stakeholders in each region.

The proposals were based on evidence of what has worked well and the lessons learned during 20 years of EU regional policy in Wales, and on fresh ideas and innovative proposals to support growth and inclusiveness from our Regional Investment for Wales Steering Group, chaired by Huw Irranca-Davies MS, and the Organisation for Economic Cooperation and Development.

We will publish an independent report of consultation feedback this autumn, as well as the OECD final report so that we learn from international best practice in regional economic development. The UK Government is yet to confirm the quantum of funding or when and how its proposed Shared Prosperity Fund, to replace EU funds, will be delivered in the UK. Subject to confirmations from the UK Government, the Welsh Government will continue to work with its stakeholders to develop a new framework for Wales which can be delivered from 2021.

⁸ www.gov.wales/sites/default/files/2017-01/30683%20Securing%20Wales%20Future_ENGLISH_WEB.pdf

⁹ www.gov.wales/sites/default/files/publications/2018-10/regional-investment-in-wales-after-brexit.pdf

Responding to Flooding

Managing the risk from flooding and coastal erosion is a key priority for the Welsh Government. February 2020 brought devastating flooding to Wales with successive storms and record rainfall levels. More than 2,000 homes and 600 businesses suffered internal flooding affecting areas that had not seen flooding for decades. The emergency services, local authorities, Natural Resources Wales (NRW) and other agencies rose to the challenge in extremely difficult circumstances, working tirelessly to mitigate the impacts.

River levels in many places hit record or near-record heights. Along the Taff, levels were 80cm higher in places than those for the 1979 floods, however, more than 9,000 homes were protected by its defences. Across Wales, that figure rises to around 73,000 with many more benefitting from assets managed by Local Authorities. Most of Wales was affected, with significant damage to properties in communities including Llanrwst, Llanfair Talhaiarn, Tylorstown, Nantgarw, Pontypridd, Pentre, Llanhilleth, Crickhowell and Mountain Ash.



Pontypridd Town Centre
Number of flooded properties – 158



Llanrwst

Number of flooded properties – 60

The level of flooding would however have been higher were it not for our network of flood defences. These operated successfully to prevent or reduce further flooding in many regions. Ministers immediately responded, recognising the difficulties facing communities, writing to the specific households worst impacted to provide advice and highlighting where support was available.

The First Minister announced an initial £10 million package of support for homes affected. 100% grant funding was quickly made available by the Welsh Government to enable Natural Resources Wales and Local Authorities to carry out £3m of emergency repairs to flood risk infrastructure, defences and culverts. An emergency flood relief funding scheme was launched to support flood victims across communities, businesses and those Local Authorities affected, helping them recover from the damage and disruption caused by the storms.



Pentre

Number of flooded properties – 167

Responding to COVID-19

At official level, the Welsh Government's response to the global pandemic crisis continues to be coordinated through weekly meetings chaired by the Permanent Secretary and attended by Directors General and crisis coordination leads. These meetings of 'ExCovid' are the main governance mechanism to ensure that implementation of the Cabinet's decisions on crisis response is joined up across the whole government machine and that oversight of emerging risks and issues is managed at a strategic level, enabling rapid escalation and action.

The Welsh Government response to COVID-19 was initially led by officials in the Health & Social Services Group (HSS), with support from the Welsh Government's Resilience Team. As the pandemic progressed, the Emergency Coordination Centre (Wales) (ECC(W)) was formally "stood up" on 20 March.

ECC(W) is the recognised Welsh Government response to Major Incidents or Emergencies under the Civil Contingency Act 2004. It follows the Joint Emergency Services Interoperability Principles (JESIP) to co-locate, communicate and co-ordinate to provide a joint response with shared situational awareness. During the COVID-19 pandemic, the ECC(W) is working with Strategic Co-ordination Groups (SCG's); Local Resilience Fora (LRF's); Central Government and Welsh Government policy teams to gather and share information with relevant partners to ensure a common understanding of the developing situation from a strategic perspective. A letter from the First Minister was sent to SCG's on 19 March to request they activate, if they had not already done so.

ECC(W) works closely with four LRFs¹⁰: Dyfed-Powys, Gwent, North Wales and South Wales which develop a variety of capabilities to strengthen local resilience through multi-agency collaboration. Welsh Government Liaison Officers (WGLOs) from the Welsh Government's Resilience Team link into the LRFs on a regular basis to provide additional support and guidance, ensuring a coordination on all aspects of the emergency response. The SCG's provided a strategic response to the situation, with membership comprising senior personnel from key responders and includes WGLOs to ensure a seamless link from the partners to the Welsh Government.

The WGLOs provided an effective two way flow of information between the SCG's and the Welsh Government and provided a mechanism for the escalation of local risks and issues, which instigated further guidance and policy development where necessary. Alongside this mechanism, officials have been holding frequent meetings with Welsh Public Sector organisations with the aim of providing support and guidance on key policy and service area issues.

Examples include:

- Daily engagement with both the Welsh Local Government Association and the Welsh Council for Voluntary Action in relation to support for shielding people and wider vulnerable groups.
- Regular meetings of the Race Equality Forum, Disability Equality Forum and TUC Equality Forum, and Third Sector Partnership Council to enable collaborative working and to inform policy and practice across Welsh Government and the wider public sector.
- Arrangements which draw NHS organisations into Welsh Government conversations on planning and response ensuring the effort is very much collective; and

¹⁰ LRFs are multi-agency partnerships made up of representatives from local public services including the emergency services, local authorities, the NHS, the Environment Agency and others. They aim to plan and prepare for localised incidents and catastrophic emergencies.

- Weekly teleconferences with the 22 Social Services Directors in Wales.
- Monthly meeting with Chief Executives of the Local Authority EU Preparedness Group.
- Daily call with Local Authorities regarding financial issues.

The emergency response to COVID-19 required additional resource to support the unprecedented level of policy development and liaison with the UK Government. On 12 March, a COVID-19 project team was assembled from officials with key skills across the Welsh Government. The team's remit was to support a coordinated and joined-up approach to the Welsh Government's response to the outbreak of COVID-19 in Wales. The team ensured there were Ministerial links with the UK Government Cabinet Office, supporting the UK Government led Ministerial Implementation Group and COBR meetings, and worked to ensure interlinkages across Welsh Government policy decisions.

More broadly, in response to the COVID-19 crisis, the organisation adopted a temporary crisis resourcing strategy to ensure the capability and capacity needed was immediately redirected to the crisis response. The Executive Committee collectively review and agree crisis resourcing priorities on a weekly basis. More than 80% of Welsh Government staff were engaged in COVID-19 related activity with a significant proportion of staff either being moved to a new COVID-19 role or their current role changing substantially in response to the crisis.

Where additional capability and capacity has been needed, we have worked with colleagues from arm's length bodies, other government departments or agencies in Wales and the wider Welsh public sector to identify the capability needed and secure temporary agreements to bring people in quickly to support critical work.

In early March, all staff were encouraged to collect their Laptop devices and any essential items to be ready to work from home in preparation for the decision to move into lockdown. This was an essential part of our preparation to ensure business continuity and reduce the number of people travelling to and from our offices. Almost overnight, we moved from being a primarily office-based organisation to one in which around 95% of our staff were working remotely. The substantial investment in ICT which the organisation has made over the past two years enabled this huge shift in organisational culture and working practices to take place smoothly despite the challenges.

We have provided a very wide range of advice, guidance and support to all our staff throughout the crisis, including essential information and updates on the COVID-19 situation in Wales, advice and support on well-being and an extensive package of tips and online training in digital and remote working. Our digital internal communications channels have seen exceptionally high usage levels, with very high percentages of staff accessing regular filmed and written communications from the Permanent Secretary and senior team. The Permanent Secretary holds fortnightly virtual catch-ups with the whole Senior Civil Service and our first 'Let's Talk Live' Q&A session with the Permanent Secretary and DGs enabled around 1400 staff to ask questions and raise issues. Subsequent live events have seen more than 2000 colleagues participating. We have also put in place an extensive package of communications on the HR advice and support, coaching and mentoring, informal virtual networks and Employee Assistance Programme available to our staff.

Education and Public Services Group

Education and Public Services (EPS) Group supported the Welsh Government in prioritising central co-ordination and communications on COVID-19. This included the re-prioritisation of staff and resources to operationalise and maintain the ECC(W) (and its sub-structures).

At a policy level, EPS Group took early response action to the epidemic, regularly liaising with its key stakeholder groups including Welsh Local Government Association, the Housing sector, emergency services, education unions and Third Sector to build working structures, develop mitigation and recovery actions and identify those most vulnerable, in order to provide appropriate targeted guidance and support where needed.

EPS realigned staff early on during the pandemic to work on emergency Ministerial priority issues, with a range of working practices being paused or modified to enable focus for COVID-19 response. This included reallocation of staff and resources to support policy Covid-cells including a focus on relevant individual citizen support, for example around housing advice and help available for domestic abuse, and providing regularly updated guidance to emergency and public service providers.

Elements of routine business were scaled back or temporarily paused to support the response. For example, with Care Inspectorate Wales (CIW) routine inspection programme on hold, inspectors were redeployed to conduct regular check-in meetings with providers and follow up on concerns. CIW's online notifications system (CIW Online) was modified so providers could notify the Welsh Government whether deaths were suspected or confirmed COVID-19 cases.

Housing directorate deployed additional staff to bolster the homelessness response including establishing a new virtual team to work directly with local authorities helping them secure short term emergency accommodation assets. ICT and digital technology were harnessed for new management information and to provide guidance and access to services.

In Education, following physical closures of schools and other learning organisations in March 2019, a new 'Stay Safe, Stay Learning' campaign was launched to support pre and post 16 continuity of learning. £3m was allocated to support digitally excluded learners with repurposed school devices and 4G MiFi connectivity where required. Education's existing online learning platform Hwb also provided a vital resource in supporting an increase in distance learning.

Staff increased engagement with Qualifications Wales, the other UK administrations and UK exam regulators and exam boards around the implications for the summer exam series to make alternative arrangements and worked with local authorities to develop and implement the Hub system and to help ensure continued support for learners, including free school meals.

Economy Skills and Natural Resources Group

Economy Skills and Natural Resources (ESNR) Group has supported the Welsh Government response to COVID-19 by focussing on protecting lives, communities, and businesses. The initial response from ESNR has been primarily focused on supporting all sectors of the economy and our public transport system.

The ESNR policy response included early engagement with stakeholders; assessing the emerging evidence such as the reduction by over 90% of the use of both rail and bus public transport in Wales; estimates by the OBR that UK real GDP will fall by 35% between April and June and 12.8% in 2020 and ONS data including the upward trend in 113,000 new Universal Credit claimants declared in Wales between 17 March and 12 May (although not all will go on to receive a payment).

The COVID-19 impact on ESNR activities has been severe, with many outward facing operational visits to business premises and management of the Cadw estate for example either ceasing or closing to help manage the crisis and abide by lockdown requirements. This has enabled the Group to redeploy over 500 staff on the COVID-19 response, corporate Welsh Government COVID-19 co-ordination activities, or supporting the wider public sector such as the health service through these times.

Welsh Ministers agreed funding of £1.7 billion to support Welsh businesses and the Welsh economy through these turbulent times. The scale of the support required significant repurposing within the Group to deliver these interventions at pace to provide funding to help businesses survive a sudden and severe drop in turnover.

In March 2020, Welsh Ministers announced details of a £1.2 billion business rate support scheme in Wales. The rates relief scheme is operated by local authorities and officials from the ESNR worked closely with local government colleagues to compile figures for the amount of relief to be provided in each authority and how the scheme would be delivered to minimise the risk of fraud and error and to ensure deliverability. This has been an excellent partnership.

The £500 million Economic Resilience Fund was launched and is aimed at supporting employers and protecting employees. It was delivered at pace by ESNR redeploying over 200 members of staff and training them in new systems and processes developed to manage the volume of applications received in an incredibly short time frame. This has helped tens of thousands of businesses and safeguarded jobs. These measures are not without risk and the internal governance environment has been reviewed to safeguard the use of public funds in these unprecedented times.

ESNR officials have also been re-prioritised to deliver schemes on food parcels to those shielding, sector specific schemes such as support for fisheries which are not provided by wider or more general responses and supporting the bus and rail sectors given the significant reduction in the demand for public transport but still meet the need to maintain services so key workers or those without their own transport can move around Wales for essential needs.

The close partnership with all our Arm's Length Bodies has maximised the impact of interventions to mitigate the impacts of the crisis. ESNR officials have worked closely with the Development Bank of Wales for example to deliver enhanced financial support to businesses and with HEFCW to determine what support could be needed by the higher education sector in Wales.

Health and Social Services Group

HSSG have an overarching responsibility for addressing a public health emergency and used these mechanisms as the threat from COVID-19 emerged. Clear objectives were established focussing on saving lives by planning and delivering the NHS capacity and services to respond to COVID-19, delivering essential services alongside the Covid response, protecting our communities; safeguard those who are most vulnerable and promote the health and well-being of our health and care workforce.

In line with these objectives, HSSG had early discussions with Ministers about reprioritised staff and resources to focus on the Covid response.

- A Technical Advisory Cell (TAC) to provide internal advice including the provision of modelling data and risk assessments for planning & response.
- A Planning & Response Group to provide external engagement with NHS organisations and social care local authority departments. Senior Military Planners were embedded in this cell which formed a key part of accountability mechanisms, provided oversight of actions and supported risk management.
- The Planning and Response Group established a number of sub groups to focus and deliver on specific priorities. These covered Digital; PPE distribution and supply; Testing; Primary and Community Care; Acute Secondary Care; Social Care; Workforce; Essential Services and Countermeasures etc. These Groups delivered responses to significant challenges including rapid increase in functional critical care beds, redeployment of the workforce and rapid implementation of digital solutions to enable remote working and patient consultation.
- A dedicated Health Helpdesk was also established as part of the wider ECCW response.

To assist Andrew Goodall in his dual role as Director General and Chief Executive of NHS Wales: a deputy Director General role was established to support cross Government response and align the response between health and social care and additional support provided by one of the NHS Chief Executives to enhance direct engagement with NHS Chief Executives.

The Chief Medical Officer (CMO) has provided key public health and clinical leadership, advice to Ministers and officials across the whole of Welsh Government working closely with Public Health Wales. The CMO has been supported by a Silver command including senior civil servants and clinicians focussed on a Health Protection response.

Decarbonisation

The Welsh Government has increased action on climate change over the last year. On 29 April 2019, The National Assembly was the first Parliament in the world to declare a climate emergency. The declaration was made with the belief that it would trigger a wave of action at home, from our own communities, businesses and organisations to parliaments and governments around the world. Following the declaration, we have accepted the advice of the UK Committee on Climate Change (UKCCC) to increase our 2050 emissions reduction target to 95%, which means our emissions pathway over the next 30 years and our delivery plans to achieve our carbon budgets will have to change to reflect the increased ambition.

As well as reducing emissions, we also need to build resilience to the impacts of climate change. In November 2019, we published our climate change adaptation plan, Prosperity for All: A Climate Conscious Wales. Since publishing, we have been delivering some of the key actions described in the plan. This includes the publication of the Historic Environment Sector Adaptation Plan and more recently, we have now published the Monitoring and Evaluation Framework (MEF) for the adaptation plan. The MEF sets out a governance framework for adaptation policy in Wales, and a full set of indicators to report progress against our key actions.

Decarbonisation is one of the Welsh Government's priority areas, which cuts across multiple well-being objectives and require a whole-government approach. Recognising the need for a whole Government approach, we are now holding a climate change focussed Cabinet discussion each Assembly term, involving all Ministers rather than just having a *Ministerial Task and Finish Group* to ensure all Ministers are involved.

The challenge of climate change requires everyone to play their part. The First Minister has highlighted the next Delivery Plan should be an All Wales Plan. As part of this commitment, we vowed to hold an annual Climate Change Conference, which would bring together business leaders, public sector and third sector, ready to play their part and transition to a low carbon journey.

On 16 October 2019, we held the first of these conferences, which brought together around 300 people from all sectors across Wales. As part of the conference, organisations started to pledge to take action with us to join the collective response to the climate emergency. A number of business organisations have already pledged to take action, which will start help to shape the new All Wales Plan. We also held a conference in North and South Wales and brought together over 150 young people to stimulate new thinking and provide a platform for them to respond to the climate emergency, asking for the young people to give their views and where possible pledge climate action.

This year, our latest data for 2018 shows we are making good progress towards our 2020 target. Data published in June shows we achieved a 31% reduction compared to base year emissions and an 8.3% decrease compared with 2017. Most of this reduction is driven by reduced emissions from the Energy Supply sector which declined by 19.2% between 2017 and 2018.

Meeting our commitment to the Well-being of Future Generations



The Well-being of Future Generations Act (the Act) requires Welsh public bodies to think more about the long-term, to work better with people, communities and each other, to focus on preventing problems before they occur, and take a more joined-up approach. The Act's seven well-being goals and sustainable development principle (five ways of working) provide a clear framework for public service decision-making.

The Cabinet has set out its contribution to the seven well-being goals through 'Prosperity for All – the national strategy' (page 2). The Government's Annual Report on these objectives explains how it has delivered its work against the well-being objectives under the First Ministers' three themes of 'more prosperous, equal, and greener'.

Leadership

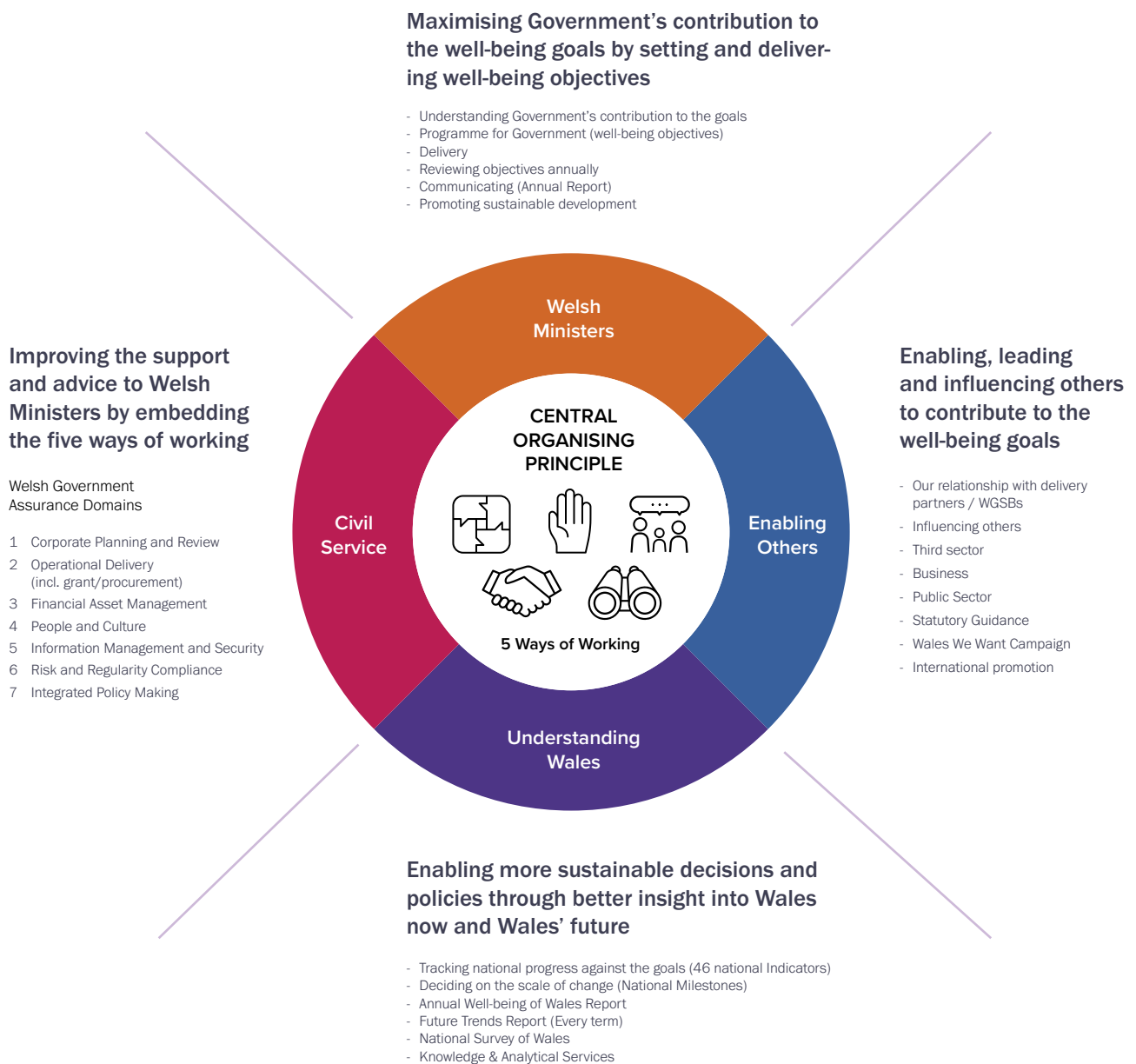
It is five years since the Act was passed, and four years since the specific well-being duty came into force for Welsh Ministers. Over this time, the well-being ways of working and commitments have affected every aspect of our organisational operating model from our policy-making frameworks and capability programme to our leadership expectations and performance systems.

In late 2019, we reflected on how we were co-ordinating this continuous improvement and how it was being embedded into the various functions of the civil service. Executive Committee and the Board discussed the current approach to implementing the Act in February/March this year, and agreed to an updated strategic framework that reflected the breadth and scope of the Act within Government. We have also taken this opportunity to better distinguish the response from Welsh Ministers and the civil service.

The diagram overleaf illustrates the key areas of action, or where it has been taken to continually improve policy making and the machinery of government.



Key functions for embedding the sustainable development principle



Five ways of working in action across the civil service

We know from our latest People Survey, that the well-being ways of working are now well established across the organisation as a practical framework for supporting Ministers in all aspects of policy-making and delivery. This is having a tangible impact across Welsh Government business and in the way we work with our partners and stakeholders – including in our approach to crisis management during the global pandemic.

For the first time, we developed and published a Budget Improvement Plan alongside the 2020-21 Draft Budget. This outlined our short-term and medium-term ambitions over the next five years to improve our annual budget and tax processes.

A recent conference on climate action involved us collaborating in the design and running of the event, bringing together 300 people including business leaders, public sector, third sector and young people ready to play their part and transition to a low carbon journey. We collaborated with stakeholders to co-develop the delivery mechanisms for Local Places for Nature, at scale and pace and we have also developed an online Future-proofing toolkit, to help businesses think about the longer term.

Policy Capability

This year, we developed a new Policy Capability Framework which has the five ways of working at its heart. The framework and accompanying policy capability programme is designed to help us keep developing the professional skills, knowledge and behaviours that will allow the civil service to provide high quality advice to Ministers now and into the future. We will expand and strengthen our capability programme and learning offer in the coming year, including creating ‘policy pathways’ with the five ways of working foundational to the programme for colleagues at the beginning of their careers.

Responding to the Future Generations Commissioner and Auditor General Reports

Built into the cycle of the Act are the publication of two five-yearly reports, one from the Future Generations Commissioner for Wales, and the other from the Auditor General for Wales (AGW). These reports provide insight into how bodies can improve their application of the Well-being of Future Generations Act. These were both laid before the Senedd on May 5, 2020.

The Commissioners report makes a number of process recommendations about the machinery of Government which will concern the way the civil service operates now and in the future. We welcome this report and will be developing our response in the coming months given the breadth of the recommendations across a whole range of functions of Government.

We have also been engaged with stakeholders about how we could better involve them in the approach to implementation of the Act within Government.

Building international reputation and networks

In response to international interest in the Welsh Government's approach to the Well-being of Future Generations (Wales) Act, we have shared our experience with officials from other countries and regions, and engaged with the UK Government on their strategic framework. In April, the Welsh Government joined the Well-being Economy Government (WEGo) network alongside Scotland, New Zealand and Iceland.

We also co-ordinated the Welsh input into the UK's first Voluntary National Review on the Sustainable Development Goals www.gov.uk/government/topical-events/uk-voluntary-national-review-of-progress-towards-the-sustainable-development-goals to the United Nations, and prepared a supplementary report 'Wales and the Sustainable Development Goals' www.gov.uk/government/topical-events/uk-voluntary-national-review-of-progress-towards-the-sustainable-development-goals with the support of a small stakeholder group.

Protecting our Environment

The Welsh Government is committed to creating a more sustainable administrative estate and have continued to improve our environmental performance during 2019-20. Full details of the efficiency and environmental performance of the Welsh Government administrative estate can be found in our annual State of the Estate Report www.gov.wales/government-administration on the Welsh Government website.

Digital Agenda

In 2019-20, the Welsh Government's Future ICT Programme was completed, having delivered cost savings and significant improvements to ICT infrastructure. These included migrating services to the cloud, in-sourcing technical resources, and updating the ICT equipment and tools available to all staff.

Issuing staff with devices to support remote and smarter working has transformed our culture, enabling better collaboration with stakeholders, and supporting the ability to work as teams from separate locations across Wales. The changes have significantly improved the organisation's resilience, ensuring business continuity in the February 2020 floods and COVID-19 lockdown in March 2020.

The response to COVID-19 in particular drove a rapid increase in the adoption of digital tools with, as just one example, the number of staff participant sessions in online meetings increasing from 5,000 a month to 5,000 a day. To support this way of working, there have been rapid developments in IT functionality, increases in system capacity, and new bitesize technical user guides. The work included supporting the mobilisation of the Emergency Coordination Centre Wales ECC(W) and the development of guidance covering all aspects of working remotely and from home.

We have continued to standardise approaches and platforms for new digital services by mandating spend controls, focusing on user needs, and implementing design and ICT standards. New platforms to support open data and transparency policies have been delivered, and the scope of these is being widened.

We have continued to develop digital capability and internal career progression for specialists, although building a mature digital profession will take time. The Digital, Data and Technology (DDaT) Apprenticeships have been very popular, indicating that this may be the best route to growing DDaT capability. More senior vacancies have been filled by direct recruitment although the market remains highly competitive.

During 2019-20, a significant amount of activity was taken forward to mobilise leadership on digital capacity and capability across the public sector in Wales. A Welsh Government Data Science Unit began work at the end of March 2020, and with capacity and a programme that will grow over the next year. A prototype version of Data Map Wales – a single geospatial data platform for all public sector data in Wales was completed at the end of February 2020, and was used to provide support to the COVID-19 response. The release of a public Beta version is planned for summer 2020.

We have also provided strategic leadership in preparing the wider Welsh public sector for the potential challenges of EU exit for the flow of data within digital systems. The work included assessing and mitigating risks internally, providing guidance and information to the wider public sector to enable their planning and liaising with UK Government Departments to highlight any specific issues or impacts for Wales.

In health, significant progress has been made on delivering digital transformation in NHS Wales. The Minister for Health and Social Services announced the post of the Chief Digital Officer (CDO) for Health and Social Care to enable clearer accountability, stronger governance and develop a roadmap for further transformation.

At the beginning of the COVID-19 pandemic, a digital health cell was established to coordinate and provide governance for digital activity across the NHS in Wales including the rollout of videoconferencing for primary and secondary care and to enable remote working for NHS staff in terms of connectivity and devices. In addition, the Welsh Government's public sector broadband network service was instrumental in helping get connectivity to COVID-19 field hospitals during the early days of the pandemic.

In 2019, the Minister for Housing and Local Government also announced the creation of a CDO for Local Government to champion and co-ordinate digital transformation across the 22 local authorities in Wales. The CDO will assist in building capacity and capability to take forward innovative technology and data-led approaches to service delivery and public engagement.

The Local Government Digital Transformation Fund has continued to operate, capitalising on opportunities for greater collaboration between local authorities by providing funding for solutions to common problems on a collaborative basis. A digital local government cell was established to support local government during the COVID-19 pandemic. It facilitated the sharing of expertise on remote working for staff, connectivity and infrastructure for local services, supporting of shielded citizens and providing funding to local businesses as part of the Economic Resilience Fund.

In education, the Welsh Government continued to roll out the well established and successful Hwb platform, which provides education content and services for learners in Wales, to nearly all maintained schools. Through the investment in Hwb and broadband, the Welsh Government has provided a national platform capable of delivering real transformation to education in Wales. Its value was demonstrated during the COVID-19 pandemic when Hwb played a crucial role in supporting the delivery of remote learning. In addition, Education Technology funding enabled digitally excluded learners to receive over 10,000 mobile internet devices to ensure they could access Hwb at home.

To support join up and transformation on a cross public sector basis, the Welsh Government established a Centre for Digital Public Services. The Centre will identify, stimulate and support collaborations across the public sector in Wales, including the Welsh Government, transforming public services so that they meet the needs and expectations of users. As well as focussing on leadership, it will develop and enforce common standards, share best practice and drive cross sector collaborative working. The Centre will also play a key role in digital transformation post-Covid by facilitating the development and delivery of improved and more efficient public services.

A digital leadership ecosystem is being established through the CDO appointments in local government and health and with the Welsh Government's CDO. The CDO group, working alongside the Centre, represents a unique opportunity to drive digital transformation across the Welsh public sector and to turn the Welsh Government's ambitions of providing 21st century citizen focused public services into reality.

Our Commitment to Dignity and Respect

Creating an inclusive workplace, where everyone feels able and supported to give their best, whatever their background, is fundamental to the Permanent Secretary's Future-proofing programme and to the leadership expectations that we have set out for the whole organisation. The research that has emerged on the differential impacts of the global pandemic being experienced by our ethnic minority communities and the focus created by Black Lives Matter campaign has thrown the importance of inclusion and equality into even sharper relief.

We have been very clear that racism has no place in Welsh Government and that we have zero tolerance for racist behaviour. This is part of our shared belief in the value of diversity and inclusion and our commitment to treating everyone with dignity and respect. We have four very active staff networks in Welsh Government, including our Minority Ethnic Staff Network, and we continue to work very closely with them to improve working life and outcomes for all our staff.

2019-2020 saw the final year of our Diversity & Inclusion Action Plan 2016-2020 and initial scoping work for our new Equality, Diversity and Inclusion Plan 2020-2025. This work is overseen by our Diversity and Inclusion Steering Group, which is chaired by our Board Equality Champion and includes co-chairs of our four networks.

This year we:

- Developed the Permanent Secretary's Let's Talk Respect campaign to embed the positive behaviours we expect to see from all staff, ensuring the Welsh Government is a place to work where people feel enabled to reach their full potential, be themselves and call out unwelcome behaviour when they see it. Under the 'Let's Talk Respect' banner, we introduced a new support mechanism for staff, created structured development programmes for under-represented groups, and shone a spotlight on dignity and respect in the workplace through multi-channel and highly visible internal communications featuring personal and emotive staff stories, strong leadership and a clear articulation of our values and expectations.
- Dedicated the second phase of the Let's Talk Respect campaign to raise organisational understanding of the social model of disability. Aligned to priorities of DAAS, our network of disabled staff, and shaped by members' experiences, this included the launch of an innovative animation, corporate language standards and practical training. Embedding social model thinking in everything we do will take time but the staff survey published in May 2020 showed 72% of the organisation are now aware of the social model, which provides the foundation for culture change.
- Implemented social model thinking by working with disabled staff to identify barriers to progression and, in direct response to their experiences, introduced a recruitment adjustment pilot in our G7 promotion assessments to make it far easier for candidates to identify and ask for the reasonable adjustments that they need to be assessed fairly. The pilot has already attracted interest from other UK Government departments.

- Launched a fourth cohort of our reverse mentoring scheme – another 40 members of the Senior Civil Service are now being reverse mentored by reverse mentors recruited specifically for their diverse perspectives, including disabled, minority ethnic and LGBT+ staff as well as women and those who identify as having a lower socio-economic background.
- Signed the Business in the Community Race at Work Charter and introduced a high quality tailored Leadership programme for staff from minority ethnic backgrounds, in direct response to requests from MESN, our network of minority ethnic staff. The programme includes highly individualised development, coaching and work experience opportunities, as well as creating an environment where those taking part can provide mutual peer support.
- Took part in the Chwarae Teg Fair Play Employer benchmarking scheme (achieving a silver award) and contributed to the Gender Review which reported in July 2019; employment-related actions from the Gender Review will be taken forward in our new Equality, Diversity and Inclusion Plan. Women are only under-represented in senior posts so, in liaison with our Women Together network, we have agreed to work with Chwarae Teg to carry out focus groups to identify barriers affecting progression to the Senior Civil Service and feeder grades. This is in addition to our continuing provision of high quality development programmes for women. We also signed the Equality and Human Rights Commission's Working Forward pledge, committing to be an excellent employer for pregnant women and new parents.
- Were placed 9th in the Stonewall UK Top 100 Employers Index 2020 (out of over 500 submissions) – in the top 10 for the second year running. Stonewall also recognised Welsh Government as a top trans inclusive employer and we were once again awarded gold status by a:gender, the Civil Service Support Network for trans and intersex staff across Government. Whilst delighted to receive this positive feedback, we are not complacent and remain committed to working with PRISM, our network that supports staff who identify as lesbian, gay, bisexual, trans or intersex (LGBTI+) to identify areas where we still need to improve, based on the lived experience of our staff.

The following is the position in relation to our workforce targets for 2020 (percentages cited are at end of April 2020):

- **50% female staff in the Senior Civil Service by 2020.**

We remain some way from meeting this target, at 43.1%. The percentage is better at SCS 1 (Deputy Director) level, which is where change needs to start; we currently have 45% of women at Deputy Director level (compared to 36.8% in other SCS roles). The feeder grades for the SCS are also better than the SCS figures (G7 53.9% and G6 46.7%).

- **5.8% disabled staff**

Now at 5.8% (met).

- **2.5% minority ethnic staff**

Now at 2.6% (exceeded)

We are mindful that targets were set in a context of limited external recruitment and both disabled and minority ethnic staff remain under-represented in our organisation as a whole, as indeed women are in the Senior Civil Service.

A gender pay gap of 8.54% (based on average salaries) was identified in 2019. This was a slight increase from the previous year (7.96%) although it compares favourably to the Welsh average of 15%. Our pay systems are fair and equal for all staff and the pay gap does not exist at most grades. The figure of 8.54% arises principally due to the under-representation of women in our most senior roles which is why our work to redress this will focus on progression to senior grades.

New targets will be published in our new Equality, Diversity and Inclusion Plan which will focus on increasing diversity, removing barriers and supporting all our staff to reach their potential, building on the achievements of recent years. This will be available from autumn 2020.

Respecting Human Rights

The Welsh Government is committed to ensuring workers are treated fairly and with respect and ensuring that Wales is free of slavery. The Code of Practice – Ethical Employment in Supply Chains is embedded throughout the procurement process. All successful suppliers are encouraged to sign up to the Code, and as a minimum contractors/supply chain partners are required to work with us in order to continuously performance manage contracts to ensure that fair employment practices are observed.

All procurement processes over the value of £25,000 are subject to a strategy risk assessment, which considers the sustainability of the service and the potential for specific areas of the Code to be addressed through the contract terms, for example payment of the living wage.

Internally, all procurement professionals must complete the Chartered Institute of Purchasing and Supply e-learning on Ethical Procurement. Additionally, an e-learning training module has been developed which will become mandatory for all our contract managers to complete. This will provide them with the knowledge and understanding of fair and ethical employment practices and how they can ensure the Code is adhered to.

Working Bilingually

Earlier this year, following consultation with the TUS, the Welsh Government's new strategy on the internal use of Welsh was published: "Cymraeg. It belongs to us all". All public bodies subject to the Welsh Language Standards system established by the Welsh Language Measure 2011 are required to have strategies of this sort and we also have a commitment in the Welsh Government's Welsh language strategy "Cymraeg 2050: a million Welsh speakers" to lead by example in promoting the use of Welsh by our own workforce.

The strategy sets a long-term goal for the use of the language which will have a positive effect for generations to come. Our aim is that the Welsh Government should be truly bilingual by 2050; which means it would become a workplace in which it is routine for the Welsh and English languages to both be used naturally and interchangeably.

Although this is a long-term and genuinely ambitious Strategy, we are taking action now to meet our early-phase goals. As first steps, we will strengthen learning and development by expanding and improving Welsh language training, as well as providing more opportunities to use the language. This will help us provide bilingual services to the people of Wales.

During the first five years (2020-2025) we will aim to become an exemplar organisation compared to similar bodies in Wales. This involves 10 actions underpinned by principles designed to ensure that we start on the path to 2050 in a gradual, reasonable and proportionate way. The principles are:

- **Making a long-term commitment and leading the way:** change will be incremental and will happen over time, but we intend to lead by example in the way we promote use of the language in the workplace.
- **Investing in staff and providing opportunities to learn Welsh and develop language skills:** it is crucial that effective and convenient training is provided, with people given both time and motivation to continuously improve their Welsh language skills.
- **Remaining an open, inclusive and diverse organisation:** everyone has the potential to be a Welsh speaker and this strategy does not conflict with our commitment to being open, inclusive and diverse – although Welsh language skills will progressively be needed for more posts, developing a bilingual workforce does not mean (or imply) those skills being a universal pre-requisite for joining the Welsh Government.
- **Continuously reviewing our ways of working to facilitate the increased use of Welsh:** when we introduce new internal policies and initiatives we will review the extent to which they provide further opportunities for staff to use Welsh in their day to day work.

In line with our statutory duties, we publish an annual report on our compliance with the Welsh Language Standards, the 2019-2020 report www.gov.wales/welsh-language-standards-annual-report-2019-to-2020 can be found on the Welsh Government website.

Working in Partnership

Trade Union Side (TUS) is the umbrella body that co-ordinates the views of the three trade unions recognised by Welsh Government. Our management team has worked closely in partnership with TUS for a number of years, but now operate in even closer collaboration, following social partnership principles, engaging with unions at the earliest stage of development of a policy or planned change affecting staff. This has been invaluable in the COVID-19 crisis, where TUS have been closely involved in all aspect of our organisational response and recovery planning.

The three unions represent their members on a wide range of conditions of service and other work-related matters. When policy changes are proposed that will affect staff, TUS are formally consulted and liaise with members as appropriate. TUS and the Welsh Government civil service have a long-standing Partnership Agreement which provides a framework for joint working. To reflect the new social partnership arrangements, the TUS Chair now participates as an observer in meetings of the Board and its Executive Committee.

Ensuring staff are fully supported, remain healthy and have a safe environment is an important part of our health and safety approach, and one on which we work particularly closely with TUS to continuously improve. We have implemented several improvements including ongoing accommodation refurbishments across the estate which offer a variety of flexible working solutions including quiet rooms and pods.

During the year there has been a focus on health and safety awareness training for our senior management teams. The Welsh Government Board received Health & Safety training from the Wales Quality Centre in May 2019 to highlight senior management H&S responsibilities and the requirements of the new ISO 45001 Standard which the organisation will be implementing during 2020-21.

Following this, the Senior Leadership Team received training from Eversheds Sutherland in October 2019 which outlined the obligations of Director Generals and Directors in promoting Health & Safety amongst their teams whilst delivering business objectives. As a result, a number of commitments to introduce further measures, including staff driving licence checks, were made.

Anti-bribery and Corruption

Our standards and expectations of the way employees of the Welsh Government are expected to behave when undertaking their duties are very clear. Our Terms and Conditions of Service, Civil Service Code, Staff Code of Conduct and guidance on Managing Welsh Public Money all focus on our core values of integrity, honesty, objectivity and impartiality. They provide unambiguous advice that staff should not misuse their official position to further private interests, to accept gifts or hospitality, or receive other benefits from anyone which might reasonably be seen to compromise judgement or integrity.

All staff are required to disclose any outside business interests that may impact on their role within Welsh Government, and to have these interests approved by management. Regular communications are issued to remind colleagues about this requirement. In addition, due diligence checks are undertaken on organisations we fund, as part of a range of measures to protect against financial crime by recipients of Welsh Government grants and contracts.

We have a Counter Fraud Branch whose remit is to embed a culture of anti-fraud and corruption and to promote a zero tolerance approach to fraud and corruption through the investigation of all allegations made, whether against Welsh Government officials or against third parties in receipt of Welsh Government grants and contracts.

The Branch maintains close contact with Welsh Police forces and other specialist groups and participates in national data matching exercises to identify potential fraud and conflicts of interest. The Counter Fraud Branch is also responsible for maintaining our Counter Fraud and Corruption Policy and the Fraud Response Plan.

Handling Complaints

The Welsh Government has a clear and transparent complaints policy which explains our approach to handling complaints from members of the public or other organisations. We have adopted best practice in complaints handling in line with the Public Services Ombudsman for Wales' (PSOW) model complaints policy and guidance.

For the year 2019-20, we handled 122 complaints. The Welsh Government operates a KPI of 85% for complaint responses. The table below shows response times for the past three years:

% responded to within agreed timescale:

April 2017 – March 2018 69%

April 2018 – March 2019 69%*

April 2019 – March 2020 78%

* Restated from 2018-19 due to revisions in tracking

Complaint response timescales are monitored on a monthly basis and communicated to Complaint Leads within each Group. This allows them to flag the issue of late responses earlier and put steps in place to prevent this becoming a regular occurrence.

There are various reasons that a complaint would not be responded to within the set timescale (such as the complexity of the complaint or level of investigation required). If a complaint deadline is extended, it is always communicated to the complainant in advance so they are kept up to date. This is also in line with the PSOW model.

We referred 12 complaints to the PSOW (10 less than the previous year) with only 7 taken forward to be investigated by PSOW. Out of these, 6 were upheld, 1 not upheld. PSOW has yet to determine if one further case of those referred is to be taken forward. The table below shows total cases closed by PSOW over the past four years.

Year Total cases closed by PSOW:

2016-17: 43

2017-18: 30

2018-19: 20

2019-20: 7

The number of cases that are closed differ from the number of cases received. This is because some of the cases closed in 2019-20 were received in the previous year, and some cases received in 2019-20 will be closed in 2020-21. The PSOW Annual report has recently been published and confirms they received 36 complaints about Welsh Government, over the past year, in total. This reflected no increase or decrease in the amount of complaints against Welsh Government to the PSOW form the previous year. PSOW did not take all of these forward.

Our analysis indicates that the drop in cases being referred to the PSOW might evidence improved handling of complaints at the early stage, however those that are taken forward seem to be increasingly upheld indicating that there are still improvements to be made. We continue to review our practices and protocols to ensure that we are continually investing in improving the process for both our customers and employees. This includes training additional staff to provide resilience, investing in more training and exploring more tailored documentation for a more inclusive and accessible service.

Statement of Accounting Officer's Responsibilities

Under Section 131 of the Government of Wales Act 2006, the Welsh Ministers are required to prepare for each financial year consolidated resource accounts, as HM Treasury has directed, detailing the resources acquired, held or disposed of and the use of resources during the year by the Welsh Government and other public bodies designated in the Welsh Government group and listed in the notes to these accounts. The 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 group and of the income and expenditure, Statement of Financial Position and cash flows of the group for the financial year.

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 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 requirements of the Government Financial Reporting Manual (FReM) and, in particular, to:

- observe the Accounts Direction issued by the Treasury, including relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- ensure that the Welsh Government has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by other public bodies in the group;
- state whether applicable accounting standards, as set out in the FReM, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable, and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 National Health Service (NHS) as Accounting Officer of the National Health Service in Wales. The work of the Local Health Boards, Special Health Authorities and NHS Trusts in Wales is governed by separate authority and the Chief Executives of each of the Local Health Boards and NHS Trusts 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 PAO (or Additional Accounting Officers, on her behalf) has also appointed the Chief Executives (or equivalents) of Welsh public bodies as the Accounting Officers of those bodies. The PAO is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants the Welsh Government makes to Welsh public bodies are applied for the purposes intended, and that such expenditure and the other income and expenditure of these bodies are accounted for properly for the purposes of consolidation within the resource accounts. Under the terms of appointment, the Accounting Officers of Welsh public bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of those bodies.

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 and for safeguarding the assets of the Welsh Government or Welsh Public Body for which the Accounting Officer is answerable, are set out in *Managing Welsh Public Money*, issued by the Welsh Government.

Disclosure of Information to Auditors

As Principal Accounting Officer I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Auditor General for Wales is aware of that information. So far as I am aware, there is no relevant audit information of which the Auditor General is unaware.

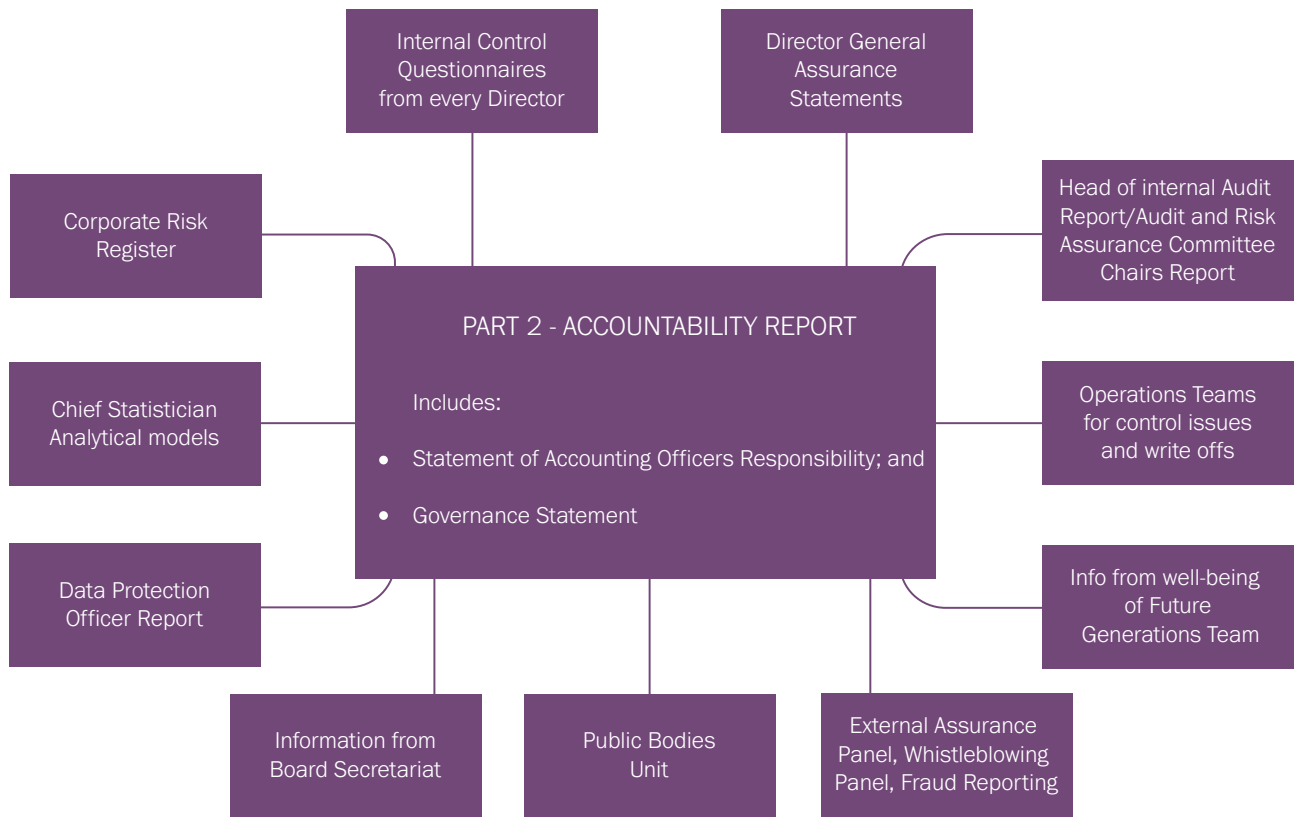
Governance Statement

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 principal sources of information I consider when preparing this Governance Statement are set out at Figure 1 overleaf.

Figure 1: Sources of Information Contributing to the Annual Governance Statement



External Sources of Information are also used to inform the Governance statement. These include but are not limited to reports from:

- Audit Wales
- Regulators
- European Commission
- External Assessors

COVID-19

On 11 March 2020 the World Health Organisation declared the Coronavirus, COVID-19 to be a global pandemic. As a result the Welsh Government redeployed a significant amount of internal capacity and capability to the crisis response. Existing governance and assurance arrangements remained in place. However, I also put in place a number of additional measures for supporting the Welsh Government in its response to COVID-19 including the introduction of a new internal Committee called ExCovid. Details of this Committee are shown on page 58. Other measures have included:

- Personally writing to all Additional Accounting Officers (AAOs) on matters of risk appetite, managing at pace and the importance of ensuring we continue to put in place proportionate safeguards including the need to plan to mitigate risks, consider value for money, maintain adequate records and work with central teams such as strategic budgeting and the centres of excellence.
- Writing to all AAOs with my expectations of them with regard the possible need to seek a Ministerial Direction.
- Meeting with AAOs on a regular basis to discuss any accounting officer related issues.
- Issuing additional guidance to all staff on financial management, grants, governance, fraud prevention and procurement.
- Ensuring that Strategic Budgeting Division and the centres of excellence, grants and governance, continue to be engaged on the preparation of Ministerial Advice.
- Introducing a funding and risk template (plus supporting advice) in relation to COVID-19 decisions to supplement existing guidance on preparing advice to Ministers. Completion of the template is mandatory and is being monitored to ensure compliance.

Flooding

Severe flooding in the final quarter of the financial year required the commencement of the emergency financial assistance scheme for affected authorities. Revenue assistance was provided through the scheme in the financial year. Local authorities were required to certify that their expenditure had been incurred in relation to the emergency, was in excess of the applied threshold and was incurred under the terms for the scheme. A cross-Welsh Government group ensured that the Government's response was co-ordinated properly and that schemes were complementary.

Well-being of Future Generations (Wales) Act

I am committed to meeting 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 (Wales) Act. Built into the cycle of the Well-being of Future Generations (Wales) Act is the publication of two 5-yearly reports from the Future Generations Commissioner for Wales (FGCW) and the Auditor General for Wales (AGW). These are published a year before a general election, and together they give a periodic stock-take of the implementation of the Well-being of Future Generations (Wales) Act by public bodies from these two key positions in the Act. Welsh Ministers and public bodies are under a duty when setting or revising their well-being objectives to take account of the Commissioners report.

The Future Generations Report was published on 5 May 2020. Given the coronavirus crisis, the FGCW has indicated she does not expect a response in the short term, in order to allow resources to focus on the coronavirus response. A Government response to these recommendations will follow in due course.

The Auditor General's Report was also laid on 5 May 2020. It contained two recommendations: one for the Senedd and Welsh Government to conduct a review of post-legislative scrutiny of the Act to explore whether the provisions of the Act are working as intended; and one for Welsh Government to consider whether additional public bodies should be designated by Order to be subject to the Act. This will be given further consideration and the Welsh Government will respond in due course.

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 Senedd Cymru 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 Framework includes both those bodies through which Government priorities and commitments are delivered and also the internal decision-making arrangements within the Welsh Government. Further detail on the Governance Framework is contained within the Accounting Officer's System Statement.

Welsh Public Bodies

The Welsh Government delivers some of its aims and objectives through a number of public bodies, including Welsh Government Sponsored Bodies (WGSBs), subsidiary companies and other government-funded public bodies. Accounting Officers are appointed for each body with executive functions, and are responsible for an organisation's management of public finances and delivery of its objectives. Accounting Officers 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 written documentation for each body. The Public Bodies Unit has been established to improve engagement with, and the governance of, the public bodies for which the Welsh Government is responsible.

The Public Bodies Unit is responsible for:

- Delivery of an action plan which is designed to support that improved engagement, and more effective governance arrangements between the Welsh Government and public bodies in Wales, and to put in place templates for consistent Arms-Length Body Framework Documentation, Term of Government Remits, and a Risk Assurance model which will inform the five-year cycle of Tailored Reviews. The Tailored Review of the National Library of Wales was undertaken as a pilot. The Review is now complete and is with relevant Welsh Ministers to note; once this process is complete The National Library will work with the Review Panel, its Partnership Team and the Public Bodies Unit to agree publication arrangements.
- The Public Bodies Unit will develop a timetable for a full programme of Tailored Reviews of Arms-Length Bodies in Wales; these reviews will be undertaken during the next Welsh Government term after the Senedd elections in May 2021.
- Corporate delivery of Ministerial public appointments and the implementation of the Welsh Government Diversity and Inclusion Strategy for Public Appointments in Wales.
- Setting the pay principles and pay remit guidance for arms-length bodies, including work towards establishing greater pay harmonisation (where possible); and, oversight of the Welsh Government's remuneration scheme covering Ministerial public appointments.

Welsh Government Internal Arrangements

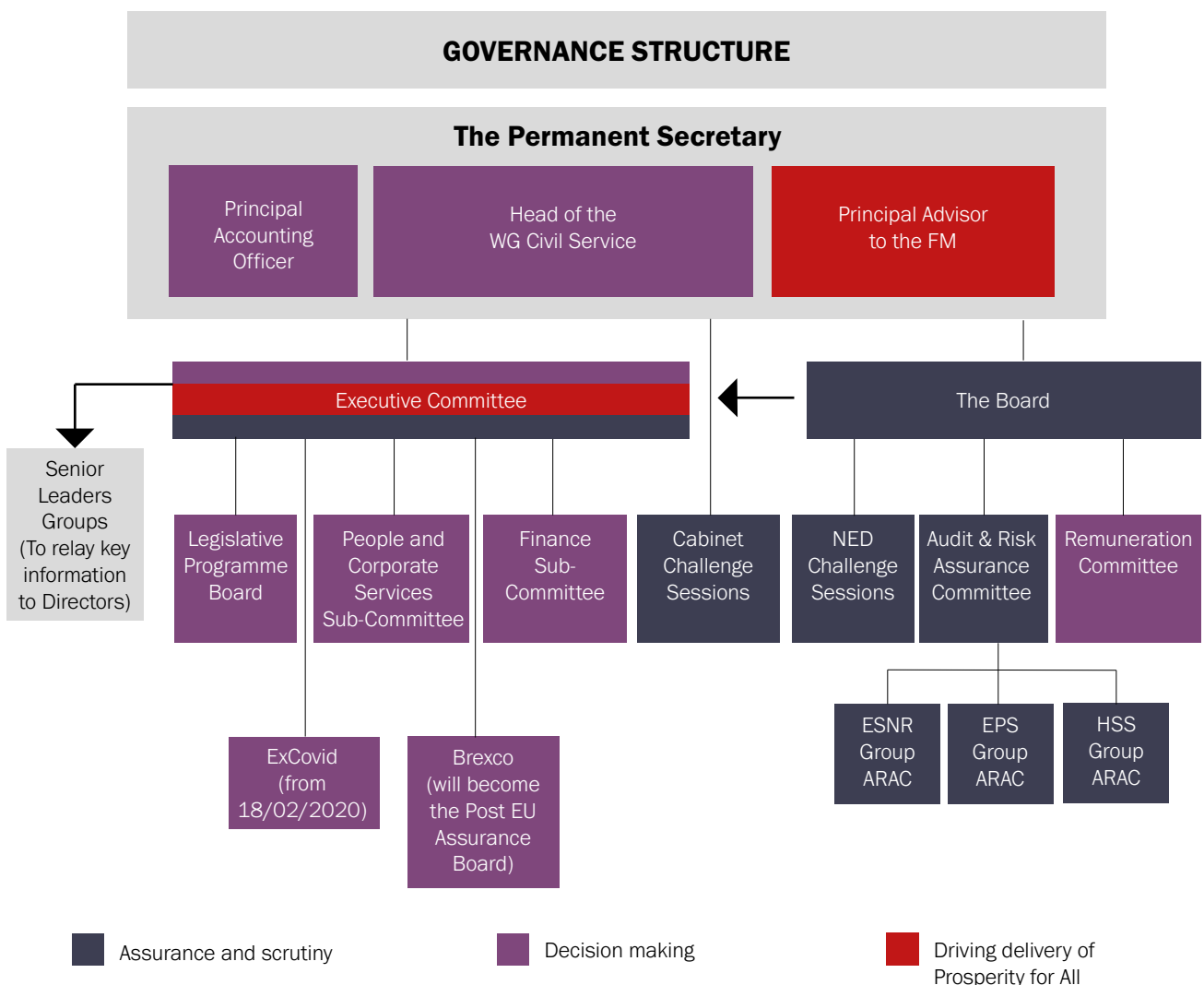
The system of internal control is a significant part of the governance framework and is designed to mitigate unacceptable risk. The Welsh Government's "Common Control Framework" sets out the standard delegations which operate across all parts of the Welsh Government.

An update of the Common Control Framework was undertaken during 2019-20. The Corporate Governance Centre of Excellence has taken the lead on this with contributions from the Governance Community of Practice. The revised framework was ready to be issued at the end of the year but a decision has been made to delay the launch for two reasons. Firstly it was felt that to issue revisions when officials were dealing with the pressures of COVID-19 could potentially be confusing and distracting; and secondly because some revised processes have been introduced as a consequence of responding to COVID-19 e.g. the updated funding decision template. This could give rise to further changes to the framework. We intend to issue the updated Common Control Framework later during 2020-21.

The governance framework and internal control system are also supported by an ongoing 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.

During the COVID-19 crisis our centres of excellence have continued to provide advice on the requirements of *Managing Welsh Public Money* and challenge around aspects of regularity, propriety and value for money. We have also embedded some of our Centre of Excellence staff in teams dealing with large allocations of funding to ensure that the requirements of *Managing Welsh Public Money* are complied with.

The Corporate Governance Structure



Key Performance Indicators

I have been encouraged by the Public Accounts Committee to develop a more comprehensive suite of key performance indicators which can inform and support myself and my senior colleagues in leading the Welsh Government civil service. I welcome this feedback because I too believe that a revised set of indicators will be of considerable assistance to me. Following the work of a task and finish group led by Jeff Farrar, a Board non-executive, and a period of consultation, the International Civil Service Effectiveness Index (InCiSE) was adopted as the basis for the organisation's performance framework and adapted to align with Welsh Government strategies, priorities and objectives.

Work has continued in order to finalise the framework themes, establish governance arrangements and develop appropriate concepts and indicators to measure performance. The framework introduction began with the first Board review in September 2020 with further work to complete population of the framework and incremental implementation across the organisation to follow. Further details of the Performance Framework can be found on pages 8 to 11. Progress in relation to the Government's delivery programme is available in the Welsh Government Annual Report, as noted in Part 1 of this report.

Governance Review

Last year I provided an update on our review of governance arrangements. The actions arising from the review have now been substantially implemented with only some minor areas outstanding due to the impact of COVID-19. These include the development of a Welsh Corporate Governance Code and revised Scheme of Delegation (Common Control Framework). The Corporate Governance Centre of Excellence, who are tasked with these actions have had to reprioritise their work commitment to deal with governance issues arising from the COVID-19 crisis and will ensure that these projects are planned during in 2020-21.

The Welsh Government will continue to follow the principles outlined in Corporate Governance Code for Central Departments as far as practicable, until an assessment of a Welsh Corporate Governance Code is concluded.

Conflicts of Interest

Ensuring an effective management of conflicts of interest is a key aspect of any effective governance framework and system of internal control. Within the Welsh Government controls include corporate policies and procedures covering this matter; including conflicts of interest registers and an annual return from all relevant staff published on the Welsh Government Internet site (disclosing all board and similar memberships of third party organisations held by Welsh Government officials).

The Board and each Audit and Risk Assurance Committee (ARAC) also have Conflict of Interests Registers. Conflicts of interest linked to specific agenda items are also requested at each meeting and formally recorded. The requirements placed on ARAC members are also set out in appointment letters and the Terms of Reference.

During 2019 Internal Audit Service undertook a review of Welsh Government's Conflicts of Interest arrangements. This identified a number of areas, in which the processes can be strengthened such as the need to review and refresh the current Conflicts of Interest Policy. These findings are being addressed by management, primarily through the People and Corporate Services sub-committee.

The Board

As Permanent Secretary and PAO, I am supported by the Welsh Government Board, which consists of 14 Members, both Non-Executives and Executives; TUS representatives attend two meetings per year. The Board advises me in taking key strategic decisions about how the Welsh Government civil service is developed to support the First Minister and Ministers and ensures the Welsh Government delivers the objectives and strategies set out in Ministers' Programme for Government "Taking Wales Forward" and the priorities identified in "Prosperity for All". I chaired all Board meetings and I also met regularly with Board members on a bilateral basis and with the Non-Executive Directors collectively every six weeks. I have agreed with the First Minister that he will engage with the Board at least once a year.

During the year the Board considered the following matters as part of their agenda:

- Brexit
- Budget Management and Financial Pressures
- Staffing Resources
- Diversity and Inclusion
- The Health Service
- Welsh Language
- Learning & Development
- Decarbonisation
- The Corporate Risk Register
- Legislative Programme Board
- COVID-19
- Well-being of Future Generations (Wales) Act Implementation

Board Membership and Attendance

Current Membership	Meeting Attendance
Shan Morgan, Permanent Secretary	8/8
Ann Keane, Non-Executive Director (to 6 March 2020)	7/8
Ellen Donovan, Non-Executive Director	8/8
Jeff Farrar, Non-Executive Director	8/8
Gareth Lynn, Non-Executive Director	8/8
Andrew Slade, Director General, Economy, Skills & Natural Resources	6/8
Tracey Burke, Director General, Education & Public Services	8/8
Andrew Goodall, Director General, Health & Social Services (NHS Chief Executive)	7/8
Des Clifford, Director General, Office of the First Minister	7/8
David Richards, Director, Governance and Ethics	7/8
Jeff Godfrey, Director, Legal Services (to 13 September 2019)	4/4
Peter Kennedy, Director, HR	7/8
Gawain Evans, Director, Finance	8/8
Gillian Baranski, Board Equality & Diversity lead (to 5 July 2019)	3/3
Natalie Pearson, Head of HR Strategy, OD and Engagement	7/8
Andrew Jeffreys, Director, Welsh Treasury, Board Equality and Diversity lead (from 13 September 2019)	5/5
Helen Lentle, Director, Legal Services (from 13 September 2019)	4/5

Board Self-Assessment of Performance

The Board discussed the outcome of the self-assessment exercise on 5 July 2019 and endorsed the proposed actions. The self-assessment exercise for 2019-20 was postponed due to the COVID-19 crisis and is now scheduled to take place by October 2020. The assessment exercise will be along the same lines as the previous one but will include whether members feel that the outcomes from the previous exercise have been implemented successfully and in addition will explore the extent to which the new ways of working are operating successfully for the Board.

Board Sub-Committees

I was also advised by two Non-Executive led Board Sub-Committees (the Audit and Risk Assurance Committee and the Remuneration Committee).

Board Sub Committee: Audit & Risk Assurance (ARAC)

The Welsh Government's ARAC supports me on assurance matters. This Committee was chaired by a Board Non-Executive Director (NED), as one of two Board NEDs sitting as Members of this Committee. At the year end the previous Chair resigned and one of the Board NEDs took over as Chair. ARACs also operated at Group-level during 2019-20 with their three Chairs making up the remainder of the membership of the Welsh Government ARAC. The ARAC advised me, throughout the year, in my capacity as PAO, on the operation of internal control and the capacity of the organisation to manage risk. Due to COVID-19 the April sessions of the Group and Welsh Government ARAC's were cancelled. During this period Welsh Government and group ARAC members continued to be briefed by AAOs, mainly in relation to the response to COVID-19 and the additional support and guidance being provided. A special meeting of the Welsh Government ARAC was held in mid-May to provide ARAC members with an update on the Welsh Government's response to COVID-19. Both the Group and Welsh Government ARAC continued with their normal programme of meetings from June 2020.

Board Sub Committee: Remuneration

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

Executive Committee (ExCo)

Throughout 2019-20, I was supported by a leadership team consisting of Directors General, each leading a Welsh Government Group, together with the Directors covering key corporate functions being Governance, Finance, Treasury, HR/Corporate Services and Legal Services.

The Directors General on the Executive Committee are designated as Additional Accounting Officers (AAOs) in respect of the budgets delegated to them in order 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 clarify corporate governance and accountability arrangements, both for the use of public funds and in accounting to the Public Accounts Committee. These Director designations are reviewed to ensure they remain appropriate and relevant.

ExCovid

Key to the organisation's response to the COVID-19 crisis has been the creation of the ExCovid Committee. Membership comprises Additional Accounting Officers and other senior officials and is the strategic decision-making forum at official level which enables me as Principal Accounting Officer to lead and monitor the Welsh Government's support for Ministers in their response to COVID-19.

The role of ExCovid is to oversee and co-ordinate the actions of Welsh Government officials to ensure delivery of key policy and operational objectives and so provide effective support to Ministers to assist them in dealing with the COVID-19 crisis. This includes:

- Providing assurance to me as Permanent Secretary that officials are doing all they can to help manage the COVID-19 crisis and that we are meeting the expectations of Ministers;
- Ensuring delivery of the Welsh Government's critical policy and operational priorities;
- Overseeing and reviewing the wider portfolio of policy delivery to ensure it meets the needs of the COVID-19 crisis and is delivered effectively;
- Ensuring clear prioritisation of work on COVID-19 and identifying and removing areas of duplication of effort and activity; and
- Developing clear strategic vision for policy evolution, including into the recovery phase.

The group also reviews and manages a list of COVID-19 related risks. ExCovid started meeting twice a week from February to May 2020, and meetings thereafter have been held weekly. ExCovid will continue to meet on a regular basis throughout the crisis.

ExCo: Brexit (BrexCo)

Time was put aside for ExCo to meet regularly for the sole purpose of focusing on European Union (EU) exit preparedness issues. This Committee usually met on a fortnightly basis; however between April and August 2019 meetings were held monthly. This Committee has now been replaced by a post EU Assurance Board which met in June 2020 for the first time; it is intended that these meetings will be held monthly.

ExCo Sub Committee: Finance (FinCo)

The Finance Sub-Committee is a permanent sub-committee which supports ExCo with the internal running of the organisation on an operational level, with respect to the management of finances and resources, allowing the ExCo to maintain a strategic, cross-organisational focus. FinCo's membership includes one of the Non-Executive Directors on the Welsh Government Board.

ExCo Sub Committee: People & Corporate Services

The People Sub-Committee is a permanent sub-committee which supports ExCo with the internal running of the organisation on an operational level, with respect to workforce management, staffing matters, IT security and data management.

ExCo Sub Committee: Legislative Programme Board

The Legislation Programme Board co-ordinates and oversees at official level the delivery of the Government's programme of legislation.

Non-Executive Challenge Sessions

To provide additional support, challenge sessions chaired by Non-Executive Directors have been established to provide assurance on the delivery of key areas of work chosen by the Permanent Secretary and Director Generals which focus on the First Minister's priorities.

The intention of challenge sessions is to offer opportunities for constructive scrutiny and discussions in a safe environment. The discussions draw on knowledge and expertise across the organisation to identify where processes can be strengthened, and solutions and options can be put forward to help support delivery of the work. One meeting has been held to date, which was on the Legislative Programme.

As the challenge sessions were established shortly before the COVID-19 pandemic they were subsequently paused, I intend to resume these sessions in the near future so that the Non-Executive Directors can continue to provide the additional support.

Whistle-Blowing

The Whistle-Blowing Panel met regularly through the year to consider whistle-blowing cases, to ensure that action was then taken promptly but with care to maintain confidentiality wherever possible.

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.

I am confident that our whistle-blowing arrangements are transparent, robust and in-line with good practice.

Seven cases were reported to the Panel in the year, with a further four cases carried over from the previous year. The cases were:

Whistleblowing Cases	2019-20	2018-19 ¹¹	2017-18
Not substantiated	3	4	2
Resolved internally (staff-related matters)	6	-	1
Not a matter for the Welsh Government	-	-	-
Advice provided to the Whistleblower	2	-	1
Still under investigation	-	3	1
Total	11	7	5

In addition to the Whistle-Blowing Panel dealing with internal cases, the External Assurance Panel (EAP) addresses issues raised concerning organisations in receipt of 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 EAP provides advice to officials and identifies systemic issues needing to be addressed. The Panel considered 18 new cases in the year, compared with 16 cases in 2018-19. The Panel advised on eight of these cases, with the remaining 10 cases being initially investigated by Counter Fraud and either referred to other departments or agencies for action, or identified as having no case to answer. Four of these new cases remain open, together with two from previous years which will be addressed in the current year.

External Assurance Panel Cases	2019-20
Carried forward from 2018-19	9
New cases arising	18
Cases resolved	21
Cases remaining:	6
- Court Case in Progress	0
- Under police investigation	0
- Under repayment monitoring	0
- In review by an independent fraud agency	0
- Investigation ongoing	6
Total outstanding	6

Each case was reviewed for lessons learned, and these have been disseminated to appropriate teams for action including through the Grants Centre of Excellence, HR, Procurement Services, Counter Fraud and Group Operations teams.

11 There was an error in these figures in the 2018-19 report. They have been restated for 2019-20.

Assurance Arrangements

As Principal Accounting Officer, I have responsibility for ensuring the effectiveness of the governance framework, including the system of internal control, for which I take assurance from a wide range of activities. In this, I am 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 the agreement and delivery of action plans by management in response to issues identified by the External Auditor (the Auditor General for Wales) in his reports and in reports published by the Public Accounts Committee and other Senedd Cymru Scrutiny Committees undertaking their own inquiries.

I am also advised on the effectiveness of the system of internal control by the Board and the Audit and Risk Assurance Committee.

Led by the First Minister and the Cabinet 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.

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 ARACs, at both Group and Welsh Government level, on progress in implementing this audit plan. I 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 Audit Wales. A long-standing 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 assurance in respect of the achievement of value for money and the reliability of the financial accounts, in the case of Audit Wales, 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. Reasonable assurance means that, while arrangements are suitably designed and applied effectively, some matters require management attention in control design or compliance with moderate risk exposure until resolved. The Head of Internal Audit's opinion has also been informed by a number of advisory reviews that were undertaken throughout the year and for which a traditional audit assurance statement was not provided. These reviews identified areas where systems of governance, risk and control could be strengthened and resulted in agreed management actions.

The Head of Internal Audit is satisfied with the positive response by management to the observations raised in audit reports during the year. Where appropriate, such as the development of new policies and guidance, internal audit staff are working with officials to provide further advice on matters of risk and control. In addition, all of the management actions are subject to follow up review to ensure they have been properly implemented and internal audit will undertake further reviews of those areas in which a limited assurance opinion was provided.

The programme of audit work completed during 2019-20, which drives the overall assurance opinion given, produced the following opinions for the audit reports issued:

Assurance Opinion	2019-20	2018-19	2017-18	2016-17
Substantial Assurance	19	35	16	14
Reasonable Assurance	15	30	38	29
Limited Assurance	4	9	7	9
No Assurance	1	0	0	0
Advisory Review	9	3	2	0

Where weaknesses were identified in audit reports, management action plans were agreed to enhance the control framework and address the issue identified. The key themes arising from the limited assurance reports were adequacy of evidence and audit trails to support expenditure and weaknesses in authorisation and approval controls. Confirmation that the required remedial actions have been taken will be sought during the follow-up reviews.

The No Assurance Report related to a report issued by the European Funds Audit Team on the Technical Assistance process, which supports the delivery of the Rural Development Plan. More detail on this report is contained on page 65.

With the UK exit from the EU possible at different points during the year and the associated impact on Welsh Government operations, the Head of Internal Audit switched to an “agile” planning approach for 2019-20 as an expedient measure to deal with the uncertainty and expected disruption of Brexit. At the same time, Internal Audit had received several requests from across the Welsh Government for reviews of specific aspects of Groups’ operations. These circumstances created an opportunity to reconsider Internal Audit’s structure and delivery model. Director Generals identified that advisory reviews and the insight internal audit could provide as being areas where Internal Audit Service (IAS) could undertake the most useful work.

As a profession, internal audit has moved away from being concerned principally with compliance, to giving assurance and, now, to providing advice and “insight”, which adds greater value and makes the best use of auditors’ skills. One outcome of developing a more advisory-based service is the delivery of fewer “traditional” reports with assurance outcomes but this reflects the growing maturity of the profession and the recognition it can have greater impact and relevance by taking different approaches to its work. This does create a challenge for Heads of Internal Audit in arriving at an overall opinion; however, the Public Sector’s professional Internal Audit Standards state clearly that

auditors should take assurance from the whole range of work which is performed, including advisory assignments, in arriving at an overall assurance opinion for the year.

Thus, a combination of circumstances, moving towards an agile approach, turnover in staff, and a greater number of requests for advisory assignments, meant fewer traditional opinions were issued in the year and a larger number of advisory reports (without an assurance opinion) were issued, leading to the numbers in the table above.

European Funds Audit Team

In February 2020, the European Funds Audit Team (EFAT) submitted its Annual Control Report (ACR) and Opinion to the Commission with its assurance opinion on Structural Funds claimed by Wales for the period 1 July 2018 to 30 June 2019. This report was based on work carried out by EFAT in accordance with its audit strategy for the Programmes. I am pleased to report that EFAT was able to provide an unqualified opinion to the Commission. EFAT also issued an unqualified opinion in respect of the Ireland/Wales Territorial Cooperation Programme for the same period. Both ACRs and opinions were formally accepted by the Commission on 27 April 2020.

Audit and Risk Assurance Committee (ARAC) Annual Report

Based on its work throughout 2019-20, the Committee is able to provide overall reasonable assurance on the adequacy of audit arrangements for the Welsh Government and also on the arrangements for governance, risk management, and internal control that have been established, based on the range of assurances presented to the Committee and the information provided to it by Officials.

Annual Internal Control Questionnaires and Assurance Statements

I also required all Directors to complete an Internal Control Questionnaire (ICQ) and, based on these returns, for the Directors General for each Group to prepare their own personal Statement of Assurance, to provide me with their assessment of the effectiveness of their Group's frameworks of internal control.

Through the ICQ, the Directors have provided me with their self-assessments of internal control, governance and risk management and their considerations about how effectively they believe controls have operated throughout the financial year. The Directors General have provided an overview of governance, control and risk management within their respective Groups.

Business Critical Analytical Models

ICQ returns included positive assurances in respect of the Business Critical Analytical Models which support a range of activities. A programme of assurance reviews have been undertaken by the Welsh Government's Knowledge & Analytical Services team to assess the models in place and provide me with assurance on these models. In the past year we have also run a number of training sessions

for Senior Responsible Owners (SROs) and lead analysts working on the models (including external contractors working on models for transport for Wales), and the analytical Heads of Profession have undertaken peer reviews of all models we identified in last year's assurance process as being priority. The organisation's exposure to analytical modelling risk remains similar to last year, although over the medium term there has been and will be a greater reliance on analytical models that have a material risk. For example, in future it is likely that risk will increase due to taxes (such as Welsh rate of income tax, and other newer fiscal interventions such as a social care levy) emerging and developing over time. Significant risk exposure remains in certain areas, such as student finance, with large annual budgets for grant and loan liability, based on a statutory demand-led system. Good governance and mitigation are in place. However, a significant economic shock could cause major in-year issues. A number of newer models, such as Welsh taxes, can now use actual outturn data for the first time, reducing their risk.

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 the course of the year which have been, or are being, addressed and improvements made, which are set out below.

Rural Development Programme

On 30 June 2020 Audit Wales published a report which was critical of the approach Welsh Government took to the assessment of value for money through the Rural Development Programme (RDP) in some instances. The specific points made were that the Welsh Government; adopted an approach of granting funds without competition, without substituting alternative ways to ensure value for money, invited funding applications from selected bodies without documenting why they were selected, made individual grant awards without demonstrating enough consideration of value for money, gave additional funds to existing projects without first checking their success and exercised insufficient programme and project oversight.

The Welsh Government has welcomed the publication of the report and has responded confirming the recommendations have been fully implemented. Officials have acknowledged the approach to testing value for money for a number of historic Rural Development Programme projects did not represent best practice. However, as part of our ongoing review of delivery of the Rural Development Programme officials had already identified the issues described by Audit Wales and taken action to remedy them. The report's conclusions provide helpful guidance to ensure that all the necessary actions have been implemented.

The RDP continues to deliver benefits across a range of schemes supporting agriculture, woodland, biodiversity, tourism, community development and other priority areas. It has already committed £702m, and we will soon set out how we intend to commit the remainder of the available funding by 2023.

Job Support Wales

During the year, the procurement of the Job Support Wales programme was curtailed before formal contract award as a result of legal advice which suggested the quality of the information provided to support the final decision was not strong enough to survive a legal challenge. QC advice indicated this course of action represented the “least worst option”. An independent review was carried out which confirmed that, although the assessment of bids is a subjective process, the level of detail in the narrative to support the final decision was not sufficient.

The procurement was completed in line with agreed Welsh Government processes. Counsel determined that the standard Welsh Government procurement processes lacked sufficient robustness to defend this type of challenge. We have evidenced improvements to ensure the risk of successful challenge is mitigated in the future but more needs to be done to enhance the processes, especially improved guidance on the level of narrative required to support final decisions, within both procurement and policy teams across the Welsh Government.

EC Funding

Technical Assistance (TA) Process Review

In March 2020, EFAT issued the final report on the TA process, which supports the delivery of the Rural Development Plan. EFAT’s audit opinion was that no assurance could be provided on the controls in place over the process for preparing and submitting of TA claims. Whilst EFAT is satisfied there is an adequate process in place for the authorisation of claims, it was noted on two occasions management deviated from the agreed process.

However, Management has acknowledged and accepted the fundamental findings within the report and has applied and completed the corrective actions.

Impact of COVID-19 on the auditing of Structural Funds

EFAT undertakes the role of Audit Authority for Wales in respect of ESF, ERDF and ETC programmes, as well as undertaking audits for the EMFF programme on behalf of DEFRA. In order to meet European Commission (EC) requirements, EFAT must complete a number of audits (approximately 75) across two separate sample periods by the end of the calendar year. All audits are usually carried out ‘on-the-spot’ at the premises of the project subject to audit.

The normal year-end deadline remains in place, however, the EC have encouraged audit authorities to undertake desk-based reviews where possible during the lockdown period. Therefore, since late March, EFAT have been carrying out audits remotely where a project is able to upload information electronically. Any audit evidence that cannot be provided through this method will be viewed at a later date ‘on-the-spot’ – on the assumption that lockdown restrictions may have been lifted.

EFAT is awaiting further guidance from the EC as to whether deadlines will be extended or that a reduction in the number/level of audits will be considered an acceptable level of assurance. Until such time, EFAT is working on the assumption that the standard number of audits will need to be completed to the usual deadline.

European Court of Auditors (ECA)

In September 2019, EFAT was subject to a visit from the ECA. The purpose of the visit was to re-perform the work of EFAT on a number of audits and subsequently confirm whether the level of assurance EFAT provides to the EC on the ESF and ERDF programmes was adequate.

EFAT received the ECA's draft report in February 2020 and replied in March disputing a number of the findings. The most significant issue was in relation to State Aid. EFAT and WEFO sought the advice of the EC and Welsh Government Legal Services prior to replying on this matter. At the time of providing this update, EFAT were awaiting a further response from the ECA.

Audit Wales Report on EAFRD Funds

The Audit Wales report on the use of EAFRD funds was again qualified for the 2018-19 agricultural year end (year to October 2019). The qualification was for the same reason as in previous years, concerns by the auditors of the lack of open competition on the award of contracts. There are no new contracts awarded in the year which fell under this qualification and the qualification relates to ongoing contracts first identified in the 2017-18 financial year which continued throughout 2018-19 which cannot be exited. Due to strong management actions, the amount of expenditure disallowed in the 2018 and 2019 audit years has been reduced to €3.9m. All the amounts of disallowed expenditure are still under negotiation with the EU.

NRW Accounts Qualification

The Natural Resources Wales accounts were qualified for 2018-19 due to the inclusion of transactions in the financial statements relating to historic timber contract procurements. These arrangements have been stopped and no new contracts of this type awarded. Although there are a number of existing contracts that NRW are unable to exit, these will continue to decrease over time. NRW established the Timber Governance Improvement Project in January 2019, and many improvements had been implemented before the conclusion of the 2018-19 audit process. The project concluded in April 2020.

Pencoed Life Sciences Project closure

During 2019-20 the decision was taken to close the Advanced Therapy Medicinal Products project in Pencoed. As a consequence of this decision, accumulated impairment losses of £17m over the period 2014-15 to 2017-18 are now considered abortive and irrecoverable. There was no financial impact on the 2019-20 financial year as these impairment costs have been charged over a number of preceding years; however the decision was taken in 2019-20 to terminate the project and seek alternative options for the future of the site. The intended project to establish a stem cell manufacturing facility on the site has not been met. Such projects are not without risk, however the impairment costs incurred demonstrated weaknesses in the Welsh Government project management of such a complex factory fit out. Consequently a lessons learned exercise has been undertaken and such projects are not managed in this manner anymore. Complex technical fit outs are managed and owned by the applicant and not by the Welsh Government on their behalf.

The Welsh Government entered in to an agreement with a Client that was not sufficiently informed and resourced to support the project. The agreement allowed for the Client to have significant involvement in the running of the project and gave scope for changes to be introduced, with risk for such changes falling to the Welsh Government. Due to the very specialist nature of the works neither the Welsh Government nor the Client had relevant previous experience. Lessons learned have been implemented whereby such technical fit outs are now undertaken by the tenant and as such all risks associated with changes to specification rest with the tenant.

Losses, Write-Offs & Special Payments

Heads of the Valleys Development Company

For the Heads of the Valley Development Company (HOVDC) and the Circuit of Wales project, we are now in the position that all avenues for recovery of funds owed to Welsh Government have been exhausted. Following the HOVDC entering into Creditors Voluntary Arrangement (CVA) in 2017 and all other associated companies being insolvent, recent insolvency advice Welsh Government has received is that there is very little chance of the monies owed being recovered. The amounts of income in question have been provided against in the Welsh Government accounts in the years in question, therefore although written off in 2019-20 there is no net impact on expenditure in the 2019-20 Annual Accounts.

The decision to write off this debt arises in 2019-20 as officials have endeavoured to mitigate Welsh Government losses as much as possible since 2016, and have explored all possible legal avenues to either re-start the project or recover all or some of the monies owed. Officials have come to the conclusion, following external advice, that any recoveries are extremely unlikely and the full value of £14.9m should be written off.

In cases of a similar nature, a greater emphasis is being placed on ensuring that risk sharing at that early stage of projects is more equitable. The Welsh Government has ensured that loan financing is being matched with private lending institutions at all stages of project development and has improved the governance around project spend.

M4 Corridor around Newport – write down of historic expenditure

Last year the costs incurred in the development of this scheme were treated as an asset under construction, with assessment of future use, in part dependant on the outcome of the Burns Commission. The Commission has since released an interim report and whilst work still continues it is now clear that not all of the costs incurred will be relevant for future work on traffic option in South East Wales. As a consequence of this Ministers have been advised that £43.1m of costs should be written off this year as they have no future value.

The Welsh Government balance sheet still contains costs such as land relating to the development of options for the M4. The continuing value of these remaining assets will be kept in review annually in accordance with accounting requirements and will be further considered when the Commission issues its final report.

Pandemic flu stocks

Pandemic flu stocks were written off in the year to the value of £2.3m. Stocks of antivirals, antibiotics and consumables are held by the Welsh Government in accordance with UK-wide public health planning. Stock levels required, drug types and reprocessing of drugs are planned and managed nationally and consequently can be volatile. Write-offs occur as a consequence of adjusting national supplies to meet planned need. The write-offs reported relate to expired drugs which are not suitable for use in core NHS services or for treatment of COVID-19.

VAT Arrangements/Tax Planning and Management

HMRC commenced a VAT Inspection within the Welsh Government in 2016 which is currently ongoing. This review has highlighted three issues during this financial year regarding the way in which Welsh Government has been treating VAT. Two of these have been resolved and one is currently under appeal. Whilst the review is yet to conclude, a corrective repayment was made to HMRC during the year to the sum of £889k.

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. I am required to assess the risk and ensure that 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 as a part of contract clauses. We also verify that those who process our sensitive information are subject to an independent IT Health Check and meet the “Cyber Essentials” standard.

We have policies and procedures in place to proactively manage cyber security risk, working with the National Cyber Security Centre to secure our digital assets and ICT infrastructure.

Following the passing of the Data Protection Act 2018, which brought the General Data Protection Regulation (GDPR) into legal force in May 2018, the threshold for reporting to the Information Commissioner’s Office (ICO) has lowered and more data breaches now meet the test for reporting to the ICO. As a consequence, the number of breaches reported from 2018-19 increased from previous years. At the same time, much greater awareness about data processing requirements, combined with a strengthened reporting process, have led to an overall increase in reporting of incidents including those not deemed sufficiently serious to meet the criteria for reporting to the ICO.

Incidents Falling Within the Criteria for Reporting to the ICO (Reported):		
Year	Incidents Reported to ICO	Action Taken by ICO
2019-20	7	0
2018-19	6	0

Incidents Not Falling Within the Criteria for Reporting to the ICO (Not Reported):			
Type	Nature of Incident	2019-20	2018-19
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	7	3
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	7	2
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0	0
IV	Unauthorised disclosure	68	64
V	Other	20	12

Of the incidents reported to the ICO, five were data breaches by an executive agency (PINS) but Welsh Government was the data controller.

Most incidents not reported to the ICO arose from unauthorised disclosures, which were mostly due to specific documents containing personal data being sent or emailed to the wrong person. Of these incidents, 75% involved data transmission external to the Welsh Government and 25% were internal to the Welsh Government.

The Welsh Government maintains a robust internal reporting process covering all types of incident. After each breach is reported, remedial actions are agreed with management and action tracking is used to monitor completion of those actions. Where necessary, lessons to be learnt across the organisation form part of the regular all-staff Security Bulletin.

DPO Report

In addition, I take assurance from the Welsh Government’s Data Protection Officer concerning the ongoing progress being made in respect of GDPR compliance. The DPO has reported good progress made in respect of GDPR compliance despite the disruption caused by the COVID-19 pandemic towards the end of 2019-20. In particular, the Information Asset Owner (IAO) role within the data protection governance structure has been strengthened and most IAOs have received their induction training. The roll-out of this training was interrupted by the outbreak of COVID-19 and further work will be needed to build on what has been delivered to date. Responding to the pandemic has provided evidence of a good level of awareness of the overarching data protection principles. The need to share data with other agencies to respond to the outbreak has also helped to increase levels of understanding and knowledge in those parts of the organisation involved.

A review undertaken by Internal Audit for the DPO provided “reasonable assurance” on compliance. Nevertheless, areas for improvement were identified. Principally, records of the whole range of data processing activities carried out were sometimes not wholly complete, accurate or consistent and the identified lawful basis was found to be not appropriate in some instances in Information Asset Registers. The project to develop a single Information Asset Register through an automated process has had to be deferred due to COVID-19; this will help to drive improved compliance once it can be recommenced. The review also identified the drafting of Privacy Notices published across Welsh Government websites and the provision of a more comprehensive range of training resources as matters requiring attention.

Local Accountability

A considerable proportion of the expenditure of the Welsh Government is distributed to Welsh Local Authorities and NHS Wales bodies 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 and Police and Crime Commissioners in Wales. The largest single component of grant funding is the annual settlement for Unitary Authorities which comprises Revenue Support Grant (RSG) and a share of non-domestic rates income. This funding may be used for any purpose in delivering the services for which those authorities are responsible. The quantum of funding is set as part of the Welsh Government’s annual budget round. It is distributed using a formula which reflects the factors which drive authorities’ need to spend to deliver a wide range of services, including education and social care.

With regard to specific issues, Powys’ Improvement and Assurance Board was established in March 2018 to assist the Leader in driving forward the required change and improvement in Powys County Council (the Council). In March 2020 the purpose/remit of the Board was reviewed and its effectiveness. The review looked at the Board’s current remit to monitor progress in relation to: Social Services (Children and Adults), Education, and Corporate matters and considered whether there is a continuing need for statutory independent challenge and support to be provided in all three areas.

In light of sufficient progress made to date by the Council the review concluded that there should be a move from a formal Improvement and Assurance Board to local arrangements to oversee and drive improvement, and a transitional period before it is formally drawn to a close. The Improvement and Assurance Board will remain in place for a short period with a revisited remit with a specific focus on ensuring an effective transition to the Council driving its own improvement. It is important to note that this relates only to the conclusion of provision of a formal Improvement and Assurance Board. There is an ongoing need to maintain external challenge and advice on specific service areas, namely education and social services. There would be an expectation that support in some form would continue in these key service areas.

A statutory support package has also been in place in Merthyr Tydfil since July 2019 following a letter from the Leader of the Council requesting formal support in response to a concerning Annual Audit Letter issued to the Council by the Audit Wales in May 2019. The first phase (undertaken between July and September 2019) included an initial scoping review to provide the Minister and the Council with rigorous independent assessment of the Council's key challenges and the actions needed to make necessary changes. The second (current) phase comprises three strands of support, as a response to the findings and recommendations of the scoping review:

- The establishment of an overarching Improvement and Assurance Board to assist the Leader, Deputy Leader and interim Chief Executive in driving forward the required change and improvement in the council and to report on assurance to the Minister.
- Appointment of external advisers to provide short targeted support to inform the appointment in relation to member/officer support; social services; and support on the improvement/transformation agenda.
- Provision of mentoring and Peer support for the Leader and Acting Chief Executive from a serving Leader and previous chief executive of a Welsh local authority.

Improvement and Support Conferences, including representatives from Audit Wales, Estyn, CIW 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 payments to independent contractors including GPs, General Dental Practitioners and Pharmacists. Additional targeted funding is used to support the achievement of Welsh Government objectives. Capital funding is provided to support the All Wales Capital Programme and other Welsh Government discretionary capital funding is also provided to support locally identified priorities.

Last year I reported that six out of ten Local Health Boards and NHS Trusts had complied with the statutory break even duty by operating within their budgets over the three year period of assessment. Four of the ten Local Health Boards and NHS Trusts had not achieved their financial duty to break even over three years. Consequently, these four organisations received qualified regularity opinions from the Auditor General for Wales on their 2018-19 accounts, having failed to meet their statutory financial duty for the third three-year period.

Ten NHS accounts in 2019-20 received a clean "true and fair" audit opinion from the Auditor General for Wales. The Auditor General for Wales' opinion for Cardiff and Vale University Health Board was that the accounts give a true and fair view except for where due to the challenges of preparing and auditing accounts during the pandemic it was not possible to undertake the normal level of audit testing of inventories at 31 March 2020.

Six out of ten Local Health Boards (LHBs) and NHS Trusts have complied with the statutory break-even duty by operating within their budgets over the three-year period of assessment. Four of the ten Local Health Boards and NHS Trusts had not achieved their financial duty to break even over three years. However Cardiff and Vale University Health Board met its target to break-even in-year rather than over the three-year period. Consequently, these four organisations received qualified regularity opinions from the Auditor General for Wales on their 2019-20 accounts, for failing to meet their statutory financial duty for the fourth three-year period. Health Education and Improvement Wales achieved their annual financial duty to break even representing their first full year of operation.

The four organisations that failed to meet their statutory financial duty are Betsi Cadwaladr University Health Board, Cardiff and Vale University Health Board, Swansea Bay University Health Board and Hywel Dda University Health Board.

Of these bodies, Betsi Cadwaladr University Health Board (BCUHB) remains in Special Measures despite progress and a series of improvements across several areas that had led initially to escalation. The health board was placed in Special Measures in June 2015 following concerns and critical reports on mental health services including the Tawel Fan ward, maternity services in Ysbyty Glan Clwyd, governance and GP out-of-hours services. Maternity services was stepped down as a special measures concern in 2018, GP out-of-hours services in 2019 and improvements evidenced in quality management and processes. There remains, however, outstanding concerns in respect of progress on leadership and governance, planning and finance and specific performance areas including referral to treatment times and mental health.

Swansea Bay University Health Board (formerly Abertawe Bro Morgannwg University Health Board) and Hywel Dda University Health Board remain in targeted intervention. In the case of Hywel Dda the outstanding intervention concern relates to finance and in Swansea Bay concerns remain on finance and in some performance areas.

Cwm Taf Morgannwg University Health Board's predecessor organisation (Cwm Taf University Health Board) was escalated to 'enhanced monitoring' in January 2019 after concerns were raised in relation to an ionising radiation inspection, a review of mortuary services and serious untoward incidents within its maternity services. Then in April 2019, following the publication of a joint review conducted by the Royal College of Obstetricians and Gynaecologists and the Royal College of Midwives, the Welsh Government's Minister for Health and Social Services announced that the maternity services of the former Cwm Taf University Health Board moved into 'special measures'.

As part of a package of measures designed to support the Minister's intervention, an independent panel was appointed to provide the oversight of the work to address the findings which reports progress to the Minister on a quarterly basis. The health board offered a formal public apology for the maternity failings, accepted all the recommendations and gave a commitment to take the necessary action to address the various issues. The concerns around maternity services resulted in escalation to 'special measures' with Quality & Governance issues being further escalated from 'enhanced monitoring' into 'targeted intervention' (TI) across the whole organisation.

Special Measures and targeted intervention scrutiny was scaled back in Quarter 4 to allow NHS Wales organisations to focus their resources on planning and preparation for the COVID-19 pandemic. However, contact has remained in place on the specific maternity and quality concerns in Cwm Taf Morgannwg University Health Board to maintain progress even in these exceptional times. In Betsi Cadwaladr University Health Board contact is now re-focussing on the out-standing concerns and the support needs moving forward in the context of planning for re-start and recovery.

In March, the impending impact of the COVID-19 pandemic became clear and fundamentally affected the revised delivery objectives of NHS bodies. The impact on the financial year 2019-20 is limited with costs falling in the latter part of March being accurately recorded in 2019-20, the wider financial impact of the COVID-19 pandemic largely falls in the 2020-21 financial year.

In July 2020 the Minister for Health and Social Services announced that the strategic cash support previously provided to LHBs in deficit will no longer be repayable. The level of strategic cash support provided will continue to be disclosed annually as part of their annual accounts. When an organisation that has previously been in deficit achieves its three year break even duty, it will not be required to repay any historic deficits incurred before it achieved the statutory duty. NHS body deficits score in the Welsh Government budget in the year incurred, therefore no debt due from NHS bodies is reported in the Welsh Government accounts, and the decision that strategic cash in support of deficits is no longer repayable does not constitute a write off for losses and special payments disclosures.

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. Operational risks arise in the course of delivering key policy objectives and are managed and mitigated on a day-to-day basis across the organisation. In addition, the Welsh Government also carries a number of contingent risks (high impact but unlikely to be realised) which arise from its regulatory responsibilities. Examples of these are 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.

The outbreak of COVID-19 presented the Welsh Government with the crystallisation of one of these contingent risks and a need to respond to the crisis. ExCovid have identified and monitored COVID-19 specific risks and issues for the organisation and the Corporate Risk Register has also been updated to ensure that corporate risks existing before the global pandemic have been updated to ensure that impact of COVID-19 is reflected within them.

COVID-19 has also led to an unprecedented increase in pressures on the Welsh Government's budget for 2020-21 and the future path of the economy and public finance is very unclear. We continue to work closely with colleagues in HM Treasury and scenario plan for possible fiscal futures, including the impact assessment of policies and programme to focus on maximising value for money.

We have recognised that COVID-19 has also increased risks to our workforce including issues around capacity and staff well-being. We have effective mechanisms in place to ensure that staff are carefully monitored during these uncertain times.

The uncertainty of the outcome of the UK's withdrawal from the EU remains one of our most significant risks, this risk has been compounded with the impact of COVID-19. We continue to have robust controls in place to manage this risk including; active liaison with the UK Government and the establishment of the European Transition Team to support preparedness, policy reform and influence UK/EU negotiations.

A key corporate risk throughout the year has been ICT resilience and the Welsh Government's ability to be operationally effective if ICT systems and applications were not available. This risk was significantly increased through remote working due to COVID-19. The robust mitigations in place to manage this risk has meant throughout the crisis people have been able to work effectively from remote locations.

Capacity to Handle Risk

The Welsh Government's risk management policy 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, whilst accepting some failures may occur.

Corporately, the Board is responsible for overseeing the implementation of the risk management policy and process and for oversight and scrutiny of the mitigations for key risks facing the Welsh Government, which might otherwise prevent or hinder the organisation from achieving its strategic objectives. Principally, these are those risks which are so critical they cannot be managed at Group level, together with those of a corporate nature whose impact would be felt across the whole organisation. Corporate risks have been reviewed by the Board twice in the year.

Day-to-day management and mitigation of risk is a management responsibility and each Director General has been 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 and Risk Assurance Committees and were informed by risk registers maintained by projects and programmes, and risk assessments and risk registers at Divisional level.

Following Internal Audit work last year, an improvement project was initiated to review and refresh the risk management framework. This included an update of the Risk Management Policy and Minimum Standards which have been updated to incorporate the Mandatory Principles of the HMT Orange Book into the Welsh Government Policy and the introduction of a new Risk Appetite Statement, both of which have been approved by ExCo and the Board. Work to publish and disseminate new documentation and

roll out the new policy to management teams has been held up by the impact of COVID-19 and will be resumed later in 2020-21. Early in the development of the Welsh Government's COVID-19 response, the Principal Accounting Officer set out clearly to the Additional Accounting Officers her position on the appetite for risk in respect of decisions made in response to COVID-19, to guide the management of risk during this exceptional time.

Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund recognition point

The Small Business Grant Scheme was initially announced by the Minister for Finance and Trefnydd on 17 March 2020 as part of the Welsh Government support for business in dealing with COVID-19. The Minister for Finance and Trefnydd announced on 19 March 2020 an increase in the value of the scheme that would be available to small businesses and retail, hospitality and leisure businesses. A joint statement by the Minister for Finance and Trefnydd and the Minister for Economy, Transport and North Wales on 24 March 2020 confirmed that Local Authorities would administer the grants. On 25 March 2020 the Business Wales website launched initial links to Local Authorities for potentially eligible businesses to apply for the grants. Guidance to businesses on how to apply for the schemes was finalised and published on 22 April 2020. The scheme closed for applications on 30 June 2020.

An assessment has been made under IAS 37 as applied by the Government Financial Reporting Manual as to whether any further liability should be recognised in the Welsh Government accounts at 31 March 2020 for these grant schemes. Welsh Government officials have concluded that there is no further legal or constructive obligation at 31 March 2020. Wales Audit Office disagree with the Welsh Government IAS 37 assessment, resulting in a qualified True and Fair opinion and qualified Regularity opinion on an 'except for' basis for this matter. It is unusual for there to be such a divergence of opinion between officials and the relevant audit authorities and, therefore, the Welsh Government has asked the Financial Reporting Advisory Board to consider the matter and issue clear guidelines.

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 as officials we are instructed to undertake a course of action which as Principal Accounting Officer I believe does not meet this standard, I have a responsibility to advise the First Minister and, if necessary, seek their formal direction to continue on that course of action.

On 18 December 2019 I sought and obtained a Ministerial Direction¹² from the First Minister. This was the first Ministerial Direction given since the start of devolution. The Direction was required as a consequence of the policy requirement to ameliorate the impact of some pension and tax changes on higher paid clinicians in the NHS, which had led to a reduction in service capacity because doctors were dis-incentivised to work additional hours for the NHS. I took the view that this scheme was not compatible with some of the provisions in 'Managing Welsh Public Money' (MWPM) relating to tax planning measures.

In my role as Principal Accounting Officer (PAO) MWPM indicates that there could have been a perceived conflict between the policy intent and my own duties as PAO, and in such a circumstance a Direction should be sought from the First Minister.

This was an exceptionally unusual position Wales had little alternative but to follow suit with arrangements introduced in England and where a Ministerial Direction had been sought, to ensure that NHS clinicians in Wales were not worse off relative to NHS clinicians in England when the DHSC introduced arrangements in England to mitigate the pensions tax problem.

NHS bodies in Wales have recorded an unquantified contingent liability in their 2019-20 accounts in relation to this Ministerial Direction, which is included in the Welsh Government Consolidated Account at note 12.

Conclusion

The system of internal control has been in place in the organisation for the year ending 31 March 2020 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 can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with moderate risk exposure until resolved.

The COVID-19 pandemic has presented an unprecedented change for the organisation but throughout the period I am satisfied that sound governance and assurance arrangements remained in place.

Shan Morgan
Permanent Secretary and Principal Accounting Officer

28 October 2020

¹² www.gov.wales/ministerial-direction-regarding-nhs-pension-tax-proposal-2019-2020

Remuneration and Staff Report 2019-20

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 pay and pensions of Ministers is determined by the Independent Remuneration Board of the Senedd Determination on Members' Pay and Allowances.

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

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 Governments 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 senior management.

Remuneration

The remuneration of the First Minister and his Cabinet team who served during the year, is noted below. These costs are reflected in the accounts of the Senedd Commission and not the Welsh Government. Ministerial salaries include their salaries as Members of the Senedd of £67,649 (2018-19: £66,847). The salary payable to Ministers is the salary payable under the Government of Wales Act 2006 as set by the Independent Remuneration Board of the Senedd.

Benefits in kind related to Members of the Senedd responsibilities are not included in the table below.

Single total figure of remuneration – Ministers

Ministers	Salary 2019-20	Salary 2018-19	Pension benefits (to nearest £1000) ¹ 2019-20	Pension benefits (to nearest £1000) ¹ 2018-19	Total (to nearest £1000) 2019-20	Total (to nearest £1000) 2018-19
	£	£	£	£	£	£
Mark Drakeford ² First Minister	147,983	117,027	58,000	47,000	206,000	164,000
Rebecca Evans Welsh Minister	105,701	93,456	31,000	28,000	137,000	121,000
Vaughan Gething Welsh Minister	105,701	104,448	31,000	31,000	137,000	135,000
Lesley Griffiths Welsh Minister	105,701	104,448	29,000	31,000	135,000	135,000
Julie James Welsh Minister	105,701	104,448	31,000	32,000	137,000	136,000
Jeremy Miles Counsel General & Brexit Minister to 03/03/20 Counsel General & Minister for European Transition from 04/03/20	105,701	104,448	32,000	32,000	138,000	136,000
Eluned Morgan Welsh Minister	105,701	93,456	32,000	28,000	138,000	121,000
Ken Skates Welsh Minister	105,701	104,448	31,000	32,000	137,000	136,000
Kirsty Williams Welsh Minister	105,701	104,448	29,000	31,000	135,000	135,000
Hannah Blythyn Deputy Minister	89,846	88,781	27,000	27,000	117,000	116,000
Dafydd Elis-Thomas ³ Deputy Minister	89,846	88,781	4,000	8,000	94,000	97,000
Jane Hutt ⁵ Deputy Minister & Chief Whip	89,846	26,491	32,000	17,000	122,000	43,000
Julie Morgan ^{4,5} Deputy Minister	89,846	26,491	18,000	10,000	108,000	36,000
Lee Waters ⁵ Deputy Minister	89,846	26,491	27,000	9,000	117,000	35,000
Alun Davies Cabinet Secretary from 04/11/17 to 13/12/18	-	73,282	-	20,000	-	93,000
Huw Irranca-Davies Minister from 04/11/17 to 13/12/18	-	62,290	-	18,000	-	80,000
Rt. Hon Carwyn Jones First Minister to 12/12/18	-	102,202	-	25,000	-	127,000

1 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

2 The First Minister's salary for 2018-19 reflects his appointment on 31 December 2018 and therefore a part year salary entitlement as First Minister. For 2019-20 the First Minister was in post for the entire year, and so the salary disclosed reflects salary entitlement for the full year. The increase in pension year on year will reflect these changes in Office Holder post, as well as normal pay awards and inflation.

3 Dafydd Elis Thomas only accrues pension on his Office Holder salary of £22,197.

4 Julie Morgan's pensionable earnings for 2019-20 total £59,898, as from November 2019 she is no longer contributing to the pension scheme.

5 2018-19 information reflects a post starting date of 14 December 2018.

Pension details – Ministers

Ministers	Accrued Pension at pension age as at 31/03/20 £000	Accrued Pension at pension age as at 31/03/19 £000	Real Increase in pension at pension age £000	CETV at 31/03/20 £000	CETV at 31/03/19 £000	Real Increase in CETV £000
Mark Drakeford First Minister	20-25	20-25	2.5-5	489	411	57
Rebecca Evans Welsh Minister	15-20	15-20	0-2.5	218	187	12
Vaughan Gething Welsh Minister	25-30	25-30	0-2.5	353	316	14
Lesley Griffiths Welsh Minister	35-40	35-40	0-2.5	674	616	23
Julie James Welsh Minister	15-20	15-20	0-2.5	336	287	26
Jeremy Miles Counsel General & Brexit Minister to 03/03/20 Counsel General & Minister for European Transition from 04/03/20	5-10	5-10	0-2.5	89	61	15
Eluned Morgan Welsh Minister	5-10	0-5	0-2.5	95	63	18
Ken Skates Welsh Minister	15-20	10-15	0-2.5	196	166	12
Kirsty Williams Welsh Minister	35-40	35-40	0-2.5	574	528	14
Hannah Blythyn Deputy Minister	5-10	0-5	0-2.5	64	44	8
Dafydd Elis-Thomas Deputy Minister	60-65	60-65	0-2.5	946	961	3
Jane Hutt Deputy Minister & Chief Whip	65-70	60-65	0-2.5	1133	1,117	26
Julie Morgan Deputy Minister	10-15	10-15	0-2.5	206	195	11
Lee Waters Deputy Minister	5-10	0-5	0-2.5	67	45	11
Alun Davies Cabinet Secretary from 04/11/17 to 13/12/18	-	20-25	-	-	347	-
Huw Irranca-Davies Minister from 04/11/17 to 13/12/18	-	0-5	-	-	62	-
Rt. Hon Carwyn Jones First Minister to 12/12/18	-	60-65	-	-	965	-

Pension details – Ministers (cont'd)

The Senedd 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 Members of the Senedd and Office Holders. All Members of the Senedd are members of the Scheme from the date they enter the Senedd unless they opt specifically not to be. Members 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 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 Senedd is currently 19.9% 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 (FRM) 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 2019-20	Salary 2018-19	Pension benefits (to nearest £1000) 2019-20	Pension benefits (to nearest £1000) 2018-19	Total (to nearest £1000) 2019-20	Total (to nearest £1000) 2018-19
	£000	£000	£000	£000	£000	£000
Shan Morgan ² Permanent Secretary	130-135	130-135	-	-	130-135	130-135
Andrew Goodall ³ Director General	200-205	200-205	-	-	200-205	200-205
Tracey Burke Director General	120-125	115-120	50-55	50-55	170-175	170-175
Des Clifford ¹ Director General	120-125	115-120	25-30	-	150-155	115-120
Andrew Slade ¹ Director General	120-125	115-120	50-55	-	170-175	115-120
David Richards Director of Governance and Ethics	105-110	100-105	25-30	(5-10)	130-135	95-100
Jeff Godfrey ⁴ Director Legal Services Board Member to 13/09/19	50-55	110-115	10-15	(0-5)	60-65	105-110
Helen Lentle ⁴ Director Legal Services from 08/07/19 Board Member from 13/09/19	65-70	-	90-95	-	160-165	-
Natalie Pearson Head of HR Strategy, OD and Engagement	75-80	75-80	20-25	0-5	100-105	80-85
Gillian Baranski ⁶ Equality and Diversity Champion to 31/08/19 Board Member to 05/07/19	30-35	120-125	15-20	15-20	50-55	140-145
Peter Kennedy Director of HR	95-100	90-95	50-55	15-20	150-155	110-115
Gawain Evans Director of Finance	100-105	100-105	45-50	40-45	150-155	140-145
Andrew Jeffreys Director, Welsh Treasury from 01/04/18, Equality Champion from 01/09/19 Board Member from 13/09/19	95-100	95-100	35-40	35-40	135-140	130-135
Ann Keane ⁵ Non-Executive Director to 06/03/20	10-15	15-20	-	-	10-15	15-20
Ellen Donovan Non-Executive Director	10-15	10-15	-	-	10-15	10-15
Jeff Farrar Non-Executive Director	10-15	10-15	-	-	10-15	10-15

Senior officials*	Salary 2019-20 £000	Salary 2018-19 £000	Pension benefits (to nearest £1000) 2019-20 £000	Pension benefits (to nearest £1000) 2018-19 £000	Total (to nearest £1000) 2019-20 £000	Total (to nearest £1000) 2018-19 £000
Gareth Lynn Non-Executive Director from 20/04/18	10-15	10-15	-	-	10-15	10-15
Elan Closs Stephens Non-Executive Director to 30/04/18	-	0-5 (full year equivalent 10-15)	-	-	-	0-5
James Turner Non-Executive Director to 30/04/18	-	0-5 (full year equivalent 10-15)	-	-	-	0-5

* Senior officials for the single total figure of remuneration disclosures are members of the Welsh Government Board and the Executive Committee.

- 1 The pension benefit for Des Clifford and Andrew Slade for 2018-19 has been excluded above because the arithmetic calculation £105,000-110,000 and £125,000-130,000 respectively distorts year on year comparatives in the year of salary increase. Although the numbers presented are not indicative of the true benefit received, the format is mandatory and is subject to audit.
- 2 Shan Morgan elected to benefit from her pension on 31 March 2018. In accordance with Civil Service Pension Scheme rules her salary was reduced from 1 April 2018 onwards. For 2019-20 the Permanent Secretary was awarded but did not accept a performance related non-consolidated bonus.
- 3 Andrew Goodall is seconded from Aneurin Bevan University Health Board and he has chosen not to be covered by the NHS pension arrangements.
- 4 Jeff Godfrey served as Director of Legal Services until 7 July 2019 but remained on the Board until 13 September 2019, his comparable FTE is £110-115k pa. Helen Lentle was appointed as Director of Legal Services on 8 July 2019, her comparable FTE is £90-95k pa.
- 5 Ann Keane's salary includes additional fees of £564 (2018-19 £4,662) for commissioned work within the Welsh Government. Ann Keane resigned from the Board on the 6 March 2020.
- 6 The salary disclosed for Gillian Baranski is in respect of her role as Chief Inspector- Care Inspectorate Wales. Disclosure included in the Senior Officials table above in respect of her additional voluntary service as the Welsh Government's Equality and Diversity Champion until the last Board meeting in that post 5 July 2019. Gillian ceased the Equality and Diversity Champion role on 31 August 2019.

Pension details

Senior officials	Accrued Pension at pension age as at 31/03/20 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/20 £000	CETV at 31/03/19 £000	Real Increase in CETV £000
Shan Morgan Permanent Secretary	-	-	-	-	-
Andrew Goodall Director General	-	-	-	-	-
Tracey Burke Director General	30-35	2.5 - 5	499	433	30
Des Clifford Director General	35-40 plus lump sum of 105-110	0-2.5 plus lump sum of 2.5-5	812	744	29
Andrew Slade Director General	45-50 plus lump sum of 95-100	2.5-5 plus lump sum of 0-2.5	782	717	26
David Richards Director of Governance and Ethics	55-60 plus lump sum of 165-170	0-2.5 plus lump sum of 2.5-5	1,177	1,155	24
Jeff Godfrey Director Legal Services Board Member to 13/09/19	45-50 plus lump sum of 145-150	0-2.5 plus lump sum of 0-2.5	1,181	1,128	13
Helen Lentle Director Legal Services from 08/07/19 Board Member from 13/09/19	35-40 plus lump sum of 85-90	2.5-5 plus lump sum of 7.5-10	716	613	76
Natalie Pearson Head of HR Strategy, OD and Engagement	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 2.5-5	634	585	19
Gillian Baranski Equality and Diversity Champion to 31/08/19 Board Member to 05/07/19	25-30	0-2.5	586	561	20
Peter Kennedy Director of HR	30-35 plus lump sum of 85-90	2.5-5 plus lump sum of 0-2.5	715	643	39
Gawain Evans Director of Finance	45-50 plus lump sum of 110-115	2.5-5 plus lump sum of 0-2.5	922	848	31
Andrew Jeffreys Director, Welsh Treasury from 01/04/18, Equality Champion from 01/09/19 Board member from 13/09/19	30-35 plus lump sum of 55-60	0-2.5 plus lump sum of 0-2.5	491	445	21

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. The Remuneration Committee consists of the Permanent Secretary, one Director General and the 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 for the year 2019-20 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 2019-20 was £200,000-£205,000 (2018-19: £200,000-£205,000). This was 5.6 times (2018-19: 5.7) the median remuneration of the workforce, which was £36,500 (2018-19: £35,750). Based on the Permanent Secretary's banded remuneration the ratio is 3.6 (2018-19: 3.7). In 2019-20 and 2018-19 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £15,000-£20,000 to £200,000-£205,000 (2018-19: £15,000-£20,000 to £200,000-£205,000).

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 2019-20	Total 2018-19
Total	86,784	3,216	10	90,010	86,995
Of which:					
Welsh Government	4,891	416	10	5,317	5,092
LHBs and NHS Bodies*	80,917	2,800	-	83,717	81,112
Subsidiaries	976	-	-	976	791

Of the Welsh Government total: Regulatory & delivery bodies – 725; Tribunals – 28.

* HEIW is consolidated in the Welsh Government Account from 1 April 2019. The prior year comparative at 31 March 2019 including HEIW was 87,203.

Gender Breakdown of Welsh Government staff (unaudited)

	Male	Female
Board members	60%	40%
Senior Civil Service*	57%	43%
All Staff	42%	58%

* The Welsh Government aimed to have a 50:50 split by 2020. Due to relatively small numbers in the SCS, the figure fluctuates quite significantly based on even small numbers entering or leaving. In the context of limited turnover in the SCS, change is slow and the target has not proved achievable.

Percentages of women at Deputy Director level are closer to the target at 45% and given progression and turnover it was anticipated that change would be seen first at Deputy Director level. Additionally good progress is also being made at the feeder grades 6 and 7 below SCS. Our Equality, Diversity and Inclusion Action Plan 2020-2025 is currently in development and undergoing staff engagement, including consideration of the approach to target setting and lawful approaches we can take to seek to increase diversity and representation of under-represented groups.

Staff costs

	Permanently employed staff*	Other Staff	Year ended 31 March 2020 Total	Year ended 31 March 2019 Total
	£m	£m	£m	£m
Welsh Government				
Salaries	221	12	233	214
Social Security Costs	25	-	25	24
Other Pension Costs	62	-	62	54
Total	308	12	320	292
Recoveries from secondments	(2)	-	(2)	(3)
Net staff costs	306	12	318	289
Consolidated				
Salaries	3,374	231	3,605	3,381
Social Security Costs	336	1	337	317
Other Pension Costs	617	-	617	427
Total	4,327	232	4,559	4,125
Recoveries from secondments	(2)	-	(2)	(2)
Net staff costs	4,325	232	4,557	4,123

* Although stated in a different category in regards to staff numbers, Special Advisers salary/social security/pension costs are included within the Permanently Employed Staff costs figures.

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 £835,840 (2018-19: £814,069) for the year, inclusive of pension and social security costs, and have been included within the figures above. Severance Payments paid to Special Advisors who were reappointed of £60,648 were recovered in line with the terms of the Model Contract for Special Advisors. There were 15 Special Advisors in post for all or part of the 2019-20 financial year, equating to 10 average full-time equivalents, as set out in the table 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 Senedd Commission and are reflected in those accounts. In respect of the number of senior staff whose salary is above £100k, there were 29 staff whose FTE salary was above £100k as at 31 March. Of these, 3 were part-timers whose actual earnings therefore fell below the £100k threshold and one left part way through the year.

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 4.6% and 8.05% for members of **classic premium**, **classic plus**, **nuvos** and **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 their 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 the appointed provider – Legal & General. 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.civilservicepensionscheme.org.uk

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 (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'Alpha' – are 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 2016. Details can be found in the resource accounts of the Cabinet Office.

For 2019-20, employers contributions of £55,974,742 were payable to the PCSPS/Alpha (2018-19: £40,674,217) at one of four rates in the range 26.3 to 30.3 per cent (2018-19: 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 2019-20 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 £228,556 (2018-19: £194,560) 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 £7,908.06, 0.5 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2018-19: nil). Contributions prepaid at the date were £nil (2018-19: £nil).

Four individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,446.

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 and NHS Trusts 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 2019-20. For 2018-19 a rolling programme of voluntary exits existed, however in 2019-20 only individual exits were in place. For each individual voluntary exit case a payback period is calculated which is then approved by the Director of HR.

For 2019-20: 13 (2018-19: 154) employees have left or agreed to leave for voluntary exit or other reasons between 31 March 2019 and 31 March 2020. Compensation payments agreed are £259,066 (2018-19: £5,890,654).

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, or where applicable in accordance with Cabinet Office guidance on Efficiency Compensation 2016. 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 2019-20	Total number of exit packages by cost band 2018-19
Exit package cost band				
<£10,000	-	5	5	3
£10,000 - £25,000	-	4	4	60
£25,000 - £50,000	-	2	2	48
£50,000 - £100,000	-	2	2	43
£100,000 - £150,000	-	-	-	-
£150,000 - £200,000	-	-	-	-
£200,000+	-	-	-	-
Total number of exit packages by type	-	13	13	154
Total resource cost £	-	259,066	259,066	5,890,564

The table above shows the total cost of exit packages agreed and accounted for in 2019-20 (2018-19 comparative figures are also given). Total exit costs paid during 2019-20, the year of departure, were £5,829,912 (2018-19 £319,806).

The costs included in the table provide the total cost to the organisation of any exit. However, in some instances individuals on exit may have used their compensation payments to provide early access to an unreduced pension, or to buy an increased pension.

Sickness absence (unaudited)

The measures introduced during the previous two years, such as the Health and Wellbeing Strategy and Wellbeing Hour, have resulted in a significant reduction in the total number of days lost through sickness absence, with a subsequent 13% reduction in the average working days lost.

The number of staff taking no sickness absence continues to increase as a result of our positive interventions. The increase in the number of days lost due to short term absence reinforces the positive impact of the actions taken to combat long term absence as staff are returning to work earlier than they might have done previously.

Our continuing drive to support managers and staff through the absence cycle and provide them with the advice and tools necessary to support their return to work is expected to result in reductions to both long and short term absence in the coming year. Our push to increase home working and SMART working, particularly in light of the COVID-19 crisis, is also expected to have a positive impact on absence levels.

Welsh Government Sickness Absence	2019-20	2018-19	2017-18	2016-17
Days Lost (short term)	18,321	16,525	17,818	17,354
Days Lost (long term)	17,291	23,840	22,627	22,876
Total Days Lost (12 month period)	35,612	40,365	40,445	40,230
Total staff years	5,186	5,098	5,035	5,155
Total staff employed in period (headcount)	5,920	5,770	5,682	5,691
Total staff employed in period with no absence (headcount)	2,977	2,826	2,490	2,529
% staff with no sick leave	50%	49%	44%	44%
Average working days lost	6.87	7.9	8	7.8

Accountability Disclosures

The following is the statement of losses and special payments as required by the Government Financial Reporting Manual, with individual disclosures where the total amounts incurred are over the limits proscribed in Managing Welsh Public Money of £300,000.

Losses Statement	2019-20	2018-19
Total number of losses	214	194
Total value of losses (£000)	61,864	15,259

Details of losses over £300,000:

Store losses	Expired drug stocks	£2,316,778
Claims abandoned	Heads of the Valleys Development Corporation	£14,909,000
Constructive loss	M4 Corridor around Newport – write down of historic expenditure	£43,064,011

Following the announcement by the First Minister on 4 June 2019 not to proceed with the M4 CAN project, £43.1m of capitalised costs have been assessed as having no future value.

Special Payments	2019-20	2018-19
Total number of Special Payments	13	10
Total value of Special Payments (£000)	188	23

Summary of Resource Outturn

	Budget 2019-20 Net Expenditure £m	Outturn 2019-20 Net Expenditure £m	Outturn compared with Budget Variance £m
AMBIT			
Health and Social Services	8,815	8,639	176
Housing and Local Government	4,559	4,585	(26)
Education	2,892	2,657	235
Economy and Transport	1,432	1,397	35
Central Services and Administration	385	372	13
Environment, Energy and Rural Affairs	285	284	1
International Relations and the Welsh Language	181	179	2
Total Resource and Capital requirements	18,549	18,113	436
Income	1,758	1,499	259
Gross expenditure	20,307	19,612	695

Explanation of variances

Health and Social Services £175.8m underspend

The underspend includes a net deficit in the NHS in Wales of £88.7m. The deficit was offset by centrally held HSS funding within the MEG which reduced the impact on the Revenue DEL budget. The remaining revenue budget deficit of £5.1m is due to the unforeseen increase in prescribing costs prior to lockdown. The pandemic slowed NHS capital schemes resulting in a £1.1m capital underspend. However, the most significant element of the underspend was due to a £133m variance in the Annually Managed Expenditure (AME) budget principally relating to NHS provisions which are acknowledged to be volatile and difficult to forecast. The £133m underspend includes a £53m underspend in the Welsh Risk Pool provision for medical negligence and personal injury claims. Also, independent valuations of the NHS estate in year resulted in lower impairments than expected and a further £30m AME underspend. Some of the related expenditure will be incurred in 2020-21.

Housing and Local Government £25.9m overspend

The overspend includes £4.6m on the revenue budget and is due to additional support via the Emergency Financial Assistance Scheme and the Discretionary Assistance Fund identified after the second supplementary budget. The funding was provided in the wake of flood damage caused by the storms affecting Wales at the beginning of 2020. Additional costs incurred by local authorities in March in response to the pandemic, increased the pressure on revenue budgets further. However, the main element of the overspend impacted the AME portion of the budget and relates to fair value assumptions on the Help to Buy Wales loan book. Incorporating pandemic impact assumptions within the model has resulted in a £23m loss of value and a resulting charge to the MEG.

Economy and Transport £35m underspend

The Economy and Transport revenue budget was impacted by the pandemic response. A £41m overspend was reported on revenue budgets which represents reimbursement of local authority payments to provide small business and retail, leisure and hospitality grants administered by local authorities in Wales. The capital budget was underspent by £34.7m which included slippage on ICT programme support and local authority local active travel schemes. Within the variance there is an underspend of £30.8m relating to accounting provisions that are difficult to forecast. Firstly on the Careers Wales pension provision which is based on an actuarial valuation. This charge has fluctuated considerably over the last few years and was much less than anticipated this year. The remaining underspend is associated with property valuations which again fall to the AME budget.

Education £235.3m underspend

The Education portfolio includes provision for student loans budgets which are demand led and difficult to forecast. Therefore, the underspend is almost entirely attributable to the Non Fiscal Resource DEL and AME budgets. In the year of account the budget included a large level of contingency to safeguard against impacts arising from the uncertainty relating to Brexit and the outcome of the general election. The full contingency did not crystallise.

International Relations and Welsh Language £1.5m underspend

There are small offsetting variances on revenue and capital budgets. The Cadw depreciation budget (Non Fiscal Resource DEL) is underspent by £1.1m due to delays in conservation work & major projects which makes up the majority of the underspend.

Environment, Energy and Rural Affairs £1.3m underspend

The small underspend in the portfolio was for the most part due to slippage on revenue DEL budgets in particular the Air Quality and Compliance budget.

Central Services and Administration £12.5m underspend

During the year capital loan funding was provided to set up two schemes, the Community Asset Fund (£1m) and the Social Investment Fund (£3.5m). Neither scheme could be set up in time to utilise the funding in 2019-20. The provision for employees in the Rhondda Cynon Taff pension scheme is difficult to forecast and as a result the AME budget was £3.9m underspent at the year end. Depreciation budgets (Non Fiscal Resource DEL) for the Welsh Government estate were also underspent by £1.4m.

Income £259.0m under budget

The majority of the income variance is related to EU receipts. Timing of receipts from the EU on multi-year programmes make the outturn difficult to forecast. As a result the budgets are set to ensure they provide more than adequate cover in any year to ensure that no funding is lost to Wales.

Glossary of budget terminology

Departmental Expenditure Limit (DEL): The multi-year budget limit for the Welsh Government set by HM Treasury in Spending Reviews. The DEL is split into classifications including those below.

Fiscal Resource DEL (Revenue): The Fiscal Resource DEL budget scores most of the Welsh Government's current expenditure and includes staff costs, grants and other expenses.

Non Fiscal Resource DEL: The Non Fiscal Resource DEL budget scores the Welsh Government's current expenditure in respect of certain impairments and depreciation. These budgets are ring-fenced and cannot be used to fund Fiscal Resource DEL spending.

Capital DEL: Capital budgets cover expenditure that in the main results in a physical asset either on the Welsh Government's balance sheet or that of a third party.

Annually Managed Expenditure (AME): These budgets cover expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL and are, therefore, reviewed twice a year as part of the HM Treasury's Budget and Pre-Budget Report processes. AME typically consists of programmes which are large, volatile and/or demand-led.

Notes

Net Cash Requirement	Outturn 2019-20 £m	Outturn 2018-19 £m
Authorised for issue from Welsh Consolidated Fund	17,311	16,314
Funding drawn down	(16,901)	(16,108)
Undrawn funding	410	206

Reconciliation of outturn and CSocNE	Outturn 2019-20 £m	Outturn 2018-19 £m
Net Resource Outturn	18,113	16,806
Less: Capital & loans adjustments	(2,225)	(1,618)
Plus: Consolidation Adjustment	15	-
Plus: NDR Adjustment	29	48
Plus: Other adjustments	9	6
Expenditure per the CSocNE	15,941	15,242

Reconciliation of resources to cash requirement	Budget 2019-20 £m	Outturn 2019-20 £m	Outturn compared with Budget £m	Outturn 2018-19 £m
Net resource outturn	18,549	18,113	436	16,806
Depreciation	(477)	(428)	(49)	(346)
Impairments	(638)	(400)	(238)	(238)
Movements in provisions	(196)	(198)	2	(131)
Other	73	(218)	291	17
Net cash requirement	17,311	16,869	442	16,108

Shan Morgan
Permanent Secretary and Principal Accounting Officer

The Certificate and independent auditor's report of the Auditor General for Wales to the Senedd

Qualified Opinion

I certify that I have audited the financial statements of Welsh Government and the Group for the year ended 31 March 2020 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 Cashflows, the Statement of Changes in Taxpayers' Equity and related notes, including a summary of significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs) as adopted by the European Union. I have also audited the Statement of Resource Outturn and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion, except for the effects of the matter described in the 'Basis for qualified opinion' section of my report, the financial statements:

- give a true and fair view of the state of Welsh Government and the Group's affairs as at 31 March 2020, net operating cost and cash flows for the year then ended; and
- have been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 2006.

Basis for qualified opinion

In my view, the announcements and actions taken prior to 31 March 2020 in response to the coronavirus pandemic to ensure that cash was paid out to businesses as soon as possible created a constructive obligation under International Accounting Standard 37, Provisions, Contingent Liabilities and Contingent Assets, and the related costs should have been included in the 2019-20 financial statements. The Welsh Government's records indicate that, had such costs been included in the financial statements, expenditure and provisions would increase by £739 million. Further detail is set out in my attached Report.

Qualified opinion on regularity

In my opinion, except for the excess expenditure described in the 'Basis for qualified opinion on regularity' section of my report, in all material respects:

- the Statement of Resource Outturn and related notes properly present the outturn against the authorised limit for the year end 31 March 2020; and
- the expenditure and income in the financial statements have been applied to the purposes intended by the Senedd and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

The Senedd authorised a net resource and capital limit for the Welsh Government of £18.549 billion. Against this limit, the Welsh Government has reported that it incurred actual outturn of £18.113 billion, with a net underspend of £436 million. However, expenditure of £739 million referred to in the ‘Basis for qualified opinion’ paragraph above should have been recognised in the financial statements and in the Statement of Resource Outturn. This Statement should have shown that the Welsh Government had exceeded its authorised net expenditure limit approved by the Senedd for 2019-20 by £303 million and is therefore irregular. Further detail is set out in my attached Report.

Basis of Opinions

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Emphasis of matter – NHS Clinicians’ pension tax liabilities

I draw attention to Note 12 of the financial statements, which describes the impact of a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS Clinicians’ pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. Welsh Government has disclosed the existence of a contingent liability at 31 March 2020, and my opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Principal Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

Legislation and directions issued to Welsh Government do not specify the content and form of the other information to be presented with the financial statements. The Principal Accounting Officer is responsible for the other information in the consolidated accounts. The other information comprises information included in the consolidated accounts but does not include parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information 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 report.

Report on other requirements

Opinion on other matters

As legislation and directions issued to Welsh Government do not specify the content and form of the other information to be presented with the financial statements, I am not able to confirm that Part 1 and Part 2 of the consolidated accounts have been properly prepared.

In my opinion, based on the work undertaken in the course of my audit, the information given in Part 1 and Part 2 of the consolidated accounts is consistent with the financial statements.

Although there are no legislative requirements for a Remuneration and Staff Report, the Welsh Government has prepared such a report and in my opinion, that part ordinarily required to be audited has been prepared in accordance with HM Treasury guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the body and its environment obtained in the course of the audit, I have not identified material misstatements in Part 1 and Part 2 of the consolidated accounts.

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

- adequate accounting records have not been kept;
- the financial statements 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.

Responsibilities

Responsibilities of the Principal Accounting Officer for the financial statements

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, for being satisfied that they give a true and fair view and for such internal control as the Principal Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Principal Accounting Officer is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Responsibilities for regularity

The Principal Accounting Officer is responsible for ensuring the regularity of financial transactions.

I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income have been applied to the purposes intended by the Senedd and the financial transactions conform to the authorities which govern them.

Report

Please see my Report on pages 103 to 104 in respect of my qualified opinions.

Adrian Crompton
Auditor General for Wales
30 October 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Report of the Auditor General for Wales to the Senedd

Grants to businesses (in relation to COVID-19)

The Welsh Government announced in March 2020 that qualifying businesses could expect to receive support in responding to the immediate effects of the COVID-19 pandemic. Businesses eligible for Small Business Rates Relief would receive a grant of £10,000 and certain retail, leisure and hospitality businesses would receive a grant of £25,000. The Welsh Government has the responsibility of managing the schemes; payments to businesses are being administered by local authorities.

Qualified Opinion on the Financial Statements

In my view, the announcements and actions taken prior to 31 March 2020 to ensure that cash was paid out to businesses as soon as possible created a constructive obligation under International Accounting Standard 37, Provisions, Contingent Liabilities and Contingent Assets, and the related costs should have been included in the 2019-20 financial statements. According to the Welsh Government's records, had such costs been included in the financial statements, expenditure and provisions would have increased by £739 million. The Welsh Government does not agree with this position and has declined to include this expenditure in the 2019-20 financial statements.

I have qualified my opinion on the financial statements in respect of this material misstatement.

Qualified Opinion on regularity

The net expenditure of the Welsh Government is authorised by the Senedd through budget motions under the Government of Wales Act 2006. The Welsh Government prepares and agrees budget motions for each financial year.

The Welsh Government includes a Statement of Resource Outturn with their financial statements that sets out their actual net expenditure against that approved by the Senedd through budget motions. This is an essential statement to reflect Welsh Ministers accountability to the Senedd.

For 2019-20, in addition to the main budget motion, two supplementary budget motions were prepared during the year. The second was prepared in February 2020, which was before the year-end and before the World Health Organisation declared COVID-19 as a pandemic. At the time of submitting the Second Supplementary Budget Motion to the Senedd, the Welsh Government would not have been in a position to assess the impact of the COVID-19 pandemic or the urgent action that it would need to take to support the economy.

For 2019-20, the Senedd authorised a net expenditure limit of £18.549 billion for the Welsh Government. Against this limit, the Welsh Government has reported in the Statement of Resource Outturn that it incurred actual outturn of £18.113 billion, with a net underspend of £436 million. However, expenditure of £739 million arising from the business grants commitment should have been recognised in the financial statements and in the Statement of Resource Outturn. In my view this Statement should have shown that the Welsh Government had exceeded its authorised net expenditure limit approved by the Senedd for 2019-20 by £303 million and is therefore irregular. I have qualified my regularity opinion as a result.

Adrian Crompton
Auditor General for Wales
30 October 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Part 3

Financial Statements

These Financial Statements include Health Education and Improvement Wales (HEIW) from 1 April 2019 and Transport for Wales and the NHS Trusts in Wales from 1 April 2018 as newly consolidated bodies.

Consolidated Statement of Comprehensive Net Expenditure For the year ended 31 March 2020

	Note	Year ended 31 March 2020		Year ended 31 March 2019	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services	2	(41)	(57)	(43)	(57)
Other operating income	2	(1,096)	(1,478)	(650)	(1,005)
Total operating income		(1,137)	(1,535)	(693)	(1,062)
Staff costs	3	318	4,557	289	4,122
Expenditure	3	17,219	12,693	15,679	11,985
Provision expense	3	203	226	159	197
Total operating expenditure		17,740	17,476	16,127	16,304
Net expenditure for the year		16,603	15,941	15,434	15,242
Other comprehensive net expenditure:					
Items which will not be reclassified to net operating expenditure:					
Net (gain)/loss on revaluation of property, plant, equipment and investments		(544)	(2,398)	(613)	(626)
Actuarial (gain)/loss on pension scheme liabilities		(1)	(4)	13	16
Comprehensive net expenditure for the year		16,058	13,539	14,834	14,632

The Notes on pages 109 to 155 form part of these accounts.

Consolidated Statement of Financial Position as at 31 March 2020

	Note	As at 31 March 2020		As at 31 March 2019	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
Non-current assets:					
Property, plant and equipment	4	18,106	24,163	17,715	21,242
Intangible assets	5	22	67	29	63
Financial assets	6	5,129	4,239	4,530	3,817
Trade and other receivables	8	22	135	27	117
Total non-current assets		23,279	28,604	22,301	25,239
Current assets:					
Assets classified as held for sale		-	3	-	3
Financial assets	6	169	169	173	173
Inventories	7	191	275	187	261
Trade and other receivables	8	344	505	256	409
Cash and cash equivalents	9	107	839	107	698
Total current assets		811	1,791	723	1,544
Total assets		24,090	30,395	23,024	26,783
Current liabilities:					
Trade and other payables	10	(1,277)	(2,131)	(980)	(1,787)
Provisions	11	(277)	(318)	(295)	(347)
Other liabilities	13	-	(2)	-	(1)
Total current liabilities		(1,554)	(2,451)	(1,275)	(2,135)
Total assets less current liabilities		22,536	27,944	21,749	24,648
Non-current liabilities:					
Trade and other payables	10	(86)	(145)	(96)	(154)
Provisions	11	(973)	(1,021)	(885)	(931)
Other liabilities	13	(65)	(107)	(65)	(101)
Total non current liabilities		(1,124)	(1,273)	(1,046)	(1,186)
Total assets less total liabilities		21,412	26,671	20,703	23,462
Taxpayers' equity & other reserves					
General fund		11,634	14,517	11,518	13,741
Revaluation reserve		9,778	12,154	9,185	9,721
Total equity		21,412	26,671	20,703	23,462

The Notes on pages 109 to 155 form part of these accounts.

Shan Morgan
Permanent Secretary and Principal Accounting Officer
 28 October 2020

Consolidated Statement of Cash Flows For the year ended 31 March 2020

	Note	Year ended 31 March 2020		Year ended 31 March 2019	
		WG Core £m	WG Group £m	WG Core £m	WG Group £m
Cash flows from operating activities:					
Net operating expenditure		(16,603)	(15,941)	(15,434)	(15,242)
Provisions used	11	(106)	(137)	(117)	(151)
Adjustments for non cash transactions ²		698	536	464	854
Movements in working capital other than cash	14	193	196	51	14
Income payable to Welsh Consolidated Fund		(32)	(32)	11	11
Other		(1)	(3)	6	-
Net cash (outflow) from operating activities		(15,851)	(15,381)	(15,019)	(14,514)
Cash flows from investing activities:					
Purchase of property, plant and equipment		(201)	(688)	(274)	(676)
Purchase of intangible assets		-	(19)	-	(10)
Proceeds from disposal of property, plant and equipment		4	10	3	5
Proceeds from disposal of development assets		2	2	6	6
Purchase of development assets		(26)	(26)	(20)	(20)
Issue of loans and investments		(984)	(892)	(934)	(797)
Repayment of loans		146	180	131	132
Net cash outflow from investing activities		(1,059)	(1,433)	(1,088)	(1,360)
Cash flows from financing activities:					
From Welsh Consolidated Fund		16,901	16,901	16,108	16,108
EU Deferred Grant Additions		-	36	-	-
Minority Interest		-	-	-	3
PFI & Finance Lease Capital Element		(10)	(7)	(10)	(10)
Net financing		16,891	16,930	16,098	16,101
Net increase/(decrease) in cash and cash equivalents in the period before adjustments for receipts and payments to the WCF		(19)	116	(9)	227
Income payable to Welsh Consolidated Fund		19	19	(11)	(11)
Newly Consolidated Bodies cash balances ¹		-	6	-	38
Net increase/(decrease) in cash and cash equivalents in the period after adjustments for receipts and payments to the WCF	9	-	141	(20)	254
Cash and cash equivalents at the start of the year	9	107	698	127	444
Cash and cash equivalents at the end of the year	9	107	839	107	698

¹ Newly Consolidated Bodies cash balances reflect the balances included at 1 April 2019 for HEIW and 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

² Includes adjustment in Group for £469.8m nil cash capital grant for the acquisition of the Core Valley Lines (CVL) see Note 4.1 for more detail.

The Notes on pages 109 to 155 form part of these accounts.

Statement of changes in Taxpayers' Equity

Welsh Government Group

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
Balance at 31 March 2018	12,767	9,133	21,900
Newly Consolidated Bodies ¹	15	37	52
Welsh Consolidated Fund – net funding	16,108	-	16,108
Net expenditure for the year	(15,242)	-	(15,242)
Revaluation gains and losses	-	626	626
Transfers between Reserves	66	(66)	-
Other adjustments	27	(9)	18
Balance at 31 March 2019	13,741	9,721	23,462
Newly Consolidated Bodies ¹	4	-	4
Welsh Consolidated Fund – net funding	16,901	-	16,901
Net expenditure for the year	(15,941)	-	(15,941)
Revaluation gains and losses	-	2,398	2,398
Transfers between Reserves	(35)	35	-
Other adjustments	(153)	-	(153)
Balance at 31 March 2020	14,517	12,154	26,671

Welsh Government Core

	General Fund £m	Revaluation Reserve £m	Total Reserves £m
Balance at 31 March 2018	10,802	8,631	19,433
Welsh Consolidated Fund – net funding	16,108	-	16,108
Net operating cost for the year	(15,434)	-	(15,434)
Revaluation gains and losses	-	613	613
Transfers between Reserves	51	(51)	-
Other adjustments	(9)	(8)	(17)
Balance at 31 March 2019	11,518	9,185	20,703
Welsh Consolidated Fund – net funding	16,901	-	16,901
Net operating cost for the year	(16,603)	-	(16,603)
Revaluation gains and losses	-	544	544
Transfers between Reserves	(49)	49	-
Other adjustments	(133)	-	(133)
Balance at 31 March 2020	11,634	9,778	21,412

¹ Newly Consolidated Bodies reflect the balances included at 1 April 2019 for HEIW and 1 April 2018 for NHS Trusts in Wales and Transport for Wales. The Notes on pages 109 to 155 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 Resource Outturn which shows actual outturn against budget and supporting notes which reconcile outturn to net operating expenditure, and resources to cash requirement are included in the Accountability Report.

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 reflect the consolidated assets and liabilities and the results of entities within the Welsh Government consolidation accounting boundary. The consolidation accounting boundary includes subsidiary undertakings as required by the FReM where they are designated for consolidation by statutory instrument, and are above a de minimis threshold for materiality. The consolidation accounting boundary also includes subsidiary undertakings above the de minimis threshold which had been consolidated on the basis of IFRS Group Accounting Standards prior to the introduction of Designation Orders in Wales (effective from 2017-18), and for which the designation process has not yet been concluded. This is to maintain consistency of the Group consolidation presentation whilst the Welsh Government alignment project progresses.

Since the introduction of Designation Orders, entities are added to the consolidation accounting boundary only if designated and material.

Subsidiaries are consolidated from draft accounts where final accounts are not available.

Transactions between entities included in the consolidation are eliminated.

Further information about the entities within the consolidation boundary is provided within the Annual Report accompanying these accounts see page 15.

1.3 EU Transition

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. On 31 January 2020, the Withdrawal Agreement between the UK and the EU became legally binding and the UK left the EU. The future relationship between the EU and the UK will be determined by negotiations taking place during a transition period ending 31 December 2020.

Asset valuations in these accounts using future projections such as the Student Loans valuation assume an orderly transition.

2. Operating Income

	Year ended 31 March 2020		Year ended 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Income from sale of goods and services:				
Income from property and investments	32	32	35	35
Other	9	25	8	22
	41	57	43	57
Other non-EU operating income:				
Health income	55	402	47	392
Other	491	496	16	26
	546	898	63	418
Other EU operating income:				
European Structural Funds Programme	224	254	258	258
Common Agricultural Policy	319	319	322	322
Other EU Income	7	7	7	7
	550	580	587	587
	1,137	1,535	693	1,062

3. Expenditure

	Year ended 31 March 2020		Year ended 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Expenditure				
Grants ¹	16,386	7,676	14,946	7,572
Goods and Services ¹	281	4,126	332	3,787
Rentals under operating leases	18	18	17	17
Staff Costs	318	4,557	289	4,122
PFI and other service concession arrangements	13	22	14	14
Student loan policy write-offs	30	30	21	21
Net fair value gains/(losses) on financial assets at fair value through SOCNE ²	175	208	157	157
Fixed Asset Depreciation	217	407	155	334
Amortisation	7	21	10	22
Donated and government granted assets	-	(7)	-	(7)
Impairments	91	192	18	60
(Profit)/Loss on disposals	1	(4)	10	9
Pension Finance	(2)	2	(3)	(3)
Release of EU grant	(1)	(1)	-	-
Bad Debt Provision	3	3	2	2
	17,537	17,250	15,968	16,107
Provisions				
Increase in provisions	203	226	159	197
	17,740	17,476	16,127	16,304

¹ Expenditure on Grants and Goods and Services reflects the Ambit Resource Outturn allocation.

² Student Loans and Help to Buy Wales Financial Assets are measured as Fair Value through Statement of Comprehensive Net Expenditure.

Staff Costs

A full breakdown of staff costs including staff numbers and associated information, is provided within the Accountability Report of this document on page 87.

Audit Fees

The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2019-20 is £359,000 (£368,703 2018-19) 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 2020 £	Year ended 31 March 2019 £
NHS Summarised Account	30,000	28,274
National Non Domestic Rate Account	8,700	8,359
Whole of Government Account	11,445	9,500
Welsh Consolidated Fund	16,475	16,475
Well-Being Future Generations Audit	47,389	-

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

4. Property, Plant and Equipment

	Network Assets see Note 4.1	Land £m	Buildings including Dwellings £m	Information Technology Fixtures and Fittings £m	Payments on account & Assets under construction £m	Total £m
Cost or valuation for the year ended 31 March 2019						
At 1 April 2018	18,732	391	2,532	859	816	23,330
Newly Consolidated Bodies	-	27	76	211	27	341
Additions	66	1	42	110	472	691
Disposals	(66)	(1)	(3)	(58)	-	(128)
Transfers	-	-	-	-	1	1
Impairments	-	1	(46)	(8)	(3)	(56)
Revaluations	713	6	8	-	-	727
Reclassified to held for sale	-	(1)	(1)	-	-	(2)
Reclassification	2	3	120	16	(166)	(25)
As at 31 March 2019	19,447	427	2,728	1,130	1,147	24,879
Depreciation for year ended 31 March 2019						
At 1 April 2018 (Restated)	2,474	-	135	577	2	3,188
Newly Consolidated Bodies	-	-	7	129	-	136
Charged in year	147	-	94	96	-	337
Disposals	(66)	-	(1)	(58)	-	(125)
Transfers	-	-	-	-	-	-
Impairments	-	-	(3)	-	-	(3)
Revaluations	105	-	(1)	-	-	104
As at 31 March 2019	2,660	-	231	744	2	3,637
Carrying amount at 31 March 2019	16,787	427	2,497	386	1,145	21,242
Carrying amount at 31 March 2018 (Restated)	16,258	391	2,397	282	814	20,142
Asset financing for the year ended March 2019						
Owned	16,325	424	2,318	384	1,145	20,596
Finance Leased	-	-	2	2	-	4
On-balance sheet PFI contracts	462	3	177	-	-	642
At 31 March 2019	16,787	427	2,497	386	1,145	21,242

4. Property, Plant and Equipment (Cont'd)

	Network Assets £m see Note 4.1	Land £m	Buildings including Dwellings £m	Information Technology Fixtures and Fittings £m	Payments on account & Assets under construction £m	Total £m
Cost or valuation for the year ended 31 March 2020						
At 1 April 2019	19,447	427	2,728	1,130	1,147	24,879
Newly Consolidated Bodies ¹	-	-	1	2	-	3
Additions	612	6	35	105	400	1,158
Disposals	(96)	(2)	-	(65)	-	(163)
Transfers	(66)	-	-	-	(5)	(71)
Impairments	(10)	(1)	(93)	(5)	(44)	(153)
Revaluations	2,444	(2)	1	-	-	2,443
Reclassified to held for sale	-	(2)	(3)	(20)	-	(25)
Reclassification	96	1	186	23	(314)	(8)
As at the 31 March 2020	22,427	427	2,855	1,170	1,184	28,063
Depreciation for year ended 31 March 2020						
At 1 April 2019	2,660	-	231	744	2	3,637
Newly Consolidated Bodies ¹	-	-	-	1	-	1
Charged in year	202	-	97	108	-	407
Disposals	(96)	-	-	(64)	-	(160)
Transfers	(7)	-	-	-	-	(7)
Impairments	10	-	(7)	-	-	3
Revaluations	73	-	(29)	-	-	44
Reclassifications	(11)	-	7	(21)	-	(25)
As at 31 March 2020	2,831	-	299	768	2	3,900
Carrying amount at 31 March 2020	19,596	427	2,556	402	1,182	24,163
Asset financing for the year ended March 2020						
Owned	19,105	424	2,380	396	1,182	23,487
Finance Leased	-	-	7	5	-	12
On-balance sheet PFI contracts	491	3	169	1	-	664
At 31 March 2020	19,596	427	2,556	402	1,182	24,163
Core department at 31 March 2020	17,237	51	129	42	647	18,106
LHBs and subsidiaries at 31 March 2020	2,359	376	2,427	360	535	6,057
Core department at 31 March 2019	16,787	46	121	48	713	17,715
LHB and subsidiaries at 31 March 2019	-	381	2,376	338	432	3,527

¹ Newly Consolidated Bodies reflect the balances included at 1 April 2019 for HEIW and 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

4. Property, Plant and Equipment (Cont'd)

Land and Buildings, including Dwellings

Freehold land and buildings, including those held on long ground leases (typical 99 years or more equivalent to freehold) are held at valuation being assessed at fair value/market value for existing use. Within that category specialised assets are valued by reference to a depreciated replacement cost approach. Assets held for sale are at market value.

External professional valuations are undertaken every five years for the majority of the Welsh Government estate, and annually for specific assets (usually assets in the strategic sites portfolio). In intervening financial years, between the formal five yearly valuations, freehold land and buildings are adjusted using the latest available indices at March in each financial year to provide a reasonable estimate of valuation. However, where assets are acquired or are significantly altered it is usual that a current valuation is commissioned.

The majority of Welsh Government Core freehold land and buildings had a five year valuation assessment at 1 November 2019, with small volumes being examined at 31 December 2019, and valuation certificates finalised as at 31 March 2020, largely by Avison Young Chartered Surveyors. The valuations subject to annual review were predominantly prepared as at 28 February 2020 by Alder King. All assets are valued in accordance with the RICS standards for financial reporting as published in their (Red Book) global standards UK supplement.

Updated valuations as at 31 March 2020 were reviewed confirming valuations undertaken prior to the year-end were appropriate for use in these accounts.

The Welsh Government Group figures include the Local Health Board (LHB) & NHS Trust Land and Buildings which were revalued by the Valuation Office Agency with an effective date of 1st April 2017. The valuation has been prepared in accordance with the terms of the Royal Institution of Chartered Surveyors' Valuation Standards, 6th edition. LHBs & NHS Trusts apply the revaluation model set out in IAS 16 as adapted by the FReM. Land and non-specialised buildings are held at market value for existing use, specialised buildings are held at depreciated replacement cost. Indexation is applied in the years between five yearly valuations.

As a result of the Royal Institution of Chartered Surveyors guidance issued in relation to the impact of COVID-19, the professional valuers reported material uncertainty in their valuation reports for the end of 2019-20 for certain Welsh Government Core and NHS bodies valuations. Included in the Consolidated Property, Plant and Equipment note are Land and Building assets totalling £234.4m the valuation of which included material uncertainty statements.

The Road and Rail network are valued at Depreciated Replacement Cost using models – the Road Authorities Asset Valuation System and the Network Rail model respectively (for more information see Accounting Policy Note A.1).

Both models use key indices in the valuations which are sensitive to macroeconomic uncertainties. Future fluctuations in those indices may affect the valuation of these assets in subsequent reporting periods.

The sensitivity analysis below reflects the impact on the Depreciated Replacement Cost valuation of a percentage point change in the key indices.

Road Network

Baxter index	+/-1%	£156m
--------------	-------	-------

Rail Network

Consumer Prices Index (CPIH)	+/-1%	£7m
Retail Prices Index (RPI)	+/-1%	£16m

4.1 Property, Plant and Equipment Network Assets

	Road Network £m	Network Assets Rail Network £m	Total £m
Cost or valuation for the year ended 31 March 2020			
At 1 April 2019	19,447	-	19,447
Additions	96	516	612
Disposals	(96)	-	(96)
Transfers	(71)	5	(66)
Impairments	(10)	-	(10)
Revaluations	606	1,838	2,444
Reclassified to held for sale	-	-	-
Reclassification	96	-	96
As at 31 March 2020	20,068	2,359	22,427
Depreciation for the year ended 31 March 2020			
At 1 April 2019	2,660	-	2,660
Charged in year	202	-	202
Disposals	(96)	-	(96)
Transfers	(7)	-	(7)
Impairments	10	-	10
Revaluations	73	-	73
Reclassifications	(11)	-	(11)
As at 31 March 2020	2,831	-	2,831
Carrying amount at 31 March 2020	17,237	2,359	19,596
Carrying amount at 31 March 2019	16,787	-	16,787
Core department at 31 March 2020	17,237	-	17,237
LHBs and subsidiaries at 31 March 2020	-	2,359	2,359

4.1 Property, Plant and Equipment Network Assets (Cont'd)

Core Valley Lines Acquisition

The Rail network assets include the acquisition on 28 March 2020 of the Core Valley Lines (CVL) Asset by Transport for Wales from Network Rail. This acquisition comprised the Aberdare, Coryton, Merthyr Tydfil, Rhymney and Treherbet lines (including all stations, track and related rail infrastructure).

The purchase price for this transaction was £469.8m being the Regulated Asset Base valuation by Network Rail. Land Transaction Tax and other directly attributable costs result in a full capital addition of £520.9m.

In accordance with the FReM the asset is required to be held in the Welsh Government Consolidated Account at valuation. Depreciated Replacement Cost is the most appropriate valuation methodology to apply to the CVL asset, which gives rise on application to a £1.8bn revaluation gain, which is taken to the revaluation reserve, as shown in the Consolidated Statement of changes in Taxpayer's Equity. See Appendix A – Accounting Policies A.1 for further information on applicable accounting policies for valuation and depreciation.

The purchase transaction for the acquisition of this asset was undertaken through a nil-cash mechanism to minimise unnecessary cash transactions between Central Government bodies. Welsh Government issued a nil-cash capital grant for £469.8m to Transport for Wales. Transport for Wales assigned the rights to funding arising from the Welsh Government grant to Network Rail as settlement for the CVL purchase. The disposal of the CVL asset and its acquisition was undertaken on a nil gain/loss principle, accordingly Department for Transport issued a nil-cash capital grant for £469.8m to Welsh Government.

The nil-cash transactions are reflected in the Group Cashflow statement by adjustments to non-cash transactions and purchases of property, plant and equipment.

The capital grant from Department for Transport to Welsh Government is included in the WG Core 'Other non-EU operating income' – see Note 2.

The capital grant from Welsh Government to Transport for Wales is included in the WG Core 'Grants' – see Note 3.

5. Intangible Assets

	Information Technology			
	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Cost or valuation				
At 1 April	57	165	59	90
Newly Consolidated Bodies ¹	-	-	-	65
Additions	-	19	-	10
Disposals	(1)	(8)	(2)	(4)
Reclassifications	-	5	-	4
At 31 March	56	181	57	165
Amortisation				
At 1 April	28	102	18	39
Newly Consolidated Bodies ¹	-	-	-	42
Charged in year	7	21	10	23
Disposals	(1)	(8)	-	(2)
Reclassifications	-	(1)	-	-
At 31 March	34	114	28	102
Net Book Value at 31 March	22	67	29	63
Net Book Value at 1 April	29	63	41	51

¹ Newly Consolidated Bodies reflect the balances included at 1 April 2019 for HEIW and 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

6. Financial Assets – Investments and loans

	Student Loans £m	NHS Trust Public Dividend Capital £m	Other Financial Assets £m	Total £m
Balance at 31 March 2018	2,849	172	700	3,721
Newly Consolidated Bodies	-	(172)	-	(172)
Additions	596	-	181	777
Disposals	-	-	(41)	(41)
Loan repayments	(123)	-	(40)	(163)
Capitalised interest	-	-	-	-
Fair value adjustment	-	-	(14)	(14)
Net fair value gains/(losses) on financial assets at fair value through SOCNE (see note 3 Expenditure) ²	(207)	-	38	(169)
Reclassification ¹	-	-	51	51
Balance at 31 March 2019¹	3,115	-	875	3,990
Newly Consolidated Bodies	-	-	-	-
Additions	699	-	193	892
Disposals/Write-offs	-	-	-	-
Loan repayments	(139)	-	(76)	(215)
Fair value adjustment	-	-	(2)	(2)
Net fair value gains/(losses) on financial assets at fair value through SOCNE (see note 3 Expenditure) ²	(150)	-	(58)	(208)
Policy write-offs	(30)	-	-	(30)
Reclassification	-	-	(5)	(5)
Adjustments	-	-	(14)	(14)
Balance at 31 March 2020¹	3,495	-	913	4,408

WG Core only				
At 31 March 2020	3,495	203	1,600	5,298
At 31 March 2019	3,115	189	1,399	4,703

¹ Included within the balance carried forward is £169m (2019 – £173m) due within one year.

² Student Loans measured as Fair Value through Statement of Comprehensive Net Expenditure. Details of the Student Loans Fair Value measurement and exposure to risks is set out below. Help to Buy Wales Financial Assets are measured as Fair Value through Statement of Comprehensive Net Expenditure.

Face Value

The table below provides a reconciliation between the carrying value and the face value of student loans issued.

	Student Loans £m
Balance at 31 March 2018	4,009
Additions	596
Repayments	(123)
Interest	129
Policy write-offs	(21)
Balance at 31 March 2019	4,590
Additions	699
Repayments	(139)
Interest	209
Policy write-offs	(30)
Balance at 31 March 2020	5,329
Closing fair value adjustments/impairments:	
At 31 March 2020	(1,834)
At 31 March 2019	(1,475)
Carrying value:	
At 31 March 2020	3,495
At 31 March 2019	3,115

The group's exposure to various risks associated with the financial instruments is discussed in the accounting policies. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset mentioned above.

Policy write-offs include amounts written-off by the Student Loans Company in respect of partial cancellation, age, death, bankruptcy, etc.

6.1 Student Loans

Loans for students in higher and further education are originated and recognised by the Welsh Government.

Student loans

Under IFRS 9, student loans are recognised at fair value through the Statement of Comprehensive Net Expenditure (SOCNE). In determining the fair value of student loans, the Welsh Government has used a discounted cash flow model (see below) that includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the statement of comprehensive net expenditure.

On consideration of the reliability of the inputs used in determining fair value, Student Loans have been classified as having 'Level 3 inputs' under the accounting standards, defined as: **If one or more of the significant inputs is not based on observable market data, the instrument is included as level 3.** The fair value of Student Loans is therefore calculated using the Stochastic Earnings Path (StEP) financial model provided by the Department for Education.

The fair value of new loans issued is also calculated using the StEP model which uses data on the demographics of higher education students in order to predict their likely repayments of loans. There are various models adapted for borrowers taking different loan types – pre-2012 and post-2012 loans (Undergraduate, Part Time and Postgraduate Masters & Doctoral loans). These models all depend on a complex set of assumptions, particularly on borrowers' earnings. The models are long term in nature, but use the latest available (at time of modelling) OBR short and long term forecasts for RPI, base rates and earnings growth. By their nature, the valuation of the student loan books is uncertain as they are highly dependent on macroeconomic circumstances and graduate earnings over the next 30 years, as well as a number of other complex assumptions. Given their newness, there is little historic repayment data available for post-2012 loans as these loans were first eligible for repayment in 2016-17. The assumptions used in the repayment models are formally reviewed each year and the amounts reflect the estimate as at 31 March 2020.

The COVID-19 Pandemic

The COVID-19 pandemic is expected to have a significant impact on the Higher Education (HE) system and on the wider economy. There exist considerable uncertainties in that it is not possible to predict accurately the size of the impacts from COVID-19 on the macro economy, or for how long they will persist. These macroeconomic uncertainties filter directly through to student loan repayment forecasting.

On 11 March 2020, alongside the UK Budget, the Office for Budget Responsibility (OBR) published in its bi-annual Economic and Fiscal Outlook a detailed set of forecasts for economic indicators and public finances in the UK. The OBR's official macroeconomic forecasts (on indicators such as earnings growth and inflation) are important inputs to the student loan repayment model. Amid the ongoing COVID-19 pandemic, these forecasts clearly became 'out of date' very quickly. On 14 April 2020, the OBR published its first 'coronavirus reference scenario', an initial assessment of the potential impact of COVID-19 on the economy and public finances. The release included the OBR's latest forecasts for key

economic indicators over the next five years (to the financial year 2024-25), incorporating the most recent data available.

Several scenarios, in which the key economic indicators used in the StEP model follow various paths that are possible as a result of the COVID-19 pandemic, have been considered by Welsh Government. To allow users of these accounts to make an informed view of the variability of the net book value, given that the potential economic impacts of the COVID-19 pandemic are subject to great uncertainty, the sensitivity analysis (below) reflects the impact on the net book value of percentage point changes in the key variables, rather than specific scenarios that may change when new information on the economy becomes available and therefore quickly become out of date.

Key Variables

Key **variables** and assumptions used within the model are detailed below. Additionally, the sensitivity of the Student Loan net book value, as at 31 March 2020, to each variable is quantified:

Discount rate: The Welsh Government has considered the principles under IFRS 9 and have used the rate as set out in the latest PES paper, being RPI plus 0.7%. This is HM Treasury's long term discount rate representing the Government's long term cost of borrowing. This changes infrequently, with any increase in Discount Rate increasing the carrying value of Student Loans. For each 1% point HM Treasury's Discount Rate increases, the net book value of the student loan book will increase by £32.7m; a 1% decrease will result in a decrease of £32m.

RPI Inflation: The model uses RPI rates in line with OBR forecasts (received March 2019) until 2024-25. RPI is assumed to decrease to 3% between 2025-26 and 2039-40. A higher RPI will increase interest for most loans, which will result in a reduction in carrying amount. For each 1% point the predicted RPI increases, the net book value of the student loan book will decrease by £24.6m; a 1% point decrease will result in an increase in net book value of £24.9m.

Graduate earnings: The model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2025-26. Future earnings growth is then assumed to be 4.35% from 2031-32, and a linear change between 2024-25 and 2030-31. An increase in Graduate Earnings will increase the carrying value of student loans. For each 1% point graduate earnings increase, the net book value of the student loan book will increase by £29.7m; however a decrease of 1% point will result in a fall of £29.1m in the net book value of student loans.

Graduate earning threshold: On 18 October 2017 the Welsh Government announced that the repayment threshold for all post-2012 loans would be increased from £21,000pa to £25,000pa with effect from 1 April 2018, increasing annually thereafter in line with earnings growth. As a policy decision this has not been subject to sensitivity analysis.

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. This is not subject to sensitivity analysis.

Partial cancellation: Partial cancellation is a Welsh Government policy applicable to maintenance loans, whereby a cancellation of up to £1,500 may be applied on receipt of the first repayment against the loan if the student does not have any outstanding charges, costs, expenses or penalties in relation to the loan or if they are in breach of the loan agreement. This is not subject to sensitivity analysis.

Base rates: The model assumes that Bank of England base rates will be in line with OBR forecasts until 2068-69. A base rate cap is applied to the base rate from 2018-19 onwards, reducing the base rate to the cap level between 2018-19 and 2022-23. An increase in Base Rates will increase the carrying value. For each 1% point the Base Rate increases, the net book value of the student loan book will increase by £2.4m, a decrease of 1% point will result in a £2.4m fall.

There are a number of other assumptions used in the model, 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, although could change at the same time.

Data on the above key variables, including historical, can be found on the Office for National Statistics (www.ons.gov.uk); Office of Budget Responsibility (www.obr.uk); and the Bank of England (www.bankofengland.co.uk) websites.

Statistical information on Student Loans can be found on the Student Loans Company website (www.gov.uk/government/statistics/student-loans-in-wales-2019-to-2020-part-1).

6.2 NHS Trusts Public Dividend Capital

The Welsh Government's investment in NHS Trusts is represented by Public Dividend Capital (PDC). PDC is held in accordance with the FReM interpretation of IFRS 9 at historic cost less impairments, consistent with prior years. On consolidation of the NHS Trusts, the PDC investment is eliminated.

6.3 Other Financial Assets

The Welsh Government issues financial instruments, in particular loans, to other public sector bodies in Wales and repayable finance and loans to businesses to support economic development. 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.

As simple debt instruments the majority of Welsh Government Core financial assets are held for contractual cash flow collection, and therefore are held at Amortised Cost under IFRS 9. Help to Buy Wales financial assets are held at Fair Value through Statement of Comprehensive Net Expenditure, and are eliminated from the Core account on Development Bank of Wales consolidation. There are no material financial assets held at Fair Value through Other Consolidated Net Expenditure in the Core account.

The Fair Value of the Help to Buy Wales shared equity loan book is calculated by setting out anticipated future cash flows and discounting these at an appropriate rate. This calculation uses a number of assumptions, notably a forecast for future House Price Index (HPI), a discount rate based on a comparable housing bond and the profile of loan redemptions. There is no observable data for the HPI for the 25 year duration of the model. The model uses Welsh HPI as published by the Office of National Statistics as a key input, and HPI data provided by market analysis has been used to establish the long

term average HPI rate in Wales. The HPI forecasts have been adjusted to include the expected impact of COVID-19 on house prices. Further detail on the Help to Buy Wales fair value model can be found in the accounts of the Development Bank of Wales PLC.

Included in 'Other Financial Assets' above is £61.3m investment in Cardiff International Airport Limited (CIAL) via WGC Holdco Limited and £54.6m loan from Welsh Government to CIAL. Welsh Government officials are working very closely with CIAL to evaluate the impact of the COVID-19 pandemic on the aviation industry including CIAL to agree future funding actions in relation to recovery options. Choices made based on these options will have an impact on the methodology used to value Welsh Government investment in the airport. Consequently there remains a degree of uncertainty about the valuation of the Welsh Government investment and loans.

Group other financial assets excluding those with CIAL noted above comprise: Welsh Government financial interests in joint ventures, other loans and investments; Invest to Save loans with Local Authorities and other public bodies; and, assets held by the Development Bank of Wales PLC and other group financial assets.

7. Inventories

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Development Assets	166	166	165	164
Drugs	22	51	19	45
Telecommunication spares	1	1	1	1
Road salt	1	1	1	1
Other consumables	1	56	1	50
	191	275	187	261

8. Trade receivables, financial and other assets

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Amounts falling due within one year:				
Trade receivables	229	337	114	221
Other tax	13	13	13	13
Prepayments and accrued income	102	155	129	175
	344	505	256	409
Amounts falling due after more than one year:				
Trade receivables	11	118	13	99
Prepayments	11	17	14	18
	22	135	27	117
Total trade receivables and other current assets	366	640	283	526

9. Cash and cash equivalents

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	107	698	127	444
Newly Consolidated Bodies ¹	-	6	-	38
Net change in cash and cash equivalent balances	-	135	(20)	216
Balance at 31 March	107	839	107	698
The following balances were held at:				
Government Banking Service	90	171	105	151
Commercial banks & cash in hand	17	668	2	547
	107	839	107	698

¹ Newly Consolidated Bodies reflect the balances included at 1 April 2019 for HEIW and 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

10. Trade and other payables

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m (Reclassified)	WG Group £m (Reclassified)
Amounts falling due within one year:				
Taxation and social security	3	58	1	67
Trade and other payables	771	1,518	619	1,017
Deferred European Union Income	66	66	66	66
Other accruals and deferred income	391	437	267	606
Amounts payable to the Welsh Consolidated Fund	36	36	17	17
Obligations under finance leases and PFI contracts	10	16	10	14
	1,277	2,131	980	1,787
Amounts falling due after more than one year:				
Trade and other payables	-	2	-	1
Obligations under PFI	85	137	93	150
Obligations under finance leases	1	6	3	3
	86	145	96	154
Total trade payables and other current liabilities	1,363	2,276	1,076	1,941

11. Provisions for liabilities and charges

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Balance at 1 April	1,180	1,278	1,135	1,147
Newly consolidated bodies ¹	-	-	-	11
Provided in the year	376	413	162	214
Provisions not required written back	(175)	(205)	-	(4)
Transfer	(25)	(10)	-	61
Provisions utilised in year	(106)	(137)	(117)	(151)
Balance at 31 March	1,250	1,339	1,180	1,278
Analysis of expected timing of discounted flows:				
Not later than one year	277	318	295	347
Later than one year and not later than five years	408	432	353	482
Later than 5 years	565	589	532	449
Balance at 31 March	1,250	1,339	1,180	1,278

WG Group only

	Other £m	Welsh Risk Pool ² £m	Total £m
Analysis of expected timing of discounted flows:			
Not later than one year	46	272	318
Later than one year and not later than five years	62	369	431
Later than 5 years	97	493	590
	205	1,134	1,339

¹ Newly Consolidated Bodies reflect the balances included at 1 April 2019 for HEIW and 1 April 2018 for NHS Trusts in Wales and Transport for Wales.

² The Welsh Risk Pool is hosted as part of NHS Wales Shared Services Partnership by Velindre NHS Trust whose accounts can be found at www.velindre-tr.wales.nhs.uk/key-publications.

11.1 Welsh Government Core Provisions

Welsh Government Core Provisions include:

Health Provisions

The Welsh Government has health related provisions, for the Wales Infected Blood Support Scheme and expected future re-imbursements of the Welsh Risk Pool (WRP).

On 30 March 2017, the Cabinet Secretary for Health, Well-Being and Sport announced new support arrangements for individuals and their families affected by hepatitis C and HIV through treatment with contaminated blood in Wales. A single, streamlined scheme for Wales was introduced on 1 November 2017. Claimants in the previous schemes have been migrated to the new scheme. The Wales Infected Blood Support Scheme replaces the previous Skipton and Caxton Funds and relates to provisions for ex gratia payments to those infected with hepatitis C and HIV. The Wales Infected Blood Support Scheme balance as at 31 March 2020 is £84.2m (2018-19: £90.4m).

WRP assists Welsh NHS bodies with risk management and settlement of disputed claims for alleged medical or employer negligence. WRP balance as at 31 March 2020 is £1,134m (2018-19: £1,081m).

NHS Wales organisations provide for legal or constructive obligations for clinical negligence, personal injury and defence costs that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Claims are funded via the Welsh Risk Pool Services (WRPS) which receives an annual top-slice allocation from Welsh Government to cover the cost of reimbursement requests submitted to the bi-monthly WRPS Committee.

Significant estimations are made in relation to on-going clinical negligence and personal injury claims. Assumptions as to the likely outcome, the potential liabilities and the timings of these litigation claims are provided by independent legal advisors.

A provision is made for probable and certain cases in accordance with IAS 37. The provision for probable and certain cases is based on case estimates of individual reported claims received by Legal & Risk Services within NHS Wales Shared Services Partnership. The solicitors estimate the case value including defence fees, using professional judgement and from obtaining counsel advice. Valuations are then discounted for the future loss elements using individual life expectancies and the Government Actuary's Department actuarial tables (Ogden tables) and Personal Injury Discount Rate of minus 0.75%. Future liabilities for certain & probable cases with a probability of 95%-100% and 50%-94% respectively are held as a provision on the balance sheet. Cases typically take a number of years to settle, particularly for high value cases where a period of development is necessary to establish the full extent of the injury caused.

The majority of high value (>£1M) claims settle with a Periodical Payment Order (PPO) where part or all of the final settlement value is paid over the life time of the claimant. When cases settle with a PPO arrangement, an individual provision is created by multiplying the claimants' index linked annual payment value by the number of years' life expectancy. The number of years' life expectancy is discounted according to the Ogden table multipliers using HM Treasury's nominal discount rate for general provisions issued annually in the Public Expenditure System (PES) paper and an inflation factor.

The Welsh Risk Pool is part of NHS Wales Shared Services, hosted by Velindre NHS Trust and further details regarding the calculation of provisions and the periodical payment orders are contained within the accounts of Velindre NHS Trust at www.velindre-tr.wales.nhs.uk/home.

Other Provisions

This includes various potential pension and employment liabilities in respect of previous employees and provisions in relation to Welsh Government delivery activity.

11.2 Welsh Government Group Provisions

Welsh Government Group Provisions include the Core provisions noted above, and provisions held by consolidated entities. Principally these are other NHS Provisions including pensions and provisions for the first £25,000 of clinical negligence claims which is not reimbursed by the Welsh Risk Pool.

12. Contingent liabilities

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Legal Claims – alleged medical/employer negligence	1,099	1,121	936	995
Potential contractual obligations under the WDA Act 1975	10	10	10	10
Other legal and contractual claims	94	103	108	108
	1,203	1,234	1,054	1,113

(i) Legal Claims – alleged medical/employer negligence

This reflects 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.

(ii) Other legal and contractual claims

Other legal and contractual claims includes legal and contractual claims in progress and contingent liabilities related to commercial contractual indemnities and guarantees. No new contingent liabilities for commercial contractual indemnities or guarantees arose in 2019-20.

(iii) Unquantified contingent liabilities

EU Transition

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. On 31 January 2020, the Withdrawal Agreement between the UK and the EU became legally binding and the UK left the EU. The future relationship between the EU and the UK will be determined by negotiations taking place during a transition period ending 31 December 2020. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations.

NHS Scheme Pays arrangements 2019-20

In accordance with a Ministerial Direction issued on 18 December 2019 discussed in the Annual Governance Statement, the Welsh Government have taken action to support circumstances where pensions tax rules are impacting upon clinical staff who want to work additional hours. This scheme will be fully funded by the Welsh Government with no net cost to NHS Employers.

Clinical staff have until 31 July 2021 to opt for this scheme and the ability to make changes up to 31 July 2024. At the date of approval of these accounts, there was no evidence of take up of the scheme by NHS clinical staff in 2019-20 and no information was available to enable a reasonable assessment of future take up to be made, therefore the existence of an unquantified contingent liability is disclosed.

12.1 Remote Contingent Liabilities

Contingent liabilities are presented here where the likelihood of a transfer of economic benefit in settlement is judged remote. Because of this, they do not meet the IAS 37 criteria for disclosure in the financial statements, but are presented here for transparency purposes. These predominantly relate to situations where guarantees or indemnities have been entered into by the Welsh Government, but where there are currently no indications that these will be drawn upon. While all mitigating actions have been and will be taken to minimise the risk and exposure, the risk cannot be removed altogether. If considered appropriate contingent liabilities for which the probability of crystallisation is rated as greater than remote are disclosed in the Financial Statements.

In 2019 the Welsh Government agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the 'Grant Agreement' with its rail service provider (Transport for Wales Rail Services) and the 'Held Harmless Agreement' with the Department for Transport.

Quantifiable remote contingent liabilities:

Welsh Government has provided an indemnity to the rail service provider in the event that, through a decision of Welsh Government, the rolling stock order that the rail service provider has been placed has to be cancelled. The maximum liability for Welsh Government under this indemnity is estimated to be £68m.

Unquantifiable remote contingent liabilities:

Welsh Government has provided an indemnity to the Department for Transport and Network Rail in the event that any diseconomies of scale emerge or any new financial risks materialise as a result of the devolution of rail franchising powers and the transfer of the Core Valley Line assets from Network Rail to Transport for Wales.

Welsh Government has provided an indemnity to the rail service provider for a limited time only against any additional tariffs imposed as a result of Brexit.

Welsh Government has provided an indemnity to the rail service provider against the impact of any decision taken by the Pensions Regulator as a result of the review it is currently undertaking in respect of the status of Train Operator Company (TOC) pension schemes.

Welsh Government has provided an indemnity to the rail service provider against Department for Transport originated changes to planned track access charges. Welsh Government are similarly indemnified by the Department for Transport.

Welsh Government has provided a guarantee in respect of Network Rail employees joining Transport for Wales and remaining in the Rail Pension Scheme if any deficits are created for the new section of the scheme.

Guarantees:

In special circumstances, the Welsh Government acts as guarantor for its sponsored bodies or in relation to public infrastructure works. None of these guarantees are material.

Indemnities:

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 eleven organisations for £437 million and the period of the 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 2020 was £29.5 million.

Letters of comfort:

The Welsh Government has issued a Going Concern letter of assurance to RIFW to cover future liabilities of £0.457m. Given the significant level of reserves in RIFW, the probability of this liability materialising is assessed as remote.

The Welsh Government has issued a Going Concern letter of assurance to Transport for Wales (TfW) to cover existing and future liabilities incurred in accordance with the Management Agreement (between Welsh Government and Transport for Wales) and the periodic Remit letters that Welsh Government issue to Transport for Wales.

13. Other liabilities

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Pension fund deficits	54	98	54	91
National Loans Fund (falling due after 5 years) ¹	11	11	11	11
DBW bank loans	-	-	-	-
Total	65	109	65	102

¹ National Loans Fund balances represent National Loans Funds lent onwards by the Secretary of State for Wales originally to the Mid Wales Development Corporation. They were then passed to the Development Board for Rural Wales in the 1980's; and to the Welsh Development Agency (WDA) when DBRW was abolished in 1998. Following WDA abolition in 2006, responsibility for the repayment of principal and interest falls on the Welsh Government.

14. Movements in working capital other than cash

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
(Increase)/decrease in inventories (excluding development issues)	(2)	(13)	5	(1)
(Increase)/decrease in receivables:				
current	(88)	(96)	(72)	(76)
non-current	5	(18)	3	30
Increase/(decrease) in payables:				
current	297	344	45	-
non-current	(10)	(9)	(10)	(13)
Development assets movement	-	-	(7)	(7)
PFI/Finance lease capital element	10	7	10	10
Other adjustment	-	-	66	60
Less movement in amounts payable to the Welsh Consolidated Fund and other non-operating cost balances	(19)	(19)	11	11
	193	196	51	14

15. Capital and other commitments

15.1 Capital commitments

Contracted capital commitments not otherwise included within these financial statements.

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Property plant and equipment	113	373	215	480
Investments and loans	37	40	94	94
	150	413	309	574

15.2 Commitments under leases

15.2.1 Commitments under operating leases

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

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Buildings				
Not later than one year	6	35	6	35
Later than one year and not later than five years	21	81	22	79
Later than five years	43	117	46	113
	70	233	74	227
Other				
Not later than one year	-	1	-	1
Later than one year and not later than five years	-	-	-	2
Later than five years	-	-	-	2
	-	1	-	5
Total	70	234	74	232

15.2.2 Commitments under finance leases

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

	As at 31 March 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Other				
Not later than one year	1	4	1	3
Later than one year and not later than five years	1	4	2	2
Later than five years	-	-	-	-
	2	8	3	5
Less interest element	-	-	(1)	(1)
	2	8	2	4

15.3 Commitments under PFI contracts

The Local Health Boards have ten PFI contracts, eight of which are on the Statement of Financial Position. There are no contracts with an individual total commitment of greater than £500m. Details of the individual schemes are included in the Local Health Board statutory accounts.

15.3.1 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 £9,273,758 (2018-19: £9,479,137 (restated)); and the payments to which the Welsh Government is committed, are as follows:

	As at 31 March 2020 £m	As at 31 March 2019 £m (Restated)
Not later than one year	9	10
Later than one year and not later than five years	40	41
Later than five years	11	22
	60	73

15.3.2 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 £9,952,132 (2018-19: £10,288,537). Total future obligations under on-balance sheet PFI and other service concession arrangements are given in the table below for each of the periods.

	As at 31 March 2020 £m	As at 31 March 2019 £m
Minimum Lease payments		
Not later than one year	12	12
Later than one year and not later than five years	48	48
Later than five years	48	60
	108	120
Less interest element	(14)	(17)
	94	103

	As at 31 March 2020 £m	As at 31 March 2019 £m
Service elements due in future periods		
Not later than one year	6	8
Later than one year and not later than five years	33	32
Later than five years	(1)	6
	38	46

15.4 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 2020		As at 31 March 2019	
	WG Core £m	WG Group £m	WG Core £m	WG Group £m
Not later than one year	615	615	446	446
Later than one year and not later than five years	1,162	1,162	1,088	1,088
Later than five years	2,512	2,512	2,689	2,689
	4,289	4,289	4,223	4,223

Other financial commitments payable within one year include £231m as a committed income stream, via the Grant Agreement with its rail service and infrastructure manager provider (Transport for Wales Rail Services). Commitments payable within 2 to 5 years include £830m and beyond 5 years at £2bn.

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 2020 in order to provide security to the recipient organisation. As they relate to the year ending 31 March 2021 and are funded by the Welsh Government's budget allocation for the year ending 31 March 2021 they have not been disclosed within the above commitments.

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 related party transactions with the Welsh Government during the year, except as noted below:

Lesley Griffiths (Minister for Environment, Energy and Rural Affairs) and Ken Skates (Minister for Economy and Transport) are both Vice-Presidents of Llangollen International Eisteddfod which received £29,181 grant funding in 2019-20.

Dafydd Elis-Thomas (Deputy Minister for Culture, Sport and Tourism) is an honorary life member of North Wales Wildlife Trust which received £466,186 in 2019-20.

The husband of Kirsty Williams (Minister for Education) is a partner in a farming business which in 2019-20 received £62,292 support under the EU's Common Agricultural Policy.

The wife of Vaughan Gething (Minister for Health and Social Services) is a partner in the legal firm Thompsons Solicitors who were paid £2,400 in 2019-20 for procured legal services. The Minister would have had no involvement in the procurement process and decision on the appointment of the legal firm.

Jeremy Miles (Counsel General and Minister for European Transition) and Rebecca Evans are members of Celtic Credit Union, which in 2019-20 received £105,160 of grant support funding.

The wife of Lee Waters (Deputy Minister for Economy and Transport) was a non-Executive Director of Llamau Ltd which received £657,843 in 2019-20.

The husband of Gillian Baranski (Board member to 5 July 2019) is a partner in the legal firm Geldards LLP who were appointed as a provider on the Legal Services by Solicitors Framework with the National Procurement Service. The firm was paid £687,967 in 2019-20 for these Legal Services.

The partner of Tracey Burke a lay member of the University of Reading Council which received, including grant funding, £930 in 2019-20.

Ellen Donovan (non-executive director) has continued her role as a non-executive director of Qualifications Wales, a role held since December 2015, prior to joining the Welsh Government Board. Qualifications Wales received Welsh Government funding in 2019-20 of £8,355,247.

Gareth Lynn (non-executive director) is the Independent Chairman of Trustees of the Milford Haven Port Authority Retirement Benefits (pension) scheme. The appointment is made by Milford Haven Port Authority and is remunerated. Milford Haven Port Authority received £28,746 in 2019-20. He is also a non-executive director of Spindogs Limited which received £14,615 in 2019-20 for the procured services to Welsh Government.

Related party transactions of the Local Health Boards and NHS Trusts 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 2020		Year Ended 31 March 2019	
	Profit/(Loss) £m	Share Capital and Reserves £m	Profit/(Loss) £m	Share Capital and Reserves £m
Development Bank of Wales PLC ¹	(16)	126	3	156
Regeneration Investment Fund for Wales LLP	(3)	42	3	39
WGC Holdco Limited	-	61	-	61
Careers Choices Dewis Gyrfa Limited	(3)	(32)	(2)	(31)
Transport for Wales	-	1	-	1

¹ 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 Other minor subsidiaries and interests

The following Welsh Government Joint Ventures are included in the consolidated accounts:

- International Convention Centre Wales Limited – 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.
- 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.

The following Welsh Government interests are not included in the consolidated accounts:

Welsh Government – Non Ministerial Departments – subject to a designation order but immaterial for consolidation:

- Welsh Revenue Authority

Welsh Government Subsidiaries – subject to a designation order but immaterial for consolidation:

- Design Commission for Wales Limited (Design Commission for Wales/Comisiwn Dylunio Cymru)
- Meat Promotion Wales Limited/Hybu Cig Cymru Cyf
- Sector Development Wales Partnership Limited
- Life Sciences Hub Wales Limited
- Centre for Digital Public Services Limited (formerly Innovation Point Limited)
- National Academy for Education Leadership
- International Business Wales Limited

Welsh Government Subsidiaries – not subject to a designation order and immaterial for consolidation:

- Welsh Development Management Limited

Student Loans Company Limited

Welsh Government holds 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.

NHS Charities

NHS Charities in Wales are subsidiaries of the Local Health Boards and NHS Trusts. They are not subject to a designation order and are immaterial for consolidation.

The Statutory Accounts of entities noted in 16.1 and 16.2 can be found either on their own websites or at Companies House www.gov.uk/government/organisations/companies-house.

17. Events after the Reporting Period

In November 2019, a novel strain of coronavirus (COVID-19) was detected and spread rapidly, leading the World Health Organisation to declare a pandemic on 11 March 2020.

COVID-19 has had a significant impact upon the Welsh Government and its operations, as described in the annual Report; this impact began shortly before the 31 March and will continue into 2020-21.

Due to the timing of the pandemic, the impact of COVID-19 in these financial statements has been limited. The vast majority of the Welsh Governments' COVID-19 related costs have occurred since April 2020 and they will therefore be included in next year's 2020-21 financial statements.

The pandemic caused significant economic disruption just before the financial year end. The ongoing disruption caused by the pandemic has created significant economic uncertainty, and this uncertainty is expected to continue throughout 2020.

The need to respond and recover from the pandemic will be with the organisation and wider society throughout 2020-21 and beyond.

As Wales and the UK exit lockdown and transition to recovery in 2020-21 and beyond, the full impact of Welsh Government initiatives to support the communities and businesses of Wales, and the economic impact of COVID-19 will become clearer. Impacts may arise in future Welsh Government financial statements upon the valuation of assets, loans and investments.

Since the Welsh Government's budget for 2020-21 was approved on 3 March, the budget increased by more than 10%. To support the Welsh economy and ensure public services are equipped to deal with the coronavirus pandemic, the Welsh Government has acted swiftly to allocate this funding, together with repurposing existing budgets and realigning European funding. In the First Supplementary Budget 2020-21 the Welsh Government allocated more than £2.4bn to a range of interventions to respond to, and mitigate the impact of, the COVID-19 crisis. The details of the First Supplementary Budget can be found at www.gov.wales/1st-supplementary-budget-2020-2021.

18. Authorised for Issue

The Principal Accounting Officer authorised these financial statements for issue on 28 October 2020.

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) are held at open market value for existing use, the exception is properties of a specialised nature held at depreciated replacement cost. Land and buildings are valued using professional valuations either every five years, or annually, with appropriate indices in intervening years for non-annual valuations. The Welsh Government uses the Investment Property Databank (IPD) Monthly Index for Midlands and Wales indices.

Network Assets

Road network

The road network is valued at its depreciated replacement cost in line with the guidance in the Financial Reporting Manual (FReM) 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 last carried out in 2019-20. 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.

Rail Network

Transport for Wales, a consolidated Welsh Government subsidiary, acquired the Core Valley Lines (CVL) from Network Rail on 28 March 2020 at a cost of £469.8m. The CVL includes railway infrastructure, stations, bridges and other assets which taken together form a Networked Asset in accordance with the HMT FReM.

Under the FReM, Networked Assets are valued at Depreciated Replacement Cost (DRC), because they are specialised assets used to deliver a service to the public. This valuation approach is based on a FReM adaptation of IAS 16 (Property, Plant and Equipment). To produce this valuation requires the use of assumptions, estimates and professional judgement.

The DRC is calculated by first determining a gross replacement cost for the CVL Network. The gross replacement cost is then adjusted (or “depreciated”) to reflect management’s best estimate of the condition and capacity of the CVL Network; this adjusted gross replacement cost is the depreciated replacement cost.

The gross replacement cost is determined in line with guidelines issued by the Royal Institute of Chartered Surveyors. The guidelines require specific assumptions including:

- a modern equivalent asset which is treated as being a Network identical in function, scale and connectivity, but constructed using modern specifications and methods; and
- instantaneous build on a green-field site.

To arrive at the final DRC valuation, the gross replacement value is adjusted to reflect management's best estimate of the remaining useful lives of the assets, taking into account the condition and capacity of the Network. A full valuation must take place at least every five years, with input indices applied to a standard price list of the Network's components in interim periods. Judgement is required to determine the nature of a modern equivalent asset and the current condition of the assets.

The last full valuation of the CVL network was undertaken as at 31 March 2019 by Network Rail and Turner and Townsend (professional valuers) using data provided by Network Rail. The DRC valuation was updated by Network Rail to the date of acquisition of the CVL asset, using inflationary indexation factors applied as at 31 March 2020, providing the valuation at the balance sheet date. The Network Rail DRC valuation model and assumptions has been challenged and validated by Transport for Wales as part of the asset transfer process.

The indexation factors applied are:

- Land – The Consumer Prices Index including owner occupiers' housing costs (CPIH)
- Buildings – Retail Prices Index (RPI)

The rail network is recognised as a single infrastructure asset in accordance with the applicable guidance outlined in the FReM. Modern Equivalent Asset valuation uses repeatable 'components' which are aggregated to form the network. These components are:

- Earthworks
- Structures
- Electrification, plant & signals
- Operational property
- Track
- Telecoms

All renewals that maintains the service potential of the rail network will be capitalised. Subsequent expenditure that adds to the services or life of the CVL network is capitalised.

Enhancements and renewals of the CVL asset are included a single amount at cost as assets under construction, until they are brought into use, at which point the asset is transferred into the Rail Network category and valued at DRC.

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

In its own financial statements, Transport for Wales values the Rail Network Asset at cost less accumulated depreciation. This value differs significantly from the Depreciated Replacement Cost (DRC) of the Rail Network Asset which is included in these financial statements.

Transport for Wales prepares its financial statements under IFRS with property, plant and equipment stated at cost less accumulated depreciation and accumulated impairment losses.

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.

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

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.

A.2 Depreciation

Road Network

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

- i. annual maintenance charge;
- ii. 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
- iii. 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.

Road component lives are in the following ranges:

Network surface	up to 20 years
Network structures	20 to 120 years
Network communication	2 to 15 years
Land	is not depreciated

Rail Network

The components of the railway network are depreciated over their estimated remaining useful economic lives; these are typically weighted averages for a range of components, given the complexity of these structures.

The table below gives the weighted averages, based on judgements of the remaining lives for detailed categorisations of the underlying components:

	Useful Economic Life	Remaining Useful Economic Life
Earthworks	20-100 years	100 years
Structures	100 years	73 years
Electrification, plant & signals	50-55 years	25 years
Operational property	32-65 years	30 years
Track	37-50 years	22 years
Telecoms	52 years	13 years

This is a critical judgement based on the available data, careful judgement is required in some cases, especially for components that are rarely replaced, such as structures and earthworks. Some components are capable of very long lives, however for this valuation, lives are capped at 100 years due to inherent uncertainty beyond that period.

Other Assets

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.

Leasehold land & buildings:	Remaining life
Dwellings:	Remaining life
Freehold buildings:	up to 85 years
Information technology:	3 to 10 years
Intangible software assets:	2 to 10 years
Fixtures and 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 Repayable finance

Welsh Government issues loans and repayable finance to group companies (e.g. Development Bank of Wales), other public sector bodies and private sector companies for the purpose of economic development or policy implementation objectives. These financial assets are held for the purpose of collecting the contractual payments of the principal and any interest chargeable, and are held at amortised cost in accordance with IFRS 9.

Help to Buy Wales loans issued are shared equity loans and are held at Fair Value through the Statement of Comprehensive Net Expenditure in accordance with IFRS 9.

Public Dividend Capital

Public Dividend Capital issued is held at historic cost less impairments in accordance with the FReM interpretation of IFRS 9.

Investments

Investments in subsidiary group entities are held at cost in the Welsh Government Account in accordance with IAS 27. Investments in joint ventures are held at fair value.

Loans and equity investments made by Development Bank of Wales are accounted for in accordance with IFRS 9 whereby debt instruments held to collect contractual payments of the principal and interest are held at amortised cost and equity investments are held at Fair Value through Profit and Loss. Full details of the Development Bank of Wales accounting policies for financial assets are set out in their Annual Report and Accounts.

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.

In accordance with the FReM application of IFRS 9, student loans are classified as Loans and Receivables and are carried at Fair Value through Statement of Comprehensive Net Expenditure. Detailed explanation of the valuation approach is set out in Note 6. Disclosures relating to risk, required by IFRS 7, are set out in Accounting Policy A.15.

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 Statement of Comprehensive Net Expenditure. Material reversals of prior year impairments are written back to the Statement of Comprehensive Net Expenditure 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. The Welsh Government adopted IFRS 15 Revenue from Contracts with Customers from 1 April 2018. IFRS 15 introduced a new five stage model for the recognition of revenue from contracts with customers. All Welsh Government revenue which falls within the scope of this Standard, has been accounted in accordance with it.

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.

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 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 Development Bank of Wales PLC staff and Career Choices Dewis Gyrfa Ltd 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.

Employees of Local Health Boards participate in the NHS pension scheme. Information on this scheme can be found in the NHS 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 and NHS Trust 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 PFI asset is recognised 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 (i.e. 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 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. IFRS 9 introduced a forward looking model of expected credit loss, and a three-stage approach to providing for debts. Due to the low credit risk, stage 1 and 2 expected credit losses for Welsh Government are immaterial. Stage 3 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 in the annual valuation.

Market Risk

The main risks are to the Student Loan portfolio from a downward movement in the economy that could result in an increase in borrowers' unemployment, impacting on their ability to repay student loans. Student loans are also impacted due to the potential resultant negative impact on graduate earnings growth, which lengthens the time period before loans are in repayment and extends the repayment period. This may impact the carrying value in the accounts. It can also lead to an increase in write-offs as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

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 Welsh Government's variable rate financial assets are predominantly its student loans which have an interest rate cap set at RPI or the Bank of England base rate plus 1%. The interest rate on pre-2012 loans is the lower of RPI and the Bank of England base rate plus 1%. The amount of interest repayable is therefore subject to fluctuations in the base rate and RPI. The probability of Welsh Government recovering the face value of loans issued is increased when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation for these loans. The impact of the interest rate risk for student loans issued under the pre-2012 scheme is factored into the carrying value as the student loan repayment model calculates the impact of interest rate on expected future cash flows. There is inherent risk in forecasting the amount of interest payable and if base rates that are lower than RPI are experienced, the future cash flows will be impaired further.

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 an impact on future Welsh Government Consolidated Accounts if adopted are:

IFRS 16 Leases – effective 1 January 2019.

IFRS 16 Leases supersedes IAS 17 Leases and provides a single lessee accounting model requiring a lessee to recognise right-of-use assets and liabilities for leases with a term more than 12 months, unless the underlying asset value is of low value.

Due to the impact of COVID-19 HM Treasury agreed with the FRAB to defer the implementation of IFRS 16 in central government until 1 April 2021. This represents a one year deferral from the initial effective date of 1 April 2020.

The Welsh Government does not expect IFRS 16 to have a material impact on the consolidated accounts on adoption.

IFRS 17 Insurance Contracts – effective 1 April 2023

The International Accounting Standards Board (IASB) has issued IFRS 17 (Insurance Contracts) which replaces IFRS 4 (Insurance Contracts). The new standard sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts. It is expected to be effective for accounting periods beginning on or after 1 January 2023, following IASB decisions to defer the effective date.

Guidance has yet to be issued to government departments on the interpretation of this standard.