

Agenda – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 6 October 2015

Meeting time: 09.00

For further information contact:

Fay Buckle

Committee Clerk

0300 200 6565

SeneddPAC@Assembly.Wales

1 Introductions, apologies and substitutions

(09:00)

2 Papers to note

(09:00 – 09:05)

(Pages 1 – 4)

Scrutiny of Accounts 2014–15: Additional information from the National Library of Wales

(Pages 5 – 104)

3 Scrutiny of Accounts 2014 – 15: Welsh Government Consolidated Annual Accounts 2014–2015

(09:05 – 10:35)

(Pages 105 – 177)

PAC(4)–25–15 Paper 1

Research Briefing

Sir Derek Jones – Permanent Secretary, Welsh Government

David Richards – Director of Governance, Welsh Government

Peter Kennedy – Director Human Resources, Welsh Government

Gawain Evans – Deputy Director Finance, Welsh Government

4 Meeting the Financial Challenges Facing Local Government in Wales: Committee correspondence

(10:35–10:45)

(Pages 178 – 184)



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

PAC(4)-25-15 Paper 2 – Letter from Owen Evans, Deputy Permanent Secretary,
Education and Public Services Group, Welsh Government (14 September 2015)

PAC(4)-25-15 Paper 3 – Letter from the Auditor General for Wales (29 September
2015)

**5 Responding to Welfare Reform in Wales: Letter from the Auditor
General for Wales**

(10:45–10:50)

(Pages 185 – 188)

PAC(4)-25-15 Paper 4

**6 Motion under Standing Order 17.42 to resolve to exclude the
public from the meeting for the following business:**

(10:50)

Item 7 and items 1 & 2 of the meeting on 12 October 2015

**7 Scrutiny of Accounts 2014 – 15: Consideration of evidence
received**

(10:50 – 11:00)

Concise Minutes – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 29 September 2015

Meeting time: 09. – 11.01

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3236>

Attendance

Category	Names
Assembly Members:	Darren Millar AM (Chair) Mohammad Asghar (Oscar) AM Jocelyn Davies AM Mike Hedges AM Aled Roberts AM Keith Davies AM (In place of Julie Morgan AM) Gwyn R Price AM (In place of Sandy Mewies AM) David Rees AM (In place of Jenny Rathbone AM)
Witnesses:	David Melding AM, Deputy Presiding Officer Nicola Callow, Director of Finance Claire Clancy, Chief Executive & Clerk of the Assembly Peter Curran, Sports Wales Sarah Powell, Sport Wales
Committee Staff:	Fay Buckle (Clerk) Claire Griffiths (Deputy Clerk)



	<p>Joanest Varney-Jackson (Legal Adviser)</p> <p>Matthew Coe (Wales Audit Office)</p> <p>Huw Vaughan Thomas (Wales Audit Office)</p> <p>Steve Wyndham (Wales Audit Office)</p>
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TRANSCRIPT

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

- 1.1 The Chair welcomed the Members to the meeting.
- 1.2 Apologies were received from Sandy Mewies due to her responsibilities as an Assembly Commissioner (SO 18.9 refers). Gwyn Price substituted.
- 1.3 Apologies were received from Julie Morgan and Jenny Rathbone. Keith Davies and David Rees substituted.

2 Papers to note

- 2.1 The papers were noted.

3 Scrutiny of Accounts 2014 – 15: Assembly Commission

- 3.1 The Committee considered the Assembly Commission's annual accounts for 2014–15, questioning David Melding AM, Acting Assembly Commissioner, Claire Clancy, Chief Executive and Clerk to the Assembly and Nicola Callow, Director of Finance, National Assembly for Wales.
- 3.2 Claire Clancy agreed to send the Internal Audit Review of effectiveness of the Commission together with the corresponding action plan.
- 3.3 Nicola Callow agreed to send details of the budgets assigned to Women in Public Life and Vote@16? national conversation areas of work.
- 3.3 Claire Clancy agreed to send a note on the actual income performance versus anticipated income performance of the Pierhead Building.

4 Scrutiny of Accounts 2014 – 15: Sport Wales

- 4.1 The following table shows Members declarations made during this item:

Jocelyn Davies	Daughter is a sports coach
Mike Hedges	Member of a number of football, rugby and cricket clubs some of which have received lottery funding
Keith Davies	Member of a rugby club and Board of School Governors Son is a rugby coach
Aled Roberts	Member of Wrexham Football Supporters Trust and a school governor
David Rees	A swimming pool threatened with closure is in his constituency

4.2 The Committee considered Sport Wales annual accounts for 2014–15, questioning Sarah Powell, Chief Executive Officer and Peter Curran, Finance Director, Sport Wales.

5 The Procurement and Management of Consultancy Services: National Procurement Service Annual Report 2014–15

5.1 Members noted the first National Procurement Service Annual Report for the period 2014–15 together with the guidance and frameworks.

5.2 Members agreed that the Committee's Legacy Report should suggest the successor Committee considers the forthcoming work the Auditor General intends to undertake on public procurement at the National Procurement Service.

6 Intra-Wales – Cardiff to Anglesey – Air Service: Consideration of the Welsh Government's Response

6.1 Members noted the Welsh Government response and the Auditor General's remarks to the Committee Report.

6.2 Members agreed that the Chair should write to the Welsh Government seeking further clarification of the government's response to the Report recommendations.

7 Responding to Welfare Reform in Wales: Consideration of the Welsh Government Response

7.1 Members noted the Welsh Government response to the Committee Report. The Auditor General for Wales advised the Committee that he would be writing to the Chair later this week with his comments.

8 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

8.1 The motion was agreed.

9 Scrutiny of Accounts 2014 – 15: Consideration of evidence received

9.1 Members considered the evidence received.

The National Library of Wales

Independent external review


July 2015

FINAL



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Executive summary

Background

At its meeting on 13 March 2015 the Board of Trustees of the National Library of Wales (the Library) agreed to commission an independent external review in relation to the implementation of the Library's disciplinary policy which led to an Employment Tribunal hearing and to the unfair dismissal of two members of staff.

The purpose of the review was to critically assess the processes and decisions made by staff and Library representatives that led to the tribunal judgement which found in favour of both claimants. Specifically, the objectives of the review were to:

- Evaluate the verdict and opinion of the Tribunal giving specific regard to (1) the procedures of the Library and (2) the conduct of its paid officers.
- Assess the Library's investigations and the application and interpretation of its disciplinary policy by the HR function and the Chief Executive and Librarian.
- Examine the advice the Library received from its legal advisors in the light of the Employment Judge's comment and opinion.
- Make recommendation(s) on any issue(s) where the Library, as an employer, needs to review its current disciplinary policy and/or procedures.
- Assess the adequacy of the Library's internal audit performance and arrangements.
- Assess the adequacy of management skills and competencies in dealing with such matters.
- Critically assess the Library's performance management and staff appraisal procedures.

PricewaterhouseCoopers were appointed to undertake the review and this report sets out our findings. The Board of Trustees also appointed a working group to coordinate and facilitate the proposed review. Our methodology is described in Appendix 3.

Key findings

Our review has identified that the disciplinary process and the subsequent claims and Employment Tribunal could have been handled more effectively. There are matters identified in the review that relate to the governance and culture of the Library which, unless addressed, may inhibit the Library's ability to move forward.

The Library's policies and procedures did not facilitate the effective handling of the issues identified

The lack of up to date and clear policies and procedures was a contributory factor in the handling of the issues identified in respect of the two employees by the Library.

The Library's disciplinary policy and procedure is unclear in a number of ways. It does not provide a clear distinction between the processes to manage disciplinary issues relating to members of the senior management team and those relating to other members of staff. Consequently, in the case of the two employees, elements of the disciplinary policy relating to senior management were combined with elements relating to other staff. This mixed approach caused confusion particularly for the two employees and exposed the Library to challenge. It would have been preferable if this lack of clarity had been acknowledged and the approach that was adopted and the rationale for this clearly explained to the employees. This was not always the case.

The role of the disciplinary panel needs to be defined. The lack of clarity created significant difficulties and tensions in the process.

The Disciplinary Policy does not explicitly highlight the areas where the ACAS Code of Practice - Disciplinary and Grievance Procedures and the ACAS guide for Discipline and Grievances at work applies and how these should be considered during the process.

The Library does not have an up to date Fraud Policy. The Library has an Anti-Bribery policy and the Library's Financial Regulations outline the process to be undertaken where irregularities concerning cash, stores or other property of the Library has occurred or is thought to have occurred. However, there is no clear process to be followed where potential fraud is suspected.

Where staff members and management had concerns regarding the processes and actions being followed, they did not use the Library's whistleblowing policy to express their concerns. In fact, there has been no whistleblowing activity at the Library in the past five years. The use of the whistleblowing policy to express concerns may have resulted in further challenge to the actions being pursued.

The Library's policy was developed in November 2010 and was due to be updated in November 2013. This update did not happen. The current policy has not been updated to reflect legislative changes. We understand that the Library's whistleblowing policy is in the process of being revised.

Management skills and competencies need to be further developed

The Library is not yet governed and managed in a way that represents consistent application of best practice. The Library is a proud and cultural institution, which now needs to move forward in order to address the challenges it is facing. There is recognition amongst the Executive Team and the Board of Trustees about the necessary direction of travel as set out in its 'Knowledge for all' 2014-17 strategic plan, but our review has found that the Library needs to develop the management skills and competencies of its staff to ensure that it is able to deliver its plans for the future.

Our review found that consideration and assessment of alternative options available at each stage and the associated risks did not always take place. The senior management team was not always collectively consulted or engaged in this debate.

The normal Internal Audit reporting and de-brief process was not followed. The draft Internal Audit report could have been handled in a way that would have enabled quicker implementation of recommendations.

Given that the findings of the Internal Audit review were considered so significant to warrant an investigation and disciplinary process, it is concerning that the high risk recommendations were not addressed promptly in the best interests of the Library.

Advice was sought throughout the process from Geldards, the Library's legal advisors. However, the Chief Executive did not consult and seek advice from his management team and/or the Board of Trustees before taking key decisions.

The Chief Executive took a number of decisions and actions that left the Library open to challenge. These included:

- The suspension of the two employees shortly before the disciplinary panel and the way in which the suspension was communicated to them. Whilst the reasoning to suspend the two individuals after the disciplinary hearing was to apparently allow them time to prepare for the disciplinary panel, this was not conveyed in the letter to the individuals. Also, one of the employees was already absent from the Library on sick leave. The Chief Executive recognises that in hindsight, a leave of absence may have been more appropriate.
- There was no robust written identification and risk assessment of the range of sanctions which could be implemented following the decision of the disciplinary panel not to find in favour of a case for gross misconduct.
- Although the Chief Executive was confident that the Library had a strong case, there was also a lack of serious consideration and consultation on the potential options to settle the claim and to make counter offers to the individuals prior to the Employment Tribunal.
- There was a lack of a robust assessment of the risks and benefits of decisions and options in the best interests of the Library. Although some verbal updates were provided by the Chief Executive, there were no formal reports in private to the Board in between the Employment Tribunal claim and the Employment Tribunal judgement.

- The sole legal advice provided to the Library was through Geldards and, after the disciplinary investigation was complete, predominately one representative from Geldards. No separate legal advisor was consulted or appointed to represent the Library at the Employment Tribunal.

Performance management and staff appraisal processes are not being robustly and consistently applied to drive improvement

The quality and rigour of implementing the performance appraisal process has been inconsistent. Whilst the performance management system is good, it is not being used effectively throughout the organisation to address poor performance and development needs. The quality assessments undertaken by HR of performance appraisals need to be more robust.

It is evident from our review that concerns regarding performance of certain individuals have not been captured on the Library's performance management system or on individuals' personnel records. Action has not been taken to address these concerns.

The Library's performance standards procedure does not reflect the significant changes the Library has made to its performance management and staff appraisal arrangements. This procedure is not being used effectively to address concerns about performance.

The culture needs to change in order for the Library to move forward

The Library is a close-knit organisation. Whilst a close knit culture can create benefits, it is affecting its ability to implement a robust performance management culture. We understand that a number of concerns have been expressed about some behavioural matters but we could find no evidence of recording of these by HR or appropriate follow-up action being taken.

The existing culture at the Library should be considered carefully to see whether it supports the continued sustainability of the Library. The culture is driven by the tone at the top of the organisation and our review of the disciplinary process has found there was a lack of consultation of the Executive Team, formerly the Senior Management Team. The team was not encouraged to come together and consider the issues in a collective way.

The way forward

There is a determination amongst Trustees of the Board and Executive Team to ensure that the Library learns lessons from the disciplinary process that led to the judgement of unfair dismissal of two members of staff. They are keen to ensure that the governance arrangements are being improved. In response to this report the Library is developing an action plan to address the recommendations. It is positive that the Library is taking a proactive approach to do this. It must ensure that effective mechanisms and resource are put in place to facilitate the monitoring and implementation of this action plan. Developing the improvements as recommended will require effort and commitment from all Trustees and staff.

Findings

The Library's policies and procedures did not facilitate the effective handling of the issues identified

The Disciplinary Policy and Procedure is unclear and does not sufficiently reflect the principles of the ACAS Code of Practice and guidance

The Library's disciplinary policy and procedure is unclear in a number of ways. It does not provide a clear distinction between the processes to manage disciplinary issues relating to members of the senior management team and those relating to other members of staff. Consequently, in the case of the two employees, elements of the disciplinary policy relating to senior management were combined with elements relating to other staff. For example, a disciplinary hearing was held. This is not specifically identified as an option in relation to senior management, but it is identified within the disciplinary policy as part of the process for other members of staff.

The wording of the policy is open to interpretation. This is particularly evident in the Chief Executive's decision to hold a disciplinary hearing rather than to make a decision based on an assessment of the findings of the investigation report, and then to also convene a disciplinary panel. Although we understand the Chief Executive's reasoning to hold a disciplinary hearing was to enable the employees with another opportunity to argue their case, this mixed approach caused confusion particularly for the two employees and exposed the Library to challenge. Arguably, it also duplicated the disciplinary investigation process, which had already given the employees the opportunity to argue their case. It would have been preferable if the lack of clarity in the disciplinary policy had been acknowledged and the approach that was adopted and the rationale for this clearly explained to the employees. This was not always the case.

The paragraphs (paragraph 5.5) relating to Senior Management Team members do not mention disciplinary hearing, but the disciplinary policy does include a separate section (paragraph 5.2) explicitly about disciplinary hearing. It is not evident if paragraph 5.2 can be applied to both senior management and other members of staff. The options and process to be followed by the Designated Officer, which in the case of disciplinary matters relating to a member of the senior management team would be the Librarian/Chief Executive, need to be clearly set out. It would be helpful if the Disciplinary Policy included separate flow diagrams showing the process for senior management and other members of staff.

The Disciplinary Policy states that when a potential disciplinary matter arises regarding a member of the Senior Management Team, another member of the Senior Management Team will act as Investigating Officer. Given the small size of the Senior Management Team and the sense of community of the organisation, this is quite restrictive and raises issues of capacity and independence. This was a particular issue with the disciplinary investigations of the two members of staff. The disciplinary investigations were carried out by the Director of Collections, who is responsible for the largest department in the Library and who had worked with the Director of Public Services for a long time.

The advice provided by Geldards suggested alternative options as to who the investigating officer could be in this case. They questioned whether another member of Senior Management Team should undertake the investigation. There had also been discussions between the Chief Executive and Geldards about the capacity and skill set of the Director of Collections to undertake the investigation. Any departure from the Disciplinary Policy to use someone outside of the SMT to undertake the investigation would have required discussion with and potentially agreement with the two employees. Neither the Director of Collections or the Secretary and Head of Governance were aware of the legal advice provided to the Library which included matters relating to the appointment of an investigating officer until the investigations were well underway.

The disciplinary investigations undertaken by the Director of Collections were comprehensive and thorough. However, they took two months to complete. The Director of Collections undertook the investigations on top of her normal roles and responsibilities. A disciplinary investigation should be processed as swiftly and effectively as possible. We suggest, therefore, that the Disciplinary Policy should be amended to allow for other people to undertake the investigation where they relate to members of the senior management team. This would also minimise the challenge of independence and facilitate an investigation to be undertaken without unreasonable delay.

Moreover, the disciplinary process does not specify the terms of reference and conduct of the disciplinary panel. The lack of clarity about the role and powers of the disciplinary panel created significant difficulties and tensions in the process.

Effectively, the primary purpose of the disciplinary panel is to determine if dismissal is appropriate. This is in line with the role of the dismissal panel outlined in paragraph 5.3.4 of the disciplinary policy, which relates to other members of staff. The title of disciplinary panel is, therefore, misleading (and in the case of other staff, the panel is referred to as a dismissal panel). Whilst the disciplinary policy sets out a range of possible actions or sanctions that can be considered in a disciplinary case, it is not clear who or which body has the power to make the decision about sanctions. The role, remit and conduct of the disciplinary panel should be set out clearly in the Disciplinary Policy.

The Disciplinary Policy rightly makes reference to Employment legislation and the expectation of employers to comply with the ACAS Statutory Code of Practice on disciplinary and grievance. However, the policy does not explicitly highlight the areas where the Code of Practice and ACAS guidance applies and how these should be considered during the process. For instance, the disciplinary policy identifies that demotion is a possible sanction. However, it does not explain that the Library does not have a unilateral power to demote and that in line with case law, customer practice and the ACAS guidance on discipline and grievances at work sanctions, such as demotion ‘*may only be applied if allowed for in the employee’s contract or with the employee’s agreement*’. The disciplinary policy needs to be reviewed and updated to reflect case law and the principles set out in the ACAS code and guidance, particularly with regard to the appropriateness of sanctions and the factors that need to be considered in implementing these sanctions.

It is encouraging that the Library has already started to review its disciplinary policy.

The Library does not have an up-to-date and agreed Fraud Policy

The Library does not have an up to date Fraud Policy. It has an Anti-Bribery policy and the Library’s Financial Regulations outline the process to be undertaken where irregularities concerning cash, stores or other property of the Library has occurred or is thought to have occurred. However, it is good practice for an organisation to have a specific Fraud Policy and Procedure.

A specific fraud policy would facilitate the development of controls that will aid in the detection and prevention of fraud against the Library. It would also provide clear guidelines and assign responsibility for the development of controls and conduct of investigations, including investigating responsibilities, confidentiality, authorisation for investigating suspected fraud, reporting arrangements and termination.

The Library’s current whistleblowing policy does not reflect the most recent legislative changes and is not being used by staff

The Library’s current whistle blowing policy does not address recent changes in legislation. The Public Interest Disclosure Act 1998 (PIDA) is the key piece of whistleblowing legislation. This has been amended by other legislation, including the Enterprise and Regulatory Reform Act 2013. As an example, the Library’s policy still makes reference to disclosures in good faith rather than disclosures in the public interest. The Library’s policy was developed in November 2010 and was due to be updated in November 2013. This update did not happen. We understand that the Library’s whistleblowing policy is now in the process of being revised.

The importance of having effective whistleblowing arrangements has been underlined through a number of notable events in the past few years, including the NHS Mid Staffordshire inquiry.

There has been no whistleblowing activity at the Library in the past five years. We are aware that concerns did exist regarding the way in which the disciplinary case was being handled however these concerns were not expressed using whistleblowing procedures.

The Library's whistle-blowing policy is available on the Library's intranet. New members of staff are made aware of the existence of the policy as part of the induction process. Nothing has been done to raise awareness of the existence of the policy with other members of staff.

The Library's performance standards procedure needs to be revised and there needs to be a greater distinction between this and the disciplinary policy

The Library has a performance standards procedure which was developed in October 2008. The Library has made significant changes to its performance management arrangements since this procedure was written, including implementing a competency based on-line performance management system. The procedure does not reflect these arrangements. We have been informed that the procedure will be reviewed during 2015/16.

It is positive that the Library has a performance standards procedure in which it sets out the commitment and responsibilities of staff to deliver high standards of performance. However, the review has highlighted that this procedure is not being used effectively to address concerns about performance. The review has also highlighted the need to reinforce the role and importance of this procedure and how it relates and indeed, differs from the Library's disciplinary policy.

Management skills and competencies need to be further developed

The passion and commitment of the staff at the Library has been highlighted by many of the people interviewed as part of the review. However, the view has also been expressed that there is a need to develop the broader management skills of staff in order to help drive the future of the Library. Our review of the process and events that led to the unfair dismissal of two staff supports this view. We understand the Library is putting in place plans to improve the management skills of its staff and to provide opportunities to more junior members of staff to gain experience relevant to a management role. The Library would benefit from identifying the most significant areas and to make this training mandatory. This would help to set out the expectations of managers in line with the competencies already developed. The completion and impact of this training should be monitored as part of the Library's performance management procedure. Our review has also identified the need to further develop the management skills and competencies of some members of the Executive team.

It is evident that the Library is not yet governed and managed in a way that represents consistent application of best practice. The Library is a proud and cultural institution, which now needs to move forward in order to address the challenges it is facing. There is recognition amongst the Executive Team and the Board of Trustees about the necessary direction of travel, but our review has found that the Library needs to develop the management skills and competencies of its staff to ensure that it is able to deliver its plans for the future. The review found that consideration and assessment of alternative options available at each stage and the associated risks did not always take place. The senior management team was not always collectively consulted or engaged in this debate. Advice offered was not always appropriately considered or acted upon. The review found a number of instances where leadership did not consult other members of senior management before taking decisions. For example, in relation to decisions to undertake a disciplinary hearing and disciplinary panel. The risks to the organisation were not always robustly assessed.

Our review suggests that the whole issue following the receipt of the draft Internal Audit report could have been handled differently to help avoid confusion and enable earlier implementation of recommendations and formal reporting to Audit Committee. Following concerns about the lack of controls in the authorisation of an invoice which upon investigation related to a scam involving the Blue Line police magazine, the Acting Accounting Officer requested that Internal Audit undertake a review of procurement in the marketing department. The review was requested as part of the 2013-14 Internal Audit Plan. However, the contract with Internal Audit had finished at the end of 2012-13 and the internal auditors for the period of 2013-14 had not been appointed.

Although a standard system based audit focusing on controls and compliance with these controls was undertaken by Internal Audit, the timing and circumstances of the commissioning of the review suggests there was a sense of urgency.

Following the concerns identified by Internal Audit in their first draft report, the Acting Accounting Officer was concerned that fraudulent activity may have taken place. He rightly requested Internal Audit to undertake additional checks. This is consistent with the Library's Financial Regulations which state '*whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the Library....the Director of Corporate Services ...shall take such steps as he considers necessary by way of investigation and report, and is most likely to call upon the services of the Internal Auditors.*'

The Acting Accounting Officer's actions on receipt of the first draft internal audit report were akin to a preliminary fraud investigation. However, the Library does not have an up-to-date Fraud Policy which sets out the procedures that would be followed for such an investigation. The additional work undertaken by Internal Audit was not outlined in the final internal audit report.

A fact finding investigation was commenced in July 2013 following discussion of the draft Internal Audit report with the Audit Committee on 8 July 2013. There was a significant time lapse between the receipt of the draft internal audit report in early May to the fact finding investigation meetings in July 2013. It was not until the fact finding investigation commenced did the two employees see the draft version of the internal audit report that existed at that time.

The Internal Audit report contained a number of findings and recommendations that did not relate specifically to the conduct of the two employees. Once the fact finding investigation had been concluded, the Internal Audit recommendations that did not relate to conduct matters could have been concluded, actioned and reported to Audit Committee.

The implementation date of the seven high risk recommendations identified in the final Internal Audit Report varied from between January to April 2014; just under a year after the first draft Internal Audit report was shared with the Acting Accounting Officer. If these findings were so significant to warrant an investigation and disciplinary process, it is surprising that they are not addressed much earlier in the best interests of the Library.

The final Internal Audit report dated 30 January 2014 was not actually reported to the Audit Committee until April 2015.

The current Chief Executive took up his post in August 2013, having previously served on the Board as a Trustee and more recently, Vice-President. It was during his first week in post that he had to address the concerns raised about two members of staff, one of whom was a member of his senior management team. It was the Chief Executive's first role as a Chief Executive. Whilst he had experience of being involved with disciplinary investigations in his previous employment including those that had been taken to an Employment Tribunal, the Chief Executive took a number of decisions and actions that left the Library open to challenge.

Although advice was often sought from Geldards, the Chief Executive did not maximise the skills and experience of his own team and did not consult and seek their advice or the advice of his Trustees before taking key decisions, specifically after the disciplinary investigation. For example, the Library's Secretary and Head of Governance, who is a chartered and qualified HR practitioner, advised the Chief Executive about the legal necessity to obtain mutual agreement of a demotion in keeping with ACAS guidance and current employment law. We understand that the Chief Executive discussed this with Geldards but it was advised that the sanctions of the Disciplinary Procedure were 'allowed for' in the Library's contract of employment. The Employment Tribunal judge, however, disagreed with this.

There were no formal reports to the Board of Trustees and to the Executive Team about the Employment Tribunal, the risks associated with this and the options to settle the case.

Although the Library's disciplinary policy is not clear, the Chief Executive did not clearly document and communicate his rationale for making the decisions that he did. This is notable in his decision to hold a

disciplinary hearing. The Chief Executive's interpretation of the Disciplinary Policy was that it was within his powers to hold a disciplinary hearing.

In addition, the decision to suspend the two individuals after the disciplinary hearing was to apparently allow the individuals time to prepare for the disciplinary panel. This reasoning was not conveyed in the letter to the individuals. The Chief Executive recognises that in hindsight, a leave of absence may have been more appropriate. The ACAS code underlines that a suspension should be as brief as possible and be kept under review. The Library's Disciplinary Policy also states that suspension should be kept under review. A letter to the individuals' solicitors in December 2013 highlighted that although there had been delays in arranging the meetings of the disciplinary panel, it remained the view of the Library that the suspension should continue as it was felt that the individuals' ability to work normally would be impacted.

Following the disciplinary hearing, the Chief Executive took the decision to refer the issue to a disciplinary panel because he felt that dismissal of the two individuals was appropriate. We have already highlighted that the Library's disciplinary policy does not specify the role, remit and conduct of this panel. The letters to the individuals outline that a disciplinary panel is being convened because the Chief Executive was of the view that dismissal may be appropriate. However, the letter did not mention specifically that he felt there were potential allegations of gross misconduct. This was mentioned explicitly for the first time during his verbal presentation to the disciplinary panel.

The Chief Executive's verbal presentation to the disciplinary panel was brief. Our understanding is that panel members felt that he did not present a comprehensive case or go through the allegations in detail to explain why these represented gross misconduct. An allegation of gross misconduct is very serious and the reasons for this should be identified clearly to all parties including the individuals against whom the allegations are made. This was not the case.

There was no robust written identification and assessment of the sanctions provided to the disciplinary panel. It is unclear why final written warnings were not considered to be sufficient. There was a lack of full consideration of the potential severity of this sanction and the option to couple this with performance management procedures was also not considered fully.

There was also a lack of serious consideration to settle the claim and to make counter offers to the individuals prior to the Employment Tribunal. Although it was considered that the Library had a strong case, no risk and cost benefit analysis was undertaken, for example to consider the reputational risks to the organisation.

It would have been expected that the Library would have needed to obtain the approval of Welsh Government before an offer to settle could be put forward. However, whilst there was initial discussion with Welsh Government about the case and the Library was advised that discussing a possible settlement with the Trade Union representative would be pragmatic, there was no formal consultation with Welsh Government about settling the case until after the Employment Tribunal judgement.

The Library's performance management and staff appraisal processes are not being robustly and consistently applied to drive improvement

It is evident from our review that concerns regarding performance of certain individuals have not been captured on the Library's performance management system or on individuals' personnel records. Action has not been taken to address these concerns. It is also evident that the performance appraisal process was not completed properly for everyone last year. This was primarily as a result of the fire, restructuring and the involvement of senior management in the disciplinary process of the two former members of staff. We have been reassured that the process is now being re-established.

Overall, this suggests that the Library is unable to deal with concerns about performance effectively. There are greater expectations from the Welsh Government about the role of the Library and it has set challenging targets for the Library to meet. Developing a robust performance management culture will be key to do this

successfully. Trustees and management need to be prepared and able to hold difficult conversations with staff when necessary. Training and development needs also need to be discussed, identified and addressed. The disciplinary process relating to the two former members of staff highlighted the importance of doing this.

The Library implemented a competency based framework in 2012 and a software package, *TalentLab*, has also been introduced. This electronic system does facilitate tracking and monitoring the completion of performance appraisals and identification of training needs. Six monthly performance reviews are built into the system and reminders are issued to managers to undertake these reviews. Reports identifying those staff that have not completed their performance appraisals are submitted to Senior Management Team.

Training on competencies, target setting and *TalentLab* has been provided to staff. The Human Resources team has undertaken spot checks and reviewed a sample of appraisals to determine how staff are coping with the system. We understand this review did also include checks to see if issues previously brought to the attention of the HR team had been recorded through the appraisal process. Despite this, the common view expressed to us during our fieldwork was that the quality and robustness of implementation of the performance appraisal process has been mixed. The quality assessments undertaken by HR need to be more robust. Lessons learnt and areas for improvement as well as good practice need to be shared in order to ensure the system is actually having an impact to drive improvement. We understand that plans are being developed to provide additional training to managers and to target and tailor training in order to harness talent in the organisation as a means of succession planning.

We recognise that the capacity of the HR team has been significantly reduced in the past 18 months. HR expertise is brought in through an external consultant and legal advisors as and when required. We understand that strategic aspects of HR are now falling within the remit of the Secretary and Head of Governance.

The culture needs to change in order for the Library to move forward

The Library is a small, friendly organisation. The close-knit sense of community at the Library is affecting its ability to implement a robust performance management culture. The performance management and staff appraisal system in place at the Library is good but it is not being used effectively for all members of staff, thereby undermining the whole purpose of the system. Difficult conversations about poor performance and development needs are not readily taking place.

It is imperative that steps are taken to develop a culture where honest conversations about performance are encouraged and managers are equipped and supported to address poor performance and to promote good performance. Such a performance management culture is vital to enable the organisation to meet the targets set by the Board of Trustees and the Welsh Government. We understand that a programme of training is being put in place but senior management need to set the tone from the top and to lead by example, applying the performance appraisal system rigorously and consistently.

Our review has found that the culture at the organisation is not currently appropriate to meet the challenges and changes facing the Library. The culture is driven by the tone at the top of the organisation but our review of the disciplinary process has shown that the Executive Team was not collectively engaged in the process.

Throughout our review, concerns have been expressed about governance, behaviour, decisions and performance. Members of staff have expressed concerns about behavioural matters which have not been properly recorded by HR and appropriate action has not been taken to address these issues. Moreover, given the number of concerns expressed, it is surprising that no one has sought to whistle blow. The Library's whistleblowing policy is currently out of date and is not well advertised throughout the organisation to facilitate whistleblowing. Although the Library is clearly a proud and close organisation, a culture of openness does not exist.

There are weaknesses in key aspects of the governance of the organisation

The Library's governance arrangements are primarily set out in its supplemental Royal Charter in 2006. The Charter makes references to the role of the Officers and Board of the Library together with membership and the powers of the Library. This is supplemented by a Corporate Governance Framework approved by the Board in September 2013, which provides greater definition of the role of the Officers, President, Vice-President and Treasurer. A generic role description of Board members is also in place.

Declarations of interest are not clearly articulated in minutes of Board meetings

Trustees are required to sign a declaration of interest at the beginning of each year and to declare any interests at the start of Board and Audit Committee meetings where relevant to items on the agenda. Whilst incidences where Board members have declared an interest have been noted in the minutes of the meeting, the nature of the interest is not always specified. The term 'the usual interest' is often given. Individuals outside the Library may not know what this interest is. In order to improve transparency and to minimise any risk of challenge, it would be good practice to actually specify the nature of the interest in the minutes of the meeting. In addition, for all declared interests, there should be a documented risk assessment and mitigation plan in place to ensure that interests are handled effectively.

The effectiveness of the Board is in part dependent upon the good will of members of the Board, their skills and experiences. The existence of conflicts of interest can also impact upon this. Many of the key issues facing the Library over the past two years, such as the fire and the disciplinary process, have required a significant amount of external legal advice, which has been provided by Geldards. One of the Board of Trustees is a partner at Geldards. The Board has not considered its skill mix at a time when having additional legal insight and expertise may have been helpful. The Board should regularly assess the skills of the Board as new issues arise to determine if additional or particular expertise is required. We understand that the Board has now implemented an appraisal process for the Board and that the last interviews for Board members took the skills mix of the Board into account.

The principles of risk management are not embedded in the organisation

The Library has a risk register and an Internal Review of the governance of the organisation found that this was regularly reviewed by the Audit Committee. The Library's risk registers dated 31 May 2014 and 31 March 2015 include the Employment Tribunal as a reputational risk. However, given the events which led to the Employment Tribunal judgement, it is questionable whether risk management is truly embedded in the organisation. Our review found that there was a lack of a robust assessment of the risks and benefits of decisions and options in the best interests of the Library. Although some verbal updates were provided by the Chief Executive, there were no formal reports to the Board in between the Employment Tribunal claim and the Employment Tribunal judgement.

The Library may have benefitted from seeking additional legal advice as a means of bringing in greater independence and a new perspective to the disciplinary process

Geldards are the Library's advisors. They were successfully re-appointed through an open and joint procurement exercise with the National Museum in 2011. Advice was sought from them by the Acting Accounting Officer upon receipt of the draft internal audit report and then subsequently throughout the process. The Chief Executive in particular was heavily dependent upon their advice.

After the disciplinary investigation, a decision was taken to change the person representing Geldards in the process, in order to effect a separation between the investigative stage and the disciplinary stage. Legal advice to the Library about the disciplinary hearing, disciplinary panel, appeal panel and employment tribunal was subsequently provided by a Geldards partner. The Library was represented at the Employment Tribunal by this

same partner from Geldards. We have been advised that the prospect of the Library being represented at the Employment Tribunal by external counsel was raised with the Library by Geldards but the Chief Executive and Librarian considered it appropriate to continue with representation by the same Geldards partner; a very experienced tribunal advocate. No additional independent legal advice or challenge was sought to consider the merits of the case prior to the Employment Tribunal. The opportunity to have a fresh pair of eyes and to bring in an element of independence at this point in the process was not considered fully.

The merits letter provided by Geldards to the Chief Executive about the risks and likelihood of success at the Employment Tribunal was consistent with the approach they had taken throughout the process. Individuals who gave evidence on behalf of the Library at the Employment Tribunal felt they were well-briefed by Geldards.

The Employment Tribunal judge took a different view than some of the legal advice offered to the Library. One example is that although the sanction of demotion is an option contained within the disciplinary policy, there is no clear contractual power to demote. Demotion is generally offered as an alternative to dismissal but case law has highlighted that mutual agreement is necessary in order for this to be considered. This is also reflected in the ACAS guidance on Discipline and Grievances at work. This point was also raised during the disciplinary process in communications to the Chief Executive and Librarian from the Secretary and Head of Governance.

The arrangements for internal audit could be strengthened further

RSM Tenon, now Baker Tilly, are the internal auditors at the Library. They were recently reappointed as the internal auditors with effect from April 2013 through a joint tender with the National Museum.

An internal audit review of procurement by the marketing section was requested by the Acting Accounting Officer at the Library following concerns about the authorisation of an invoice for an advertisement in the Blue Light police magazine and an apparent lack of awareness of controls.

After undertaking their initial work and producing their first draft report, Internal Audit was asked to undertake further investigatory work due to concerns about potential fraudulent activity relating to the award of a contract within the Marketing section. This additional work performed, which included employment checks and relationship checks with the entity that were awarded the contract, was not documented within the final version of the Internal Audit report. We would have expected all Internal Audit work to be reported in the reports that were produced, even where the work resulted from a change to the original scope.

The changes between the versions of the draft report were significant. The second draft of the Internal Audit included a recommendation for consideration of disciplinary action for breach of financial regulations. In our view, it is unusual for Internal Audit to recommend such action within an Internal Audit report. A verbal update of the findings of the draft Internal Audit report was provided to a closed session of the Audit Committee by Internal Audit in early July 2013. This was prior to the draft report being shared with the two employees and which had not accounted for any comments those employees may have had on the factual accuracy of the draft report. From a wider governance perspective, the Library has not set any formal key performance indicators (KPI) to formally monitor the performance of Internal Audit. Such KPIs could include matters such as: prompt agreement of terms of reference; percentage of audits with an exit meeting; percentage of recommendations agreed; draft reports issued promptly; attendance at audit committee; and average individual satisfaction score from audit sponsors. However, there is an Internal Audit Charter in place which sets out a series of standards. In 2012-13, Internal Audit reviewed its processes to ensure that they conform to the Public Sector Internal Audit Standards in anticipation of these standards being introduced in 2013-14. The next effectiveness review is due to be undertaken in 2016.

As part of a restructuring exercise, plans are underway for all Internal Audit communications and Internal Audit reports to now go through the Secretary and Head of Governance rather than the Director of Corporate Services. We consider that this is appropriate.

Recommendations

To assist the Library in making the required improvements as a result of our findings, we have set out some recommendations in the table below. We understand that the Library intends to prepare a statement of action that it proposes to take as a result of this report, and its proposed timetable for taking that action.

We recommend that the Library:

R1	Reviews and improves its Disciplinary Policy and procedure to: <ul style="list-style-type: none"> Clearly set out the processes that should be followed for matters relating to senior management. Outline the remit, conduct and powers of the disciplinary panel. Ensure that its processes and sanctions are in accordance with principles of the ACAS Code of Practice and guidance on discipline and grievances at work. Incorporate the ability for a wider range of people to undertake disciplinary investigations relating to senior management. Specify the need for allegations to be clearly articulated within all correspondence to individuals. The outcome of decisions should also be articulated with explanations as to which allegations are being upheld and which are not.
R2	Develops an up-to-date Fraud Policy. This should be available to all members of staff.
R3	Updates its whistleblowing policy to reflect changes in legislation. The Library should also take steps to raise awareness of the existence of this policy.
R4	Updates its performance standards procedure to accurately reflect its current staff appraisal process. The Library should also remind staff of the existence and significance of this procedure.
R5	Reminds staff of the importance and benefit of using the Library's staff appraisal process and to formally document areas of development. Additional training should also be provided to equip staff with the necessary skills and confidence to hold difficult discussions.
R6	Records clearly the nature of a declared interest in the minutes of Board and Audit Committee meetings. A risk assessment of these interests should also be undertaken in order to consider how these interests can be managed and mitigated in practice.
R7	Ensures that procedures relating to the performance appraisal of the Chief Executive are in line with those of other members of staff.
R8	Reviews the capacity of the HR function to ensure that it is appropriate to meet the future direction and challenges upon the organisation.
R9	Considers how it can strengthen the effectiveness between the Board of Trustees and senior management. A formal Board and senior management development programme should be implemented to improve the governance of the organisation.
R10	Puts in place arrangements and performance indicators to monitor the performance of Internal Audit.
R11	Develops a core programme of training and development for its managers. This should include specific training on procurement and governance. Important areas of training should be made mandatory.

Appendix 1: Timeline of events

Date	03/13	05/13	07/13	07/13 - 09/13	09/13 – 11/13	11/13	01/14	02/14	08/14 & 10/14
Event	Initial concerns	IA Report	Audit Committee	Fact Finding Investigation	Disciplinary Investigation	Disciplinary Hearing	Disciplinary Panel	Appeal Panel	Employment Tribunal
NLW	AAO	AAO	AAO	AAO	DCS HR Adv	CE&L HR Adv	CE&L HR Adv DP	CE&L HR Adv AP	CE&L HR Adv DP (C) AP (C)
External advisor	IA	IA	IA	FHHR LA: Dir IA	LA: Dir	LA: Ptr	LA: Ptr	LA: Ptr	LA: Ptr
Claimants					Claimants TU	Claimants TU	Claimants TU	Claimants TU	Claimants TU Counsel
Key:									
AAO	Acting Accounting Officer			IA	Internal Audit				
DCS	Director of Collection Services			FHHR	Former Head of HR				
HR Adv	HR Advisor			LA Dir	Legal Advisors - Director				
CE&L	Chief Executive and Librarian			LA Ptr	Legal Advisors - Partner				
DP	Disciplinary Panel Members			TU	Trade Union Representative				
AP	Appeal Panel Members			Claimants	The two former members of staff/claimants				
DP (C)	Disciplinary Panel Chair			Counsel	Claimants’ representative at the Employment Tribunal				
AP (C)	Appeal Panel Chair								

Appendix 2: Detailed timeline of events

Draft internal audit report

- An Internal Audit (IA) review was requested by the Acting Accounting Officer at the Library, at the start of April 2013 to be incorporated into the 2013/14 IA Plan following concerns about the authorisation of an invoice for an advertisement in the Blue Light police magazine scam and an apparent lack of controls. IA were asked to undertake the review as soon as possible despite the fact that the IA Plan had not yet been approved by the Audit Committee. The 2013/14 IA plan was not approved until October 2013 due to delays in the IA appointment process which involved a joint tender arrangement with the National Museum. The 2013/14 IA plan was being drafted at the time the IA review was requested.
- The terms of reference, detailing the scope of the review, was approved by the Acting Accounting Officer on 23 April 2013. The objective of the review was to evaluate the Marketing section's process for procuring goods and services ensuring that there is appropriate risk management and control within the system and the extent to which controls have been applied. Although a standard system based audit focusing on controls and compliance with these controls was undertaken by Internal Audit, the timing and circumstances of the commissioning of the review suggests there was a sense of urgency. The review was requested as part of the 2013-14 Internal Audit Plan. However, their contract had finished at the end of 2012-13 and the internal auditors for the period of 2013-14 had not been appointed.
- The fieldwork was performed during the week commencing 6 May 2013. IA held a debrief meeting on 10 May 2013 with the Assistant Accountant at the Library in the absence of the Acting Accounting Officer that day. The Assistant Accountant provided a summary of the findings to the Acting Accounting Officer on the same day.
- The draft IA report was issued to the Acting Accounting Officer on 23 May 2013. IA had identified a number of significant concerns which they also shared verbally with the Chair of the Audit Committee.
- The Acting Accounting Officer felt it was quickly apparent that serious issues had been identified which warranted further action. It was his view that no report had been received previously in the Library which was so critical.
- In his role as Acting Accounting Officer, he asked IA to undertake further investigatory work due to concerns about potential fraudulent activity relating to the award of a contract within the Marketing section. This additional work performed, for example, employment checks and relationship checks with the entity that were awarded the contract, was not documented within the final version of IA report.
- The changes between versions of the report were significant. We note that the second draft of the IA report included a recommendation for management to consider disciplinary action. It is unusual for IA to recommend such action within an IA report
- The receipt of the first draft internal audit could have triggered a preliminary fraud investigation but the Library's policies and procedures on such an investigation are unclear. There is also a lack of an up to date Fraud Policy.
- A verbal update of the findings of the draft Internal Audit report was provided to a closed session of the Audit Committee by Internal Audit on 8 July 2013. This was prior to the draft report being shared with the two employees and which had not accounted for any comments those employees may have had on the factual accuracy of the draft report.
- The IA report was not finalised until January 2014, despite the factual accuracy of the findings being agreed as part of the fact finding investigation below in July 2013. The final version of the IA report did not reflect all of the additional work which IA had undertaken.
- The Internal Audit report contained a number of findings and recommendations that did not relate specifically to the conduct of the two employees. Once the fact finding investigation had been concluded, the Internal Audit recommendations that did not relate to conduct matters could have been concluded, actioned and reported to Audit Committee.
- The final report was subsequently not presented to the Audit Committee for approval until April 2015, nearly two years after the fieldwork was undertaken. The IA report should have been finalised much earlier.

Fact finding investigation

- At an extraordinary closed session of its meeting on 8 July 2013, Internal Audit provided a verbal briefing on the findings of their internal audit review. The Audit Committee members agreed to observe the arm's length principle whilst the Acting Accounting Officer, and those assisting him, investigated the matter further and considered the implications of the report's contents.
- The IA report was to be viewed as a working document; a starting point to be discussed with the individuals involved to enable them to comment and correct / clarify the findings identified. There were a number of areas within it which needed to be understood and clarified through a fact finding process.
- The purpose of the investigation was to determine
 - What, if any, issues raised in the draft internal audit report require further action
 - If further action was required, whether these were to be addressed on an informal or formal basis; and
 - If so, whether the Library's Disciplinary Policy and Procedure and/or the Performance Standards Procedure should be used.
- The disciplinary route would be followed if negligent performance of duties was suspected, which the Library's disciplinary policy provided for. The final draft IA report, along with the fact finding investigation report would act as a basis for determining any disciplinary allegations and form the scope and terms of reference for a disciplinary investigation.
- The Acting Accounting Officer was right to confirm the facts with the individuals but there could have been a distinction made following the fact finding investigation (FFI) between the issues in the internal audit report that could be finalised and reported as part of a normal internal audit clearance and reporting process and those issues that were subject to further disciplinary action.
- The FFI exercise was undertaken by the Acting Accounting Officer, assisted by the external HR consultant (formerly the Head of HR at the Library) and IA. Alternative options as to who should undertake the FFI were suggested by Geldards and should have been considered more explicitly. There was a perceived conflict of interest with the Acting Accounting Officer undertaking the FFI given that the first draft of the IA report included findings relating to a department within his remit. IA could have been commissioned to do this investigation or alternatively the Library's Secretary and Head of Governance could have carried out the investigation.
- At this time, the Library no longer had a Head of HR and appropriate HR resource. The Library's Head of HR role had not been replaced and the Library commissioned external HR advice from consultants as and when needed. Having HR representation in the FFI was appropriate but the formality of the process was not portrayed to the individuals until the start of the fact finding investigation meetings. Although the fact finding investigation did not form part of the Library's Disciplinary Procedure, the option for the individuals to have representation should have been offered given the severity of the concerns raised in the IA report. We have been advised that a request for representation by the individuals would have been granted.
- The FFI was a key point at which a decision to suspend was considered. The Disciplinary Policy states that an employee may be suspended on full pay whilst an alleged offence is investigated. However, it was deemed that the grounds for suspension under the Disciplinary Policy were largely not met in this case:
 - neither IA nor the Acting Accounting Officer felt that any investigation would be inhibited by the presence in work;
 - there was no doubt at that time that the two individuals would be able or willing to work normally;
 - there were no criminal proceedings; and
 - their presence was unlikely to be unacceptable to others.
- Having said that, it is positive that actions had been put in place to mitigate further alleged misconduct with the individuals' agreement, that is removal of invoice authorisation and involvement relating to the Elfen contract.
- Interviews were held with the two individuals during July 2013, the notes of which were reviewed and confirmed as factually accurate by each involved. Furthermore, on 1 August 2013, IA issued an amended version of the draft audit report, dated 25 July 2013, which incorporated the facts provided during these interviews. Although the two individuals provided comments on the report and corrected and clarified

areas within it, they agreed that the content and findings included within the report were accurate on the whole.

- The fact finding investigation report was handed over by the Acting Accounting Officer to the new Chief Executive and Librarian in September 2013 with the recommendation that formal disciplinary investigation should be instigated. It makes clear that the performance standards procedure should not be used to deal with performance issues that are due to negligent performance of duties. The performance standards procedure further states that these and other actions against the rules of the Library should be considered to be conduct issues and dealt with under the Disciplinary Procedure.

Disciplinary investigation

- The Chief Executive and Librarian read the fact finding investigation report and concluded that the circumstances merited a further disciplinary investigation in line with the Library's Disciplinary Policy. The terms of reference for the disciplinary investigation were the allegations listed within the FFI report.
- The Disciplinary policy states that another member of the Senior Management Team should undertake the investigation. The disciplinary investigation was carried out by the remaining member of the Senior Management team, the Director of Collection Services. The Director of Corporate Services had been involved in the Fact Finding Investigation when he was the Acting Accounting Officer. The Director of Public Services was one of the two individuals being investigated and the Chief Executive and Librarian would need to be the Designated Officer should the disciplinary process require further action. Geldards raised questions about the capacity of another member of Senior Management team to undertake the investigation. There would be a need to balance her role as a Director of the largest department within the Library with the role as an Investigating Officer where disciplinary investigations are by their nature time consuming.
- Geldards suggested alternative options, including external third parties, and questioned whether another member of the Senior Management team should undertake the investigation and whether they would have the appropriate skill set to undertake this task. The Director of Collections was not made aware of this legal advice note until the disciplinary investigations were well underway. The disciplinary policy should be changed to allow for other people to undertake the investigation.
- We understand from the Chief Executive that the primary driver behind his decision to appoint the Director of Collection Services as the Investigating Officer was her professionalism to undertake the investigations. Any departure from the Disciplinary Policy to use someone outside of the Senior Management Team to undertake the investigation would have required discussion with and potentially agreement with the two employees. The disciplinary investigations took too long although they were comprehensive and thorough. It took two months to complete the processes. The reasons for the delay included additional interviews that were needed, obtaining additional information and evidence, and the Investigating Officer undertaking the review on top of her normal roles and responsibilities.
- The disciplinary investigation reports concluded that there is a case to answer and that, in both cases, formal disciplinary action should be taken in line with the Library's Disciplinary Policy for all the allegations apart from the failure to implement an appropriate marketing strategy for the Library.

Disciplinary hearing

- The disciplinary investigation reports were given to the Chief Executive and Librarian.
- The next stage of the disciplinary process for other members of staff, following the disciplinary investigation, is a disciplinary hearing and, in the case of gross misconduct, a dismissal panel consisting of two members of the Senior Management team and one member of Band 6. For Senior Management team members, the Chief Executive and Librarian is the Designated Officer in the disciplinary investigation and may invoke disciplinary punishment up to and including a final written warning and will refer the matter to a Disciplinary Panel, if he feels dismissal could be appropriate.
- The disciplinary policy does not provide a clear distinction between the treatment of Senior Management team and other members of staff in terms of the processes that need to be undertaken.
- The Chief Executive and Librarian followed a mixed approach and did not clearly document and communicate his rationale for undertaking a disciplinary hearing.
- The Chief Executive and Librarian should have made a decision based on the disciplinary investigation report to either issue the highest sanction in his power, a final written warning, or to convene a disciplinary panel to consider dismissal.

- The reasoning behind the decision to hold a disciplinary hearing was to give the individuals a second opportunity to answer the allegations. However, this duplicated the disciplinary investigation.
- The Chief Executive and Librarian felt that, on the basis of the individuals' admissions in relation to the allegations, there was a case to support gross misconduct and decides to refer the decision to the disciplinary panel to consider dismissal.
- The outcome of the disciplinary hearing should have been made clearer to the individuals in terms of the allegations being upheld. It is not clear on what basis gross misconduct and dismissal were being considered.

Disciplinary Panel

- At this point, the Chief Executive took the decision to suspend the individuals. The reasoning was apparently to allow them time to prepare for the disciplinary panel. However, this was not conveyed in the letter to the individuals. The letter notifying the individuals of the decision to refer the case to the disciplinary panel explained that suspension was on the basis that, because dismissal could be an appropriate sanction, this could impact on their ability to work normally. This is one of the circumstances for suspension listed in the disciplinary policy. A leave of absence was not considered.
- The disciplinary panel was rescheduled following repeated requests by the individuals' representative to hold the panel meeting at a date which allowed the individuals to have a member from their union present to represent their interests. There was also difficulties in arranging times convenient to all parties as many lived away from Aberystwyth.
- The disciplinary process does not specify the terms of reference and conduct of the disciplinary panel. Consequently, its remit is open to challenge.
- The disciplinary panel ultimately is a dismissal panel akin to that referred to in the disciplinary policy for non-SMT members and as explained above.
- There was a brief verbal statement by the Chief Executive and Librarian. Our understanding is that the Panel members felt he did not present a comprehensive case or go through the allegations in detail to explain why these represented gross misconduct.
- The disciplinary panel did not agree that it was a case of gross misconduct and therefore dismissal was not appropriate. They did, however, feel that the allegations were of a very serious nature and final written warnings were not considered sufficient. The Panel did not refer the decision back to the Chief Executive. In the absence of clear terms of reference, the Panel took the decision about the sanctions to be employed themselves in light of the HR and legal advice available to them
- The Panel found that demotion of one grade was the appropriate sanction. This is an option within the disciplinary policy but there is no clear contractual power to demote. Demotion is generally offered as an alternative to dismissal but case law has highlighted that mutual agreement is advised in order for this to be considered. The ACAS guidance on Discipline and grievances at work also outlines when discussing sanctions such as demotion, loss of seniority and loss of increment that 'These sanctions may only be applied if allowed for in the employee's contract or with the employee's agreement.' This was flagged by the Head of Governance to the Chief Executive and Librarian and HR advisor. That the Panel had the authority to reach this conclusion is uncertain, given the absence of terms of reference and remit in the disciplinary process.
- It is unclear why final written warnings were not considered to be sufficient sanctions. There was a lack of appreciation of the severity of this sanction with an option to include performance management actions. This is also consistent with the ACAS guidance.
- Due to the fact that the role of the disciplinary panel is silent within the disciplinary policy, it is not clear if the disciplinary panel has the remit to make the decisions regarding sanctions. This blurred the role of the Board members who therefore got involved in decisions that related to the management of the Library. If they did not agree with the proposal presented to them then the case could be returned to the Chief Executive and Librarian to reconsider. We have been informed that this was not the advice given to the panel at the time.
- We understand there was lengthy discussion about the various possible sanctions. However, there was no robust written identification and assessment of the sanctions available which were listed in the disciplinary policy. Furthermore, there was no clear documented rationale for the level of demotion considered.
- There are inconsistent references to disciplinary hearing both within the title of the disciplinary panel meeting notes and the letters provided to the individuals following the disciplinary panel.

- Similar to the disciplinary hearing letter, the outcome of the disciplinary panel in terms of which allegations were upheld is not explicit. It is not clear on what basis a verdict of serious misconduct had been reached.

Appeal Panel

- The terms of reference of the appeals panel were based on the grounds of appeal lodged by the individuals' Trade Union representative.
- It was clear that the Appeal Panel could not re-run the disciplinary hearing or the disciplinary panel but had to focus on the grounds of appeal.
- The only outcomes available to the Appeal Panel were either to affirm the disciplinary panel's decision or to reject it. In the latter case, the penalty proposed by the disciplinary panel could be reduced or set aside, but not increased.
- The Appeal Panel considered the gravity of the allegations. They took into account the findings of the 2005 IA procurement report.
- The Appeal Panel, having considered the arguments offered at the hearing and following professional advice, did not accept that the disciplinary process had been inappropriately applied or that it was fundamentally flawed.
- The Appeal Panel found that the level of demotion was harsh and the positions offered appeared to be less appropriate to the individuals' skills and experience. The Appeal Panel, therefore, requested management to find more suitable posts and also offer a degree of salary protection.
- The Appeal Panel was not advised of the risks of demotion given the lack of mutual agreement. No reference was made to the ACAS Code of Practice or ACAS guidance.

Employment Tribunal

- The whole process was managed, arranged and coordinated by the Chief Executive and Geldards.
- There were no formal reports to either the Board or SMT about the Employment Tribunal and the associated risks. We understand that only verbal updates on the matter were provided. The Chief Executive and Librarian took all the decisions alone in consultation with the legal advisors.
- The individuals, who represented the Library at the Employment Tribunal, felt that they were well-briefed and prepared for the hearing. The Chairs of the two main decision-making panels: the disciplinary panel and appeal panel were called to give evidence as witnesses. The Chief Executive was also called to give evidence given his extensive role in the process. However, it is not clear why certain members of the senior management team who had been involved in the disciplinary process were not requested as witnesses for the Library.
- The merits letter prepared by Geldards to the Chief Executive and Librarian is consistent with the approach they had taken and advice given throughout the disciplinary process.
- The Library was represented by the same individual from Geldards at the Employment Tribunal. We have been advised that the prospect of the Library being represented at the hearing by external counsel was raised by Geldards with the Chief Executive but it was considered appropriate to continue with representation by the same Geldards partner; a very experienced tribunal advocate. The opportunity to have a fresh pair of eyes and to introduce an element of independence was not considered fully.
- The Employment Tribunal judge's ruling took a different view than the legal advice offered to the Library. This led Geldards to conclude that even if an appeal had been successful on the technical aspects, it would not have led to a successful outcome overall given the strength of the judgment against the Library. Geldards advised not to appeal the decision given that the Judge had also decided against the Library in relation to the underlying assessment of fairness.
- There was a lack of serious consideration to settle the claim and to make counter offers to the individuals out of court before the Employment Tribunal took place. No risk and cost benefit analysis was undertaken, for example consideration of the reputational damage that is associated with losing a high profile case.
- It would have been expected that the Library would have needed to obtain the approval of Welsh Government before an offer to settle could be put forward. However, whilst there was initial discussion with Welsh Government about the case and the Library was advised that discussing a possible settlement with the Trade Union representative would be pragmatic, there was no formal consultation with Welsh Government about settling the case until after the Employment Tribunal judgement.

Appendix 3: Methodology

Our approach to the review has been as follows:

- Project initiation – immediate set up, getting to know the Library team, and set up of project management and governance arrangements.
- Team mobilisation – a workshop between PwC and the Library teams to finalise the approach to be adopted.
- Data gathering and analysis – to create evidence base for our recommendations. This will include evaluating the documentary evidence from the Tribunal verdict and opinion, from the internal Library investigations and disciplinary processes and from the legal advice received by the Library.
- Interview and challenge – to gain further insight and challenge the emerging findings from the data gathering and analysis to assess the adequacy of governance and other arrangements and to formulate recommendations for the future. Key stakeholders from within the Library will be interviewed as part of this phase.
- Drawing initial conclusions – we will draw conclusions from the evidence to make recommendations for change. We will present these initial conclusions at a workshop with key stakeholders from the Library.
- Refinement – following feedback from key stakeholders we will work with the Library team to refine our recommendations.
- Presentation of final report – a final suite of findings and recommendations will be presented to Library at the end of our programme of work.

We also provided all Board Members with the opportunity to share any information or views relevant to the scope of the review.

Interviews

The following is a list of interviews held as part of the review:

Chief Executive and Librarian
Director of Collection Services
Director of Corporate Services
President of the Board of Trustees/Chair of Appeals Panel
Internal Audit
Legal representatives
HR advisor
Former Head of HR
Chair of Disciplinary Panel
The Trade Union Representative and the two former members of staff/claimants
Chair of the Audit Committee
External Audit*
The two other members of the Disciplinary Panel*

* Additional interviews held at the request of the Library.



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PWC Independent External Review – Action Plan and Progress Template as at 24 September 2015

Recommendations for improvement	Responsible Officer	SRO	Draft/Pilot Date	Delivery date	Work programme	Progress	Status
<p>R1 Reviews and improves its Disciplinary Policy and procedure to:</p> <ul style="list-style-type: none"> Clearly set out the processes that should be followed for matters relating to senior management. Outline the remit, conduct and powers of the Disciplinary Panel. Ensure that its processes and sanctions are in accordance with principles of the ACAS Code of Practice and guidance on discipline and grievances at work. Incorporate the ability for a wider range people to undertake disciplinary investigations relating to senior management. Specify the need for allegations to be clearly articulated within all correspondence to individuals. The outcome of decisions should also be articulated with explanations as to which allegations are being upheld and which are not. 	Pedr ap Llwyd Secretary and Head of Governance	Annwen Isaac HR Advisor ET	06.08.15 2 nd 27.08.15 Released to Unions on 4/10	Sept 2015	<p>Update current policy and benchmark against other institutions.</p> <p>Consult with ACAS officers during its revision.</p> <p>Seek Executive Team and Union approval.</p> <p>Ensure policy is in place and sign off by Board of Trustees.</p> <p>Staff awareness exercise.</p> <p>Consult and seek comments for Executive Team</p>	<p>Draft of updated policy currently being completed and to be considered by the Takforce on 6 August 2015.</p> <p>ACAS officers have endorsed the policy.</p>	Draft policy produced & consulting with Unions and staff
R2 Develops an up-to-date Fraud Policy and made available to all members of staff.	Pedr ap Llwyd Secretary and Head of Governnace	Pedr ap Llwyd ET	06.08.15 2 nd draft 27.08.15 Released to Unions on 4/10	Sept 2015	<p>Creation of new policy.</p> <p>Benchmark exercise.</p> <p>Consult with Executive Team and Unions.</p> <p>Seek Audit Committee and Board approval.</p> <p>Staff awareness exercise.</p> <p>Consult and seek comments for Eexecutive Team</p>	ACAS officers have endorsed the policy	Draft policy produced & consulting with Unions and staff
R3 Updates its whistleblowing policy to reflect changes in legislation. The Library should also take steps to raise awareness of the existence of this policy.	Pedr ap Llwyd Secretary and Head of Governance	Pedr ap Llwyd ET	06.08.15 2 nd draft 27.08.15 Released to Unions on 4/10	Sept 2015	<p>Update current policy and benchmark against other institutions.</p> <p>Consult with ACAS officers during its revision.</p> <p>Seek Executive Team and Union approval.</p>	Draft of updated policy currently being completed and to be considered by the Takforce on 6 August 2015	Draft policy produced & consulting with Unions and staff

					<p>Ensure policy is in place and sign off by Board of Trustees.</p> <p>Staff awareness exercise.</p> <p>Consult and seek comments for Eexecutive Team</p>		
R4 Update the Library's performance standards procedure to accurately reflect its current staff appraisal process. The Library should also remind staff of the existence and significance of this procedure.	Pedr ap Llwyd Secretary and Head of Governance	Annwen Isaac HR Advisor ET	1 st draft 27.08.15 Released to Unions on 4/10	Sept 15	<p>Draft of updated performance standards procedure in progress.</p> <p>Seek the objective views of external advisor as to the appropriateness of the procedure.</p> <p>Consult and seek comments for Eexecutive Team</p>	Draft of updated procedure presented to Task Force on 27 August 2015	Draft policy produced & consulting with Unions and staff
R5 Remind staff of the importance and benefit of using the Library's staff appraisal process and to formerly document areas of development. Additional training should also be provided to equip staff with the necessary skills and confidence to hold difficult decisions.	David Michael, head of Corporate resources Directorate	Annwen Issac HR Advisor ET	01.07.15	01.10.15	Additional staff training including the production of guidelines has been delivered to all staff during July 2015.	The 2014-15 staff appraisal procedure is currently being implemented	Completed
R6 Records clearly the nature of a declared interest in the minutes of Board and Audit Committee meetings.	Pedr ap Llwyd Secretary and Hhead of Governance		01.08.15	July 2015	Inclusion of declared interest in the minutues of each meeting.	Board and Audit minutes now include the nature of declared interest	Completed
R7 Ensures that procedures relating to the performance appraisal of the Chief Executive are followed and documented appropriately in line with the requirement for other members of staff.	Annwen Isaac HR Advisor	Pedr ap Llwyd	1 st draft 27.08.15 Released to the Unions	01.09.15	HR to work closely with the Board Officers to ensure conformity.	Draft presented to Task Force on 27.08.15	Completed
R8 Reviews the capacity of the HR function to ensure that it is appropriate to meet the future direction and challenges upon the organisation.	David Michael Head of Corporate Resources	Annwen isaac Pedr ap Llwyd	01.09.15	06.11.15	<p>Develop recommendations for the Taskforce and Board to consider having paid due consideration to:</p> <p>(1) capacity and capability of</p>	<p>Discussion paper presented to Task Force on 10 July for full discussion on 27 August.</p> <p>The Library is currently holding</p>	Under review

	Directorate				the current arrangements; (2) role of Secretary and Head of Governance; (3) appointment of head of HR post; (4) use of external advisors; (5) partnership/sharing resources with other public bodies	discussion with external service providers. The Secretary and Head of Governance, who is a qualified HR practitioner, will provide support to the HR unit.	
R9 Considers how it can strengthen the effectiveness of the Board of Trustees and develop more constructive relationships with Senior management. A formal Board and Senior Management development programme should be implemented to move effective governance forward at the top of the organisation.	Pedro ap Llwyd Secretary and Head of Governance	BoffET	Discussion Paper presented to Task Force on 27/8	06.11.15	Board Effectiveness Review conducted in February 2015 identified areas for improvement. Develop action plan that will address this specific recommendation and the main issues identified in the recent effectiveness Review.	Discussion paper presented to the Task Force on 27 August.	Ongoing
R10 Puts in place arrangements and performance indicators to monitor the performance of Internal Audit. A self- effectiveness review also needs to be undertaken by 2018 in accordance with the Public Sector Internal Audit Standards.	Chair of Audit Committee Pedro ap Llwyd Secretary and Head of Governance	DMET	1 st draft 27.8.15	06.11.15	Audit Committee to agree PIs with Baker Tilley. Revision of Audit Committee's TOR to particularly reflect this recommendation	To be agreed finally by the Audit and Risk Committee together with a revised TOR for the Committee.	Draft Framework produced & to be agreed with Audit and Risk Committee on 2 October 2015.
R11 Develops a core programme of training and development for its managers. This should include specific training on procurement and governance. Important areas of training should be made mandatory.	David Michael, Head of Directorate	Annwen isaac ET		06.11.15	This recommendation was identified prior to pwc's review and a programme is currently being delivered.		Programme agreed and external providers will be appointed before end of October 2015.

Progression of Recommendations – Timeline and Targets

	Target 1 ↓	Target 2 ↓	Target 3 ↓	Target 4 ↓
R1	1 st draft presented following 1st Task Force	2 nd draft presented to 2 nd Task Force	Consulting with Unions/inform staff	
R2	1st draft presented following 1st Task Force	2nd draft presented to 2nd Task Force	Consulting with Unions/inform staff	
R3	1st draft presented following 1st Task Force	2nd draft presented to 2nd Task Force	Consulting with Unions/inform staff	
R4	Not commenced	1 st draft and evidence presented to 2 nd Task Force	Consulting with Unions/inform staff	
R5	Completed			
R6	Completed			
R7	Completed			
R8	Discussion paper presented to 1 st Task Force	Discussion continues	Consulting with Board	
R9	Not commenced	Discussion paper presented to 2 nd Task Force	Discussion paper and recommendations produced	
R10	Not commenced	Draft Framework presented to 2 nd Task Force	Framework and new TOR to be presented to Audit and Risk Committee on 2/10	
R11	Completed			

Key: Target 1 = 1st Task Force Meeting (July 2015); Target 2 = 2nd Task Force Meeting (27 August 2015); Target 3 = Board Meeting (18 September); Target 4 = Board Meeting (7 November 2015) – when all the Recommendations will have been implemented.

Notes

Recommendation 1	The Task Force has reviewed and improved the Library's Disciplinary Policy and Procedure a draft copy was released to the Unions for consultation on 4 September 2015. It was also placed on the Library's intranet for all staff to see and comment upon on 7 September. During the drafting of the policy and procedure advice and guidance was sought from Gill Mason of ACAS in order to ensure that its processes and sanctions are in accordance with principles of her organisation's Code of Practice and guidance on discipline and grievance at work. It was the aim of the Task Force to produce a new Policy which clearly sets out the processes that should be followed for matters relating to senior management and which also outlines the remit, conduct and powers of the Dismissal Panel, two aspects of the previous policy that were criticised by <i>pwc</i> .
Recommendation 2	The Task Force has developed an up-to-date Fraud Policy which will be made available to all members of staff. The policy was released to the Unions for consultation on 4 September 2015 and will soon be placed on the Library's intranet, when translated, for all staff to see and provide comments.
Recommendation 3	The Task Force has developed a whistleblowing policy to reflect changes in legislation. Again, the policy was released to the Unions for consultation on 4 September 2015 and will soon be placed on the Library's intranet, when translated, for all staff to see and provide comments. The Library will take steps to raise awareness of the existence of the policy when it is formally adopted.
Recommendation 4	The Task Force has developed a Capability and Poor Performance Policy and Procedure document for all staff as a means of updating the Library's performance standards procedure to accurately reflect our current staff appraisal process. Provision for dealing with poor performance and capability amongst Executive Team members including the Chief Executive and Librarian has been included within the document.
Recommendation 5	Training and guidelines have been provided to staff in relation to the annual appraisal process which is currently under way.
Recommendation 6	The nature of a declared interest is now recorded clearly in the minutes of Board and Audit Committee.
Recommendation 7	The Task Force has documented the procedures relating to the performance appraisal of the Chief Executive and Librarian. They are also in line with the requirement for other members of staff. To ensure that these procedures are followed, the Library's HR Unit will provide assistance and support to the President when CEO appraisal processes are due to take place in the future.
Recommendation 8	The Task Force has reviewed the capacity of the HR function to ensure that it is appropriate to meet the future direction and challenges upon the organisation. In light of current and future financial pressures, the reduction in staff numbers and the additional support provided to HR by the Secretary and Head of Governance, it was difficult to produce a case for appointing a HR Manager at the expense of other parts of the business. However, the Executive Team will provide a further paper with recommendations that would ensure that the HR function has sufficient support and resources (internal and external) to fulfil its role within the Library.
Recommendation 9	A discussion paper has been prepared by the Secretary and Head of Governance in relation to strengthening the effectiveness of the Board of Trustees and develop a more constructive relationship with senior management. The paper also considered the adoption of a development programme to move effective governance forward at the top of the organisation. Time restriction had prevented the Task Force from discussing this paper.
Recommendation 10	The Task Force had developed a Framework and performance indicators to monitor the performance of Internal Audit. A The Audit and Risk Committee which meets on 2 October will consider whether these arrangements address <i>pwc</i> 's concerns sufficiently. The Task Force has also reviewed the Audit and Risk Committee's TOR, and again, this will be considered by members of the Committee at the next meeting.
Recommendation 11	A core programme of training and development has been developed for managers which includes specific training on procurement and training. The delivery of the programme is underway by the HR Unit.

Public Accounts Committee
Scrutiny of Accounts 2014–15: National Library of Wales
Additional Information

Following the Committee meeting held on 22 September, the National Library of Wales have sent in the following information regarding Geldards LLP:

1. Huw Williams, who's a Partner at Geldards LLP (<http://www.geldards.co.uk/huw-williams.aspx>) was appointed to the Library's Board of Trustees on 1 April 2010 for an initial period of 4 years and was reappointed on 1 April 2014 for a further (and final) period of 4 years.
2. In submitting his application on 17 November 2009 Huw Williams made the necessary declaration of interest and stated clearly that he was a Partner at Geldards who were solicitors to the Library and the Museum, where he was already a Trustee. A copy of this declaration is held on file.
3. Huw Williams is a Welsh Government appointee – a Ministerial appointment. Therefore, the "appointments" panel was in fact a nominations panel which would have had to sought Ministerial approval before the appointment could be confirmed.
4. Geldards LLP were last appointed as legal advisers to the Library (and as far as I'm aware, to the Museum as well) for a period of three years commencing on 1 September 2011 with an option to extend by one year by agreement. Their contract expired on 31 August 2015 from which point the National Procurement Framework will be used. However there are a number of legal cases that are still ongoing and they will continue to be handled by Geldards until their conclusion.

The ongoing legal cases are:

1. litigation relating to the fire
2. ITV archive
3. porters terms and conditions

4. employment issues relating to the Directors
5. personal injury claim from member of staff (legal papers issued)
6. personal injury claim from member of public.

September 2015

Name	Leaving Date	Redn (£)	Annual Salary (£)	Monthly Salary	Monthly Recovery	
					Rate	
	27/03/2015	30,447	9,808	817.33	37.25	19616 FTE
	31/03/2015	19,120	19,616	1,634.67	11.70	
	31/03/2015	53,498	51,386	4,282.17	12.49	15613.50 Compensation
	10/04/2015	23,868	11,770	980.83	24.33	19616 FTE
	17/04/2015	73,655	25,111	2,092.58	35.20	
	17/04/2015	10,154	19,616	1,634.67	6.21	
	30/04/2015	32,158	12,556	1,046.33	30.73	25111 FTE
	30/04/2015	10,157	19,616	1,634.67	6.21	
	08/05/2015	60,958	19,616	1,634.67	37.29	
	31/05/2015	70,994	25,111	2,092.58	33.93	
	31/05/2015	19,017	38,208	3,184.00	5.97	
	30/06/2015	7,923	15,800	1,316.67	6.02	
	30/06/2015	92,890	29,849	2,487.42	37.34	
	30/06/2015	7,923	7,900	658.33	12.03	15800 FTE
	30/06/2015	77,960	25,111	2,092.58	37.26	
	30/06/2015	26,048	25,111	2,092.58	12.45	
	30/06/2015	10,174	19,616	1,634.67	6.22	
	30/06/2015	38,030	12,640	1,053.33	36.10	15800 FTE
	30/06/2015	40,417	15,800	1,316.67	30.70	
	30/06/2015	17,688	25,111	2,092.58	8.45	
	31/07/2015	61,878	25,111	2,092.58	29.57	
	31/10/2015	53,546	25,111	2,092.58	25.59	
	31/03/2015		55,876			
		788,936	506,026			
				-		
	17/10/2014	92,258	29,553	2,462.75	37.46	
	30/09/2014	77,756	24,862	2,071.83	37.53	
	31/10/2014	159,118	50,877	4,239.75	37.53	
	31/10/2014	50,938	24,862	2,071.83	24.59	
	10/10/2014	58,518	24,862	2,071.83	28.24	
	10/10/2014	71,081	24,862	2,071.83	34.31	
	30/09/2014	40,375	19,422	1,618.50	24.95	
	18/08/2014	44,202	29,553	2,462.75	17.95	
	12/09/2014	7,314	14,803	1,233.58	5.93	
		601,560	243,656			
		1,390,496				
		31				
		44,855				

THE NATIONAL LIBRARY OF WALES: FRAMEWORK DOCUMENT

Introduction

1. This Framework Document has been drawn up by CyMAL: Museums Archives and Libraries Wales (CyMAL) in consultation with the National Library of Wales (the Library). It sets out the broad framework within which the Library operates and details the terms and conditions under which the Welsh Ministers provide grant-in-aid to the Library. It does not cover the Library's private funds.

A comprehensive overview of public financial management arrangements in Wales is provided by *Managing Welsh Public Money*. Payment of grant-in-aid is conditional upon the satisfactory performance by the Library of all its obligations as set out in this document and such other conditions and requirements as the Welsh Ministers may, in accordance with section 70 (2) of the Government of Wales Act 2006, from time to time impose. The document shall be reviewed from time to time by the Welsh Government and the Library jointly but at no less than five yearly intervals. Copies of the document together with any subsequent amendments have been placed in the Library of the National Assembly for Wales (the National Assembly) and made available to members of the public via the National Library of Wales' website. The document has been signed and dated by CyMAL and the Library.

2. The Welsh Government and its WGSBs have agreed the following Principles to govern relations between them:

Governing Principles defining relations between Welsh Government Sponsored Bodies and the Welsh Government

Joint mission and purpose

- 1. Delivering for Wales.** WGSBs play a key role in the governance of Wales and meeting the aspirations of Welsh citizens. From the perspective of the Welsh Government, the primary role of a WGSB is to fulfil its statutory responsibilities and to meet objectives established by the Welsh Ministers using funds voted by the National Assembly of Wales. This relationship is conducted through a sponsorship arrangement managed on behalf of Ministers by the Welsh Government. WGSBs have diverse organisational forms, including charities and quasi-judicial bodies and can cover different jurisdictions beyond Wales. Whilst respecting this diversity, Ministers look to WGSBs primarily to deliver important functions and services for the people of Wales on their behalf.

- 2. Outcome focus and WGSB performance.** Within the constraints set by statute and Ministerial commitments, WGSB objectives will as far as possible be specified in terms of outcomes that are clear, relevant and challenging. To promote innovation and efficiency, WGSBs shall be given as much flexibility as possible in how these outcomes are achieved. Individual remit letters should be no more prescriptive than the WGSBs responsibilities require. However, the performance framework should assess the contribution of the WGSB in achieving outcomes.

Relationships between the Welsh Government and WGSBs

- 3. Relationships defined by trust and risk.** The relationship between the Welsh Government and WGSBs should be based on trust and mutual respect, with a proportionate approach to risk. Where there is evidence of poor performance or weak governance, the Welsh Government will adopt a more prescriptive 'hands-on' approach to the relationship. The Welsh Government will ensure that its sponsorship functions perform effectively and meet the expectations set out in these principles.
- 4. Effective collaboration.** WGSBs are highly valued for their expertise and experience. WGSBs, the Welsh Government and the wider public sector recognise the importance of working together and building 'Team Wales', seeking opportunities for broader and deeper collaboration in policy development supporting each other and celebrating success. Opportunities to save money, identify efficiencies and improve effectiveness should be pursued energetically and jointly.
- 5. Effective communication.** WGSBs and the Welsh Government form an extended family and undertake to maintain a consistent, respectful and collegiate approach to dealing with each other in public and private. All parties undertake to strive for effective communication, to be as open as possible, to share information on a 'no surprises' basis and to manage contentious matters through dialogue and negotiation.

Governance and accountability

- 6. WGSB chair and board.** The chairs of WGSBs are important figures in Welsh public life and will be appointed in accordance with the Code of Practice for Ministerial Appointments to Public Bodies. WGSB boards are accountable to Ministers for achieving the defined objectives, ensuring high quality corporate governance and for oversight of the WGSB executive, including the Chief Executive.

- 7. Primary role of the board in WGSB oversight.** Governance and the internal control regime should be a matter primarily for the WGSB board. The Welsh Government will rely on the board, internal audit and Wales Audit Office for assurance. The sponsorship role should focus on accounting for delivery of objectives and the management of relationships between the WGSB and the Welsh Government. Clear roles and expectations for Ministers, chairs, boards, executives, accounting officers, sponsorship divisions and auditors should be set out in the Framework Document.
- 8. Performance management.** Whilst we expect the norm to be good performance, effective governance and a respectful relationship, our approach must be capable of an effective response to poor performance or other problems. Where there is evidence of poor performance in relation to objectives, management of funds, board effectiveness or other aspects of governance, the Welsh Government has both the right and responsibility to become more involved and more prescriptive. Performance management will be risk-based, relying on evidence of robust internal control to support a lighter touch or alternatively to apply a stronger grip where risks are managed less satisfactorily.
- 9. Delegation.** Welsh Government and WGSB accounting officers remain jointly accountable for public funds spent through WGSB sponsorship. However, the routine sponsorship management regime should be only as prescriptive as necessary to be assured that public funds are managed correctly and that outcomes are being achieved cost-effectively. Financial responsibility will be delegated to the extent possible, consistent with Welsh Ministers and accounting officer responsibilities.
- 10. Responding to change.** In a changing world and with changing ministerial priorities, it may be necessary to reshape the functions and methods of service delivery of WGSBs or, where more appropriate, to review the continued relevance of their objects and constitutional arrangements. The Welsh Government may from time to time conduct in-depth organisational or thematic reviews to ensure that its WGSBs remain fit for purpose and to make proposals for reform.

3. In addition, the Library must ensure that, in carrying out its functions, it does so in a way that is consistent with the Welsh Government's Citizen-Centred Governance Principles which incorporate the Seven Principles of Public Life set out by the Committee on Standards in Public Life (the Nolan Committee):

- putting the Citizen First;
- knowing Who does What and Why;
- engaging with Others;
- living Public Service Values;
- fostering Innovative Delivery;
- being a Learning Organisation; and
- achieving Value for Money.

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1. Purpose of the National Library of Wales (the Library)

- 1.1 The Library was established under the Royal Charter of 1907 with supplemental Royal Charters in 1911, 1978, 1988 and 2006 (the Charter). As a public body, it fulfils important responsibilities set within the context of the Welsh Government's strategic aims. Its main purpose is to collect, preserve and give access to all kinds and forms of recorded knowledge, especially relating to Wales and other Celtic peoples, for the benefit of the public, including those engaged in research and learning.
- 1.2 Its statutory objects are set out in the Charter. Its overall aims are set out in its strategy and annual operational plan.

2. Governance and Accountability

2.1 Legal Origins of Powers and Duties

- 2.1.1 The Library's powers and duties are set out in the Royal Charter. The Library is also a Registered Charity regulated by the Charity Commission.

2.2 Roles and Responsibilities

Ministerial Responsibility

- 2.2.1 The First Minister has allocated responsibility for the oversight of the Library to the Minister for Housing, Regeneration and Heritage (the Minister). The Minister generally exercises functions of the Welsh Ministers in relation to the Library. The Minister sets the policy framework for the Library and is accountable to the National Assembly for its activities. The Minister shall meet with the President and Librarian twice a year to review performance and discuss current and future activities.

Accountabilities and Responsibilities of the Principal Accounting Officer

- 2.2.2 The Principal Accounting Officer for the Welsh Ministers is the Permanent Secretary to the Welsh Government. He/she has responsibilities specified by HM Treasury and is accountable to the National Assembly (through the National Assembly's Public Accounts Committee) and to the UK Parliament (through the House of Commons Committee on Public Accounts) for:
 - the regularity and propriety of the Welsh Government's finances;
 - the keeping of proper accounts of the Welsh Ministers; and
 - the effective and efficient use of resources including the grant-in-aid voted to the Library under the Welsh Government's Annual Budget Motion.
- 2.2.3 The Principal Accounting Officer is also responsible for ensuring that the financial and other management controls applied across the Welsh

Government are appropriate and sufficient to safeguard public funds. He/she is assisted in these duties by the Director General for Sustainable Futures whom he/she has designated as an Additional Accounting Officer (AAO) and to whom he/she has delegated responsibility for the Library.

Sponsor Department's Additional Accounting Officer's Accountabilities and Responsibilities

2.2.4 The Director General for Sustainable Futures is the sponsor department's AAO. He/she is responsible to the Minister and the National Assembly for ensuring that financial and other management controls applied by the Library conform with the requirements of both propriety and good financial management. Accordingly, the AAO is responsible for ensuring that an adequate statement of the financial relationship between the Welsh Ministers and the Library is in place and is reviewed regularly; and for the quality of the Welsh Government's relationship with the Library.

2.2.5 The AAO is accountable to the National Assembly for the grant-in-aid awarded to the Library and for advising the Minister:

- on an appropriate framework of objectives and targets for the Library in the light of the department's wider strategic aims and key delivery and performance indicators.
- on an appropriate budget for the Library in the light of the sponsor department's overall spending priorities; and
- on how well the Library is achieving its strategic objectives within the policy and resources framework determined by the Minister and whether it is delivering value for money.

2.2.6 The AAO is also responsible for ensuring arrangements are in place to:

- monitor the Library's activities and its financial position through regular meetings and returns;
- address significant problems within the Library, making such interventions as are judged necessary;
- periodically carry out an assessment of the risks both to the department and the Library's objectives and activities;
- inform the Library of relevant government policy in a timely manner;
- bring to the attention of the Library's full board any concerns about the activities of the Library, requiring explanations and assurances that remedial action will be taken; and
- unless covered by the Charter designate the Librarian of the Library as its Accounting Officer.

2.2.7 The AAO has delegated responsibility for the day to day management of relations with the Library to the Director of CyMAL, the sponsor department within the Welsh Government

Sponsor Department

2.2.8 CyMAL is the primary contact for the Library. They are the main source of advice to the Minister on the discharge of his/her responsibilities in respect of the Library. They also support the sponsor department's AAO on his/her responsibilities towards the Library. Officials of the sponsor department will liaise regularly with WGSB officials to review the Library's financial performance against plans and the achievement against targets. The sponsor department will also take the opportunity to inform and explain wider policy developments that might impact on the Library. Further information about the sponsor department's responsibilities can be found at Annex 1.

Accountabilities and Responsibilities of the Librarian as WGSB Accounting Officer

General

2.2.9 The specific responsibilities of a WGSB Accounting Officer are set out in the Welsh Assembly Government's Memorandum "The Responsibilities of an Assembly Government Sponsored Body (AGSB) Accounting Officer". As accounting officer the Librarian is personally responsible for the proper stewardship of the public funds for which he or she has charge; for the day-to-day operations and management of the Library; and for ensuring compliance with the requirements of Managing Welsh Public Money. The Librarian may be assisted in the exercise of his or her role by employees of the Library. The Librarian may also delegate the day-to-day administration of these responsibilities to those employees but remains responsible and accountable under this document.

Accountabilities to the National Assembly

2.2.10 The WGSB AO is accountable to the National Assembly for the following:

- signing the accounts and ensuring that proper records are kept relating to the accounts;
- ensuring that the accounts are prepared and presented in accordance with any directions issued from the Welsh Ministers;
- signing a statement of Accounting Officer's responsibilities for inclusion in the annual report and accounts;
- signing a Statement on Internal Control for inclusion in the Annual Report and Accounts;
- giving evidence, including attending hearings, on matters relating to the Library which arise before the National Assembly's Public Accounts Committee, other committees of the National Assembly, the House of Commons Committee on Public Accounts or other Parliamentary Committees, to account for the Library's stewardship of public resources; and

- acting upon any recommendations of those committees that have been accepted by the Welsh Government.

Accountability to the Sponsor Department

2.2.11 The WGSB AO is accountable to the sponsor department for the following:

- establishing, in agreement with the sponsor department, the Library's corporate and operational plans;
- informing the sponsor department of progress in helping to achieve the department's policy objectives and demonstrating how resources are being used to achieve those objectives;
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the sponsor department; that the sponsor department is notified promptly if overspends or under spends are likely and that corrective action is taken;
- ensuring that significant problems are notified to the sponsor department as quickly as possible; and
- providing the sponsor department with such information about its performance and expenditure as the sponsor department may reasonably require.

Responsibilities in respect of the Library's Board of Trustees

2.2.12 He/she is also responsible for:

- advising the Board on the discharge of its responsibilities as set out in this document, relevant legislation, the Minister's annual Remit letter or other communication; and any other guidance that may issue from time to time;
- advising the Board on the Library's performance against its aims and objectives;
- ensuring that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions and that suitable financial appraisal techniques are followed;
- ensuring that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- ensuring that robust internal management and financial controls are introduced, maintained and reviewed regularly - including measures to protect against fraud and theft (such measures to incorporate a comprehensive system of internal delegated authorities); establishing procedures for handling complaints about the Library; and developing and maintaining appropriate personnel management policies, all of which shall be readily available to all staff; and

- taking action as appropriate in accordance with the terms of the accounting officer's memorandum if the Board or its President is contemplating a course of action involving a transaction which the Librarian considers would infringe the requirements of propriety or regularity, or does not represent prudent or economical administration, or, efficiency or effectiveness, questionable feasibility or is unethical.

The Librarian's role as Consolidation Officer

2.2.13 The Librarian is designated by HM Treasury as the Library's Consolidation Officer for the purposes of Whole of Government Accounts and must comply with the requirements of the Consolidation Officer Memorandum.

The Library's Board of Trustees

2.2.14 The arrangements for the appointment of the President, Vice President, Treasurer and Board members are set out in the Charter. 8 Board members, including the President and Vice President, are appointed by the Welsh Ministers after consultation with the Library. Such appointments are made in accordance with the Commissioner of public appointments' code of practice. <https://www.publicappointmentscommissioner.org/web-app/plugins/spaw2/uploads/files/Code%20of%20Practice%20August%202005.pdf>

Collective Responsibilities

2.2.15 The responsibilities of the Library's Trustees, as set out in this document, must be carried out with due regard to Charity Commission guidance (currently in the form of the publication RR7 'The Independence of Charities from the State').

2.2.16 The role of the Board is to:

- provide effective leadership; defining and developing strategic direction and setting challenging objectives;
- promote high standards of public finance, upholding the principles of regularity, propriety and value for money;
- ensure that the Library's activities are conducted efficiently and effectively; and
- monitor performance to ensure that the Library fully meets its aims, objectives and performance targets.

2.2.17 To do this, the Board must ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. It must establish an Audit Committee chaired by a Board member with a proper understanding of audit processes (but not the President or Treasurer) to provide it with independent advice. The Board is expected to assure itself of the effectiveness of the internal control and risk management systems.

2.2.18 The personal responsibility of the Librarian as Accounting Officer to ensure regularity, propriety and value for money in no way detracts from that of

members of the Board, who each have a duty to act in a way that promotes high standards of public finance and for ensuring that the Library's activities are conducted in an efficient and effective manner. They must not give the Librarian instructions which conflict with his/her duties as the Library's Accounting Officer.

2.2.19 In particular the Board is responsible for:

- establishing and taking forward the strategic aims and objectives of the Library consistent with its overall purpose and within the policy and resources framework determined by the Minister;
- ensuring that the Minister is kept informed fully of any changes that are likely to impact on the strategic direction of the Library or on the attainability of its targets, and of steps needed to deal with such changes;
- ensuring compliance with any statutory or administrative requirements in respect of the use of public funds; that the Board operates within the limits of its statutory authority or the terms of its governing instrument (as applicable) and any delegated authority agreed with the sponsor department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, it takes into account guidance issued by the Welsh Government;
- ensuring that it receives and reviews regularly, financial information concerning the management of the Library; that it is informed in a timely manner about any concerns as to the activities of the Library; and that, where applicable, it provides positive assurance to the Minister via the sponsor department that appropriate remedial action has been taken to address any such concerns;
- demonstrating high standards of corporate governance at all times, including by using the audit committee to help the Board to address key financial and other risks; and
- appointing a Librarian in consultation with the Minister

2.2.20 The Board may, to the extent permitted by the Charter, delegate to staff responsibility for the administration of day-to-day management issues but it remains ultimately responsible and accountable for all those matters. The Library must maintain a list of matters which are reserved for decision by its Board as well as a scheme of delegation approved by the Board.

The President's Personal Responsibilities

2.2.21 The President's duties are set out in the Royal Charter and in the Terms and Conditions of Appointment. Communications between the Library Board and the Minister shall, in the normal course of business, be conducted through the President. The President shall ensure that other Board members are kept informed of all such communications. He or she is responsible for ensuring that the Board's policies and actions support the Minister's wider strategic policies and that its affairs are conducted with probity. Where

appropriate these policies and actions must be communicated and disseminated throughout the WGSB.

2.2.22 The Library's Royal Charter establishes the office of Vice-President with the ability to discharge the functions of the President during any vacancy in office, absence or illness.

2.2.23 The President has a particular leadership responsibility regarding:

- formulating the Library's strategies;
- ensuring that the Board, in reaching decisions, takes proper account of statutory and financial management requirements and all relevant guidance including guidance provided by the Welsh Ministers;
- promoting the economic, efficient and effective use of staff and other resources;
- ensuring high standards of regularity and propriety; and
- representing the views of the Board to the public.

2.2.24 The President must also:

- ensure that all Board members are briefed fully on the terms of their appointment and on their duties, rights and responsibilities;
- ensure that he or she, together with other Board members, receive appropriate training, including on the financial management and reporting requirements of public sector bodies and on the differences that might exist between private and public sector practice;
- ensure that the Board has a balance of skills appropriate to directing the Library's business, and advise the Minister, in instances where appointments are to be made by him or her, on the needs of the Library when Board vacancies arise;
- assess the performance of individual Board members in accordance with the arrangements agreed with the sponsor department;
- ensure that a Code of Practice for Board Members is in place consistent with the Welsh Government model Code.

Individual Board Members' Responsibilities

2.2.25 In undertaking their duties and responsibilities Board members shall:

- comply at all times with the Library's Code of Practice for Board Members, and with the rules relating to the use of public funds and conflicts of interest;
- not misuse information gained in the course of their public service for personal gain or political profit, nor seek to use the opportunity of public service to promote their private interests or those of persons or organisations with whom they have a relationship;

- comply with the Library's rules on the acceptance of gifts and hospitality, and of business appointments; and
- act always in good faith and in the best interests of the Library.

2.3 Accounting Arrangements and Audit

Annual Report and Accounts

- 2.3.1 The statutory accounting and reporting requirements are set out in the Charter.

Statutory Accounts

- 2.3.2 Each financial year the Library must prepare accounts in accordance with the Accounts Direction issued by the Welsh Ministers, Section 9 (4) of the Museums and Galleries Act 1992 and the Charities SORP 2005. As soon as the audit of the accounts is complete, the Library shall submit to the Auditor General for Wales (AGW) the signed accounts together with a letter of representation. Two copies of the signed accounts shall also be forwarded to the sponsor department. The AGW shall lay the audited accounts before the National Assembly.

Annual Report

- 2.3.3 As soon as possible after the end of each financial year, the Library shall publish a report of its activities to permit the National Assembly, other clients and the public to judge its success in meeting its targets. The precise format of the published annual report will be discussed with the sponsor department.
- 2.3.4 The Annual Report must be submitted to the Minister prior to its formal publication. A draft of the report shall be submitted to the sponsor department at least ten working days before printing.
- 2.3.5 The annual report must:
- outline the Library's main activities and performance during the previous financial year;
 - report on performance against key performance indicators and other deliverables and outline progress that has been made in taking account of the Welsh Government's cross-cutting themes;
 - report on the activities of any corporate bodies under its control; and
 - include either a summary of the Library's audited accounts or publish the full audited accounts within a single document.
- 2.3.6 A copy of the Annual Report must be laid before the National Assembly, after the accounts have been audited. The Report may not be published until after it has been laid before the National Assembly.

- 2.3.7 The Library shall liaise with the AGW and the sponsor department regarding the precise timetable for publication and laying of the Annual Report and the accounts.

Audit Committee

- 2.3.8 The Library must establish an Audit Committee to advise its Accounting Officer on the adequacy of arrangements within the Library for internal audit, external audit and corporate governance matters. The Library shall share with their sponsor department copies of the minutes of their Audit Committee meetings. The sponsor department also has a right to attend any meeting of the Audit Committee if circumstances require it.

Internal Audit

- 2.3.9 The Library must:

- establish and maintain arrangements for internal audit in accordance with the objectives, standards and practices described in HM Treasury's Government Internal Audit Standards;
http://www.hm-treasury.gov.uk/d/internalaudit_300409.pdf
- if the function is provided in-house ensure that arrangements are made for external quality reviews of its internal audit at least once every five years and in accordance with Government Internal Audit Standards. The Welsh Government shall consider whether it can rely on these reviews to provide assurance on the quality of the Library's internal audit;
- each year, following approval by the Library's Accounting Officer and its Audit Committee, submit to the sponsor team the audit strategy, periodic audit plans and annual audit report, including the Head of the Internal Audit Service's opinion on risk management, control and governance; and
- notify the sponsor department as soon as possible of any changes to the terms of reference of its Internal Audit arrangements and/or its Audit Committee.

- 2.3.10 The Welsh Government shall:

- assess the effectiveness of the Library's internal audit arrangements by scrutiny of their plans for future activity, reports on past activity and its annual assurance report (as prepared by the Library's Head of the Internal Audit Service); and
- have a right of access to all documents prepared by the Library's internal auditor, including where the service is contracted out.

External Audit

- 2.3.11 The AGW is the Library's statutory external auditor under Section 9 (8) of the Museums and Galleries Act 1992.

- 2.3.12 In the light of new provisions contained in the Companies Act 2006 concerning the audit of public sector entities arrangements for the audit of any subsidiary companies established by WGSBs are currently under review.
- 2.3.13 The AGW shall send a copy of its final Additional Assurance Report and Management letter to the Additional Accounting Officer of the sponsor department. Under section 145 of the Government of Wales Act 1998 the AGW may carry out examinations into the economy, efficiency and effectiveness with which the Library has used its resources in discharging its functions. Under section 145A, the AGW may undertake studies designed to enable him or her to make recommendations for improving economy, efficiency and effectiveness in the discharge of functions of bodies, and other studies relating to the provision of services. For the purposes of these examinations, as well as the statutory financial audit, the AGW has a statutory right of access to documents. The Comptroller and Auditor General shall also have rights of access by virtue of section 136 of the Government of Wales Act 2006. In addition, the Library shall provide, in conditions to grants and contracts, for the AGW to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the AGW to any other documents required by the AGW which are held by other bodies.

Sponsor Department's Right of Access

- 2.3.14 Should the need arise the sponsor department has a right of access to all the Library's records and personnel for monitoring purposes including, for example, sponsorship audits and operational investigations.

3. Management Arrangements

3.1 General

- 3.1.1 Unless otherwise agreed in writing by the sponsor department the Library shall at all times follow the principles, rules, guidance and advice in Managing Welsh Public Money and this document, referring any difficulties or potential bids for exceptions to the sponsor department in the first instance. A list of the guidance and instructions with which the Library must comply is at annex 2.
- 3.1.2 The Library must ensure always that its relationship with the Welsh Government is recognised appropriately through the use of the Welsh Government's sponsor brand mark.
- 3.1.3 In pursuit of its aims the Library shall work closely with other organisations in Wales including the private sector, local authorities and the voluntary sector reflecting the commitments in the Welsh Ministers' partnership agreements with the voluntary, business and local government sectors.

3.2 Library Staff

Recruitment, retention and management of staff

3.2.1 Within the arrangements approved by the Minister the Library is responsible for the recruitment, retention and motivation of staff subject to the following general requirements:

- in the recruitment, management and advancement of staff the Library will follow the principles and behaviours set out in Chapter 4 of Managing Welsh Public Money;
- the Library may determine its own structure with the exception of:
 - the creation or re-grading of any senior management post that reports directly to the Librarian;
 - any proposal to create a new post at, or to re-grade a post to, a level which is not already represented in the staff structure; or
 - any proposal to re-grade all posts at a particular grade.
- the Library may vary the total number of staff employed to reflect changes in the scale of its operations or functions. The associated pay and related costs must be adjusted accordingly and reflected within the Management Running Cost total unless otherwise notified to the sponsor department;
- subject to its delegated levels of authority, the Library must ensure that the creation of any additional posts does not incur forward commitments which shall exceed its ability to pay for them;
- staff management and development policies are in place which include arrangements for appraising the performance of staff and encouraging staff to acquire appropriate professional, management and other expertise;
- the Library will adopt a Code of Conduct for its staff;
- appropriate grievance and disciplinary procedures are established;
- appropriate arrangements are in place to deal properly with any staff concerns about improper conduct;
- proper consultation with staff takes place on matters affecting them.

Pay and Conditions of Service

3.2.2 All staff of the Library shall be subject to overall levels of remuneration and terms and conditions of service (including superannuation) as have been approved by the Minister. Any changes to those terms and conditions, including levels of remuneration, must be authorised by the Minister.

3.2.3 The Library has no delegated powers to amend its overall terms and conditions. However, the Library may vary individual contracts of employment without recourse to the Minister provided that any changes are

within the overall framework of the terms and conditions approved by the Minister.

- 3.2.4 Terms and conditions for staff of the Library are set out in its staffing documentation. Copies of this information must be provided to the sponsor department on request, and when substantially amended.

Pay Remits

- 3.2.5 The Library shall present to the sponsor department a detailed case for its annual pay remit for pay negotiations. The pay remit shall be in the format specified annually by the Welsh Government and must reflect the needs of the organisation for changes in pay, grading and other terms and conditions of service. The proposals must be fully costed and shown to be affordable in the year in question and subsequent years. The Library is expected to operate a system of pay that provides all staff with equal opportunity for progression.
- 3.2.6 The sponsor department must be satisfied that all pay arrangements have been subject to an equal pay audit and, in addition, will require evidence from time to time that there has been independent quality assurance that meets this requirement.

Staff Benefits and Non-Pay Rewards

- 3.2.7 In considering gifts or non-pay rewards to staff or board members the Library must take a view on whether such a course of action represents an appropriate use of public money. In devising staff benefits or non-pay reward schemes Library must pay attention to HM Treasury's "Regularity, Propriety and Value for Money".

Pensions

- 3.2.8 Staff of the Library shall be eligible to belong to the Library's own approved occupational pension scheme. Alternatively, they may opt out in favour of a State Second Pension or a personal pension scheme. Any proposal by the Library to move from the existing pension arrangements requires written approval in advance from the sponsor team.

Redundancy, Severance and Compensation

- 3.2.9 Any redundancy payments or payments of other compensation for loss of office must be made in accordance with a scheme approved by the sponsor department. Any proposals to make payments outside of an approved scheme require prior written approval from the sponsor department. Proposals on severance must comply with the rules set out in Chapter 4 of *Managing Welsh Public Money*.

3.3 Planning Framework

Budget Planning

- 3.3.1 The Welsh Government's budget planning arrangements are governed by the requirements of the Government of Wales Act 2006 and the Standing Orders of the National Assembly.
- 3.3.2 The Library shall co-operate with the sponsor department in providing the necessary assistance and information to the Welsh Government to take forward its budget planning decisions.
- 3.3.3 The Minister will confirm the amount of funding to be provided to the Library and any other relevant budgets as soon as possible, and normally no later than one month, after the final budget has been agreed by the National Assembly.

Business Planning

Remit Letters

- 3.3.4 The Minister shall, by the end of the November before the financial year to which it relates, discuss with the Library a draft remit letter setting out the Government's policy aims and areas for key performance indicators. The final remit letter will be issued as soon as possible, and normally no later than one month, after the National Assembly has approved the final budget and shall include the voted grant-in-aid figure and related budgetary control totals.

Corporate Plans

- 3.3.5 The Library will produce a Corporate Plan or Strategy on a regular 3 to 4 year cycle. The Strategy should be developed reflecting the aims and objectives as set out in the Library's Charter, and within the general and specific framework set out by the Welsh Government, reflecting the Welsh Government's strategic agenda. The sponsor department shall be consulted on the issues to be addressed in the Strategy.

Operational Plans

- 3.3.6 The Library shall prepare an annual operational plan setting out the level of service to be achieved in key areas and the performance and output information that shall be collected to monitor progress. The operational plan will be informed by the Minister's remit letter, the Welsh Government's strategic agenda and the Library's Strategy, and Charter objectives. It is for the Board to determine the precise content of their plan, in consultation with the sponsor department.

Approval of Plans

- 3.3.7 The timetable for the preparation and submission of the corporate and operational plans shall be agreed with the sponsor department. Both the corporate and operational plans will be approved by the Minister and made available to the public.

3.4 Performance Management

- 3.4.1 The Library shall operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the targets set out in the corporate and operational plans. It shall inform the sponsor department of any changes that make achievement of objectives more or less difficult.
- 3.4.2 Each quarter, the Library shall provide a report to the sponsor department which sets out the progress towards meeting the key targets set out in the operational plan. The report must also include details of actual expenditure for the year to date against the approved budgets together with forecast expenditure figures for the year and explanations of any significant differences and issues. Wherever possible the reporting format will be consistent with the Library's arrangements for reporting to its Board.
- 3.4.3 The Library and the sponsor department shall meet once a quarter to discuss these progress reports. The President and Librarian will also meet the Minister twice a year to discuss progress.

Exception Reporting

- 3.4.4 The Library must notify the sponsor department as soon as it becomes apparent that:
- the full-year expenditure is likely to exceed its approved provision; or
 - it is likely to under spend by more than the equivalent of 3 per cent of its total grant-in-aid.
- 3.4.5 It shall also provide:
- an annual report of losses written-off and special payments made or sanctioned during the previous twelve months;
 - an annual report outlining all cases of fraud and theft to which it has been exposed.

3.5 Periodic Review

- 3.5.1 As part of the programme of reviews of Welsh Government Sponsored Bodies for which it is responsible, the Welsh Government may conduct a review of the Library from time to time.

3.6 Subsidiary Companies and Joint Ventures

- 3.6.1 The Library shall not establish subsidiary companies or joint ventures which involve setting up special purpose vehicles – such as companies, partnerships or any other structure with legal identity and liability – without securing the prior written approval of the sponsor department.
- 3.6.2 Any subsidiary company or joint venture controlled or owned by the Library shall be consolidated with it, as required by accounting standards and, unless agreed otherwise by the sponsor department, shall be subject to the controls and requirements set out in this document, and to any such other further provisions set out in pertinent guidance and instructions.

4. Financial Responsibilities

4.1 Expenditure

- 4.1.1 Subject to any restrictions imposed by the Charter, directions of the Welsh Ministers, or by this document, the Library may, as soon as its budget has been approved by the Minister, incur expenditure on the programme approved in its annual budget without further reference to the sponsor department, subject to the following conditions:
- the Library shall comply with the delegations set out in Annex 3. These delegations must not be modified or breached without the written agreement in advance of the sponsor department;
 - the Library must obtain written approval in advance of proceeding with:
 - any proposal which could be considered to be novel, contentious or repercussive;
 - any change of policy or practice which has wide financial implications;
 - anything that might affect the future level of resources required; or
 - any significant change in the operation or funding of any initiative or particular scheme approved by the sponsor department;
 - the Library shall follow the policy framework set out in Managing Welsh Public Money in relation to the procurement of goods and services;
 - the Library shall resist requests for payment in advance except in exceptional cases where it is considered that some payment may be necessary. In such cases, the principles set out in Managing Welsh Public Money must be observed;

- the Library shall consult the sponsor department before entering into any property lease agreement. The sponsor department must also approve in advance any proposals to relocate or move to new accommodation;
- the Library must be open and transparent in its approach to gifts and have clear policies on disclosing information about, and the procedures adopted for, making any gifts.

Borrowing, Lending, Guarantees and Investments

- 4.1.2 The Library has powers covering borrowing, lending, guarantees and investments set out in its Charter. It shall not, in respect of its public funds, borrow (including temporary borrowing facilities in the form of a pre-arranged overdraft facility to bridge any gaps between long-term borrowing arrangements); lend; charge any asset or security; give any guarantee or indemnities; letters of comfort; or incur knowingly any other contingent liability (as described in Managing Welsh Public Money) whether or not in a legally binding form without the sponsor team's prior written consent,. All financial guarantees and indemnities given by the Library under the Charter must be covered adequately against un-drawn Assembly Public Expenditure Resources.
- 4.1.3 Nor shall the Library make any investments without securing the prior written approval of the sponsor department except in respect of short-term deposits of cash surpluses or investment of private funds.

Grants and Loans

- 4.1.4 All grants made by the Library must comply with the terms of Managing Welsh Public Money and be made subject to appropriate terms and conditions which provide adequate protection for the public purse. Terms and conditions must, for example, allow for phased payments, reinforce rights of access for Welsh Government officials and the Auditor General for Wales, ensure that Welsh Government's financial interests are adequately protected, and allow for clawback in certain circumstances, e.g. if grant monies are used other than for approved purposes.
- 4.1.5 All loan schemes must be managed under similar arrangements.

4.2 Funding

Private and Public Funds

- 4.2.1 Donations, grants for research from non-public organisations, or bequests given to the Library are deemed to be private funds and are not covered by the terms of this document.
- 4.2.2 All the streams of income mentioned in the following paragraphs ('Income from Exchequer Sources' and 'Income from Non-Exchequer Sources'), shall be treated as public funds and the requirements of this document shall apply

equally to them. Funds received directly from the Welsh Government, other government departments, agencies and other public organisations or those funded primarily by the tax payer and any proceeds from the Library's commercial interests or activities all constitute public funds.

Income from Exchequer Sources

Grant-in-aid

- 4.2.3 The Welsh Ministers shall make payments to the Library of grant-in-aid. Grant-in-aid shall be paid in monthly instalments, on the basis of an application to the sponsorship team. This must be provided in the form of a financial statement as set out in the grant-in-aid drawn-down form and submitted by a person notified to the sponsor department as authorised to make the application. The Library may not draw down grant-in-aid in advance of need.

Income from Non-Exchequer Sources

- 4.2.4 The Library must seek as far as possible to maximise its receipts from sources other than the Exchequer where this is consistent with its functions and is in line with the operational plan. It may retain receipts up to the level set out in the budget/remit letter that are derived from, for example, proceeds from sale of land and buildings and other assets, grants given by the EU, grants given through lottery funds, any proceeds from the Library's commercial activities and those resulting from the sale of services into wider markets. Such activity must be undertaken in accordance with the terms of Managing Welsh Public Money and this document.
- 4.2.5 Proceeds from the disposal of an Exchequer financed asset worth £1 million or more must, however, normally be surrendered to the Welsh Government, unless agreed otherwise. Proceeds derived from the sale of other assets may be retained provided that they are used to finance other capital spending – this being expenditure on new construction, land, extensions or alterations to existing buildings and the purchase of any other discrete asset or collection of assets (e.g. machinery and plant), including vehicles, having an expected working life of more than one year – and provided that total receipts in the financial year do not exceed the limit set out in the budget/remit letter.

4.3 Cash Management

Cash Balances

In Year

- 4.3.1 Cash balances accumulated during the course of the financial year from grant-in-aid or other Exchequer funds must be kept at the minimum level consistent with the efficient operation of the Library. If a cash surplus should occur, it must be placed on deposit until it can be used. The Library must seek to avoid holding a working balance in excess of the equivalent of 4 per cent of its total annual gross budget when it receives each month's instalment of grant-in-aid. Any funds exceeding that amount held by the Library as a working balance at the end of each funding period shall be taken into account in determining the amount of grant-in-aid to be paid in the following period.

End of Year

- 4.3.2 The Library shall be permitted to carry-over from one financial year to the next any drawn but unspent cash balances of up to 2 per cent of its agreed total gross annual budget (i.e. as set out in the remit letter and being exclusive of income deemed to be private funds). Any proposal to carry-over sums in excess of this amount must be agreed in writing in advance with the sponsor department on a case by case basis. Any sum carried-over in excess of the agreed amount shall be taken into account in the subsequent year's grant-in-aid. Any issued and unspent balance of the Library's Purchase Grant is not subject to any carry over limit.

Managing Receipts

- 4.3.3 If receipts realised or expected to be realised in the financial year are less than estimated the Library must ensure a corresponding reduction in its gross payments so that its authorised provision is not exceeded.
- 4.3.4 If receipts realised or expected to be realised in the financial year are more than estimated, the Library may apply to the sponsor department to retain such excess income for specified additional expenditure.

Virement

- 4.3.5 The Library may reallocate funds between its various budgets as notified by the Minister in the remit letter without the sponsor department's prior written agreement provided that:
- no budget is increased or decreased by more than 10 per cent or £100,000 whichever is the lesser amount;
 - the reallocation is not between capital, near cash or non-cash budget lines; and

- in aggregate, the Library's net payments do not exceed the total approved Budget.
- 4.3.6 Notwithstanding the above, the Library's running costs/administration budget may not be increased without the sponsor department's prior written agreement.

Interest Earned on Cash and Bank Balances

- 4.3.7 All interest, net of any bank charges of tax payable on the interest, earned by the Library on its cash and bank balances which arise as a result of funding from the Welsh Government is to be surrendered to the Welsh Government so that it can, in turn, be paid to HM Treasury via the Welsh Consolidated Fund. For accounting purposes it is not possible to net off the interest from grant-in-aid. The interest earned must be treated on a separate basis. The Library may agree with its sponsor department how often it would prefer to pay the interest (e.g. monthly or annually) but the total amount received by the end of February each year must be paid by the end of the first week of March.

5. Other Financial requirements

5.1 Risk Management

- 5.1.1 The Library must develop a risk management strategy to ensure that any risks it assumes are dealt in accordance with the relevant aspects of guidance on best practice in corporate governance.
- 5.1.2 The Library must adopt and implement policies and practices to safeguard itself against fraud and theft.
- 5.1.3 The Library shall take reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract or give grant or grant-in-aid, depending upon the particular circumstances of the procurement or grant scheme.

5.2 Economy, Efficiency and Effectiveness – appraisal, research and evaluation

- 5.2.1 In order to ensure value for money, the Library must have in place appropriate systems, and the capacity, to ensure that its policies and programmes are evidence based in relation to their development, implementation and evaluation.
- 5.2.3 The Library shall review its services and activities on a regular basis and shall set out in its annual business plan the measures being put in place to drive through and maximise efficiencies.

- 5.2.4 The Library must also ensure that its approach to carrying out appraisals and evaluations shall be fully consistent with the principles set out in guidance.

5.3 Insurance

- 5.3.1 The Library shall not take out any insurance, other than cover which is required by statute, without receiving express written approval in advance from the Welsh Government.

The terms of this Framework Document were approved by the Director General for Sustainable Futures, Welsh Government, as Additional Accounting Officer, on 27 September 2011.

Signed.....Linda Tomos.....

Linda Tomos, Director, CyMAL: Museums Archives and Libraries Wales

Dated.....29 September 2011.....

Signed.....Andrew Green.....

Andrew Green, Librarian, National Library of Wales

Dated.....29 September 2011.....

Annex 1

Essentials of Effective Sponsorship

The principles which define the working relationship between a sponsoring department and its sponsored body are set out in the introduction to this Framework Document.

The aims of sponsorship are to:

- Foster a relationship with the sponsored body which is based on mutual trust and respect and open and honest communication.
- Ensure that the strategic aims and objectives of a sponsored body reflect and promote the wider strategic objectives of the Welsh Government.
- Provide the sponsored body with the support and guidance it requires or may request to achieve its objectives.
- Encourage and promote high standards of corporate governance and financial accountability within the organisation to ensure its efficient and effective operation.

The functions of WGSB sponsorship that underpin these principle aims are set out in this Framework Document, which defines the relationship between the sponsor department and the WGSB for which it has responsibility. The functions are listed in Appendix A.

Sponsor departments need to strike a balance between control, and allowing WGSBs to operate independently on a day-to-day basis, as was the intention in setting up the body as arms length organisations. They need to ensure that the relationship is an effective one, with each partner enabling and supporting the other in the achievement of Ministerial objectives. Sponsor departments and WGSBs also need to make sure that they share information and best practice in a relevant and timely way, and seek out opportunities to work together more effectively.

The following paragraphs attempt to summarise the more important attributes that help to ensure that the sponsorship role can be performed as effectively as possible.

Clear Understanding

Of the corporate governance framework within which WGSBs operate: a good knowledge of how the operational and business planning and annual remit setting process works and links with the Welsh Government's strategic aims and objectives; and group/divisional and branch planning. Ensuring that the WGSB understands the monitoring process and what is expected of them.

Of the financial accountability framework within which both the sponsor department and the WGSB operated: a clear knowledge of the respective roles and obligations set out in the Framework Document; the relevance and

importance of the audit process including management letters and additional assurance reports; the sensitivity of Audit Committee recommendations and their implementation;

The operational role and structure of the WGSB together with an appreciation of the problems it faces or perceives it faces and clear roles, responsibilities and accountabilities between the sponsor team and the WGSB.

Assessment of Risk

A clear and ongoing assessment of the risks involved in the sponsorship relationship and a strategy for dealing with them: for instance risks, specific or generic, arising from the nature of the WGSB's role (e.g. *differing risks associated with different bodies*). Also, specific risks relating to financial management identified in management letters; a pattern of failure in meeting strategic targets; or identifiable "blind spots" in terms of communication, which may require the sponsor team to take a more hands on role in the oversight of the WGSB.

Effective Communication

A clear structure for formal communication: in respect of data which is of mutual benefit and regular operational and business planning and the formal reporting and monitoring arrangements that fall out of these. This may include sponsorship meetings and meetings between the Chief Executive and members of the sponsor department or Director General, as appropriate, to review performance and discuss cross cutting or arising issues.

A culture of frequent but not intrusive informal communication: is important in helping to build confidence and trust, which in turn can engender openness and a willingness to share and resolve problems at an early stage. This should include informal communication between the Chief Executive and members of the sponsor department or Director General in addition to dialogue between officers. Annual information sharing/networking events should be considered, giving opportunities for policy and delivery colleagues to meet, share best practice and develop working relationships.

There is good senior level involvement: to ensure good strategic direction, and to reflect commitment to the relationship.

Effective internal communication: knowing who to contact within the Welsh Government for advice on issues such as budgeting; propriety; procurement and personnel issues: and a willingness to do so.

Inclusive policy development: an appropriate level of involvement in any policy development should be secured for the WGSB, with regular dialogue and communication continuing throughout the process.

Establishing an Authoritative Presence

The sponsorship department should act as the principal access point to the Welsh Government for the WGSB and act as a source of authoritative advice (even if that advice is acquired from elsewhere). A willingness to take ownership of such advice in communication with the WGSB is vital. Understand the communications you are passing on and be prepared to give advice.

Challenge and Scrutiny: make clear that properly structured and robust questioning of the WGSB is an essential part of the role, in support of public accountability, but this should be at a strategic rather than operational level, to avoid micro-management. Analyse proposals and make informed recommendations to third parties (e.g. Accounting Officers and Ministers).

Link with Ministers: establish agreement with Ministers on what the WGSB is meant to achieve then advocate its position firmly and with integrity.

Skills

Effective Training: Effective reciprocal induction training and specific effective sponsorship training (jointly with WGSB personnel where possible).

Consideration of the appropriateness of: desk training; short-term acclimatisation job-swaps; secondments or work shadowing; to aid understanding of roles and challenges.

Appendix A

Sponsor Function Set Out In Model Framework Document

- submission of advice to relevant Welsh Ministers and provide briefing for relevant Assembly committees on WGSB matters;
- receive and act on information provided by the WGSB under the framework document;
- check claims for, and if satisfied, authorise payment of grant-in-aid (GIA);
- communicate the Welsh Government's policy to the WGSB and advise on the interpretation of policy;
- advise Ministers on performance targets and indicators that are clear relevant and challenging;
- monitor and review WGSB performance against targets, reporting to Ministers and Assembly Committees as appropriate;
- advise Ministers on expenditure priorities and appropriate levels of GIA;
- monitor WGSBs financial position and performance against plans through regular meetings with and returns from WGSBs; and reporting to Ministers and appropriate Assembly Committees;
- issue guidance to WGSBs.

Annex 2

List of Government-Wide Corporate Guidance and Instructions

- this document;
- the Minister's annual Remit Letter to the Library;
- Managing Welsh Public Money;
- the Welsh Assembly Government Memorandum "Responsibilities of an Assembly Government Sponsored Body (AGSB) Accounting Officer";
- HM Treasury's Consolidation Officer Memorandum;
- Library's Accounts Direction;
- Corporate Governance in Central Government Departments: Code of Good Practice;
- HM Treasury's "Government Internal Audit Standards";
- HM Treasury's "Managing the Risk of Fraud";
http://www.hm-treasury.gov.uk/d/managing_the_risk_fraud_guide_for_managers.pdf
- HM Treasury's "Executive NDPBs - Annual Reports and Accounts Guidance";
- HM Treasury's "Departmental Banking: A Manual for Government Departments" (issued as Annex 5.7 of "Managing Public Money");
http://www.hm-treasury.gov.uk/d/mpm_annex5.7.pdf
- HM Treasury's "Regularity, Propriety and Value for Money"
http://www.hm-treasury.gov.uk/d/Reg_Prop_and_VfM-November04.pdf
- HM Treasury's "Green Book – Appraisal and Evaluation in Central Government";
http://www.hm-treasury.gov.uk/d/green_book_complete.pdf
- HM Treasury's Audit Committee Handbook;
<http://www.hm-treasury.gov.uk/d/auditcommitteehandbook140307.pdf>
- Cabinet Office's "Magenta Book – Guidance Notes on Policy Evaluation";
http://www.nationalschool.gov.uk/policyhub/magenta_book/index.asp
<http://www.nationalschool.gov.uk/policyhub/docs/profpolicymaking.pdf>
- Cabinet Office's Code of Practice for Public Bodies;
- the UK Evaluation Society's "Guidelines for Good Practice in Evaluation";
<http://www.evaluation.org.uk/resources/guidelines.aspx>
- UK Statistics Authority's "Code of Practice for Official Statistics" and its associated protocols;
<http://www.statisticsauthority.gov.uk/assessment/code-of-practice/code-of-practice-for-official-statistics.pdf>

- Health and Safety Commission/Department for the Environment and the Regions' "Revitalising Health and Safety";
<http://www.hse.gov.uk/revitalising/strategy.pdf>
- extant "Chief Executive Officer" letters;
- extant "Dear Accounting Officer" letters;
- extant "Dear Consolidation Officer" letters;
- Management letters from external auditors;
- other relevant instructions and guidance issued by the Welsh Ministers;
- those recommendations of the National Assembly's Public Accounts Committee, other Committees of the National Assembly; the House of Commons Committee on Public Accounts, other Parliamentary Committees or Parliamentary authority that have been accepted by the Welsh Government which are relevant to the Library.

In addition, in the conduct of its business the Library shall ensure, inter alia, that:

- it conforms with the terms of its Welsh Language Scheme;
- its functions are exercised in a manner compatible with the Welsh Ministers' duty to promote and facilitate the use of the Welsh language as set out in the Welsh Government's strategy as published from time to time;
- its functions are exercised with due regard to the principle that there should be equality of opportunity for all people;
- it adopts and maintains a scheme, approved by the Information Commissioner, for the publication of information as required by the Freedom of Information Act;
- its functions are exercised in a manner compatible with the Welsh Ministers' duty to promote sustainable development and its guiding principle of promoting social inclusion;
- its functions are exercised with due regard to the Welsh Government's Disability; Gender; and Race Equality Schemes;
- it follows the approach to openness set out in the Welsh Government's Code of Practice on Access to Information;
- it has due regard to the Commissioner for Public Appointment's Code of Practice for Ministerial Appointments to Public Bodies;
- its procurements are effected with due regard to the principles set out in the Welsh Government's Value Wales Procurement Route Planner.

As regards openness, where practicable and appropriate, the Library shall be expected to hold its meetings in public. At least one meeting per year must be an open meeting. Where practicable and appropriate, the Library shall release summary reports or make minutes of its meetings publicly available.

As regards health, safety and welfare, the Library must:

- comply with all relevant statutory duties in respect of health, safety and welfare as they relate to all its functions, projects, programmes and activities;
- require organisations that it funds and any contractors and sub-contractors to those organisations to comply similarly; and
- comply fully with UK Government policy on health, safety and welfare.

ANNEX 3

SUMMARY OF APPROVAL REQUIREMENTS AND DELEGATION LIMITS

Subject	Delegation Limit
Appointment of Chief Executive	in consultation with the Minister
Staff remuneration and terms and conditions	Amendments to overall terms and conditions require Ministerial approval
Pension arrangements and payment of redundancy or compensation	Approval of sponsor department
Corporate and Operational Plan	Ministerial approval
Establishing new subsidiary companies and joint ventures	Approval of sponsor department
Virement outside of specified limits	Approval of sponsor department
Novel, contentious or repercussive proposals	Approval of sponsor department
Any borrowing, lending, guarantees, indemnities or investment	Approval of sponsor department
Capital projects	£500k on buildings, maintenance, fixed assets, IT and land
Consultancy contracts	£50k per project unless included in wider pre-approved scheme
Single tender departures	£50k
Gifts, prizes etc	£100 per gift, £1k p.a.
Hospitality	Costs for hospitality to support essential Library business should be kept at a minimum level appropriate to the Library
Sponsorship	£2k
Losses (e.g. bad debts or loss of assets) and special payments	£2k per case; £10k aggregate in single financial year
Disposal of assets	Sponsor department approval required for disposal of assets over £10k in value
Retention of receipts over and above limit set out in remit letter	Approval of sponsor department
Carry-over	In-year – 4% of total annual gross budget End-of-year – 2% of total annual gross budget (Note purchase grant exception in 4.3.2)
Insurance	Sponsor department approval required for all insurance except cover required by statute

Purchases for the collections	£250k as the Library's contribution towards the total cost of an individual item
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National Library of Wales - Private Funds Investment Policy 2015-20

Background

The Library is required by the Charity Commission to have a reserves policy.

1. General Objectives

1.1 The objectives for the Library's private funds portfolio are to supplement the funding provided by the Welsh Government in the following areas:

- To finance the acquisition of capital assets including equipment, buildings and computer hardware and software
- To supplement the Collections Purchase Grant to enable the Library to fulfil its collections policy
- To supplement the revenue costs of providing the Library's services
- For restricted funds, to apply the funds in accordance with the terms of the bequest

1.2 The Library seeks to invest its funds in order to create sufficient income and capital growth to meet the above purposes year by year, with due and proper consideration for future needs. The Library's portfolio of investments will be balanced between income generation and capital growth according to an assessment of investment risk (detailed in section 2 below). The current asset allocation percentages are detailed in section 5.2 of this document.

1.3 The Library's Charity Reserves Policy will be to maintain a level of private funds sufficient to produce income to finance revenue costs of around £200K, but it will also allow the total value to appreciate in order that these fund area available to provide a substantial contribution towards large capital projects, and may indeed be used as match funding in order to leverage additional funds. Currently it is envisaged that the portfolio would operate within a floor of around £4M to a ceiling of £10M. At 31 March 2013 the value was around £6M.

2. Risk

2.1 In deciding on the returns that the Library requires from its portfolio, and the balance between capital growth and income, the Library is prepared to accept that there will be risks attached to the investment of funds above that of simply placing cash on deposit. The Library is prepared to accept these provided that they are within acceptable levels.

2.2 The Library's appetite for investment risk could best be described as "moderate". The Library is willing to accept that in order to achieve higher returns risks must be taken, but the Trustees will also consider the Library's position as a charity largely funded from government grant and consequently the standards of stewardship that are implied. The risks of investment will therefore be tempered by:

- **Asset allocation** - an asset allocation strategy that does not overly expose the funds to variances in on particular sector of the investment spectrum – i.e. a balance will be struck between the amount of bonds, equities, cash and other investments including property, and UK and non-UK investments (see section 5.3)

- **Quality of investments** - the Library will only consider high quality investments such as gilts and investment grade bonds, or FTSE 350 equities and collectives (see section 5.1).

For the purposes of this policy, “high quality” equities are to be defined as those companies that exhibit a long term track record of operating a business with appropriate levels of corporate governance that give assurance that management will carefully manage their risks.

3. Estimated Expenditure

3.1 The Library may draw upon capital or income without distinction. Expenditure for the next 6 years to be drawn from the portfolio, net of incoming legacies and bequests, is estimated as follows:

	£
2013/14	300,000
2014/15	350,000
2015/16	700,000
2016/17	1,250,000
2017/18	150,000
2018/19	150,000

Greater demands will be made of private funds in 2015/16 and 2016/17 in order to finance the proposed conservation centre.

4. Dividends and Interest

4.1 All surplus income may be reinvested within the portfolio.

5. Investment Selection and Asset Allocation Policy

5.1 The Library’s private funds must be invested in accordance with the Trustee Act 2000. The funds will be invested in a broad range of fixed interest and index linked bonds – gilts and investment grade corporate bonds. Equities will be included within the FTSE 350 index. Exposure to overseas markets (i.e. outside the UK) and specialist areas such as small companies, technology, pharmaceuticals, property, etc, will be via unit trusts, open ended investment companies and investment trusts which are authorised under the Financial Services and Markets Act .

5.2 The standard criteria governing the investment of the funds will be:

- Objective: balance between growth and income
- Risk: medium
- Mandate: discretionary

5.3 The portfolio mix will fall within the following broad planning ranges for asset allocation:

	%
UK Equities	40-60
Non-UK Equities	10-20
Fixed Interest	25-50
Other Assets	0-10
Cash	0-20

5.4 No initial investment should exceed 10% of the total value of the funds under management and the total sum of all equity holdings in excess of 5% must not be equal to or exceed 40% of the funds value at any time

5.5 Investments in negotiable instruments known as “derivatives” are not permitted in any circumstances.

5.6 In accordance with Charity Commission guidance, there is no particular case to exclude investment in any company on the grounds that their activities would be in conflict with the objectives of the Library. As a charity the Library has a duty to deliver the best overall return from its investments in order to continue the furtherance of its objectives.

5.7 However, having carefully considered the issue of ethical investments the Library has decided that it would not wish to invest directly in any companies that would pose a significant reputational risk in respect of its status as a responsible national institution.

5.8 Consequently, while not preventing investment in any particular company, the Library requires the investment manager to consider the possible damage to its reputation in respect of companies that involve products or activities that are either wholly, or significantly involved in the following areas:

- Military
- Alcohol
- Gambling
- Tobacco
- Pornography
- Animal welfare
- Environmental damage and pollution
- Genetic engineering
- Employee exploitation
- Unethical or immoral activities that are carried out as part of an otherwise legitimate business

5.9 The Library’s expectation is that, prior to investment in any company, the investment manager will use their knowledge of businesses operating in these areas to assess potential ethical issues that would represent a significant risk to the Library’s reputation. It is not the Library’s expectation that the investment manager will be able to anticipate all the ethical issues that may arise, but that in assessing the decision to invest or not in a business that the possible consequences of ethical issues not just on the value of the investment, but also the ability of the Library to justify why such an investment was deemed appropriate at the time, is taken into account.

6. Investment Manager

6.1 The investment manager will; be required to confirm that they are an authorised person within the meaning of the Financial Services and Markets Act 2000, to be appointed as investment manager with delegated discretionary powers of investment, subject to the scope and limitations above. They will confirm, by signing this memorandum, that they will comply with the policy and arrangements, including the

reporting requirements set out below, and that they will not depart from them save with the express approval of the Library.

6.2 Remuneration – will be decided as part of the contract arrangements..

6.3 AAF Assurance Report on Internal Controls – the investment manager will produce this report in respect of its nominee company annually.

6.4 The investment manager will provide evidence of the firms insurance cover on request

7. Reporting requirements

7.1 The investment manager will attend meetings with the Library at regular intervals to be agreed separately, but would receive monthly reports in respect of the following:

- A full listing of the investments with details of their cost, current market value, estimated income and income yield
- Statistics detailing the fund's performance
- Details of purchases, sales and realised gains and losses since the previous report
- Details of any non-market transactions, rights issues, capitalisations, etc
- Review of any outlook for the markets
- Fund Managers' monthly comment

7.2 The Treasurer and Director of Corporate Services will scrutinise the investment portfolio annually at a meeting with the investment manager. The Board of Trustees will receive a report from the investment manager annually.

8. Cash Deposits

8.1 Cash deposits are placed with approved banks with suitable credit ratings
Cash deposits may also be retained by the investment manager as part of the investment portfolio.

9. Custody

9.1 The investment manager will provide the Library with sufficient evidence of satisfactory custodial arrangements.

10. Benchmarking

10.1 The performance of the fund will be measured against an agreed benchmark

11. Annual Review

The foregoing policy and arrangements will be reviewed at least annually by the Trustees

12. Authorised Parties

Investec Ltd are authorised by the Trustees to take instructions regarding the portfolio from the following members of staff:

- Director of Corporate Services
- Librarian

Agreed by:.....

Date:.....

On behalf of the National Library of Wales, Penglais, Aberystwyth, SY23 3BU

Countersigned:.....

Date:.....

On behalf of Investec Ltd, 2 Gresham Street, London, EC2V 7QN

Date of version: August 2013

Charities and reserves



The Charity Commission

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. Most charities must register with the Commission, although some special types of charity do not have to register. There are over 160,000 registered charities in England and Wales. In Scotland the framework is different, and the Commission does not regulate Scottish charities.

The Commission provides a wide range of advice and guidance to charities and their trustees, and can often help with problems. Registered charities with an annual income over £10,000 must provide annual information to the Commission. The Commission has wide powers to intervene in the affairs of a charity where things have gone wrong.

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A. Introduction

A1. What is this guidance about?

This guidance is written for trustees of all types of charities, whether they are companies, trusts or associations. It explains what is meant by the term reserves, the trustees' responsibility to consider whether their charity needs reserves, and what to bear in mind when developing a policy on reserves. This guidance is relevant to charities of all sizes. In annex 2 it describes some of the additional factors that may be relevant to larger and more complex organisations when setting a reserves policy.

It also looks at how trustees must report their reserves policy in their annual report in a way that meets the requirements of the Statement of Recommended Practice: Accounting and Reporting by charities (the Charities SORP) and legal requirements of the Charities (Accounts and Regulations) 2008 (the Regulations).

Exempt charities are not required by the **Charities Act** to prepare an annual report and therefore no specific legal requirement is placed on them to report their reserves policy. However, most exempt charities will prepare an annual report under other requirements. Registered Social Landlords and Higher and Further Education Institutions have their own more specialist SORP's which require the preparation of an annual report. Trustees of exempt charities must therefore consider any specific requirements placed upon them by their own statutory regime and any relevant SORP. We strongly recommend that trustees of exempt charities follow this guidance when setting a reserves policy and report on that policy in their annual report as a matter of good practice.

Similarly, charities which are excepted from registration are not required by charity law to prepare an annual report. Nevertheless, many excepted charities do choose to prepare an annual report. In such cases the annual report should include a statement of their reserves policy in line with the Charity SORP's principles. The Charity Commission can also require excepted charities to file an annual report and in such instances a statement of reserves policy is a legal requirement.

A2. How has the guidance changed?

This guidance updates our previous publication *Charities' Reserves* (CC19), published in March 2008. It presents the guidance in a new and accessible format and provides additional guidance for trustees on the questions and factors to consider when developing their reserves policy.

A3. What do we mean by 'must' and 'should'?

In this guidance, where we use 'must', we mean it is a specific legal or regulatory requirement affecting the trustees. Trustees must comply with these requirements. To help you easily identify those sections which contain a legal or regulatory requirement we have used the **L** symbol next to the short answer in that section.

We use 'should' for items we regard as minimum good practice, but for which there is no specific legal requirement. Trustees should follow the good practice guidance unless there's a good reason why they should not.

A4. Terms and definitions

The following terms are used throughout this guidance and should be interpreted as having the specific meanings given below.

Annual report means the Trustees' Annual Report prepared under the Charities Act.

Charities SORP means the Statement of Recommended Practice: Accounting by Charities published by the Charity Commission that was last revised in 2005. It sets out the recommended practice for the purpose of preparing the trustees' annual report and preparing accounts on an accruals basis. The accounting recommendations of the SORP do not apply to charities preparing receipts and payments accounts.

Designated funds are part of the unrestricted funds which trustees have earmarked for a particular project or use, without restricting or committing the funds legally. The designation may be cancelled by the trustees if they later decide that the charity should not proceed or continue with the use or project for which the funds were designated.

Endowment funds are funds which the trustees are legally required to invest or to keep and use for the Charity's purposes. Endowment may be expendable or permanent.

Expendable endowment is an endowment fund where the trustees have the power to convert the property (ie land, buildings, investments or cash) into 'income'. It is distinguishable from 'income' by the absence of a positive duty on the part of the trustees to apply it for the purposes of the charity, unless and until this power to convert into 'income' is actually exercised.

Governing document means any document which sets out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, constitution, conveyance, will, memorandum and articles of association, Royal Charter or Scheme of the Commission.

Income and income funds means all incoming resources that become available to a charity and that the trustees are legally required to spend in furtherance of its charitable purposes within a reasonable time of receipt. Income funds may be unrestricted or restricted to a particular purpose of the charity.

Material or materiality: A material fund is one which the trustees or their auditor or independent examiner judge to be of such importance that its omission or misstatement would affect the reader's understanding of the accounts. Materiality depends on the size, amount or importance of the fund in relation to the total unrestricted and restricted funds managed by the trustees.

Permanent endowment is property of the charity (including land, buildings, cash or investments) that the trustees may not spend as if it were income. It must be held permanently, sometimes to be used furthering the charity's purposes, sometimes to produce an income for the charity. The trustees cannot normally spend permanent endowment without our authority. The terms of the endowment may permit assets within the fund to be sold and reinvested, or may provide that some or all of the assets are retained indefinitely (for example, in the form of a particular building).

Programme related or social investment is not 'investment' in the conventional sense of a financial investment. Conventional investments involve the acquisition of an asset with the sole aim of financial return which will be applied to the charity's objects. Programme related or social investments, by contrast, are made directly in pursuit of the organisation's charitable purposes. Although they can generate some financial return, the primary motivation for making them is not financial but the actual furtherance of the charity's objects.

Regulations refer to the Charities (Accounts and Reports) Regulations 2008 (SI 2008 No. 629) which set out the required form and content of the trustees' annual report and the scrutiny and accounting arrangements for charities. These Regulations apply to the annual reports of charitable companies incorporated under company law and non-company charities for accounting periods beginning on or after 1 April 2008.

Restricted funds: Restricted funds are funds subject to specific trusts, which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are spent at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity, or they may be endowment funds, where the assets are required to be invested, or retained for actual use, rather than spent.

Risk is used in this guidance to describe the uncertainty surrounding events and their outcomes that may have a significant financial impact. Risk may either enhance or inhibit any area of a charity's operations.

Statutory audit: Where the term statutory audit is used this refers to the requirement in charity law for an audit to be carried out where the charity's gross income and/or assets exceed the relevant threshold. An audit must be undertaken by a person who is eligible for appointment as auditor of a company, or a person approved by the Commission in accordance with the Regulations.

Subsidiary trading company is any non-charitable trading company owned by a charity or charities to carry on a trade on behalf of the charity or charities.

Trustee means a charity trustee. Charity trustees are the people who are responsible for the general control and management of the administration of the charity. In the charity's governing document they may be collectively called trustees, the trustee board, managing trustees, the management committee, governors or directors, or they may be referred to by some other title.

Unrestricted funds (including designated funds): Unrestricted income funds are income or income funds which can be spent at the discretion of the trustees in furtherance of any of the charity's objects. If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the trustees' discretion to spend the fund.

B. Key points about charity reserves

This section summarises the main points for charity trustees when considering reserves and when setting or reporting on their charity's reserves policy. This guidance is based on the requirements of charity law, the Charities SORP and good practice. In particular:

- Charity law requires any income received by a charity to be spent within a reasonable period of receipt. Trustees should be able to justify the holding of income as reserves.
- Reserves are that part of a charity's unrestricted income funds that is freely available to spend.
- Where the trustees have a reserves policy, this policy must be set out in the trustees' annual report.
- If the trustees have not set a reserves policy, this should be stated in the trustees' annual report.
- A good reserves policy takes into account the charity's financial circumstances and other relevant factors.
- It is good practice to monitor the level of reserves held throughout the year.
- It is good practice to keep the reserves policy under review to ensure it meets a charity's changing needs and circumstances.

C. Understanding reserves and the need for a reserves policy

C1. What are reserves?

The short answer

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending.

In more detail

The Charities SORP defines reserves as that part of a charity's income funds that is freely available to spend. Reserves therefore exclude endowment or restricted income funds which have particular restrictions on how the funds may be used. Trustees need to consider how the funds of the charity are held and how they are being used in order to identify those resources that are freely available to spend.

Unrestricted funds

The starting point for calculating the amount of reserves held will normally be the amount of unrestricted funds held by a charity. However, part of the unrestricted funds of a charity may not always be readily available for spending. Examples of this are:

- Tangible fixed assets: the Charities SORP specifically allows funds held as tangible fixed assets for charity use to be excluded from reserves. This recognises that certain assets will be used operationally and their disposal may adversely impact on a charity's ability to deliver its aims.
- Programme-related investments: where a charity makes programme-related investments solely to further its charitable purposes, then such investments can be excluded from reserves.
- Designated funds: where unrestricted funds are earmarked or designated for essential future spending, for example, to fund a project that could not be met from future income alone they can be excluded from reserves. In such cases the reserves policy should explain the nature and amount of the designation and when the funds set aside are likely to be spent. It is never acceptable to set up designations simply to reduce the stated level of reserves.

Restricted funds

Restricted funds fall outside the definition of reserves, but the nature and amount of such funds may impact on a charity's reserves policy. Where significant amounts are held as restricted funds the nature of the restriction should be considered, as such funds may reduce the need for reserves in particular areas of the charity's work. These factors and their potential impact on the reserves policy are explained in Annex 2 of this guidance.

Reserves held by subsidiaries

A charity may carry out activities through one or more trading subsidiaries and, in such cases, group or consolidated accounts may be required. Group accounts show the activities and resources of the charity and its subsidiaries. Where group accounts are prepared, the annual report will provide a narrative of the group's activities. In particular, the amount of reserves stated must take account of the net assets of subsidiaries.

C2. Why is a reserves policy important?

Short answer

A reserves policy explains to existing and potential funders, donors and other stakeholders why a charity is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the charity's finances are being managed and can also provide an indicator of future funding needs.

The Charities SORP requires a statement of a charity's reserves policy within its annual report. In addition, if a charity operates without a reserves policy, the Regulations require this fact to be stated in the annual report.

In more detail

Deciding the level of reserves that a charity needs to hold is an important part of financial management and forward financial planning. Reserves levels which are higher than necessary may tie up money unnecessarily. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities, reducing the potential benefits a charity can provide. However, if reserves are too low then the charity's solvency and its future activities can be put at risk.

All charities need to develop a policy on reserves which establishes a level of reserves that is right for the charity and clearly explains to its stakeholders why holding these reserves is necessary.

A reserves policy provides essential accountability to funders, donors and other stakeholders. A good reserves policy will explain how reserves are used to manage uncertainty and, if reserves are held to fund future purchases or activities, it will explain how and when the reserves will be spent. A reserves policy provides assurance that the finances of the charity are actively managed and its activities are sustainable. In particular, a reserves policy can help to:

- give confidence to funders by demonstrating good stewardship and financial management;
- demonstrate the charity's sustainability and capacity to manage unforeseen financial difficulties;
- give voluntary funders, such as grant-makers, an understanding of why funding is needed to undertake a particular project or activity;
- give assurance to lenders and creditors that the charity can meet its financial commitments; and
- manage the risk to a charity's reputation from holding substantial unspent funds at the year-end without explanation.

Developing a reserves policy is also an important part of the internal financial management of a charity. Developing a reserves policy is likely to:

- Assist in strategic planning, for example, considering how new projects or activities will be funded.
- Inform the budget process, for example, is it a balanced budget or do reserves need to be drawn down or built up?
- Inform the budget and risk management process by identifying any uncertainty in future income streams.

We recommend that charities develop their reserves policy in an integrated manner, recognising that strategic and financial planning informs the development of reserves policies and vice versa. For example, the budgets will identify peaks and troughs in cash flow and the reserves policy will need to ensure the troughs in funding can be met from reserves held.

C3. How should a reserves policy be developed?

Short answer

Trustees need to understand the nature of any restrictions on the use of the charity's funds they hold. Budgets and future plans need to be considered, in particular any uncertainty over future income or the risk of unexpected calls on the charity's funds. In looking at future plans, projects or other spending needs might be identified that cannot be met from the income of a single year's budget alone. The identification of these factors might point to a need for reserves.

Having identified why reserves might be needed, trustees then need to think about how much might be required and how much is currently held as reserves. The decision made on these matters and the quantification of the amounts that need to be set aside forms a charity's reserves policy.

In more detail

There is no single method or approach to setting a reserves policy. The approach adopted will vary with the size, the nature and complexity of activities and the nature of funds received and held by a charity. However, for all charities, setting a reserves policy will involve:

- Consideration of the nature of the funds received and held by the charity – are the funds unrestricted or restricted income, or expendable or permanent endowment? This understanding allows trustees to identify unrestricted funds which can be spent on any purposes of the charity.
- Larger charities are likely to have a formal risk management process. But all charities need to think about uncertainties they may face in the future and the need to hold some reserves to meet an unexpected call on funds or opportunities that may present themselves.
- Larger charities are likely to have strategic and operational plans. But all charities need to think about their future budgets and future projects or spending plans that cannot be met from the income of a single year.

By working through these steps the trustees will be well placed to identify why reserves might need to be held and to quantify the amounts of reserves needed to operate effectively.

Once a reserves policy is set, it should not be regarded as a static policy. The circumstances of a charity will change with time and we recommend that the policy should be reviewed at least annually as part of a charity's planning processes. The amount held in reserves should also be monitored during the course of the year as part of a charity's budgetary processes.

Annex 1 of this guidance sets an approach to setting a reserves policy that can be used by smaller charities which do not hold significant amounts of endowed funds, property or operate a defined benefit pension scheme or carry out activities through trading subsidiaries.

Annex 2 of this guidance sets out an integrated approach for larger charities with more complex activities and structures. An integrated approach to setting a reserves policy will see the development of a reserves policy as a product of strategic and operational planning and budgetary processes.

C4. What level or range of reserves is required?

Short answer

There is no single level or even a range of reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity. To do this, trustees need to know why the charity should hold reserves and, having identified those needs, the trustees should consider how much should be held to meet them.

In more detail

The charity's target level of reserves can be expressed as a target figure or a target range and should be informed by:

- its forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources;
- its forecasts for expenditure for the current and future years on the basis of planned activity;
- its analysis of any future needs, opportunities, commitments or risks, where future income alone is unlikely to be able to meet anticipated costs; and
- its assessment, on the best evidence reasonably available, of the likelihood of each of those needs that justify having reserves arising and the potential consequences for the charity of not being able to meet them.

Trustees who hold reserves without attempting to relate their need for reserves to factors such as these will have difficulty in satisfactorily explaining why they hold the amount of reserves that they do.

C5. What steps should trustees take to maintain and monitor reserves at the target level?

Short answer

Reserves are held to help the charity operate effectively. Trustees should keep their reserves policy and the level of reserves held under review. Trustees should also monitor the level of reserves held throughout the year. In this way trustees will be aware of the build up of excess reserves or of reserves being unexpectedly or rapidly depleted.

In more detail

Having set the reserves level or range in which it is desirable to operate, it is important to monitor the reserves actually held to establish the reason for any significant difference with the target level set. If reserves during the year are below target or exceed target, the trustees should consider whether this is due to a short-term situation or a longer-term issue. Action may be needed to replenish or spend reserves.

The trustees' monitoring of reserves should not just be a year-end procedure. How the level of reserves changes during the year can be a good indicator of the underlying financial health of the charity and can be an indicator of potential problems. The level of reserves should be monitored throughout the year as part of the normal monitoring and budgetary reporting processes.

In particular, trustees should:

- identify when reserves are drawn on so that they understand the reasons and can consider the corrective action, if any, that needs to be taken;
- identify when reserve levels rise significantly above target so that they understand the reasons and can consider the corrective action, if any, that needs to be taken;
- identify where the reserves level is below target, consider whether this is due to short-term circumstance or longer term reasons which might trigger a broader review of finances and reserves;
- regard the ongoing review of the reserves level, target and policy as part of managing the charity;
- ensure that the reserves policy continues to be relevant as the charity develops or changes its strategy and activities;
- review the statement on reserves in the trustees' annual report where there have been significant changes in the reserves policy or level of reserves held.

Charities with very low or no reserves which face financial difficulty should also read our guidance *Managing financial difficulties and insolvency in charities* (CC12).

D. Explaining reserves in the annual report

D1. Must we explain our reserves in our annual report?

The short answer **L**

Yes, the Charities SORP requires all charities preparing accruals-based accounts, other than those charities following a more specialist SORP, to set out their reserves policy in their annual report. The Regulations also require a charity that does not have a reserves policy to state this fact in their annual report.

In more detail

The Charities SORP requires trustees to include in their annual report:

- a statement of their policy on reserves;
- the level of reserves held and an explanation of why they are held;
- where material funds have been designated, the amount and the purpose of the designation should be explained;
- where designated funds are set aside for future expenditure, the likely timing of that expenditure.

These requirements of the Charities SORP are given legal force by the Regulations which also require a statement in the event of a charity not having a reserves policy.

Our guidance publication [Charity Reporting and Accounting – the essentials April 2009 \(CC15b\)](#) provides a helpful checklist of the content of an annual report.

D2. What happens if our charity has no need of reserves or has excess reserves?

Short answer

It would be unusual for a charity, of any size, to operate without any reserves. However, if trustees conclude that the charity can prudently carry out its planned activities without reserves then this should be explained in their annual report. If a charity has excess reserves then trustees should consider how these funds might be effectively used in the future. If the resources are more than it could reasonably use to fulfil all of its purposes then the trustees should contact us to discuss whether the purposes of the charity should be amended to enable the charity to operate more effectively.

In more detail

Reasons for not having reserves

Whilst it would be unusual for a charity to choose to operate without any reserves, our earlier study, *Small charities and reserves (RS5)*, found that in some cases trustees deliberately chose to hold no reserves. Some trustees budgeted to spend all the income received each year on the charity's activities.

Such a policy can create financial risk from the possibility of unforeseen expenditure, a shortfall in income or an inability to control costs. Trustees choosing to adopt a 'zero level' reserves policy should consider the financial and other risks inherent in such a policy and must explain their policy in the Trustees' Annual Report.

Charities with more resources than they need

A charity with excess reserves should consider whether these funds could be effectively spent on the charity's purposes. If a charity has more resources than it needs to fulfil all of its purposes then the trustees should contact us to discuss whether the purposes of the charity should be amended to enable the charity to operate more effectively.

E. Other questions about reserves

E1. Can a charity invest its reserves?

Short answer

Yes, reserves can be invested. However, by their nature, reserves tend to be resources that may be needed in the short- to medium-term. Trustees therefore should ensure that reserves are invested in a way can be readily realised as cash, when needed.

In more detail

When significant resources are held in reserves from year to year, the trustees should consider whether some or all of the reserves can be invested to obtain a financial return for the charity. In making the investment decision, the trustees should consider when the reserves might be needed (liquidity of the investment) and the acceptable level of investment risk.

The investment policy adopted will need to reflect the trustees' assessment of the likelihood that some or all of the reserves held may need to be accessed at short notice. Certain investments are more appropriate as long-term holdings and may be unsuitable or too high risk when it is known that a specific amount of cash will be needed in the short-term or at short notice to meet urgent need.

For charities with small sums to invest their investment policy for reserves may be very straightforward, such as holding any surplus funds with a UK bank or building society in an interest bearing account linked to the charity's current account with the provision for same-day money transfer.

Where the amount of reserves held is large and the trustees decide to invest all or part of those reserves in a wider range of investments than simply on deposit, then a more detailed analysis of why the reserves are held and how quickly those reserves may need to be accessed may be required. This should involve a more detailed consideration of the risks for which the reserves may be needed and the time frame in which cash might be required. Investing reserves in assets other than cash also involves a greater degree of investment risk. For example, investing in shares and corporate bonds offers the potential of a higher investment return but also carries a greater risk of loss.

Charities subject to statutory audit are required by the Charities SORP and the Regulations to set out their investment policy, including their investment objectives and the performance of the investments against those objectives in the trustees' annual report. This requirement also applies to invested reserves.

For further advice on investments refer to our guidance [Charities and Investment Matters: A guide for trustees \(CC14\)](#) – more detailed guidance is also available on our website for those that require it.

E2. What is the legal basis for holding and reporting reserves?

The short answer **L**

Trustees of every charity must ensure that the charity's funds are used appropriately, prudently, lawfully and in accordance with the charity's purposes for the public benefit. The general principle of trust law is that funds received as income should be spent within a reasonable period of receipt. The holding of reserves will be authorised either by using an express or implied power to hold reserves. Trustees are justified in exercising their power to hold income reserves, whether express or implied only if, in their considered view, it is necessary in the charity's best interests.

In more detail

Charity trustees have a general legal duty to spend income within a reasonable time of receipt. Trustees may spend this income to fund charitable activities, in acquiring assets to use in the charity's work, and in meeting the day to day running costs of the charity. To hold income in reserve rather than spending it, trustees rely on an explicit or implicit power to hold reserves and they must use that power in the charity's best interests.

The charity's governing document may, in some cases, explicitly give the trustees an express legal power to hold income in reserve instead of spending it promptly. This power is not common but it is still worth checking the governing document in case there is such an express power to hold reserves.

The more common situation is that trustees will have to rely on their implied power to hold reserves. An implied power will not be written into the governing document but is a power implicit in trustees' duties enabling them to take actions which are necessary for the charity to function properly. Trustees are justified in exercising their power to hold income reserves, whether express or implied, only if in their considered view it is necessary to do so in the charity's best interests.

The power to hold reserves needs to be used appropriately by trustees. If the power is used without justification then the holding of income in reserve might amount to a breach of trust. A failure to report on the reserves policy adopted can indicate that trustees have not exercised their legal power correctly. However, good reporting of a charity's reserves policy can help to demonstrate the legal power to hold reserves has been properly used.

E3. Can trustees accumulate income funds?

The short answer **L**

A power to accumulate income by adding income to the capital of an endowment fund should not be confused with holding income as reserves. A small number of charities have a power in their governing document to add income of the charity to capital of an endowment fund. Income cannot be accumulated in this way unless the trustees have an express power that allows them to do so.

In more detail

On occasions, some charities inappropriately add income to the capital of their endowment funds. On other occasions, some charities have, over a number of years, inappropriately invested income to build up a fund which is regarded by the trustees, for all practical terms, as an endowed fund unavailable for spending. These practices are unacceptable unless there is an express power to accumulate.

If trustees want to accumulate income they should check their governing document to see if there is a power of accumulation which allows trustees to convert income into endowment. Converting income into endowment takes the converted resource outside the scope of reserves (since the definition of reserves does not include any endowment funds).

Even if trustees have a power to do so, trustees can only accumulate for a maximum period of 21 years from the first day when the income can be accumulated or, where the governing document so provides, for the period up to the death of the settler (section 14 of the Perpetuities and Accumulations Act 2009 which came into force on 1 April 2010). It is possible for the court or the Commission to authorise accumulation for a period longer than the statutory maximum in appropriate circumstances.

If funds are accumulated without a power to convert them to endowment then they continue to be income funds. Such accumulated unrestricted income funds count as reserves and must be reported as such in the annual report.

In some circumstances there may be doubt as to whether a donation or legacy is a gift of income or endowment funds. If any evidence exists, or can be inferred, from the circumstances of the donation or legacy, that a donor or testator had a specific intention one way or the other, the trustees must treat the gift or legacy accordingly. If there is no evidence to the contrary the donation must be treated as income and used in a way that is consistent with any terms of the gift and the charity's governing document.

E4. What are the tax issues involved in holding reserves?

Short answer

The justifiable retention of reserves should not have any adverse tax implications.

In more detail

Much of the income received by charities is exempt from Income Tax and Corporation Tax provided that the money is used for charitable purposes only. HM Revenue & Customs' normal practice is to allow tax exemption on income which either has been expended for charitable purposes or has been invested for the benefit of the charity.

Tax exemption is not available if either:

- the income has been invested in an investment which is not a "qualifying investment" (within the meaning of Schedule 20 of the Income and Corporation Taxes Act 1988). Investments made for the benefit of a charity and not for the avoidance of tax are likely to count as qualifying investments, but trustees in any doubt whether or not an investment is a qualifying investment will need to take advice; or
- the income is retained by the charity without being placed on deposit or otherwise invested for an excessive period.

Trustees should refer to the [HM Revenue & Customs website for further information](#) on income tax and corporation tax exemptions and reliefs for charities particularly if the charity or its subsidiaries undertake non-charitable trading activities.

E5. Can charities fundraise and apply for grants or contracts if they have reserves?

Short answer

Yes. It is important when fundraising that trustees maintain the confidence of the public in their charity by being open and transparent about their charity's need for funds. If the charity has excess reserves, the trustees should ensure that they do not misrepresent the urgency or need for funds.

When a charity is applying for a grant or is bidding for a contract, it is important that the funder understands the charity's reserves policy and that the policy explains and justifies the reserves held.

In more detail

Every charity is responsible for ensuring that its appeals do not misrepresent the charity's financial position. This is the case whether the appeals are for voluntary public donations, corporate donations, legacies, grants or any other form of income, and whether they are made by advertising, direct mail, in person or by any other method.

If a charity is widely believed to have large reserves, further appeals for funds may provoke resentment against the charity for apparently seeking funds it does not need. In wording its appeals, and in dealing with any reaction to the appeals, trustees should take care not to give anyone the wrong impression about the extent or urgency of their charity's need for funds.

Some charities can have difficulties with the way their reserves are viewed by funders. If the reserves appear too large, there may be an assumption that the charity does not have a need for additional funds. If the reserves appear too low, there could be a refusal to fund on the basis that the charity's finances are unstable and the charity may be at risk of financial difficulty or insolvency.

Trustees should ensure that they can explain their reserves policy to funders by showing that:

- the reserves held are based on a policy and a clear understanding of what the money is to be used for;
- the charity is operating with sufficient reserves to avoid financial difficulties;
- reserves are an essential element of strategic planning; and
- the charity is being open to their stakeholders about the level of reserves.

Where trustees are seeking grants or contracts from funders they should ensure that they:

- understand the funder's policy towards applicants' reserves;
- seek opportunities to explain to the funder their charity's reserves policy and reasons for the level of reserves held; and
- present the charity's reserves policy and reserves level in a positive way that is understood.

F. Further information

Other Commission publications

Our website offers a wide range of easily accessible online services, tools, information and guidance. Before contacting us for advice or help you might like to search our online database of frequently asked questions. Most people can find the answer they need without making a phone call or writing an email. Alternatively, our Contacting us page is linked to from the top and bottom of every webpage.

For further information you may find it useful to refer to the following Charity Commission publications:

Managing financial difficulties and insolvency in charities (CC12)

Charities and Investment Matters: A guide for trustees (CC14)

Charity Reporting and Accounting: The essentials April 2009 (CC15b)

Charities and Risk Management: A guide for trustees (CC26)

Changing your charity's governing document (CC36)

Schemes (OG500)

Small Charities and Reserves (RS5)

Charity reserves and defined pension schemes

F2. Other sources of information

The SORP is available as a free PDF download, but you can also buy a printed copy:

- [Download the SORP as a PDF file](#)
- [Find out how to order a printed copy of the SORP](#)

F3. External organisations

Charity Finance Group (CFG)

Charity Finance Group is a membership charity specialising in helping charities manage their accounting, taxation, audit and other finance related functions. CFG publish a range of Made Simple Guides including 'reserves policies made simple' which provides another perspective on developing a reserves policy.

Charity Finance Group

CAN Mezzanine

49-51 East Road

London

N1 6AH

Tel: 0845 345 3192

Website: www.cfg.org.uk

HM Revenue and Customs

HMRC is the department responsible for collecting and administering certain taxes. It provides information on a wide range of issues including tax issues relating to charities.

Telephone: 0845 302 0203 (a helpline for charities)

Website: www.hmrc.gov.uk

The National Council for Voluntary Organisations (NCVO)

The NCVO is a national charity that provides support and a wide range of information for voluntary and community organisations. Its website offers advice on various issues connected with risk management in the third sector.

Included within Advice and Support is an NCVO guide called 'Reserves policy for smaller organisations'.

NCVO

Regent's Wharf

8 All Saints Street

London

N1 9RL

Tel: 020 7713 6161

Website: www.ncvo-vol.org.uk

Wales Council for Voluntary Action (WCVA)

The voice of the voluntary sector in Wales. It represents the interests of, and campaigns for, voluntary organisations, volunteers and communities in Wales. WCVA provides a comprehensive range of information, consultancy, funding, management and training services. Charities can use the WCVA website to find their nearest County Voluntary Council (CVC).

WCVA produces Information Sheets to help trustees. The Information Sheet called 'managing money' includes a section on reserves.

Wales Council for Voluntary Action

Baltic House

Mount Stuart Square

Cardiff Bay

Cardiff CF10 5FH

Helpline: 0800 2888 329

Website: www.wcva.org.uk

Annex 1: A simple approach to developing a reserves policy

The following three questions are designed to help guide trustees of smaller charities through the issues that need to be considered when developing their reserves policy. Trustees managing charities with more complex activities or structures may find that this approach does not go into enough detail and should look at the guidance given in Annex 2 instead.

Question 1. Why might you need reserves for the charity to be effective?

The basis of a good reserves policy is thinking through exactly why you might need to hold back some funds as reserves. In a small charity, with a simple structure and uncomplicated activities, the reasons might include:

- a) The risk of unforeseen emergency or other unexpected need for funds, eg an unexpected large repair bill or finding 'seed-funding' for an urgent project.
- b) Covering unforeseen day-to-day operational costs, eg employing temporary staff to cover a long-term sick absence.
- c) A source of income, eg a grant, not being renewed. Funds might be needed to give the trustees time to take action if income falls below expectations.
- d) Planned commitments, or designations, that cannot be met by future income alone, eg plans for a major asset purchase or to a significant project that requires the charity to provide 'matched funding'.
- e) The need to fund short-term deficits in a cash budget, eg money may need to be spent before a funding grant is received.

If, after considering the above, you think that reserves are needed please go to question 2. If you conclude that your charity does not need to hold any reserves, then you must explain that in your annual report.

Question 2. How much do you need in reserve?

The reserves level may be a target amount or a target range. For example, for each reason set out in question 1:

- a) An amount might be needed to meet an unforeseen emergency or other unexpected need – consider risks and how much might be needed for such contingencies; this will involve judgement of events that may occur and their likelihood.
- b) Look at your expenditure budget – do you need a small contingency fund to meet unforeseen operational costs?
- c) Uncertainty over future income might mean having reserves equivalent to a number of weeks of income equivalent to a range of £x to £y, to allow time to develop new sources of income or to cut-back on related expenditure.
- d) A planned spending commitment which cannot be met from future income would imply a need for a specific sum to be set aside – often this amount will be included within designations in accounts.

- e) An amount might be needed to cover 'troughs' in the cash budget - review budgets to ascertain how much might be needed.

In summary, the financial risks you identify should influence the amount of reserves you target to hold and be explained in your reserves policy.

Question 3. Have you got any funds in reserve at the end of the year?

The final step is to compare what you might need in reserve with what you actually hold. You should:

- Calculate the amount of any reserves according to the definition of reserves given in section C1 of the guidance.
- State the amount of reserves held and compare with the target amount or target range set for reserves.
- Explain any shortfall or excess in reserves against target set.
- Explain any action being taken or planned to bring reserves into line with your target.

Where the difference is small, no action may be needed.

Information about the reserves policy and the level of reserves held must be included in the Trustees' Annual Report.

Annex 2: An integrated approach to developing a reserves policy for a charity with more complex activities and structures

Trustees of charities with more complex activities and structures need to take into account a broader range of factors when developing their reserves policy. These charities will be undertaking a greater range of activities or be funding a scale of operations much greater than that of charities with simpler affairs. For example they may be undertaking primary purpose trading or providing goods or services under contract. They are likely to hold a number of restricted funds, employ staff and may own buildings or operate trading subsidiaries.

Setting a reserves policy is not a task undertaken in isolation. A reserves policy is a product of a charity's strategic planning, budgeting and risk management processes. These processes provide trustees with the information they need to establish exactly why they might need reserves and to help them quantify that need. The steps involved in these processes are interrelated with the outcome of one process informing another. For example, identified financial risks will inform both budgeting and the reserves policy. Setting a reserves policy can be approached in different ways. This annex presents one approach and is set out as steps in a process, but it is important to remember each of these steps is connected.

Step 1 – Understanding the nature of charitable funds held;

Step 2 – Identifying functional assets;

Step 3 – Understanding the financial impact of risk;

Step 4 – Reviewing sources of income;

Step 5 – Impact of future plans and commitments;

Step 6 – Agreeing a reserves policy.

When taking each of these steps, trustees should reflect on the guidance and think through how it applies in the circumstances of their own charity. From this they can develop their reserves policy. Not every factor will apply to every charity. Similarly, some factors may have a greater influence than others in shaping the trustees' thinking in developing their reserves policy.

Step 1 Understanding the nature of charitable funds held

Reserves are that part of a charity's unrestricted income fund that is freely available to spend on any of the charity's purposes. To set a reserves policy, it is vital for trustees to understand any restrictions on the use of the charity's funds. In certain circumstances holding restricted funds may reduce the need to hold reserves for particular purposes.

Restricted funds can only be used for particular purposes of a charity that are narrower than the overall charitable purposes of the charity. Restricted funds include endowments and restricted income funds are excluded from the definition of reserves. However, the nature and amount of restricted funds may influence the amount of reserves held by a charity.

For example, an overseas aid charity may operate on a worldwide basis but have a restricted income fund for the area of Asia. A restricted income fund for Asia, which is not otherwise limited in its use, means that any of the activities and programmes in Asia can be funded from that restricted income fund. This flexibility can reduce or remove the need for the charity to hold unrestricted funds in reserve for its activities in Asia.

Expendable endowment is excluded from the definition of reserves. Nevertheless, expendable endowment offers trustees considerable flexibility in how they may use the funds, and this may influence the amount of reserves trustees choose to hold. Expendable endowment, when invested, can provide a relatively secure stream of income but the trustees also have the option of spending all, or part, of the endowment. This freedom may reduce the need for reserves, especially where the charity is not wholly dependent upon the investment income provided by the expendable endowment to fund its activities.

However, where charities with an expendable endowment depend on the investment income to fund core or continuing activities, then the need for reserves may be greater. Trustees are less likely to be willing to spend the expendable endowment if this will reduce the income available to fund future activities.

A permanently endowed fund cannot be spent as income and so the capital is invested to produce income for the charity. If the terms of the permanent endowment do not restrict its use then the income is unrestricted and can be spent on any of the purposes of the charity. The relative security of the investment income from an endowment fund will be a factor that may influence the need for reserves. The Charities Act also introduced amendments which give many charities greater flexibility to spend some or all of their permanent endowment in certain circumstances.

A total return approach to investment allows trustees greater flexibility in how investment returns can be allocated to income funds. The Charity Commission is able to make an order that permits the investment of permanent endowment on a total return basis. Total return is an investment management approach which considers the overall return from the investment, both capital gains (and losses) and any income. The trustees then decide how much of the total unapplied return can be allocated to income and how much is retained for future spending. In making this decision, the trustees must consider the needs of current and future beneficiaries.

The flexibility of the total return approach can enable charities with significant permanently endowed funds to hold a lower level of reserves than similar charities without such a power. Total return gives trustees the flexibility to spend funds held as part of the unapplied total return when needed and so can reduce the need for reserves.

Step 2 Identifying functional assets

The identification of unrestricted funds is a vital initial stage in the development of a reserves policy. However, certain functional assets used operationally by a charity might be essential to the implementation of their operational strategy. The Charities SORP specifically allows funds held as tangible fixed assets for charity use to be excluded from reserves. This recognises that certain assets will be used operationally and their disposal may adversely impact on a charity's ability to deliver its aims.

Where the trustees consider functional fixed assets to be essential to the delivery of the charity's aims then the value of such assets can be designated and excluded from the calculation of reserves. However, it is important for trustees to ask why particular fixed assets are held. For example, could a high value administrative office be sold and rented accommodation used if funds were needed? Some trustees might regard such an asset as part of their reserves which could be realised, if necessary, to support their operational work. This situation might, for example, be contrasted with a care facility where its sale might interrupt the care of beneficiaries and obtaining alternative specialist facilities on a rental basis might prove difficult.

Similarly, where a charity makes programme related investments solely to further its charitable purposes then such investments can be excluded from reserves.

Step 3 Understanding the financial impact of risk

Identifying and managing risk is an important part of good charity governance. Certain risks, if they occur, will have a financial impact and will be considered as part of the budgetary process. Identified financial risk will also influence and inform a charity's reserves policy. Holding reserves may form part of the charity's strategy for managing the impact of an identified risk should it occur.

The Charity Commission's guidance *Charities and Risk Management: A guide for trustees* (CC26) identifies the key risks which most charities should consider. Whilst risk is broader than just financial risk, in working through the guidance on risk management, trustees should consider the financial impact on the charity of the identified occurring and ask whether reserves are needed to help manage the financial impact.

Charities should be responsive to beneficiary needs and for some charities this can arise urgently and unexpectedly. Again, charities should consider the need to hold reserves in response to such events or whether it can rely on an appeal to the public where urgent need arises.

Step 4 Reviewing sources of income

The stability of future income is a key factor in the financial health of a charity. The assessment of the stability and certainty of future income sources will form an important part of a charity's assessment of risk and will feed into both budget setting and reserves policy. Some of the issues trustees should consider include, whether:

- the charity's income is from a single or multiple sources;
- the charity is particularly vulnerable should there be a sudden or unforeseen decline in a particular source of income;
- the charity relies on a single contract or grant for a significant part of its funding which is subject to tender or review in the near future;
- any major donor has indicated a change in their planned giving;
- appeals or fundraising activities provide a stable funding source;
- certain sources of income are particularly vulnerable to the general economic situation.

In reviewing the stability of income, trustees should consider:

- how much notice of a change in income would the charity get;
- the key dates at which major contracts or grants are due for review or renewal;
- the impact of any other organisations seeking funding from the same sources;
- the strength of the charity's relationships and communications with its donors and financial supporters about explaining its financial needs.

If a charity has stable or predictable income this may reduce the need for reserves. Alternatively, if a charity's income is volatile or insecure, or is vulnerable to factors outside of its own control, this may justify holding more reserves. Trustees should also consider if the charity's reserves are sufficient to protect it from the risk of insolvency or serious disruption to its charitable work.

Step 5 Impact of future plans and commitments

When setting the operational plan for the year, trustees will have considered how that plan will further the charity's aims for public benefit. The operational plan brings together the activities that the charity will undertake with the resources at its disposal.

Usually the operational plan is then expressed in financial terms as a budget with the expected income identified by source and the expected costs identified by planned activity. In setting a budget, consideration will need to be given to any restriction on the use of particular funds and uncertainty associated with predicting future income. The cash budget will help identify peaks and troughs in the charity's cash flow and will give a warning of when reserves might need to be called on.

Commitments and designations

Commitments made in previous and current financial years will also impact on cash budgets. For example, where commitments have been made to pay grants over a number of years then reserves may need to be built up to meet these costs if future income streams are uncertain.

As part of a charity's strategic planning, the trustees will also look beyond the annual operational plan and annual budget. This will be particularly important in identifying projects or capital spending plans that cannot be met from anticipated future income alone. Where planned expenditure cannot be met from a single year's income alone then this may point to the need to build up reserves to meet future expenditure. If reserves are to be built up in this way, then budgets will need to reflect these plans.

Often the funds set aside to meet future commitments and plans will be held as designated funds. By identifying a need and setting funds aside in a designated fund, trustees can build up the funds needed over a period of time and help manage the financial risk of a project. In this way they spread the burden over several years. When calculating the amount of reserves stated in an annual report, trustees may exclude the amount properly designated from the reserves total. The amount and nature of the designations should be explained in the annual report as should the likely time of their expenditure.

Designations relate to future plans that exist at a point in time. The annual report explains the year end position of a charity and therefore no new designations can be set up retrospectively after the year end to disguise the true level of unrestricted funds held in reserve. Designations which are never used, or the nature of which are frequently changed without funds being spent, risk bringing the charity into disrepute with donors and financial supporters. If a complaint is made to the Charity Commission about a charity's reserves, the inappropriate use of designated funds may attract regulatory attention.

Defined benefit pension schemes

Where charities have employees who are entitled to defined benefit pensions (final salary pensions), there are particular issues that arise in relation to the obligations of the charity to the pension scheme which may affect the charity's reserves.

Where a charity operates, or is a member of, a defined benefit pension scheme, trustees should read our guidance *Charity reserves and defined benefit pension schemes*. The defined benefit pension scheme may be a multi-employer scheme or the charity's own scheme. Depending upon the balance of assets and liabilities within the scheme, the charity may have a pension asset or liability.

Where the pension asset or liability is material, the reserves policy statement should separately consider the impact on the charity's financial position and reserves. The cash flow implications of making good any pension liability will influence the reserves policy and the reporting of the reserves.

Where there is a pension asset, this is normally designated and not counted as part of the charity's reserves because it is not available to the charity's trustees to spend. Where there is a pension liability this may require some or all of the available unrestricted funds that are otherwise uncommitted to be designated to meet all or part of that liability. The decision on whether to designate funds to meet a pension liability will depend upon the charity's ability to finance that liability out of its current and future income.

Trustees should explain to the charity's stakeholders the impact on its reserves policy of a defined benefit pension scheme. Trustees should pay particular attention to explaining clearly and simply how the pensions accounting disclosures should be interpreted in the context of the charity's finances.

Step 6 Agreeing a reserves policy

After considering the issues described in steps 1 to 5 above the trustees can make an informed decision about holding reserves and the amount to be held. Where the trustees agree that reserves are needed these should be explained in the reserves policy along with a justification of the planned level of reserves and a statement of the reserves currently held. Trustees should also provide an explanation if the reserves held differ significantly from the target they have set for reserves.

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Created and produced by: Design, Charity Commission

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Telephone: 0845 300 0218

Typetalk: 0845 300 0219

Website: www.charitycommission.gov.uk

**Welsh Government
Llywodraeth Cymru
Consolidated Accounts 2014-15**

Government of Wales Act 2006

Accounts of the Welsh Assembly Government (known as Welsh Government) are prepared pursuant to Section 131 of the Government of Wales Act 2006 for the year to 31 March 2015, together with the Certificate and Report of the Auditor General for Wales thereon.

Laid before the Assembly on 10 September 2015 pursuant to the Government of Wales Act Section 131

Consolidated Annual Report and Accounts 2014-15



Introduction from the Permanent Secretary

2014-15 was a demanding year for the Welsh Government civil service with broad-ranging delivery challenges across the Programme for Government and a significant programme of legislation part-way through delivery. I am pleased to be able to present my third annual report and accounts knowing that the organisation made a considerable amount of progress on those delivery challenges during the year.

As I write, 20 Welsh Acts are now on the statute book. The scale of investment in time, energy and commitment that this legislation represents should not be underestimated. The organisation has had to develop a substantial amount of legislative capability over a very short time and it has often been a steep learning curve. It has had to build the capacity to support Ministers in creating new laws for Wales within a very constrained financial environment - and with no let-up in pressure across the Government's wider delivery commitments.

In terms of financial pressure, increasing responsibilities and the need to absorb new functions, means that in many ways 2014-15 has been just a taste of what is to come. With new Ministerial powers - including tax-raising, borrowing and rail franchising - new demands will be made on the organisation for skills and capability in challenging and complex areas of policy and administration.

What has become increasingly clear is that, while the organisation has done a good job of absorbing new areas of work while cutting costs over the past few years, the time has come for a more fundamental look at how the civil service works. In early 2015, I put in place the 'Preparing for the Future' programme to take a considered look at the way the organisation is structured, resourced and equipped to support the business of the Welsh Government, now and over the longer term.

One of the early outcomes from 'Preparing for the Future' is that, in 2015-16, the organisation will move from a senior structure of six Directors General to three equivalent roles, leading much larger delivery Groups. These larger Groups will allow resources to be aligned to emerging Cabinet priorities in a more agile and flexible way than has been possible in the past.

We are also focussing on a number of fundamental areas of civil service capability, including commercial governance, where I want to be absolutely sure that the Welsh Government gets the best possible value and outcomes from the half-a-billion a year it spends on goods and services. A work stream on leadership and capability will help develop leadership at all levels of the civil service; investing in the skills and capability needed for the next stage of devolution and public sector reform and helping make the organisation a fair and inclusive place to work for everyone – whatever their background.

Over the past year, I have made a personal commitment to champion fairness and inclusivity. The news that the organisation rose 161 places in the Stonewall rankings this year was a particularly welcome endorsement of the work of colleagues across the organisation and some vibrant and active staff networks. I am also very pleased to have learned recently that the organisation has achieved Silver status in its latest 'Investors in People' assessment – improving in 14 areas of evidence since the last assessment.

This has undoubtedly been a challenging year. But it has also been one of substantial achievement. The organisation has made significant progress on a programme of work designed to develop the civil service needed for the next stage of devolution although there is still much to do. I would like to thank all my colleagues for the commitment, professionalism and sheer hard work that has gone in to delivering the Programme for Government over the past year. I look forward to working with them in the year ahead.

Derek

The Welsh Government at a glance

The Welsh Government is the devolved government for Wales and has responsibility for a wide range of matters which affect people's lives including education, health, the environment, transport, the economy, culture and many local government issues.

It was formally established in 2007 under the Government of Wales Act 2006, 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.

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 Schedule 7 of the Government of Wales Act 2006. This involves developing and implementing policies; setting up and directing delivery and governance; proposing Welsh Laws (Assembly Bills); and making subordinate legislation, such as regulations and statutory guidance. It also directly funds Welsh Government Sponsored Bodies.

Programme for Government

The Programme for Government is the Welsh Government's plan of action. It represents a commitment by Ministers collectively, to delivery and a move away from an approach to measuring success that placed too much emphasis on the amount of money spent, or the number of policies implemented, rather than the impact the government is having on peoples' lives.

Each year, the Programme for Government Annual Report provides a clear and detailed account of how the Welsh Government and our public service partners are delivering for the people of Wales.

In his foreword to the final 2014/15 Annual Report, the First Minister said:

'It is a pleasure to present this, the final Programme for Government Annual Report for this Assembly term. It demonstrates a record the whole Welsh public sector can be proud of - a record of delivery for the people of Wales despite tough financial times.'

The Annual Report's summary progress report sets out progress against the First Minister's four key priorities:

- Growth and Sustainable Jobs
- Health and Wellbeing
- Educational Attainment
- Supporting Children, Families and Deprived Communities

The report and full set of Programme for Government indicators can be accessed from the Welsh Government website.

The Cabinet

Following the Cabinet reshuffle in July 2014 there were nine Cabinet Ministers, four Deputy Minister posts and the Counsel General:

Rt. Hon Carwyn Jones
Jane Hutt
Edwina Hart MBE CStJ
Huw Lewis
Mark Drakeford
Carl Sargeant
Lesley Griffiths

John Griffiths
Jeff Cuthbert
Theodore Huckle
Gwenda Thomas
Ken Skates
Vaughan Gething
Rebecca Evans

First Minister
Minister for Finance
Minister for Economy, Science and Transport
Minister for Education and Skills
Minister for Health and Social Services
Minister for Housing and Regeneration
Minister for Local Government and Government
Business
Minister for Natural Resources, Culture and Sport
Minister for Communities and Tackling Poverty
Counsel General
Deputy Minister for Social Services
Deputy Minister for Skills and Technology
Deputy Minister for Tackling Poverty
Deputy Minister for Agriculture and Fisheries

Following the Cabinet reshuffle in September 2014 there were eight Ministers and four Deputy Minister posts, plus the Counsel General:

Rt. Hon Carwyn Jones
Jane Hutt
Huw Lewis
Edwina Hart MBE CStJ
Leighton Andrews
Carl Sargeant
Mark Drakeford
Lesley Griffiths
Theodore Huckle
Vaughan Gething
Julie James
Ken Skates
Rebecca Evans

First Minister
Minister for Finance and Government Business
Minister for Education and Skills
Minister for Economy, Science and Transport
Minister for Public Services
Minister for Natural Resources
Minister for Health and Social Services
Minister for Communities and Tackling Poverty
Counsel General
Deputy Minister for Health
Deputy Minister for Skills and Technology
Deputy Minister for Culture, Sport and Tourism
Deputy Minister for Farming and Food

More information on Ministerial responsibilities can be found in 'Welsh Government: A Quick Guide' which is available on our website.

Board Membership

In 2014-15 the Board was made up of six people at Director General (DG) level - each leading major areas of Government responsibility in support of Ministers, the Director of Legal Services and the Director of Governance. The Board also included three Non Executive Directors who brought a wide range of experience and external scrutiny to its work.

Board membership details for the year are provided below:

Sir Derek Jones KCB
Owen Evans
Michael Hearty
Gareth Jones OBE

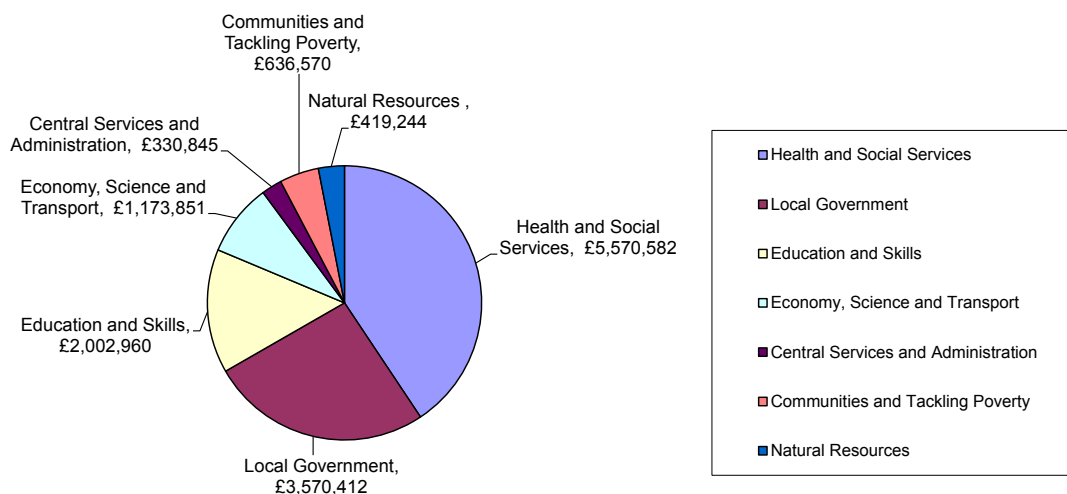
Dr June Milligan
James Price
Dr Andrew Goodall
Jeff Godfrey
David Richards
Professor Elan Closs Stephens CBE
James Turner
Professor Sir Adrian Webb

Permanent Secretary
DG Education & Skills
DG, Finance & Corporate Services
DG, Natural Resources
(Sustainable Futures pre-Cabinet changes)
DG, Local Government & Communities
DG, Economy, Science & Transport
DG, Health & Social Services (from 9 June 2014)
Director, Legal Services
Director, Governance
Non-Executive Director
Non-Executive Director
Non-Executive Director

What the Welsh Government spends

In line with the approved budget the Welsh Government spent around £14bn on behalf of people in Wales during 2014-15. Spending was broken down across key areas of responsibility as shown in the pie chart below.

Net Ambit Expenditure 2014-15 (£000)



All activities are continuing for financial reporting purposes to 31 March 2015.

The outturn is £13.7bn (2013-14: £13.8bn) compared to the Final Budget of £13.9bn (2013-14: £13.9bn), resulting in an under-spend of £0.2bn (Page 27) which is 1.5% of the total budget. Resource and Capital budgets were within Treasury limits and have therefore been carried forward to 2015-16.

Four departments had outturn variances against budget which are above £10m.

For Health and Social Services the under-spend of £86,898,000 related to timing differences between the NHS consumption of resource and the cash drawn.

Education and Skills had an under-spend of £38,028,000 which related to Student Loans model non-cash fair value estimates.

Local Government had an under-spend of £46,152,000 which related to annually managed expenditure (AME) budget from Treasury not required.

Central Services and Administration had an under-spend of £35,318,000 which related to lower than expected non-cash provisions.

The Welsh Government reviews performance and allocates resources according to the voted budget shown on Page 27. The expenditure groupings represent the appropriate operating segments, and therefore a separate segmental report is not required.

Funding for the Welsh Government during the period was primarily provided by Parliament through the Welsh Consolidated Fund and by the European Union.

The accounts present the results of the Welsh Government for the year ending 31 March 2015 and its assets and liabilities at that date. The Welsh Government's core activities incorporated the expenditure of the Royal Commission for Ancient and Historic Monuments (Wales) (RCAHMW). The Welsh Government is responsible for operating much of the finance function of RCAHMW.

These accounts also report the assets, liabilities and the results of the Welsh Government's consolidated position. These incorporate the following:

Local Health Boards in Wales;
Finance Wales PLC;
Career Choices Dewis Gyrfa Ltd;
WGC Holdco Ltd; and
Regeneration Investment Fund for Wales LLP

The accounting policies adopted by the Local Health Boards and subsidiaries are set out in their respective financial statements. The differences between those policies and those adopted by the Welsh Government do not have a material impact on these consolidated financial statements. Accordingly, no adjustments have been made to reflect differences in accounting policies.

Results for the year

The results for the period are reported in detail in the attached accounts. The Consolidated Statement of Net Expenditure (Page 28) records net comprehensive expenditure of £11bn (2013-14: £13bn).

Non-current assets

Property, plant and equipment additions in the period (Note 9) were £425m on an asset base of £18bn, for primarily Infrastructure assets and NHS Wales property portfolios.

Financial assets are predominantly the Student Loan book of £2bn out of the total £2.4bn.

Contingent liabilities

Contingent liabilities that have not been provided for under IAS 37 are described in Note 20

Auditors

The accounts of the Welsh Government are audited by the Auditor General for Wales in accordance with the Government of Wales Act 2006.

The Welsh Government also made payments to the Wales Audit Office for the external audit of grant funding and the certification of claims submitted for support under European Structural Fund Programmes, and for a range of other work conducted at the request of the Welsh Government. These charges and disclosures are included in Notes 5, 6 and 7.

Format of the accounts

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury, under Section 131 of the Government of Wales Act 2006. They are a consolidation of the accounts of the Welsh Government; the Local Health Boards operating in Wales; and various subsidiary companies.

A copy of the Accounts Direction is available from the Welsh Government, Finance Department at Cathays Park, Cardiff, CF10 3NQ.

Our management structure and governance

Details of the management structure and governance arrangements for the organisation are set out in the Governance Statement on page 18 of this document.

Senior appointments and remuneration

The Permanent Secretary was appointed by the Head of the Civil Service with the agreement of the First Minister. Members of the Board at Director General level are appointed at the discretion of and by the Permanent Secretary. Civil Service Commissioners chair all openly recruited interview panels for Directors General. All these appointments are for an indefinite period under the terms of the Senior Civil Service contract. The rules for appointment are set out in chapter 1 of the Civil Service Management Code With terms and conditions and remuneration at chapters 5 and 7 respectively. Appointments relating to senior managers within the Local Health Boards and subsidiary companies are detailed in their individual accounts.

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

Events since the end of the financial period

Nil.

'Preparing for the Future'

Maintaining a relentless focus on delivering the Cabinet's priorities against a backdrop of continued financial pressure, while also taking on new policy areas and functions, is a real challenge for the Welsh Government civil service. This year was, therefore, the right time to take a considered look at how the organisation is structured, resourced and equipped to carry out the business of supporting government now and over the medium-to-long term. Early in 2015, I put in place 'Preparing for the Future', a programme of business improvement so that we can be well placed to support Ministers and live within our budgets. The programme is focusing on how the organisation can become more agile, flexible and capable, as well as affordable.

The programme has specific work-streams and projects looking at resources and structures, flexible and productive working, shared services, leadership, management and capability, and commercial governance. Engagement and involvement with our staff is at the heart of the programme, and in March we held a series of workshops in our offices across Wales to share ideas and gather views. As a result more than 800 people have been involved in face-to-face events focusing on different aspects of the programme and work-streams. Responding to feedback to the 2014 staff survey on leadership and managing change, learning and development and our approach to equalities and valuing difference is also a key component of this work.

Much of the delivery of the programme will continue through the next financial year, but early outcomes include my decision to change the senior structure and to introduce a new operating model in time for the Autumn Assembly term. With the agreement of the First Minister, I have changed the senior management structure from one led by six Director General roles to one based on three equivalent roles leading significantly larger Groups. There will be substantial financial savings from this change, freeing up resources to redeploy to new priorities, as they emerge.

How we work

The Welsh Government has a professional and skilled workforce located across Wales, close to the communities it serves. With the backdrop of ongoing financial challenges and the opportunities new powers and responsibilities present for the future, I am pleased that the organisation's employee engagement levels remained strong this year. The 2014 staff survey results show an engagement index of 63%, 4% above the UK civil service benchmark. Overall, performance improved in 22 out of 72 core questions compared to the previous survey with higher positive scores than the civil service benchmark for more than 90% of questions. 93% of colleagues say they are interested in their work, 90% say they are trusted to carry out their jobs effectively, and 87% feel the organisation is focused on supporting Ministers to deliver better outcomes for the people of Wales. A full breakdown of the results is available on the website: People Survey Results 2014.

Following the 2013 survey, a local approach was taken to action planning in response to the results and one of the greatest improvements in the survey this year was about taking action. This year, there was a 7% increase in the number of people who believe that, where they work, effective action was taken as a result of last year's survey. Heads of Division have again been tasked with holding planning sessions in their areas, involving their teams in discussing the results in-depth and developing tailored local actions. Actions are now being implemented.

Whilst 90% of Welsh Government staff believe that they have the skills to do their job, overall scores on learning and development declined slightly on last year. The theme score in this area was 56%, and although it remains 7% above the average for the civil service as a whole, it decreased by 3 percentage points since the previous survey. It is, therefore, an area of improvement that is being focused on as part of Preparing for the Future. A series of workshops have been held with colleagues across Wales to identify learning priorities for the organisation and a new planning tool has been developed to help meet the specific needs of staff and build capability in key areas. A number of new courses have been developed and work has been undertaken to make courses more accessible, including developing a range of e-learning packages. An online learning portal was launched in December 2014 bringing together the full range of learning opportunities in one place. The organisation continues to provide staff with 5 days of learning and development each year and has undertaken awareness raising activity to highlight the breadth of options available, including volunteering, shadowing and mentoring opportunities.

The organisation also has comprehensive support in place to ensure the **health, safety and well being** of staff at work. This year the organisation began implementation of the international Occupational Health and Safety standard 18001 across the organisation and some of the improvements this has made include enhancements to accident reporting systems and a new suite of generic risk assessments for staff to use.

Our occupational health support is well established and our sickness rates are below:

Welsh Government Sickness Absence	2014-15	2013-14	2012-13
Days Lost (short term)	20,631	19,156	19,844
Days Lost (long term)	23,161	19,534	19,120
Total Days Lost (12 month period)	43,792	38,690	38,964
Total staff years	5,519	5,453	5,293
Total staff employed in period (headcount)	6,134	6,097	5,965
Total staff employed in period with no absence (headcount)	2,500	2,625	2,448
% staff with no sick leave	41%	43%	41%
Average working days lost	7.9	7.1	7.4

Reducing Complexity in the way we work has continued to be central to organisational improvement and remains a priority for the coming year. This year's activity included, a 6 month behaviour change campaign designed to improve the way colleagues store, retrieve and manage email information. 98% of the organisation took action to improve the way they manage and store email records. As a result, the amount of email information stored in our Outlook mailboxes was reduced by 1.678TB (this equates to 54 million average size emails). This has helped ensure a better understanding across the organisation of the importance of saving email records in iShare (our records management system), resulting in a more robust approach to managing email information.

As part of the Reducing Complexity work, a number of steps have also been taken to improve the way advice is provided to Ministers, including a week long 'Policy Focus' in November, where more than 800 staff attended seminars and workshops. Following feedback received during the events, a revised programme of learning for policy professionals has been developed. A simplified approach for briefing Ministers has also been developed and a single advice template will be introduced this autumn.

From the end of May, paper payslips were replaced with a new online system, iPayView. All payslips and P60s are now available electronically which is more sustainable, provides greater information security for staff, and it is more convenient as individuals can log in at home to access the system at any time.

Supporting equality and diversity is a priority for Welsh Government Ministers and the Welsh Government civil service. An account of Welsh Government policy and progress towards meeting the Cabinet's aims on equality, diversity, and tackling poverty can be found on the Programme for Government pages. The Welsh Ministers Report on Equality 2014 is also published on the website.

Internally, we already have a number of policies in place to promote equality, diversity and equal opportunities for all colleagues, but we will also be focusing on this aim in the leadership and capability strand of 'Preparing for the Future'. As part of that, I led a rapid solution event this summer giving all staff an opportunity to get involved in work to help make the organisation a fair and inclusive place to work.

During the last year staff networks have been revitalised and the LGBT network, PRISM has been particularly effective in supporting colleagues and raising awareness. This success has been recognised by Stonewall and the Welsh Government has moved up in the UK rankings from 195 to 34, placing the organisation at the 6th highest ranking employer in Wales. PRISM achieved highly commended in the 'Network Group of the Year' category. Whilst the organisation has clearly made some important steps forward, I am certainly not complacent. There is still a lot more to do and I will want to build on the progress made so far in the coming year.

The **Welsh Language**, and people being able to conduct their lives in the language of their choice, is an essential part of valuing diversity in Wales. In August 2014 the First Minister published a policy statement 'Bwrw Mlaen – Moving Forward' that builds on the foundations of the previous Welsh Language Strategy and sets the Welsh Government's strategy for the next three years. A summary of Welsh Government Policy and progress towards meeting the Cabinet's aims on Welsh Language can be found on the Programme for Government webpages. An annual report is on the website: Welsh Language Scheme annual report.

Within the organisation, we are preparing for the implementation of the new Welsh Language Standards that will be operational from 2016 and will place statutory requirements on the Welsh Government, in accordance with the Welsh Language (Wales) Measure 2011. The Welsh Language Standards will replace the existing Welsh Language Scheme and a programme of improvement across the organisation is in place, aiming for compliance with the standards by 2016.

The Welsh Government **Location Strategy** has enabled the organisation to reduce the number of administrative buildings from 75 to 33 during the period 2010-15, reducing costs, contributing to sustainability goals, and ensuring the organisation is dispersed across Wales. The strategy for the next five years has completed initial consultation with our Trade Unions and has subsequently been agreed by the Board.

The average number of full-time equivalent **Welsh Government staff members** during the 2014-15 financial year was 5,556. During this financial year the organisation ran a voluntary severance scheme and more details on this can be found on page 40-41 of the report. Tight controls on external recruitment are helping the organisation to manage its affordability both now and in the medium-to-long term.

The Welsh Government continues to place **sustainable development** as its central organising principle. The civil service is committed to taking organisational decisions in an integrated, joined-up way to achieve the Government's vision of a sustainable Wales.

An account of the organisation's commitment to **sustainability**, both in terms of Ministerial priorities and civil service attention to running sustainable government business can also be found on the website. For information on Ministerial aims and progress against them, visit the webpages. The Government's annual report on sustainable development is also available from our website: One Wales: One Planet, the Sustainable Development Annual Report 2013/14.

The organisation's commitment to sustainability includes how we manage the environmental impacts of its activities. For example, the Welsh Government has committed to achieve at least a 30% reduction in greenhouse gas emissions from its estate by 2020 (on a 2011 baseline). A range of environmental impacts are monitored and managed across the Administrative Estate. Details are published each autumn in the State of the Estate Report which contains a chapter on environmental performance against a number of key performance indicators.

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

Greenhouse Gas Emissions		2010-11	2011-12	2012-13	2013-14	2014-15
Non-Financial Indicators ('000 tCO ₂ e)	Total Gross Emissions	12.1	10.4	10.4	9.2	8.4
	Gross Emissions Scope 1 (Gas)	1.9	1.9	1.9	1.5	1.3
	Gross Emissions Scope 2 (Electricity)	10.2	8.8	8.5	7.7	7.1
Related Energy Consumption (GWK)	Electricity:	17.2	12.0	11.9	13.0	13.0
	Gas	10.0	8.6	10.2	8.4	7.1
Financial Indicators (£million)	Expenditure on Energy	2.18	2.01	2.3	2.3	2.1
	CRC Allowances (2012 onwards)	-	0.18	0.10	0.11	0.16
	Expenditure on official business travel	-	-	-	4.3	4.5

Waste			2010-11	2011-12	2012-13	2013-14	2014-15
Non-Financial Indicators (tonnes)	Total Waste (tonnes)		848	665	609	583	500
	Hazardous Waste	Total	-	1	1	Negligible	Negligible
		Landfill	216	268	202	184	127
	Non-Hazardous Waste	Reused/Recycled	550	448	365	361	314
		Composted (food)	-	76	42	38	59

Water		2010-11	2011-12	2012-13	2013-14	2014-15
Non-Financial Indicators (cu.m/person/yr)		16	10	8	9.8	8.3

The organisation is **committed to operating fairly and transparently**. To demonstrate this commitment, we proactively publish a wide range of information and provide guidance on how to request information on our website and also maintain a comprehensive log of responses we have issued to requests for information, including an annual report: Report on the Implementation of Open Government Legislation and Policies.

The organisation operates a **customer complaints procedure** which the Public Services Ombudsman for Wales has approved and urged all other public service providers in Wales to adopt within their organisations. Information relating to complaints about all public service providers is published by the Ombudsman in his Annual Report and the number of complaints about the organisation which led to an investigation is consistently low each year.

The Welsh Government is committed to treating suppliers and contractors fairly. Under the Late Payment of Commercial Debts (Interest) Act 1998, the organisation is required to pay suppliers' invoices not in dispute within 30 days of receipt of goods/services or valid invoices, whichever is the later. Our policy is to pay purchase invoices immediately on satisfactory receipt of goods/services. During the year ending 31 March 2015, records from across Welsh Government showed that 96% were paid within 10 calendar days. The relevant percentages of invoices paid within the terms of their payment policies by the Local Health Boards, and subsidiaries are disclosed in their respective accounts.

REMUNERATION REPORT 2014-15

Remuneration Policy

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

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

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

Remuneration (including salary) and pension entitlements

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

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

Remuneration

The remuneration of the First Minister and his Cabinet team and of the members of the Board, who served during the year, is noted below. These costs are reflected in the accounts of the National Assembly for Wales Commission and not the Welsh Government. Ministerial salaries include their salaries and entitlements (including pension entitlements) as Assembly Members. Benefits in kind related to Assembly Members responsibilities are not included in the table below.

Single total figure of remuneration

Ministers	Salary 2014-15 £	Salary 2013-14 £	Pension benefits (to nearest £1000) ¹ 2014-15	Pension benefits (to nearest £1000) ^{1,2} 2013-14	Total (to nearest £1000) 2014-15	Total (to nearest £1000) 2013-14
Rt. Hon Carwyn Jones <i>First Minister</i>	132,427	132,427	46,000	40,000	178,000	172,000
Leighton Andrews <i>Welsh Minister (to 25/06/2013 then from 12/09/14)</i>	52,299	22,339	16,000	5,000	68,000	27,000
Edwina Hart MBE CStJ <i>Welsh Minister</i>	94,611	94,611	29,000	18,000	124,000	113,000
Lesley Griffiths <i>Welsh Minister</i>	94,611	94,611	34,000	30,000	129,000	125,000
Jane Hutt <i>Welsh Minister</i>	94,611	94,611	28,000	17,000	123,000	112,000
Carl Sargeant <i>Welsh Minister</i>	94,611	94,611	33,000	29,000	127,000	124,000
John Griffiths <i>Welsh Minister (to 11/09/14)</i>	42,312	94,611	14,000	27,000	56,000	122,000
Huw Lewis <i>Welsh Minister</i>	94,611	94,611	32,000	25,000	127,000	120,000
Mark Drakeford <i>Welsh Minister</i>	94,611	94,611	37,000	36,000	132,000	131,000
Theodore Huckle <i>Counsel General</i>	95,801	95,801	37,000	36,000	133,000	132,000
Alun Davies <i>Welsh Minister (to 08/07/14)</i>	25,687	94,611	10,000	33,000	36,000	128,000
Rebecca Evans <i>Deputy Welsh Minister (from 09/07/14)</i>	57,907	-	26,000	-	84,000	-
Julie James <i>Deputy Welsh Minister (from 12/09/14)</i>	43,940	-	17,000	-	61,000	-
Jeff Cuthbert <i>Deputy Welsh Minister (to 25/06/2013) then Welsh Minister (from 26/06/2013 to 11/09/14)</i>	42,312	91,040	15,000	29,000	57,000	120,000
Vaughan Gething <i>Deputy Welsh Minister (from 01/07/2013)</i>	79,489	59,618	29,000	20,000	108,000	80,000
Ken Skates <i>Deputy Welsh Minister (from 01/07/2013)</i>	79,489	59,617	26,000	20,000	105,000	80,000
Gwenda Thomas <i>Deputy Welsh Minister (to 11/09/14)</i>	35,549	78,263	10,000	17,000	46,000	95,000

¹ Pension benefits are calculated on a formula basis which can create year on year variations

² Where applicable the 2013-14 figures have been restated for the revaluation of the deferred Office Holder element of pension which had been previously omitted.

Ministers	Accrued Pension at pension age as at 31/03/15 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/15 £000	CETV at 31/03/14 £000 ²	Real increase in CETV £000
Rt. Hon Carwyn Jones <i>First Minister</i>	40-45	2.5-5	499	445	22
Leighton Andrews <i>Welsh Minister</i>	35-40	0-2.5	546	526	11
Edwina Hart MBE CStJ <i>Welsh Minister</i>	40-45	0-2.5	622	570	20
Lesley Griffiths <i>Welsh Minister</i>	20-25	0-2.5	306	264	22
Jane Hutt <i>Welsh Minister</i>	40-45	0-2.5	815	789	26
Carl Sargeant <i>Welsh Minister</i>	20-25	0-2.5	254	221	15
John Griffiths <i>Welsh Minister</i>	25-30	0-2.5	400	384	10
Huw Lewis <i>Welsh Minister</i>	25-30	0-2.5	383	342	17
Mark Drakeford <i>Welsh Minister</i>	5-10	0-2.5	132	90	29
Theodore Huckle <i>Counsel General</i>	5-10	0-2.5	122	87	21
Alun Davies <i>Welsh Minister</i>	10-15	0-2.5	155	147	5
Jeff Cuthbert <i>Welsh Minister</i>	15-20	0-2.5	328	317	14
Rebecca Evans <i>Welsh Minister</i>	5-10	0-2.5	60	38	2
Julie James <i>Welsh Minister</i>	5-10	0-2.5	93	74	12
Vaughan Gething <i>Deputy Welsh Minister</i>	10-15	0-2.5	133	110	10
Ken Skates <i>Deputy Welsh Minister</i>	5-10	0-2.5	47	31	9
Gwenda Thomas <i>Deputy Welsh Minister</i>	20-25	0-2.5	313	302	7

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 – Board members of the Welsh Government

Officials:	Salary 2014-15	Salary 2013-14	Pension benefits (to nearest £1000) ³ 2014-15	Pension benefits (to nearest £1000) ³ 2013-14	Total (to nearest £1000) 2014-15	Total (to nearest £1000) 2013-14
	£000	£000	£000	£000	£000	£000
Sir Derek Jones KCB <i>Permanent Secretary</i>	160-165	155-160	30-35	85-90	195-200	245-250
David Richards <i>Director of Governance</i> (from 23/05/13)	95-100	85-90 (full year equivalent 95-100)	30-35	-	130-135	85-90
Andrew Goodall ¹ <i>Director General</i> (from 08/06/2014)	160-165 (full year equivalent 195-200)	-	50-55	-	210-215	-
Owen Evans <i>Director General</i>	130-135	130-135	50-55	50-55	180-185	180-185
June Milligan <i>Director General</i>	130-135	130-135	35-40	50-55	170-175	185-190
James Price <i>Director General</i>	130-135	130-135	25-30	25-30	160-165	160-165
Michael Hearty ² <i>Director General</i>	140-145	145-150	30-35	65-70	165-170	215-220
Gareth Jones <i>Director General</i>	130-135	130-135	30-35	75-80	165-170	205-210
Jeff Godfrey <i>Director Legal Services</i> (from 23/05/13)	105-110	90-95 (full year equivalent 105-110)	10-15	15-20	115-120	105-110
Elan Closs Stephens <i>Non-Executive Director</i>	10-15	10-15	-	-	10-15	10-15
James Turner <i>Non-Executive Director</i>	10-15	10-15	-	-	10-15	10-15
Sir Adrian Webb <i>Non-Executive Director</i>	15-20	10-15	-	-	10-15	10-15
Band of Highest Paid Director's Total Remuneration (£'000)	195-200	200-205				
Median Total Remuneration (£)	33,900	33,900				
Ratio	5.9	5.9				

¹ Andrew Goodall is seconded from Aneurin Bevan University Health Board, and he replaced David Sissling who left on 31/03/14.

² Michael Hearty's salary includes £nil (2013-14: £9,268) of taxable relocation allowances under the relocation policy.

³ The calculation used for pension benefits produces anomalies when untypical movements in benefits arise, which are not reflected by actual amounts of pension earned or paid.

	Accrued Pension at pension age as at 31/03/15 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/15	CETV at 31/03/14	Real increase in CETV
Officials	£000	£000	£000	£000	£000
Sir Derek Jones KCB <i>Permanent Secretary</i>	75-80 plus lump sum of 225-230	1.5-2 plus lump sum of 5-7.5	1,700	1,665	34
David Richards <i>Director Governance</i>	45-50 plus lump sum of 140-145	0-2.5 plus lump sum of 2.5-5	1,092	1,010	32
Andrew Goodall <i>Director General</i>	40-45 plus lump sum of 120-125	-	629	-	-
Owen Evans <i>Director General</i>	10-15	2.5-5	140	103	20
June Milligan <i>Director General</i>	55-60 plus lump sum of 170-175	0-2.5 plus lump sum of 5-7.5	1,130	1,046	33
James Price <i>Director General</i>	35-40	0-2.5	432	393	11
Michael Hearty <i>Director General</i>	50-55 plus lump sum of 160-165	0-2.5 plus lump sum of 5-7.5	1,090	1,010	28
Gareth Jones <i>Director General</i>	55-60 plus lump sum of 175-180	0-2.5 plus lump sum of 5-7.5	1,253	1,165	30
Jeff Godfrey <i>Director Legal Services</i>	40-45 plus lump sum of 120-125	0-2.5 plus lump sum of 2.5-5	818	769	10

Salary

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

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

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

Benefits in kind

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

Pay multiples

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

The banded remuneration of the highest paid director in the Welsh Government in the financial year 2014-15 was £195,000-200,000 (2013-14: £200,000-205,000). This was 5.9 times (2013-14: 5.9) the median remuneration of the workforce, which was £33,900 (2013-14: £33,900). The reduction is due to the change of personnel for the highest paid director. Based on the Permanent Secretary's banded remuneration the ratio is 4.8(2013-14: 4.7). In 2014-15 and 2013-14 no employees received remuneration in excess of the highest paid director.

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

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (Classic, Premium, or Classic Plus); or a 'whole career' scheme (Nuvos). 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 and Nuvos are increased annually in line with Pensions Increase legislation. 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 1.5% and 3.9% of pensionable earnings for Classic and 3.5% and 5.9% for Premium, Classic Plus and Nuvos. Increases to employee contributions applied from 1 April 2013. 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 in respect of service before 1 October 2002 calculated broadly as per Classic and benefits from October 2002 calculated as in Premium. In Nuvos a member builds up a pension based on his pensionable earnings during his period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pensions Increase legislation. 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 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 and 65 for members of Nuvos.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/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 worked out 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.

The remuneration statement was resigned by the Permanent Secretary following the receipt of revised data from the National Assembly for Wales Commission.

Sir Derek Jones KCB
Permanent Secretary and Principal Accounting Officer
7 September 2015

STATEMENT OF ACCOUNTING OFFICERS' RESPONSIBILITIES

- 1 Under Section 131 of the Government of Wales Act 2006, the Welsh Ministers are required to prepare the consolidated resource account for the Welsh Government for the year ended 31 March 2015 in accordance with directions given to it by HM Treasury. The Treasury direction requires the detailing of the resources acquired, held, or disposed of during the period.
- 2 The consolidated resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Welsh Government and the other entities within the group at the end of the period, and of their net expenditure and cash flows for the financial period.
- 3 The Principal Accounting Officer (PAO) for the Welsh Ministers has responsibility for the overall organisation, management and staffing of the Welsh Government. This includes responsibility for Welsh Government-wide systems in finance and other matters, where these are appropriate, and for the management of the Welsh Government's net cash requirement. The PAO is also responsible for preparing and signing the Welsh Government's consolidated resource account.
- 4 In preparing the accounts the PAO is required to comply with the Financial Reporting Manual (FReM), and in particular to:
 - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the accounts; and
 - prepare the accounts on a going concern basis.
- 5 Under Section 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 designated the Chief Executive of the NHS as Accounting Officer of the National Health Service in Wales. The work of the Local Health Boards in Wales is governed by separate authority, and the Chief Executives of each of the Local Health Boards are appointed as Accountable Officers by the Chief Executive of the NHS in Wales.
- 6 These appointments do not detract from the PAO's overall responsibility as PAO for the Welsh Government accounts.
- 7 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, for safeguarding the Welsh Government's assets, and for taking reasonable steps to prevent and detect fraud and other irregularities, are set out in the Welsh Government Accounting Officers' Memorandum, issued by the Treasury.
- 8 The relationship between the PAO of the Welsh Government, and other Accounting Officers, as described in paragraphs 5 and 6 above, and their respective responsibilities, are set out in written agreements between the officials concerned.

GOVERNANCE STATEMENT 2014-15

Scope of Responsibility

1. As Principal Accounting Officer, I am responsible for ensuring that there is a high standard 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.
2. In undertaking my responsibilities, I have been supported by Directors General (DGs) who I have designated as Additional Accounting Officers (AAOs). Their responsibilities are set out in a formal Memorandum which further strengthens corporate governance and accountability arrangements by placing with them a personal responsibility for the propriety, regularity, affordability and achievement of value for money of the public finances for which they are answerable.
3. The Welsh Government is a complex organisation. Led by the First Minister, its responsibilities cover a number of key areas of public life such as health, education and the environment. A wide range of internal controls are in place to provide for the sound stewardship of its resources. From my review of the effectiveness of the governance framework, I am satisfied that risks have been generally well managed and that our internal controls are continuing to improve.
4. The Welsh Government delivers its aims and objectives in partnership with Welsh Government Sponsored Bodies (WGSBs), subsidiary companies and other public bodies. Accounting Officers appointed to sponsored public bodies are responsible for their organisation's management of public finances and are required to sign a governance statement which is published in the body's annual accounts. Their relationship with the Welsh Government is defined in a framework document for each sponsored body.

Funding for Local Authorities

5. The Welsh Government provides grant funding for local authorities in Wales, which include unitary, fire and rescue, and national park authorities, and police and crime commissioners. The largest single component of grant funding is the Revenue Support Grant paid to unitary authorities. It may be used for any purpose these authorities choose in delivering the services for which they are responsible.
6. The Revenue Support Grant is distributed on the basis of a formula which reflects the factors that drive authorities' need to spend to deliver a wide range of services, including education and social care. The Welsh Government also provides funding to authorities in the form of grants that can only be used for the specific purposes for which they are provided.
7. In addition to the grant funding which unitary authorities receive from the Welsh Government, they receive some specific grants from UK Government Departments for non-devolved functions. They also receive income from nationally-set non-domestic rates, which is pooled and redistributed by the Welsh Government, from locally-set council tax; and from fees, charges and other income. Local authorities receive further grants from the Welsh Government for capital spending, which is supplemented by their own borrowing, based on a prudent assessment of their finances using professional codes of practice. Similar arrangements apply to the provision for police and crime commissioners, who are funded through a mix of Revenue Support Grant, redistributed non-domestics rates from the Welsh Government and Police Grant from the Home Office, from specific grants and council tax. Other authorities are funded through arrangements such as levies and precepts. In each case, the authority is accountable for how it uses the funding in delivering the functions for which it is responsible.
8. Assurances around the probity in the use of these funds are through the maintenance of proper accounting and governance arrangements, including the production of authorities' annual accounts in keeping with the statutory requirements set out in the Accounting and Audit Regulations and in line with proper accounting practices. In accordance with the Public Audit Wales Act 2013, there is a full audit of these accounts by the Auditor General for Wales and they are scrutinised through each local authorities' governance arrangements. In addition, some specific grants will have additional specific audit arrangements in place to provide the grant provider with assurances around the use of that funding in line with the terms and conditions set for the grant.
9. Each local authority has an appointed officer under section 151 of the Local Government Act 1972 who has statutory duties to ensure that there is proper administration of financial affairs, including the establishment of an internal audit function. Councils are held to account by their scrutiny functions and they are also subject to annual improvement audits conducted by the Auditor General for Wales covering value for money as well as governance and capacity matters.

Funding for Health Bodies

10. Funding is provided to Local Health Boards (LHBs) to commission and provide Hospital and Community Health Services and to meet the costs of drugs prescribed by GPs for their resident populations. Funding is also provided to cover the costs of payments to independent contractors (including GPs, General Dental Practitioners and Pharmacists). Additional targeted funding is added to the core allocation and used to support the achievement of Welsh Government objectives. Capital funding is provided to LHBs to support the All Wales Capital Programme and other Welsh Government discretionary capital funding is also provided to support locally identified priorities.
11. The Chief Executives of the LHBs and NHS Trusts are designated as Accountable Officers who must ensure that there is an effective system of internal control within their individual organisation. Each LHB and Trust has its own Board charged with steering, monitoring and overseeing performance, and ensuring good governance and risk management. To support the Chief Executives and the Boards, each LHB and Trust has an Audit Committee and Internal Audit arrangements in addition to the work of external auditors.
12. The NHS Finance (Wales) Act 2014 and associated NHS Wales Planning Framework signalled a new medium-term approach to planning, requiring health boards and NHS trusts to set out how resources will be used over a three year period to: address areas of population health need and improve health outcomes; improve the quality of care; and ensure best value from resources. When assessing whether an LHB has met its set "resource limit", the Auditor General will compare the expenditure of the LHB over the 3 year period to the aggregated resource limit for the 3 year period.
13. For the 2014-15 financial year, three LHBs (Abertawe Bro Morgannwg, Cardiff & Vale and Cwm Taf) met their statutory duty to have an approved integrated medium term plan in place. One NHS trust (Velindre) met its administrative duty to have an approved integrated medium term plan in place. The remaining four LHBs (Aneurin Bevan, Betsi Cadwaladr, Hywel Dda and Powys) and two NHS trusts (Public Health Wales and Welsh Ambulance Services) operated an annual plan for the 2014-15 financial year.
14. Monitoring and oversight is achieved through the review of monthly detailed financial information that is received from the LHBs and Trusts accompanied by appropriate and relevant commentaries. Progress against performance targets is also reported either on a weekly or quarterly basis, depending on the type of indicator. Regular meetings are held by the Chief Executive of NHS Wales and his officials with LHB and Trust officials to consider all aspects of reported performance, including the identification of critical risks and issues.

The Governance Framework

15. The governance framework comprises the systems, processes, culture and values by which the Welsh Government is directed and controlled and the activities through which it accounts to the National Assembly for Wales and engages with stakeholders. It enables the organisation to monitor the achievement of its policies, aims and objectives and whether value for money has been obtained.
16. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level rather than to eliminate all risk. Therefore, it can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process 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. This framework has been developed to comply with good governance and is supported by *Managing Welsh Public Money* which sets out the principles for dealing with resources in Welsh public sector organisations.
17. I chaired the Board throughout the year, consisting of the Director of Governance, the Director of Legal Services, three Non-executive Directors and six Directors General (DGs) each leading major areas of Government responsibility in support of Ministers. The DGs portfolios of responsibilities altered significantly part-way through the year as a consequence of the Cabinet reshuffle. The implementation of an improved protocol to deal with such "machinery of government" changes facilitated an effective realignment of portfolios and I am grateful to the DGs for their contribution to the smooth transfer of responsibilities.
18. The Board has met monthly, to set strategic direction and monitor whether the organisation is performing effectively. The Board has taken particular responsibility for assessing and mitigating the highest level corporate risks, supporting me in my role as Principal Accounting Officer. In the course of the next year, I will be relying on the Board to help me drive the delivery of a new programme, "Preparing for the Future", which I have established to deliver the capabilities and capacity that are needed to meet the future challenges associated with the devolution of more powers and, thereby, more functions to the Welsh Government, during a time of exceptionally tight public finances.
19. I met regularly with Board members bilaterally and with the non-executive Directors collectively on a monthly basis. The First Minister attended a Board meeting in the year (January 2015) providing a further opportunity for challenge. The non-executive Directors also met the First Minister to review the performance of the Permanent Secretary and the Board.
20. Board Membership details for the year are provided below:

Board Members	Meetings Attended (of 10 held)
Derek Jones, Permanent Secretary	10
Owen Evans, DG Education & Skills	9
Andrew Goodall, DG, Health & Social Services (from 9 June 2014)	8*
Michael Hearty, DG, Finance & Corporate Services	9
Gareth Jones, DG, Natural Resources (Sustainable Futures pre-Cabinet changes)	10
June Milligan, DG, Local Government & Communities	10
James Price, DG, Economy, Science & Transport	10**
David Richards, Director, Governance	8***
Jeff Godfrey, Director, Legal Services	7
Elan Closs Stephens, Non-Executive Director	9
James Turner, Non-Executive Director	9
Adrian Webb, Non-Executive Director	10

* Started in post in June 2014 – Board member for 8 meetings only

** Attended for part of the meeting in February 2015

*** Attended for part of the meeting in September 2014

21. The Board has two standing sub-committees to deal with key aspects of organisational business and also establishes ad-hoc groups to deliver key corporate priorities. The two standing sub-committees are:
 - The Corporate Governance Sub-Committee, which has advised me in my capacity as Principal Accounting Officer on my responsibilities for risk management, audit, internal controls and corporate governance. This sub-committee was chaired by a Non-Executive Director and attended by me.
 - The Remuneration Sub-Committee, which has been responsible for Senior Civil Service (SCS) pay and conditions, senior succession planning and recruitment, and all SCS personal cases. The sub-committee was chaired by a Non-Executive Director and attended by me.
22. Due to the major, top-down reconfiguration of the internal organisation of the Welsh Government (as part of “Preparing for the Future”), it was not considered appropriate or possible to conduct an in-depth, qualitative self-assessment of the Board’s effectiveness for the year. However, the Board commissioned a “light-touch” board effectiveness assessment which confirmed that it had operated in line with best practice. Once the new Board structure has been fully embedded, I intend to commission a more in-depth self-assessment for 2015-16.
23. Below the Board, the Operations Group has ensured that the Board’s strategic decisions are managed on a day-to-day basis across the organisation. The Group was chaired at Director level on a fixed term basis and included senior representatives from every Director General area to so that action was taken in a joined-up manner to improve the way we operate. In terms of operations, levels of sickness absence were a particular concern during 2014-15. Consequently, I asked the SCS to address the management of sickness absence fairly but robustly, to deliver continued improvement into the future.
24. My accountability requires me to ensure that public money is expended in a manner consistent with the principles of regularity, propriety and value for money. If I, or my officials, are directed to undertake a course of action that, in our opinion, does not meet this standard, I am expected to advise the relevant Minister and then to seek their formal direction to continue on that course of action. During the period covered by these accounts and their signing, no Ministerial Directions have been required or issued.

The Risk and Control Framework

25. The Board is responsible for overseeing the implementation of the risk management policy and process. The risk management policy is based on the Orange Book guidance for managing risk and has the key objective of ensuring that the Welsh Government has a consistent process in place for measuring, controlling, monitoring and reporting risk across the whole of the organisation.
26. I have continued to promote a more innovative, less risk averse culture in which the taking of appropriate risks in pursuit of opportunities to benefit the Welsh Government is encouraged. The Welsh Government should not be unduly risk averse and, in pursuit of its objectives, must be prepared to take risks which have been properly assessed, evaluated and managed to encourage more effective exploitation of opportunities as they arise, whilst accepting that some failures might occur. Consequently, the Board has been reconsidering its approach to risk identification and the way it records its risk considerations, so that discussion of risk by the Board has remained dynamic and relevant.
27. Our approach to risk management is set out in our framework document, “Risk Essentials”. Under this framework, risks are identified, evaluated and managed at a number of different levels:
 - a. The Board has been responsible for managing corporate risks which might have prevented or hindered the organisation from achieving its strategic objectives. The corporate risk register was reviewed on a quarterly basis by the Board taking into account the views of the Corporate Governance Committee.

- b. Each Director General/Director was responsible for managing the departmental risks which may have prevented or hindered them from achieving their objectives and outcomes. Departmental risks were reviewed regularly by senior management teams and by departments' own Corporate Governance Committees and underpinned by lower level risk registers.
 - c. Risk registers are in place for major projects managed through approved programme and project management methodologies eg Managing Successful Programmes (MSP) and Projects in Controlled Environments (PRINCE). Risk is assessed using the Cabinet Office's Gateway Risk Potential Assessment model and is reviewed on a regular basis by each project/programme board.
 - d. The Welsh Government uses the "five case model" to manage projects effectively and mitigate the risks around their delivery.
28. Our awareness and management of risk is embedded in policymaking, planning and delivery. Training has been available on risk management for all staff and on project management for programme and project managers. Particular emphasis was on the management of risk in respect of grants funding and a number of staff attended training to better understand these risks in the course of the year.
 29. To support my own review of the overall control environment, I required the Directors General within the Welsh Government to complete an internal control questionnaire and Statement of Assurance to provide me with their assessment of the effectiveness of their department's internal controls frameworks. In particular this year, I asked the Directors General to provide me with an additional assurance in respect of their assessment of the reliability and robustness of the analytical models on which they rely to make critical business decisions. I have been assured that the analytical models used by the Welsh Government are sound and are subject to adequate validation and review.
 30. Investments in organisational improvement have been coordinated through a 'portfolio approach' to programme and project management. The portfolio team manages a range of programmes and projects, aiming for alignment with strategic goals, efficient and effective delivery and realisation of measurable benefits. The Team focuses on best practice in governance, risks, costs and benefits across projects and also provides support to projects in applying a consistent approach and best practice for delivery.
 31. Governance for this work has been exercised through the Operations Group with the Board providing oversight. In addition, each Project has had a Senior Responsible Officer (SRO) and Project Board. An overview of portfolio resourcing, progress, risks and benefits was provided to the Operations Group on a monthly basis. The Operations Group scrutinised the business cases for new projects seeking portfolio funding and regularly took detailed project progress reports from individual project SROs.
 32. The Programme & Project (PPM) Management Centre of Expertise has provided advice and support to improve PPM professionalism throughout the organisation and to increase excellence in the delivery of programmes and projects. The Centre of Expertise has established an SRO network and PPM Community of Practice. Training has also been provided as part of our Programme of Learning; a full suite of training courses has been utilised for levels from beginner through to expert to support our aim to improve PPM capability across the organisation.
 33. The Grants Centre of Excellence continued to provide advice to grant managers across the Welsh Government. Significant effort has been invested in improving internal processes and the Centre of Excellence provided consistent and practical support to grant managers through a range of training, guidance and templates that have been developed and are available for officials to use, as well as minimum standards. Management reporting has been improved so that we now have the ability to share key information across the Welsh Government. Awareness of the key issues has also improved. We have sought to achieve a balance so that appropriate measures are in place to mitigate the risks associated with grant funding while avoiding unmanageable systems which are difficult to operate and burdensome to all; considerable further progress has been made towards this aim.
 34. The Counter Fraud Branch maintained our preventive and awareness capability in relation to the risk of fraud. This year, the emphasis for training and awareness was on teams processing grants, in particular those managing European funding. Awareness raising in relation to counter fraud has continued with discussion and advice to many areas of Welsh Government on recognising fraud risk and taking appropriate action to eradicate or minimise that risk.
 35. The Head of Counter Fraud maintains a fraud alerts system for public sector organisations in Wales and a fraud and reporting telephone line and email line are in place; both are displayed on the main Welsh Government website. These systems have been beneficial in identifying potential frauds impacting upon the organisation.
 36. The Head of Counter Fraud worked closely with Internal Audit and the Grants Centre of Excellence so that we continue to improve our due diligence and controls, particularly in relation to grants. His network of contacts was maintained with other fraud investigators and counter-fraud forums in Wales.
 37. We maintained a Whistleblowing Panel so that all cases of internal whistle-blowing were addressed properly and appropriate action taken, as necessary, to deal with the issues raised. We have also maintained a separate External Assurance Panel to deal with issues brought to our attention by persons outside the Welsh Government. Mostly, these have related to how Welsh Government funds have been handled by our delivery partners and by beneficiaries

to our various grant schemes. The issues raised are not, exclusively, fraud-related but the Head of Counter-Fraud has been involved, in the investigation of external assurance concerns in particular, so that a consistent, proportionate and appropriate approach has been applied to concerns that both Panels have considered.

38. The Good Governance Group for Welsh Government Sponsored Bodies and major third sector recipient bodies continued to meet on a periodic basis, providing a forum for the identification of good practice in governance and for the sharing of practical experiences and lessons learned.
39. Our governance framework has continued to evolve in order to address significant devolution and policy developments which will have a major impact on the future governance of Wales within the UK. In particular, Welsh Government has been working on the implementation of the recommendations contained in the two reports by the Commission on Devolution in Wales, chaired by Sir Paul Silk, and the report of the Commission on Public Service Governance and Delivery, chaired by Sir Paul Williams, whilst also responding to emerging devolution matters arising from the outcome of the Scottish Referendum and the "St David's Day" Statement.
40. In September, more than 60 world leaders attended the NATO Summit in Wales. This was the first NATO summit since 2012 and the first to be held in the United Kingdom since NATO leaders came to London in 1990. For much of the year the Summit was recognised as a corporate-level risk due to its impact on the Welsh Government on a number of levels, including emergency preparedness, planning, logistics and staff deployment. With significant demands on resources to support the delivery of what is regarded to be an extremely successful event this demonstrated the effectiveness of our risk management approach and capability to deal with major logistical challenges.
41. In previous years I have reported on issues concerning the Welsh Government student loans book. I am pleased to report this year that management actions to strengthen controls have continued to mitigate the risks associated with this, which the Board continues to monitor to ensure an adequate management response.

Review of Effectiveness

42. As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework including the system of internal control. I take assurance from a wide spectrum of activities and my review of the effectiveness of the system of internal control is informed by the work of Internal Audit and those Welsh Government officials with responsibility for the development and maintenance of the internal control framework. I also take assurance from management responses to issues identified by the External Auditor in his management letter and other reports. I have been advised on the implications of my review of the effectiveness of the system of internal control by the Board and the Corporate Governance Committee, and all of the key development improvements are outlined in this statement.
43. The Welsh Government has an Internal Audit Service, which operates to standards defined in the Public Sector Internal Audit Standards. It undertook a full programme of work based on an analysis of the major risks facing the organisation. The Head of Internal Audit submitted regular reports to the Corporate Governance Committee on progress in implementing this audit plan, and I met regularly with her through the year to discuss this.
44. The Head of Internal Audit, in her Annual Assurance report, has provided me with "reasonable assurance" on the operation of the framework of governance, control and risk management. This was supported by the provision of reasonable assurances by each of the Directors General in respect of their Departments.
45. The Internal Audit Service co-ordinates its work with that of the Wales Audit Office. Co-ordination of audit plans has progressed significantly this year with planned assignments and special investigations being successfully undertaken. A joint working protocol underpins the approach taken and quarterly liaison meetings have been held to share information and agree joint assignments.
46. The Welsh Government's European Funds Audit Team (EFAT) submitted an "Unqualified Opinion" on the four Structural Funds Operational Programmes in December 2014 in their Annual Control Report and Opinion for that year. This report has since been reviewed and accepted by European Commission auditors.
47. Based on its work over this reporting period, in the Chair's Annual Report for 2014-15, the Corporate Governance Committee was able to provide substantial assurance on the adequacy of audit arrangements for the Welsh Government, and on the assurances provided to the Principal Accounting Officer in respect of the governance, risk management and control arrangements operated within the organisation.
48. In addition to the main Corporate Governance Committee, all parts of the organisation are covered by a Departmental Corporate Governance Committee. All Corporate Governance Committees have met regularly to advise the Accounting Officer and Director Generals throughout the year. I am satisfied that these committees operated in an effective manner and provided good support to both myself and the Director Generals in the monitoring and review of risk, control and governance processes.
49. Based on my review of internal controls and all other information available to me, I am satisfied that, subject to the issues raised in the following paragraphs, the Welsh Government had in place during the year appropriate controls to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

Information Governance

50. As Principal Accounting Officer, I am responsible for ensuring that appropriate arrangements are in place to comply with the core set of mandatory minimum measures to protect information in Government Departments, which require me to assess our risk and ensure appropriate mitigation strategies are in place. Information risk continues to have a high priority throughout the Welsh Government featuring in departmental risk registers.
51. Where third parties handle our information, it is vital that we tell them how to do so, as we often retain legal liability for that information even if the third party releases the information in error. We regularly assess the way that third parties handle our personal information using the HADRIAN online assessment tool. Information assurance clauses are included as standard in requirement specifications.
52. The Welsh Government has maintained its accreditation to ISO 27001, the international standard for information security management. This provides assurances that the corporate IT system and associated security policies comply with the requirements of the standard and are aligned with recommended procedures. The Internal Compliance Programme for 2014-5 and external accreditation inspections both concluded that the Welsh Government has robust processes in place and has met its commitments under the standard.
53. With respect to data loss incidents, there have been no incidents reported to the ICO. Incidents not falling within the requirement to report to the ICO were:

Summary of Other Protected Personal Data related incidents in 2014-15		
Incidents deemed by the Data Controller not to fall within the criteria for report to the ICO but recorded centrally within the Department are set out in the table below		
Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	6
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	18
V	Other	0

Significant Internal Control Issues

54. The Wales Audit Office has undertaken two significant un-planned reviews in the year, one of which, on Regeneration Investment Fund for Wales has been concluded and reported upon recently, and the other will be completed shortly. These raise some common themes that the Welsh Government needs to address in relation to those bodies operating at "arms-length" on its behalf, to deliver specific objectives and outcomes. The need has been identified to better understand the whole range of governance arrangements that operate between the Welsh Government and its subsidiary entities, in particular, those operating with the greatest autonomy or at greater distance from their sponsoring Departments.
55. The greatest challenges arise within those organisations operating as, or in partnership with, commercial organisations, where the application of the normal public service ethos and principles becomes more complex, and where conflicts of interest become more difficult to define and manage effectively. In the course of the next year, we will be looking critically at the models for good governance that are in place for such arms-length bodies to confirm that they are fit for purpose and that we are exercising the right oversight over their activities.
56. In his Annual Governance Statement to support the NHS Wales Summarised Accounts of the Local Health Boards and NHS Trusts, the Director General for the Department for Health and Social Services, in his role as NHS Chief Executive, has set out the assurances he has received from Internal and External Auditors and from Health Board and NHS Trust Accounting Officers in respect of the governance framework for the summarised accounts. In his section on Significant Issues, the Director General has made reference to the NHS Wales organisations that were placed on escalated monitoring arrangements in the course of the year being: Betsi Cadwaladr University Health Board; Abertawe Bro Morgannwg University Health Board; Cardiff and Vale University Health Board; Hywel Dda University Health Board; and the Welsh Ambulance Services NHS Trust.
57. The Welsh Government has seen an increase in the number of cases under review by its Counter Fraud Service, some of which are long-standing investigations while some are new referrals. However, this is considered to be a positive sign that our External Assurances protocols are working effectively and also that the efforts to improve grant management and raise the general level of fraud risk awareness across the Welsh Government are being successful. This has stretched the resources of the Counter Fraud Service and I have looked to related functions, mainly Internal Audit, to supplement these resources, both in the year and into the future. Resources will need to be focused effectively on those cases with the greatest potential for successful prosecution, with the ongoing aim of seeking recovery of public funds whenever possible.
58. Nevertheless, I am not complacent about the need to continue the ongoing improvement of controls and for the continued training, awareness and vigilance of staff. The Welsh Government is also conscious of the need for good

standards of governance, including fraud risk management, in the organisations with which it works and through which public services are delivered. Officials continue to work with our external partners to raise standards of practice in order to safeguard public money, for example, through the Good Governance Group.

59. Towards the end of the last financial year, the European Commission (EC) informed the Welsh Government that payments to Wales were being suspended in respect of ERDF structural funds due to failings in the audit work performed by the European Funding Audit Team (EFAT) in respect of 2013. The EC was satisfied with the quality of the audits performed, but was critical of the sampling methodology used by EFAT and of the number of audits performed. Despite this interruption, the Welsh Government was able to continue making payments to all its delivery partners by utilising its own cash resources whilst the audit issues were resolved. In addition, the rates of error in both ESF and ERDF structural funds that were identified by EFAT audits exceeded the level of materiality allowed by the EC and EC auditors, themselves, identified some systemic issues in ESF controls operated by WEFO. Wales was not alone amongst EC Member States in being subject to interruption during this time. However, Wales has been notable in achieving early resolution of the audit and control issues in a satisfactory manner, early in 2015, so that the interruption has been lifted and payments have recommenced to Wales in respect of its ERDF and ESF programmes.

CONCLUSION

60. The system of internal control has been in place in the organisation for the year ending 31 March 2015 and up to the date of approval of the Annual Report and Consolidated Accounts. It accords with HM Treasury guidance.
61. I have considered the evidence provided to me by my review of the effectiveness of the governance framework. I am satisfied that the organisation has maintained a sound system of internal control during this time, that action is being taken to further improve our internal controls and that weaknesses are being addressed where they have been identified.

Sir Derek Jones KCB
Permanent Secretary and Principal Accounting Officer
18 August 2015

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

I certify that I have audited the financial statements of the Welsh Government for the year ended 31 March 2015 under the Government of Wales Act 2006. These comprise the Summary of Resource Outturn, Consolidated Statement of Comprehensive Net Expenditure, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Taxpayers' Equity and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Principal Accounting Officer and auditor

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

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

Scope of the audit of the financial statements

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

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

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

Opinion on Financial Statements

In my opinion the financial statements:

- give a true and fair view of the state of the Welsh Government and Group's affairs as at 31 March 2015 and of its net cash requirement, net resource outturn and net operating cost, for the year then ended; and
- have been properly prepared in accordance with HM Treasury's directions issued under the Government of Wales Act 2006.

Opinion on Regularity

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

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government of Wales Act 2006; and
- the information which comprises the Management Commentary and the unaudited part of the Remuneration Report included within the Annual Report (pages 2 to 10) is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

- I have no observations to make on these financial statements.

Huw Vaughan Thomas
Auditor General for Wales
8 September 2015

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Welsh Government
Summary of Resource Outturn
For the year ended 31 March 2015

	Budget 2014-15	Outturn 2014-15	Outturn compared with Budget £000
	£000	£000	
	Net expenditure	Net expenditure	Variance
AMBIT			
Health and Social Services	5,657,480	5,570,582	86,898
Local Government	3,616,564	3,570,412	46,152
Education and Skills	2,040,988	2,002,960	38,028
Economy, Science and Transport	1,182,168	1,173,851	8,317
Communities and Tackling Poverty	636,948	636,570	378
Natural Resources	419,855	419,244	611
Central Services and Administration	366,163	330,845	35,318
Total Resource and Capital requirements	13,920,166	13,704,464	215,702

During the year there were a number of changes to Welsh Government voted budgets to reflect new Ministerial portfolios. In the prior year the budgets were structured and voted as in the table below.

	Budget 2013-14	Outturn 2013-14	Outturn compared with Budget £000
	£000	£000	
	Net expenditure	Net expenditure	Variance
AMBIT			
Health and Social Services	5,432,630	5,405,748	26,882
Local Government	3,721,269	3,721,246	23
Communities and Tackling Poverty	203,091	195,758	7,333
Economy, Science and Transport	945,829	898,792	47,037
Education and Skills	2,372,495	2,382,632	(10,137)
Natural Resources and Food	388,796	381,607	7,189
Housing and Regeneration	399,978	398,647	1,331
Culture and Sport	136,834	136,480	354
Central Services and Administration	328,643	323,430	5,213
Total Resource and Capital requirements	13,929,565	13,844,340	85,225

Welsh Government
Net Cash Requirement 2014-15

	2014-15	2013-14
	£000	£000
Authorised for issue from Welsh Consolidated Fund	13,570,532	13,397,293
Funding drawn down	(13,430,393)	(13,392,938)
Undrawn funding	140,139	4,355

The Notes on pages 33 to 61 form part of these accounts.

Consolidated Statement of Comprehensive Net Expenditure
For the year ended 31 March 2015

		Year ended 31 March 2015		Restated Year ended 31 March 2014	
		WG £000	Consolidated £000	WG £000	Consolidated £000
PROGRAMME COSTS	Note				
Expenditure	6	14,541,831	14,691,567	14,712,495	14,899,155
Income:					
Non EU Income	8	(1,190,616)	(1,459,696)	(1,093,889)	(1,350,157)
EU Income	8	(636,730)	(649,722)	(676,058)	(684,013)
		(1,827,346)	(2,109,418)	(1,769,947)	(2,034,170)
Net Programme Costs		12,714,485	12,582,149	12,942,548	12,864,985
ADMINISTRATION COSTS	Note				
Staff Costs	4	214,456	249,204	207,245	239,750
Other Administration Costs	5	74,572	84,796	78,008	93,250
Gross Administration Costs		289,028	334,000	285,253	333,000
Administration Income		(1,098)	(1,110)	(827)	(827)
Net Administration Cost		287,930	332,890	284,426	332,173
NET OPERATING COST		13,002,415	12,915,039	13,226,974	13,197,158
OTHER COMPREHENSIVE EXPENDITURE					
Net (gain)/loss on revaluation of Property, Plant and Equipment		(1,682,692)	(1,730,126)	(128,367)	(163,352)
Net gain/(loss) on Available-for-sale investments taken to equity		-	(1,245)	-	(4,132)
Actuarial (gain)/ loss on pension		4,810	17,723	(20,180)	(39,962)
Total Comprehensive Net Expenditure		11,324,533	11,201,391	13,078,427	12,989,712

The Notes on pages 33 to 61 form part of these accounts.

Consolidated Statement of Financial Position as at 31 March 2015

		As at 31 March 2015 WG	As at 31 March 2015 Consolidated	As at 31 March 2014 WG	Restated As at 31 March 2014 Consolidated
	Note	£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	9	15,644,830	18,374,146	13,930,534	16,468,686
Intangible Assets	10	10,354	20,176	14,147	20,385
Financial assets	11	2,632,400	2,365,084	2,258,706	2,062,549
Trade and other receivables	15	-	92,747	-	62,248
Total non current assets		18,287,584	20,852,153	16,203,387	18,613,868
Current Assets:					
Assets classified as held for sale		-	2,455	-	5,242
Development Asset Inventories	13	186,160	186,270	199,342	199,452
Inventories	14	30,117	88,947	32,282	91,569
Trade and other receivables	15	257,952	399,111	244,785	351,993
Cash & cash equivalents	16	212,812	399,431	21,242	207,967
Total current assets		687,041	1,076,214	497,651	856,223
Total assets		18,974,625	21,928,367	16,701,038	19,470,091
Current liabilities:					
Trade and other payables	17	(891,309)	(1,523,247)	(675,880)	(1,232,710)
Non-current assets plus/less net current assets/liabilities		18,083,316	20,405,120	16,025,158	18,237,381
Non-current liabilities					
Provisions	18	(707,407)	(764,275)	(605,013)	(673,340)
Trade and other payables	17	(133,642)	(211,968)	(142,251)	(220,355)
Pension fund deficits	26	(75,750)	(103,977)	(72,900)	(87,939)
National Loans Fund	21	(11,485)	(11,485)	(11,554)	(11,554)
Other liabilities		-	(19,600)	-	(35,394)
Total non current liabilities		(928,284)	(1,111,305)	(831,718)	(1,028,582)
Total Assets less liabilities		17,155,032	19,293,815	15,193,440	17,208,799
Taxpayers' Equity & other Reserves					
General Fund		10,129,120	11,969,031	9,130,695	10,827,754
Revaluation Reserve		7,092,107	7,419,206	6,124,927	6,458,266
EU Deferred Grant Reserve		9,555	9,555	10,718	10,718
Pension Fund Reserve		(75,750)	(103,977)	(72,900)	(87,939)
Total equity		17,155,032	19,293,815	15,193,440	17,208,799

Sir Derek Jones KCB
 Permanent Secretary and Principal Accounting Officer
 Date: 18 August 2015

The Notes on pages 33 to 61 form part of these accounts

Consolidated Statement of Cash Flows for the year ended 31 March 2015

		Year ended 31 March 2015		Restated Year ended 31 March 2014	
		WG	Consolidated	WG	Consolidated
Cash flows from operating activities	Note	£000	£000	£000	£000
Net operating cost		(13,002,415)	(12,915,039)	(13,226,974)	(13,197,158)
Non – cash transactions:					
Administrative costs	5	12,583	10,295	16,031	17,084
Programme costs	6	371,002	594,987	626,355	884,538
Income payable to Welsh Consolidated Fund		(122,894)	(122,894)	(7,549)	(7,549)
Movements in working capital other than cash	12	15,007	(9,219)	(239,054)	(280,067)
Other adjustments via General Fund		(2)	553	1	1,533
Use of provisions	18	(80,831)	(179,128)	(80,890)	(170,007)
Net cash outflow from operating activities		(12,807,550)	(12,620,445)	(12,912,080)	(12,751,626)
Cash flows from investing activities					
Purchase of property, plant and equipment		(131,162)	(380,576)	(125,121)	(332,419)
Purchase of intangible assets		(351)	(5,831)	(4,141)	(7,187)
Proceeds of disposal of property, plant and equipment		1,906	8,194	4,440	16,541
Proceeds of disposal of development assets		19,205	19,205	11,752	11,752
Proceeds of disposal of financial assets		-	-	-	(22,452)
Proceeds of disposal of intangible assets		-	-	-	87
Purchase of development assets		(17,820)	(17,820)	(59,623)	(59,623)
Issue of loans and investments		(493,080)	(424,385)	(429,835)	(368,230)
Movement in bank loan		-	(9,300)	-	(14,600)
Repayment of loans		77,116	79,076	100,652	100,652
Interest received		-	40	-	33
Net cash outflow from investing activities		(544,186)	(731,397)	(501,876)	(675,446)
Cash flows from financing activities					
From Welsh Consolidated Fund (Supply) – current year		13,430,393	13,430,393	13,392,939	13,392,939
Capital element of payments for finance leases and on balance sheet PFI contracts		(8,327)	(8,327)	(8,056)	(8,056)
Net Cash Outflow/Inflow from Financing activities		13,422,066	13,422,066	13,384,883	13,384,883
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the WCF		70,330	70,224	(29,073)	(42,189)
Movements in non-operating receipts due to be surrendered to Welsh Consolidated Fund		121,240	121,240	(30,793)	(30,793)
Net increase/(decrease) in cash and cash equivalent in the period after adjustment for receipts and payments to the WCF	16	191,570	191,464	(59,866)	(72,982)
Cash and cash equivalents at the beginning of the period	16	21,242	207,967	81,108	280,949
Cash and cash equivalents at the end of the period	16	212,812	399,431	21,242	207,967

The Notes on pages 33 to 61 form part of these accounts

Consolidated Statement of changes on Taxpayers' Equity for the year ended 31 March 2015

Consolidated	General Fund	European Deferred Grant Reserve	Revaluation Reserve	Pension Fund Reserve	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2013	10,555,184	11,881	6,393,374	(125,784)	16,834,655
Welsh Consolidated fund – drawn down	13,392,939	-	-	-	13,392,939
Welsh Consolidated Fund - deemed	(7,417)	-	-	-	(7,417)
Net operating cost for the year	(13,197,158)	-	-	-	(13,197,158)
Non-cash adjustments					
Net gain/(loss) on revaluation	4,064	-	163,420	-	167,484
Adjustments	-	-	(1)	-	(1)
Impairment	1,156	-	-	-	1,156
Actuarial gain/(loss) on pension scheme	1,610	-	-	-	1,610
Student Loans	(21,526)	-	-	-	(21,526)
Consolidated Fund Extra Receipts	(25)	-	-	-	(25)
Loan repayments to Consolidated Fund	(107)	-	-	-	(107)
Movements in reserves					
Release of reserves to statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers between reserves	98,527	-	(98,527)	-	-
In year pension movement	507	-	-	37,845	38,352
Restated balance at 31 March 2014	10,827,754	10,718	6,458,266	(87,939)	17,208,799
Welsh Consolidated fund – drawn down	13,430,393	-	-	-	13,430,393
Welsh Consolidated Fund - deemed	(122,767)	-	-	-	(122,767)
Net operating cost for the year	(12,915,039)	-	-	-	(12,915,039)
Non-cash adjustments					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	1,730,126	-	1,730,126
Net gain/(loss) on revaluation of investments	1,479	-	-	-	1,479
Net gain/(loss) on assets held for sale	-	-	(234)	-	(234)
Impairment	282	-	-	-	282
Other adjustments	(2)	-	2	-	-
Actuarial gain/(loss) on pension scheme	(1,190)	-	-	-	(1,190)
Student Loans	(20,210)	-	-	-	(20,210)
Consolidated Fund Extra Receipts	(21)	-	-	-	(21)
Loan repayments to Consolidated Fund	(106)	-	-	-	(106)
Movements in reserves					
Release of reserves to statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers between Reserves	768,954	-	(768,954)	-	-
In year pension movement	(496)	-	-	(16,038)	(16,534)
Balance at 31 March 2015	11,969,031	9,555	7,419,206	(103,977)	19,293,815

The Notes on pages 33 to 61 form part of these accounts.

Consolidated Statement of changes in Taxpayers' Equity continued

Welsh Government only	General Fund	European Deferred Grant Reserve	Revaluation Reserve	Pension Fund Reserve	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2013	8,906,269	11,881	6,083,587	(92,570)	14,909,167
Welsh Consolidated fund – drawn down	13,392,939	-	-	-	13,392,939
Welsh Consolidated fund – to surrender	(7,417)	-	-	-	(7,417)
Net operating cost for the year	(13,226,974)	-	-	-	(13,226,974)
Non-cash adjustments					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	128,367	-	128,367
Student Loans	(21,526)	-	-	-	(21,526)
Consolidated Fund Extra Receipts	(25)	-	-	-	(25)
Other adjustments	-	-	(1)	-	(1)
Loan repayments payable to Consolidated Fund	(107)	-	-	-	(107)
Movements in Reserves					
Release of reserves to Statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers of assets	-	-	-	-	-
Transfers between Reserves	87,026	-	(87,026)	-	-
In year pension movement	510	-	-	19,670	20,180
Balance at 31 March 2014	9,130,695	10,718	6,124,927	(72,900)	15,193,440
Welsh Consolidated fund – drawn down	13,430,393	-	-	-	13,430,393
Welsh Consolidated fund – to surrender	(122,767)	-	-	-	(122,767)
Net operating cost for the year	(13,002,415)	-	-	-	(13,002,415)
Non-cash adjustments					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	1,682,692	-	1,682,692
Student Loans	(20,210)	-	-	-	(20,210)
Consolidated Fund Extra Receipts	(21)	-	-	-	(21)
Other adjustments	(3)	-	2	-	(1)
Loan repayments payable to Consolidated Fund	(106)	-	-	-	(106)
Movements in Reserves					
Release of reserves to Statement of Comprehensive Expenditure	-	(1,163)	-	-	(1,163)
Transfers between Reserves	715,514	-	(715,514)	-	-
In year pension movement	(1,960)	-	-	(2,850)	(4,810)
Balance at 31 March 2015	10,129,120	9,555	7,092,107	(75,750)	17,155,032

The Notes on pages 33 to 61 form part of these accounts.

NOTES TO THE WELSH GOVERNMENT RESOURCE ACCOUNTS

1. Statement of accounting policies

These 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 below. 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 cost, and resources to cash requirement.

1.1 Accounting convention

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

1.2 Basis of Consolidation

These accounts comprise a consolidation of the Welsh Government, the 7 Local Health Boards, Finance Wales PLC, Regeneration Investment Fund for Wales LLP, WG Holdco Ltd and Career Choices. These consolidated companies produce and publish their own annual reports and accounts. Subsidiary companies are consolidated from draft accounts, there being no material difference between draft and final accounts. In addition WGC Holdco Ltd accounts are prepared on a UK GAAP basis, there being no material difference between UK GAAP and IFRS. Design Commission for Wales, Hybu Cig Cymru – Meat Promotion Wales, Life Sciences Hub Wales Ltd, Sector Development Wales Partnership Ltd, Welsh Development Management Ltd, Innovation Point Wales, Welsh Government Transport Company and International Business Wales Ltd have not been consolidated on grounds of materiality. Transactions between entities included in the consolidation are eliminated.

1.3 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. The Welsh Government capitalises leasehold property where the original lease was for greater than 100 years and land & buildings surplus to requirements. Leased property, where the original lease was for less than 100 years, is treated as a revenue cost. Freehold land and buildings and leasehold land and buildings, where the original lease was for greater than 100 years, have been restated at current cost using professional valuations either every five years, or annually, with appropriate indices in intervening years for non annual valuations. The exception is properties of a specialised nature held at depreciated replacement cost. The indices used for 2014-15 were taken from the Investment Property Databank (IPD) UK Annual Index (2015).

Network Assets

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

The trunk road network is recognised as a single infrastructure asset in accordance with the applicable guidance outlined in the FReM. However, it comprises four distinct elements that are accounted for differently: land; the road pavement; structures (such as bridges and culverts); and communications (such as variable message signs).

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

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

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

Subsequent expenditure is capitalised where it adds to the service. Expenditure that does not replace or enhance service potential will be expensed as a charge to the Statement of Comprehensive Net Expenditure.

New roads are reclassified from Assets under Construction when the structural details have been provided by the Agent authority, 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.

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 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.

The indexation factors applied are:

Road Pavement and Structures	Baxter Index, published quarterly by the Department for Business, Innovation and Skills
Communications	Baxter Index, published quarterly by the Department for Business, Innovation and Skills
Land	Land indices produced by Valuation Office Agency

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

Information Technology and Fixtures and Fittings

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

Heritage Assets

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

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

1.4 Intangible Assets

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

The Welsh Government capitalises computer software licenses where expenditure of at least £5,000 has occurred.

1.5 Depreciation

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

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

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 an annual condition survey. Structures and communications assets are depreciated on a straight line basis over the expected useful life of the asset.

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

Lives are in the following ranges:

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

Freehold Land and Assets under construction are not depreciated.

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

1.6 Donated Assets

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is only recognised where conditions attached to the donation preclude immediate recognition of the gain.

1.7 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.

1.8 Financial Assets

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

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.

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.

1.9 Development Assets

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 Comprehensive Net Expenditure Statement.

1.10 Inventories

Inventories are valued at the lower of replacement cost and net realisable value, with the exception of oak wood, which is valued at current replacement cost. The 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.

1.11 Operating Income

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

Revenue from the European Union in respect of the European programmes, funds and initiatives is brought to account in line with grants payable in respect of these amounts and is shown in Note 8. The funds are paid to the Welsh European Funding Office (which is part of the Finance and Corporate Services Department). These funds are then transferred to the relevant department within the Welsh Government and are accounted for within Note 6.

Health revenue includes Health Funding Contributions payable by HM Revenue and Customs which are subject to audit by the National Audit Office. The audit of these transactions had not been completed by the time these accounts were produced. Any adjustments arising from the audit will therefore be made in future accounting periods. These are not likely to be material.

1.12 Administration & Programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Administration costs reflect the cost of running the Welsh Government, with associated operating income. Programme costs reflect all expenditure by the Local Health Boards and non-administration costs, (including payments of grants and other disbursements) by the Welsh Government.

1.13 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

1.14 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 in Note 26. The defined benefit elements of the scheme are unfunded. The Welsh Government recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payments to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Welsh Government recognises the contributions payable for the year. All actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised through reserves in the period in which they arise.

Some former Welsh Development Agency staff, current Finance Wales PLC staff and Career Choices staff participate in a number of Local Government Pension Schemes in Wales which are multi-employer funded schemes. Welsh Government staff contributed to: the British Tourist Boards' Pension Scheme: a joint superannuation scheme (FPS 1655), together with the Nursing and Midwifery Council, NHS Education for Scotland, Department of Health and the Nurses Welfare Trust; and the West Yorkshire Pension Scheme administered by the City of Bradford Metropolitan District Council.

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

1.15 Early departure costs

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

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

1.16 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.

1.17 Grants

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

1.18 Private Finance Initiative / Public Private Partnership transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The LHB, therefore, recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

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

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

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

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

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

1.19 Provision for Doubtful Debts

The Welsh Government provides in full for doubtful debts after 6 months unless there is reasonable certainty that the debt will be paid.

1.20 Exchange Rate Gains and Losses

The Welsh European Funding Office, which is part of the Central Services Department 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.

1.21 Provisions

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

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

1.22 Deferred Income

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

1.23 National Non-Domestic Rating

To avoid the need for transfers of National Non-Domestic Rating (NNDR) monies between local authorities and the Welsh Government (and between the Welsh Government and the Welsh Consolidated Fund), the Welsh Government takes account of the NNDR entitlement of each local authority and nets the Revenue Support Grant (RSG) payable when calculating the actual RSG payments. The RSG payments are then treated as grant-in-aid and are accounted for on a cash basis.

1.24 Financial Instruments

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

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

Credit Risk

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

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

Market Risk

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

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.

2. Prior year adjustments

The 2013-14 consolidated figures as at 31 March 2014 have been re-stated to include the final accounts of 2 subsidiaries which had previously been consolidated in draft for last year's consolidation. The net effect is shown below:

	£000
Comprehensive net expenditure for the year ended 31 March 2014	12,990,307
Prior period adjustment	(595)
Restated comprehensive net expenditure for the year ended 31 March 2014	12,989,712
Reserves balance as at 31 March 2014 as previously reported	17,208,204
Prior period adjustment:-	
General Fund	767
Revaluation Reserve	(172)
Restated Reserves balance as at 31 March 2014	17,208,799

3a. Reconciliation of outturn to net operating cost

	Outturn 2014-15 £000	Outturn 2013-14 £000
Net resource outturn	13,704,464	13,844,340
Excess income surrender to WCF		-
less Capital, Loans & adjustments	(702,049)	(617,366)
Net operating cost	13,002,415	13,226,974

3b. Reconciliation of resources to cash requirement

	Budget 2014-15 £000	Outturn 2014-15 £000	Outturn compared with Budget £000	Outturn 2013-14 £000
Net resource outturn	13,920,166	13,704,464	215,702	13,844,340
Excess income surrender to WCF	-	-	-	-
Depreciation	(160,866)	(161,396)	530	(129,282)
Impairments	(131,999)	(46,903)	(85,096)	(17,453)
Student loans	33,661	(82,843)	116,504	(418,301)
Movements in provisions	(183,278)	(102,395)	(80,883)	(69,893)
Movements in working capital	92,848	(76,660)	169,508	197,894
Addition of amounts not part of resource outturn	-	7,098	(7,098)	39,505
Other	-	(2,543)	2,543	5,994
Net cash requirement	13,570,532	13,238,822	331,710	13,452,804

4. 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 2014-15	Total 2013-14
Total	71,386	1,596	10	72,992	72,399
Of which:					
Welsh Government	5,113	433	10	5,556	5,497
Local Health Boards	65,394	1,163	-	66,557	66,010
Subsidiaries	879	-	-	879	892

The aggregate payroll costs for staff were as follows (the cost of LHB staff is included within Note 6 – Programme Costs):

Administration Staff costs	Permanently employed staff	*Other Staff	Special Advisers	Year ended 31 March 2015 Total	Restated Year ended 31 March 2014 Total
	£000	£000	£000	£000	£000
Salaries	204,820	34,636	461	239,917	235,657
Social Security Costs	17,778	1,931	89	19,798	19,627
Other Pension Costs	39,446	6,112	43	45,601	42,921
Pension liabilities	11,179	-	-	11,179	4,458
Total	273,223	42,679	593	316,495	302,663
Less:					
Recoveries from outward secondments	(1,289)	-	-	(1,289)	(1,414)
Recharged to programme costs	(66,002)	-	-	(66,002)	(61,499)
Net administration staff costs	205,932	42,679	593	249,204	239,750
Of which: Core department	210,360	3,503	593	214,456	207,245

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

Salaries of Welsh Ministers are paid by the National Assembly for Wales Commission and are reflected in those accounts.

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

There were no compulsory redundancies; flexible early retirement or approved early retirement; or flexible early severance in 2014-15 or 2013-14.

For 2014-15 132 (2013-14:32) employees have left or agreed to leave on Voluntary Exit terms between 31 March 2014 and 31 March 2015. They will receive compensation payments totalling £6,324,960 (2013-14: £1,593,171).

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. Exit costs are accounted for in full in the year of departure. 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.

Exit package cost band	Total number of exit packages by cost band 2014-15	Total number of exit packages by cost band 2013-14
<£10,000	2	3
£10,000 - £25,000	29	11
£25,000 - £50,000	54	5
£50,000 - £100,000	39	9
£100,000 - £150,000	6	3
£150,000 - £200,000	1	1
£200,000+	1	-
Total number of exit packages by type	132	32
Total resource cost £	6,324,960	1,593,171

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

5. Other Administration Costs

	Year ended 31 March 2015		Restated Year ended 31 March 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Goods and Services	51,985	63,929	51,049	64,829
Rentals under operating leases	3,877	3,877	4,408	4,408
Travel, subsistence and hospitality	4,961	5,294	5,001	5,273
Early retirement cost	207	207	443	443
Audit Fees	406	641	406	543
Relocation costs*	550	550	618	618
Loss/(Gain) on exchange rate	3	3	52	52
	61,989	74,501	61,977	76,166
Non Cash Items:				
Depreciation	7,021	7,284	6,881	7,003
Amortisation	3,096	4,063	3,186	3,662
Impairment of property, plant and equipment	3,138	3,138	5,415	5,415
(Gain)/loss on disposal of property, plant and equipment	(20)	(20)	-	(1,055)
(Gain)/loss from fair value of investments	-	(3,078)	3	1,761
Provisions	1,308	1,308	36	(59)
Pension finance*	(1,960)	(2,400)	510	357
	12,583	10,295	16,031	17,084
Total Other Administration Costs	74,572	84,796	78,008	93,250

* these costs are subject to UK taxation

6. Programme Costs

	Year ended 31 March 2015		Restated Year ended 31 March 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Programme expenditure:				
Grants	13,723,032	7,805,762	13,638,694	7,925,612
Goods and services (a)	361,991	3,306,114	367,682	3,189,464
Staff costs	66,002	2,943,058	61,499	2,860,986
Rentals under operating leases	6,299	28,141	5,214	25,504
PFI and other service concession arrangements service charges (b)	13,505	13,505	13,051	13,051
	14,170,829	14,096,580	14,086,140	14,014,617
Non-cash costs:				
Depreciation	70,224	202,137	50,207	176,069
Amortisation	1,295	3,063	616	2,221
Government granted assets	-	(1,434)	-	(3,901)
Donated assets	-	(10,619)	-	(107)
Impairment of property, plant and equipment	30,734	34,656	6,170	53,373
Impairment of development assets	16,441	16,441	4,373	4,373
Impairment of investments	(3,410)	(3,410)	1,492	1,492
Profit on disposal of development assets	(7,894)	(7,894)	(4,460)	(4,460)
(Profit)/loss on disposal of property, plant and equipment	14	(662)	72	(533)
Investment diminution Finance Wales	-	12,363	-	9,274
Student loans (c)	82,843	82,843	418,301	418,301
Increase/ (Decrease) in Provisions	181,918	268,958	150,747	229,891
Release of PFI deferred credits	-	(292)	-	(292)
Release of EU Grant	(1,163)	(1,163)	(1,163)	(1,163)
	371,002	594,987	626,355	884,538
	14,541,831	14,691,567	14,712,495	14,899,155

a. Includes £79,760,000 (2013-14: £68,392,000) classed as capital maintenance depreciation

b. Welsh government figures only

c. Student loans non-cash charges were adjusted by £350,131,000 as at 31 March 2014 following adoption of a new loan model, resulting in a write down of the loan book value.

7. Audit fees payable to the Auditor General for Wales

The amount payable to the Auditor General for placing an opinion on the consolidated financial statements of the Welsh Government for 2014-15 is £406,357 (2013-14: £406,305) and has been included in the audit fees disclosed at Note 5.

Also included within the consolidated financial statements are fees levied by the Auditor General for Wales in respect of other accounts prepared by Welsh Ministers.

Account	2014-15 £	2013-14 £
NHS Summarised Account	39,550	39,558
National Non Domestic Rate Account	9,950	10,069
Whole of Government Account	39,207	39,375
Welsh Consolidated Fund	16,474	16,950

8. Programme Income

	Year ended 31 March 2015		Restated Year ended 31 March 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Programme Income				
Non-EU Income:				
National Insurance health funding contribution	973,384	973,384	910,480	910,480
Housing Revenue Account	72,690	72,690	72,791	72,791
Student loans interest receivable	57,372	57,372	41,160	41,160
Health income	36,945	306,922	26,022	276,263
Property & investment income	27,790	27,790	27,508	27,508
Other	22,414	21,517	15,903	21,930
	1,190,595	1,459,675	1,093,864	1,350,132
Income outside the supply process				
Consolidated Fund Extra Receipts	21	21	25	25
	1,190,616	1,459,696	1,093,889	1,350,157
EU Income:				
Common Agricultural Policy	246,099	246,099	300,818	300,818
European Structural Funds Programmes	388,120	401,112	372,845	380,800
Other	2,511	2,511	2,395	2,395
	636,730	649,722	676,058	684,013
	1,827,346	2,109,418	1,769,947	2,034,170

9. Property, plant and equipment

	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Information Technology	Fixtures and Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2013	15,677,093	386,445	1,932,370	48,597	163,155	541,583	314,587	19,063,830
Additions	-	899	22,992	713	10,150	41,166	253,449	329,369
Disposals	(102)	(6,440)	(9,646)	-	(6,945)	(32,857)	-	(55,990)
Impairments	(5,186)	(1,492)	(44,699)	(1,327)	(245)	(5,523)	(425)	(58,897)
Revaluations	168,229	901	38,845	987	-	-	-	208,962
Reclassified to held for sale	-	(3,588)	(14,658)	(499)	-	-	-	(18,745)
Reclassification	36,817	527	93,639	7	660	470	(136,325)	(4,205)
Restated at 31 March 2014	15,876,851	377,252	2,018,843	48,478	166,775	544,839	431,286	19,464,324
Depreciation								
At 1 April 2013	2,253,796	-	98,183	1,994	108,620	358,965	1,879	2,823,437
Charged in year	115,638	-	72,492	1,464	17,112	44,756	-	251,462
Transfers	-	-	-	-	-	-	-	-
Disposals	(18)	-	(2,746)	-	(6,920)	(32,782)	-	(42,466)
Impairments	424	-	(909)	(146)	(137)	(49)	-	(817)
Revaluations	(22,071)	-	(902)	33	-	-	-	(22,940)
Reclassified to held for sale	-	-	(12,703)	(335)	-	-	-	(13,038)
Reclassification	-	-	87	-	(49)	49	(87)	-
Restated at 31 March 2014	2,347,769	-	153,502	3,010	118,626	370,939	1,792	2,995,638
Carrying amount at 31 March 2014	13,529,082	377,252	1,865,341	45,468	48,149	173,900	429,494	16,468,686
Carrying amount at 31 March 2013	13,423,297	386,445	1,834,187	46,603	54,535	182,618	312,708	16,240,393
	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Information Technology	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Asset financing:								
Owned	13,142,482	366,197	1,763,781	43,298	48,149	171,296	429,494	15,964,697
Finance Leased	-	-	13,021	-	-	2,604	-	15,625
On-balance sheet PFI contracts	386,600	11,055	88,539	2,170	-	-	-	488,364
Restated carrying amount at 31 March 2014	13,529,082	377,252	1,865,341	45,468	48,149	173,900	429,494	16,468,686

9. Property, plant and equipment continued

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	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Information Technology	Fixtures and fittings	Payments on Account & Assets under Construction	Total
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2014	15,876,851	377,252	2,018,843	48,478	166,775	544,839	431,286	19,464,324
Additions	-	2,035	30,182	(48)	22,246	59,206	311,122	424,743
Disposals	(378)	(783)	(4,801)	(385)	(11,588)	(30,129)	-	(48,064)
Transfers	-	-	-	-	-	-	3,250	3,250
Impairments	(24,292)	727	(377)	350	(201)	(930)	-	(24,723)
Revaluations	2,001,856	7,197	50,304	1,919	7	758	-	2,062,041
Reclassified to held for sale	-	(1,278)	(1,077)	(36)	-	(64)	-	(2,455)
Reclassifications	97,680	467	136,937	(1,014)	127	8,587	(243,409)	(625)
At 31 March 2015	17,951,717	385,617	2,230,011	49,264	177,366	582,267	502,249	21,878,491
Depreciation								
At 1 April 2014	2,347,769	-	153,502	3,010	118,626	370,939	1,792	2,995,638
Charged in year	146,781	-	78,944	1,522	17,230	44,703	-	289,180
Disposals	(35)	-	(3,832)	(230)	(11,577)	(29,927)	-	(45,601)
Transfers	-	-	-	-	-	-	-	-
Impairments	4,839	-	4,946	(230)	(136)	(674)	-	8,745
Revaluations	254,621	-	(1,818)	200	-	3,519	-	256,522
Reclassified to held for sale	-	-	-	-	-	-	-	-
Reclassification	-	-	73	(37)	258	(433)	-	(139)
At 31 March 2015	2,753,975	-	231,815	4,235	124,401	388,127	1,792	3,504,345
Carrying amount at 31 March 2015	15,197,742	385,617	1,998,196	45,029	52,965	194,140	500,457	18,374,146
Carrying amount at 31 March 2014	13,529,082	377,252	1,865,341	45,468	48,149	173,900	429,494	16,468,686
	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Information Technology	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Asset financing:								
Owned	14,816,235	374,340	1,895,690	42,810	52,965	191,516	500,457	17,874,013
Finance Leased	-	-	12,439	-	-	1,819	-	14,258
On-balance sheet PFI contracts	381,507	11,277	90,067	2,219	-	805	-	485,875
Carrying amount at 31 March 2015	15,197,742	385,617	1,998,196	45,029	52,965	194,140	500,457	18,374,146

9. Property, plant and equipment continued

Analysis of property, plant and equipment	Network Assets	Land	Buildings excluding Dwellings	Dwellings	Information Technology	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Core department at 31 March 2015	15,197,742	26,387	116,660	1,710	12,303	21,878	268,150	15,644,830
LHB's and subsidiaries at 31 March 2015	-	359,230	1,881,536	43,319	40,662	172,262	232,307	2,729,316
Core department at 31 March 2014	13,529,082	24,881	106,275	1,760	15,986	13,105	239,445	13,930,534
LHB's and subsidiaries at 31 March 2014	-	352,371	1,759,066	43,708	32,163	160,795	190,049	2,538,152

Most of the freehold land and buildings (with exceptions noted at 1) and 2) below) were valued on 31 March 2015 by GVA Grimley, Chartered Surveyors, on the basis of open market value for existing use in accordance with the 'Appraisal and Valuation Manual', produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation. Long leaseholds (over 100 years) are capitalised on the same basis as above. Specialised properties are valued on a depreciated replacement cost basis, in accordance with the 'Appraisal and Valuation Manual', produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation.

- 1) Properties and land managed by the Department for Economy, Science and Transport were valued on an annual basis by Jones Lang La Salle, Chartered Surveyors during the current year.
- 2) In intervening financial years, between formal 5 yearly valuations, freehold land and buildings are valued using latest available indices at March in each financial year to provide a reasonable estimate of valuation. Network Assets were formally revalued in 2014-15 and due to high variations in key parameters the revaluation is significantly higher, as an in-year movement.

10. Intangible assets

	Information Technology £000
Cost or valuation	
At 1 April 2014	46,258
Additions	6,430
Disposals	(1,298)
Revaluation	-
Reclassifications	625
At 31 March 2015	52,015
Amortisation	
At 1 April 2014	25,873
Charged in year	7,126
Disposals	(1,299)
Reclassification	139
At 31 March 2015	31,839
Net Book Value at 31 March 2015	20,176
Net Book Value at 1 April 2014	20,385
Cost or valuation	
At 1 April 2013	34,457
Additions	7,855
Disposals	(259)
Revaluation	-
Reclassifications	4,205
Restated at 31 March 2014	46,258
Amortisation	
At 1 April 2013	20,163
Charged in year	5,882
Disposals	(172)
Reclassification	-
Restated at 31 March 2014	25,873
Net Book Value at 31 March 2014	20,385
Net Book Value at 1 April 2013	14,294
<u>Analysis of intangible assets</u>	
<u>Core at 31 March 2015</u>	10,354
<u>Core at 31 March 2014</u>	14,147

11 Financial Assets

	Student Loans	NHS Trusts Public Dividend Capital	Other Financial assets	Total
	£000	£000	£000	£000
Balance at 31 March 2013	1,909,476	131,602	131,737	2,172,815
Additions	329,364	11,847	27,019	368,230
Loan repayments	(86,212)	(1,586)	(13,686)	(101,484)
Capitalised interest	41,160	-	-	41,160
Fair value adjustment	(418,303)	-	131	(418,172)
Balance at 31 March 2014	1,775,485	141,863	145,201	2,062,549
Additions	360,183	16,164	48,038	424,385
Loan repayments	(80,814)	-	(13,856)	(94,670)
Capitalised interest	57,372	-	-	57,372
Fair value adjustment ¹	(82,842)	-	(1,710)	(84,552)
Balance at 31 March 2015	2,029,384	158,027	177,673	2,365,084

Core at 31 March 2015: £2,632,400 (31 March 2014: £2,258,706)

¹In last year's accounts this was shown as Fair value adjustment £68,172,000 and changes in assumptions and modelling £350,131,000

The Welsh Government issues financial instruments, in particular loans, to other public sector bodies in Wales such as NHS bodies. This lending occurs as part of its normal course of activities and the Welsh Government does not undertake any trading activity in these financial instruments. The Welsh Government has taken advantage of the exemption available for short-term debtors and creditors. For issues of public dividend capital, fair value was calculated as the net assets of the recipient body (stated after deducting any provisions for liabilities and charges) less the amount of any loan included in the balance sheet. Other loans were discounted over their remaining life using the National Loans Fund rate applicable to the terms of the repayment (between 1.67% and 3.1%).

In accordance with IAS 39, student loans are classified as Loans and Receivables and are recorded in the financial statements at amortised cost. Student loans are currently issued under Section 22 of the Teaching and Higher Education Act 1998. They were first issued in 1990-91. The Welsh Government is responsible for loans issued to Welsh domiciled students from 1998-99 onwards (although student finance was only devolved to the Welsh Government in 2006).

Students in Wales can apply for support with tuition fee and maintenance in the form of a loan. Students who study at a publicly-funded university or college can be charged a maximum of £9,000. A Tuition Fee Loan can be taken out to cover the first £3,685 of tuition fees, with a grant available to cover the rest. Loans are also available to assist with living costs. Interest is charged on loans from the first day the money is paid out until it is repaid in full. This interest rate is lower than market rates and is subsidised by the Welsh Government. Loans begin repayment once a student has left higher education and is earning a certain amount; for loans taken out in 2014-15 this is £21,000. Repayments are collected by HMRC through the tax system or direct by the Student Loans Company.

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

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

13. Inventories - Development Assets

14. Inventories

	As at 31 March 2015		As at 31 March 2014	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
Drugs	24,925	46,248	25,653	44,894
Telecommunication spares	3,174	3,174	4,207	4,207
Road salt	1,411	1,411	1,718	1,718
Other consumables	607	38,114	704	40,750
	30,117	88,947	32,282	91,569

15. Trade and other receivables

	As at 31 Mar 2015		As at 31 Mar 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Amounts falling due within one year:				
Trade receivables	75,331	194,490	108,304	191,945
Deposits & advances	57	57	76	76
Other tax	15,291	15,291	17,343	17,343
Prepayments and accrued income ¹	167,273	189,273	118,799	142,366
Welsh Consolidated Fund	-	-	263	263
	257,952	399,111	244,785	351,993
Amounts falling due after more than one year:				
Prepayments	-	3,389	-	3,294
Other receivables	-	89,358	-	58,954
	-	92,747	-	62,248
Total trade receivables and other current assets	257,952	491,858	244,785	414,241

¹ Includes EU debtor of £27,478,000 (2013-14: £38,304,000)

15.1 Intra-Government Balances

Consolidated figures only required	Amounts falling due within one year		Amounts falling due after more than one year	
	31 Mar 2015 £000	31 Mar 2014 £000	31 Mar 2015 £000	31 Mar 2014 £000
Amounts falling due within one year:				
Balances with other central government bodies	89,120	26,501	-	-
Balances with local authorities	23,496	16,311	-	-
Balances with NHS Trusts	13,105	14,750	-	-
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	125,721	57,562	-	-
Balances with bodies external to government	273,390	294,431	92,747	62,248
Total Trade payables	399,111	351,993	92,747	62,248

16. Cash and cash equivalents

	WG As at 31 March 2015	Consolidated As at 31 March 2015	WG As at 31 March 2014	Consolidated As at 31 March 2014
	£000	£000	£000	£000
Balance at 1 April	21,242	207,967	81,108	280,949
Net change in cash and cash equivalent balances	191,570	191,464	(59,866)	(72,982)
Balance at 31 March	212,812	399,431	21,242	207,967
The following balances were held at:				
Government Banking Service	209,413	225,473	19,810	61,965
Commercial banks & cash in hand	3,399	173,958	1,432	146,002
Total	212,812	399,431	21,242	207,967

17. Trade payables and other current liabilities

	As at 31 Mar-2015	Restated As at 31 Mar-2014		
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Other taxation and social security	5,333	30,307	5,310	61,218
Trade and other payables	413,316	715,013	432,979	679,979
Accruals & deferred income:				
European Union	71,900	71,900	40,094	40,094
Other accruals and deferred income	265,269	565,962	179,489	429,256
Amounts payable to the Welsh Consolidated Fund	126,882	126,882	9,682	9,682
Obligations under finance leases and PFI contracts	8,609	13,183	8,326	12,481
	891,309	1,523,247	675,880	1,232,710
Amounts falling due after more than one year				
Obligations under finance leases and PFI contracts and other payables	133,642	211,968	142,251	220,355
	133,642	211,968	142,251	220,355
Total trade payables and other current liabilities	1,024,951	1,735,215	818,131	1,453,065

17.1 Trade payables and other current liabilities continued

Intra-Government Balances

Consolidated figures only required	Amounts falling due within one year		Amounts falling due after more than one year	
	31 Mar 2015	31 Mar 2014	31 Mar 2015	31 Mar 2014
	£000	£000	£000	£000
Amounts falling due within one year:				
Balances with other central government bodies	13,436	10,359	-	-
Balances with local authorities	100,730	74,722	-	-
Balances with NHS Trusts	111,532	91,329	-	-
Balances with public corporations and trading funds	-	833	-	-
Subtotal: intra-government balances	225,698	177,243	-	-
Balances with bodies external to government	1,297,549	1,055,467	211,968	220,355
Total Trade payables	1,523,247	1,232,710	211,968	220,355

18. Provisions for liabilities and charges

	WG As at 31 March 2015	Consolidated As at 31 March 2015	WG As at 31 March 2014	Consolidated As at 31 March 2014
	£000	£000	£000	£000
Balance at 1 April	605,012	673,340	535,121	613,482
Provided in the year	188,921	388,740	150,782	342,972
Provisions not required written back	(5,695)	(105,866)	-	(112,342)
Borrowing costs	-	(12,811)	-	(364)
Transfer	-	-	-	(401)
Provisions utilised in year	(80,831)	(179,128)	(80,890)	(170,007)
Balance at 31 March	707,407	764,275	605,013	673,340

Analysis of expected timing of discounted flows

	WG As at 31 March 2015	Consolidated As at 31 March 2015	WG As at 31 March 2014	Consolidated As at 31 March 2014
	£000	£000	£000	£000
Not later than one year	100,690	248,043	91,937	234,762
Later than one year and not later than five years	295,110	275,385	172,174	215,879
Later than 5 years	311,607	240,847	340,902	222,699
Balance at 31 March	707,407	764,275	605,013	673,340

Consolidated provisions by type:

	Employ- ment	Commercial	Health	Total
	£000	£000	£000	£000
Not later than one year	1,489	5,384	241,170	248,043
Later than one year and not later than five years	665	15,000	259,721	275,386
Later than 5 years	71	-	240,775	240,846
Balance at 31 March 2015	2,225	20,384	741,666	764,275

(i) Employment provision

The Welsh Government has various potential pension and employment liabilities in respect of previous employees.

(ii) Commercial provision

The Welsh Government has various commercially sensitive provisions which underwrite projects with the aim of improving economic growth prospects.

(ii) Health provision

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

19. Capital and other commitments**19.1 Capital commitments**

Contracted capital commitments not otherwise included within these financial statements

	31 Mar 2015		31 Mar 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Property, plant and equipment				
Network Asset Construction	273,385	273,385	340,777	340,777
Buildings/dwellings	158,600	158,600	231,918	231,918
Local Health Boards	-	116,883	-	317,315
Development assets	-	-	2,200	2,200
	431,985	548,868	574,895	892,210

19.2 Commitments under leases**19.2.1 Commitments under operating leases**

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

	31 Mar 2015		Restated 31 Mar 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Land				
Not later than one year	11	11	8	8
Later than one year and not later than five years	41	41	32	32
Later than five years	321	321	283	283
	373	373	323	323
Buildings				
Not later than one year	6,652	25,272	6,734	24,408
Later than one year and not later than five years	23,936	66,403	23,436	60,596
Later than five years	51,934	90,127	54,914	92,025
	82,522	181,802	85,084	177,029
Other:				
Not later than one year	81	81	83	83
Later than one year and not later than five years	77	77	138	138
Later than five years	-	-	-	-
	158	158	221	221
	83,053	182,333	85,628	177,573

19.2.2 Commitments under finance leases

The Welsh Government was committed to making the following minimum lease payments on buildings:

	31 Mar 2015 £000	31 Mar 2014 £000
Not later than one year	1,254	1,254
Later than one year and not later than five years	5,016	5,016
Later than five years	2,171	3,425
	8,441	9,695
Less interest element	(3,030)	(3,743)
Present value of obligations	5,411	5,952

Details of LHB finance leases are held within the LHB summarised account.

19.3 Commitments under PFI contracts

Commitments for Welsh government related PFI contracts are shown below. Local Health Board PFI contract details are reported within the accounts of the seven individual Health Board accounts.

*Off-balance sheet***Bute Avenue PFI contract**

The Welsh Government is 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 and the service element of on-balance sheet PFI transactions was £13,505,412 (2013-14: £13,051,438); and the payments to which the Welsh Government is committed, are as follows:

	31 Mar 2015	31 Mar 2014
	£000	£000
Not later than one year	13,430	13,258
Later than one year and not later than five years	71,521	67,794
Later than five years	97,243	114,401
	182,194	195,453

*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.

Total obligations under on balance sheet PFI contracts for the following periods:	31 Mar 2015	31 Mar 2014
	£000	£000
Not later than one year	17,000	17,000
Later than one year and not later than five years	84,000	81,000
Later than five years	146,000	166,000
Less interest element	(31,399)	(35,568)
Present value of obligations	215,601	228,432

19.4 Other Financial Commitments

The Welsh Government and its related bodies 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:

	31 Mar 2015		31 Mar 2014	
	WG	Consolidated	WG	Consolidated
	£000	£000	£000	£000
Not later than one year	255,108	255,108	221,542	221,542
Later than one year and not later than five years	522,599	522,599	672,306	672,306
Later than five years	8,620	8,620	1,600	1,600
	786,327	786,327	895,448	895,448

The figures include commitments for: Arriva Trains Wales for the operation of the rail franchise; and provision of information technology services to the Welsh Government until January 2019.

This note does not contain any grant commitments as the Welsh Government does not accrue for grant funding commitments.

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

19.5 Financial guarantees, Indemnities and Letters of Comfort

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

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

Indemnities:

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

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

The Government Indemnity Scheme provides indemnities to enable the National Library of Wales, the National Museum of Wales, and other eligible institutions to borrow objects and artworks. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability. The value of these guarantees at 31 March 2015 was £52 million.

Letters of comfort:

The Welsh Government has a maximum liability to underwrite at last resort, costs regarding contaminated land at the Brofiscin tip of £1 million.

Other:

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

20 Contingent Liabilities disclosed under IAS 37

	Year ended 31 March 2015		Year ended 31 March 2014	
	WG £000	Consolidated £000	WG £000	Consolidated £000
Legal Claims – alleged medical/ employer negligence	-	(76,059)	-	(92,181)
Potential contractual obligations under the WDA Act 1975	(10,000)	(10,000)	(10,000)	(10,000)
Other legal and contractual claims	(9,440)	(10,134)	(20,555)	(22,325)
	(19,440)	(96,193)	(30,555)	(124,506)

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

Final claims to the European Commission for the 2007-2013 programmes will not be agreed for some years. Should the value of the Euro weaken significantly in that period, the flexibility within programmes may not be sufficient to contain all potential exchange losses. It is not possible to put a likely value on this due to the range of variables.

21 National Loans Fund

	£000
Balance at 1 April 2014	11,554
Repayments during year	(69)
Balance at 31 March 2015	11,485
Amounts falling due within 1 year	79
Amounts falling due between 1 and 5 years	452
Amounts falling due after 5 years	10,954
Total	11,485

The National Loans Fund loans are repayable over periods of up to 60 years from the Welsh Consolidated Fund. They bear interest rates between 13.5% and 17.25%. The Welsh Government is only responsible for repayment of the loan principal.

22. Losses and Special Payments**a) Losses (Excluding Local Health Boards)**

	Year ended 31 March 2015			
	WG		Consolidated	
	No of Cases	£000	No of Cases	£000
Cash Losses	4	1	4	1
Claims Abandoned	171	4,931	171	4,931
Loss of accountable stores	5	2,927	5	2,927
Fruitless Payments	23	12	23	12
	203	7,871	203	7,871

	Year ended 31 March 2014			
	WG		Consolidated	
	No of Cases	£000	No of Cases	£000
Cash Losses	6	5	6	5
Claims Abandoned	125	1,614	125	1,614
Loss of accountable stores	4	1,214	4	1,214
Fruitless Payments	17	1	17	1
	152	2,834	152	2,834

b) Special Payments (Excluding Local Health Boards)

	WG		Consolidated	
	No of Cases	£000	No of Cases	£000
Year ended 31 March 2015	13	286	13	286
Year ended 31 March 2014	4	47	4	47

Special payments for LHB's are held within the LHB summarised accounts

Details on losses that exceed £300,000:

Tryst Engineering Company	£1,060,000	Company in liquidation
Desk Link Office	£1,160,000	Company in administration
Strategic drug stores	£2,926,461	Shelf life expired

23 Related Party Transactions

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

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

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

The wife of Leighton Andrews (Minister for Public Services) is a director of BT Wales. The Welsh Government has a number of contracts with BT, principally Next Generation Broadband. BT received £73,712,779 in 2014-15. All procedures regarding related party transactions described in the ministerial Code have been complied with. The Minister has had no involvement in the award of any contracts which BT won.

Sir Adrian Webb (non-executive director) is the Chair of Big Lottery Fund Wales which received funding in 2014-15 of £4,001,683 from Communities programmes.

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

24. Interreg

a) Interreg III

Interreg III is a community initiative, which promotes inter-regional co-operation in the EU. The Ireland/Wales Interreg IIIA programme is monitored by a committee made up of partnership interests in Ireland and Wales. The scheme is administered by the Welsh Government, which holds a separate Euro bank account for this purpose. The scheme has finished and a balance sheet position of €543,000 remains as at 31 March 2015.

b) Interreg DE_LAN

Interreg De-Lan (Digital Ecosystems-Learning Applications Network) is a project to improve the effectiveness of regional development policies for the knowledge economy. No income was received and expenditure of €2,000 was spent on this project.

c) Interreg IV

Interreg IV is the replacement for Interreg III, and it has the same objectives, remit and governance as Interreg III. An advance of €1,584,000 has been received, with no other transactions.

25. Results of related companies

Results of Consolidated wholly owned companies

Name of Interest	2014-15	2014-15	2013-14	2013-14
	Profit/ (Loss)	Share Capital & Reserves	Profit/ (Loss)	Share Capital & Reserves
	£	£	£	£
Finance Wales PLC (i)	999,937	104,993,471	(4,507,826)	112,894,775
Regeneration Investment Fund for Wales LLP	223,054	30,219,431	1,156,398	30,442,485
WGC Holdco Ltd	Nil	53,950,000	Nil	53,950,000
Careers Choices Dewis Gyrfa Ltd	(3,191,000)	(21,282,000)	1,144,000	(6,368,000)

(i) Investment of 12,500 ordinary £1 shares

(ii) At the time of signing these accounts, the accounts for WGC Holdco Ltd had not been fully audited and certified.

Associate Undertakings

The Welsh Government has an interest in the following associate undertakings; with no significant influence (these are included within Note 11 Financial Assets)

Name of Undertaking	Nature of Interest	Fair Value 2014-15	Fair Value 2013-14
		£	£
Welsh Industrial Partnership LLP (i)	49	-	10,000
Dragon 24 LLP (i)	50	-	3,794,413
Ely Bridge Development Company Ltd	(ii)	6,000,000	6,000,000
(i) In process of being dissolved			
(ii) Minor interest in 'not for profit' company			

Other minor subsidiaries and interests

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

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

Student Loans Company Ltd - one share with a nominal value of £1. Joint ownership is held with department of Business, Innovation and Skills, Scottish Government and Northern Ireland Government. The share gives the Welsh Government 5% holding in the company.

EADS Foundation Wales – a joint interest in a company limited by guarantee. Joint ownership is held with Cassidian Ltd and Cardiff University,

Local Health Board NHS Charities

The Welsh Government has not included the Local Health Board NHS Charities in the consolidated account on the grounds of materiality. The summarised results of the LHB NHS Charities are set out below for significant balances, for information. NHS Charitable funds held on trust financial activities for 2014-15 have been reported to the Department of Health and Social Services as an additional financial return. They have been formally approved by the Boards of Directors of the Local Health Boards and will be subject to independent audit certification during autumn 2015.

		Restated
Statement of Financial Activities	2014-15	2013-14
	£000	£000
Total incoming resources	8,169	8,561
Total resources expended	(8,027)	(10,986)
Other recognised gains and losses	2,597	676
Net movement in funds	2,739	(1,749)
 Balance Sheet	 31 March 2015	 31 March 2014
	£000	£000
Investments	36,119	33,569
Cash	2,626	3,847
Other Assets	3,085	3,026
<i>Total Assets</i>	41,830	40,442
Liabilities	(2,720)	(4,071)
<i>Total Net Assets</i>	39,110	36,371

26. Pensions

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

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

For 2014-15, employers contributions of £36,800,571 were payable to the PCSPS (2013-14: £35,553,532) at one of four rates in the range 16.7 to 24.3 per cent (2013-14: 16.7 to 24.3) based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2014-15, the rates will be in the range 16.7 to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £175,307 (2013-14: £196,066) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable earnings. Employers also match employee contributions up to 3 per cent of earnings (which are included in the pension figures in Note 4). In addition, employer contributions of £12,530, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2013-14: nil). Contributions prepaid at the date were £nil (2013-14: £nil).

One individual retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil.

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

Analysis of amount charged to income and expenditure

	Value as at 31 March 2015 £000	Value as at 31 March 2014 £000
Fair value of assets	140,730	122,270
Present value of funded defined benefit obligation	(216,480)	(195,170)
Asset/(liability) recognised on statement of financial position	(75,750)	(72,900)
Other pension liabilities	(28,227)	(15,039)
	(103,977)	(87,939)

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted



Mr Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

14 September 2015

Dear Chair

FINANCIAL CHALLENGES FACING LOCAL GOVERNMENT

Thank you for your letter of 8 July welcoming me into my new post as Deputy Permanent Secretary of Education and Public Services Group. I look forward to engaging with the Committee. Your letter asked for further information regarding the financial challenges facing local government in Wales. The following goes into some detail but it is important we establish a clear, common understanding of the issues.

First, you asked for the Welsh Government's assessment of the scale of funding reductions faced by Local Government. Annual Local Authority general revenue spending each year is some £7 billion excluding that raised through service fees and charges. Supporting this spending, Welsh Government provides funding through Revenue Support Grant and Non Domestic Rates of £4.1 billion in 2015-16 which equates to about 58 per cent of the spending. Other sources of finance include council tax, specific grants from the Welsh Government and from other bodies (including the UK Government). In addition, Local Authorities also set fees and charges and raise income, including through borrowing arrangements and drawing on reserves. So, whilst Welsh Government funding is an important component of Local Authority funding, it is by no means the only source. It follows that the Welsh Government is only able to comment on the scale of funding reductions in relation to the resources it provides.

In answer to the point about reductions in Welsh Government funding, Ministers maintained the Revenue Support Grant Settlement in cash terms between 2010-11 and 2013-14. This was a radically different position to that in England where authorities faced very significant reductions. The settlements for 2014-15 and 2015-16 are a matter of record – reductions of £149 million and £145 million respectively equivalent to a reduction of 3.4 per cent in each year on a like for like basis. Nonetheless, the Committee will wish to note that taking into account the full range of funding available to Authorities, general expenditure is budgeted to be more than £177 million more in 2015-16 than it was in 2010-11.



Looking to 2016-17, the absence of published UK Government baselines mean that the Welsh Government is no better placed to assess the possible scale of future funding reductions on its grant than Local Authorities themselves at this stage. To meet their medium term financial planning obligations, Local Authorities are engaged in developing working assumptions based on the range of forecasts and data that is publicly available. We will continue to work with Authorities through the Society of Welsh Treasurers to inform a common understanding of the future financial outlook wherever we can.

The Committee is aware that each Authority is a separate, democratically accountable body which is subject to statutory duties around setting and managing its budgets. Therefore, the range of information which Authorities require to plan, budget and manage effectively is necessarily much broader and more detailed than simply that relating to future levels of Welsh Government funding. Nonetheless, we are acutely aware that early data about indicative levels of general grant funding is an important piece of information to support Authorities' planning and our record of publishing Settlement figures before both England and Scotland is very good.

Turning to the issue of specific grants and ring fencing. In absolute terms, we agree that the value of specific grants is substantial. We also agree that the specific grant regime incurs a level of administrative cost for all organisations involved which, during a period of reducing budgets, should be minimised so far as possible. The Auditor General's work in this area has provided a valuable contribution to our thinking. Likewise, Ministers continue to balance carefully the need for ring fencing with assurance around delivery of priorities and are considering how to make further progress in this area.

As a percentage of general revenue spending, specific grants account for 10 per cent. This is not a significant proportion and is in keeping with arrangements elsewhere in the UK. A good deal of progress has been made in recent years and Welsh Government has transferred £189 million into the RSG since 2010-11. Most recently, the Minister for Public Services has announced he will transfer a further £31 million from the Outcome Agreement programme. Significant progress has been made too, in aggregating smaller grants together, notably in the Education portfolio.

You asked about the Welsh Government's assessment of the proportion of Local Authority budgets which are committed to statutory responsibilities, or to Welsh Government policy priorities, and the proportion which is not "ring-fenced".

The law relating to Local Authorities and Local Authority services and functions is complex. All Local Authority functions are set out in, and limited by, law and no Authority can do anything without the appropriate legal provision. However, there is a distinction between the services and functions Authorities must provide and those where Authorities have the legal power under which they can choose to provide a service or function. How they provide a particular service in practice, and the extent of that service, is a matter for the Authority itself to determine taking account of local needs and priorities, hence the variability in service models and coverage across the 22 Authorities.

Defining and quantifying the proportion of each Local Authority budget attributable to each function (again, bearing in mind the range and timing of funding sources involved) would be a highly complex and contestable exercise. Preparing even a rudimentary analysis would require the Welsh Government to collect substantial additional information from Authorities who would incur further administrative work and cost at a time when the aim is to minimise management overheads. The Committee will appreciate the paradox in this approach.

You wanted to explore the use made by the Welsh Government of information collected on Local Authorities' use of reserves, currently standing at some £1.4 billion. Between 2011 and 2015 the total stock of Reserves increased by 10 per cent. The purpose of gathering the data was to assess the accessibility and clarity of information on reserves which would enable effective scrutiny by elected Members. The Committee will understand that openness and transparency are vital to good scrutiny; and that effective scrutiny leads to more informed and better decisions, which is especially important in relation to financial and spending matters at the current time.

The survey data showed considerable variation exists in the presentation and disclosure of data. We provided the information to Chief Finance Officers and followed that with discussions so as to highlight areas of best practice. Early indications suggest there have been improvements in the presentation of information on reserves in the latest statutory accounts of some Authorities which is a positive step forward. We will keep the situation under review.

More generally, Ministers continue to be interested in the levels of reserves held by Authorities. They recognise that the size of reserves is determined according to a set of local needs, service priorities and spending plans and there will inevitably be variation between Authorities. There will be occasions when Ministers wish to understand the reasons for the variation in the composition of a set of reserves, or the cash levels themselves and, in those circumstances, we believe it is reasonable to seek further information.

Finally, you asked whether Welsh Government is satisfied that Local Government appreciates the collaborative process in setting the funding formula and whether the process allows the best decisions on allocations to be made rather than those that most readily find consensus.

We have previously provided detailed information to the Committee about the consultative arrangements on Local Government finance which form some of the most comprehensive processes within government in the UK. They rely on effective joint working between Local Authorities and the Welsh Government primarily through the Finance Sub Group of the Partnership Council and its technical working group, the Distribution Sub Group. The arrangements have been in place for several years and operate according to a clear set of agreed principles.

So far as making sure the outcome is the most effective distribution of funding rather than the one which most readily funds consensus, proposals on distribution are fully evidenced when put forward and detailed information on methodology and the development of the formula is made widely available. That evidence needs to be well founded in order to convince the twenty two Authorities of the merits of any changes, respecting that each Authority has different needs and priorities. It is also worth noting that we do not always achieve consensus in these technical discussions.

I hope this information addresses the Committee's requests.

Yours sincerely



Owen Evans

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24 Heol y Gadelrian / Cathedral Road
Caerdydd / Cardiff CF11 9LJ
Ffôn / Tel: 029 20 320500
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Date: 29 September 2015
Our ref: HVT/2392/caf
Page: 1 of 3

Deu Darn

Public Accounts Committee Inquiry on the Financial Challenges Facing Local Government – Welsh Government Response

Further to recent correspondence in respect of the above, I am writing with my observations on the response from the Deputy Permanent Secretary, Owen Evans, in his letter of 14 September 2015.

The Deputy Permanent Secretary's letter builds on the comments made by June Milligan in her letter to the Committee dated 24 June 2015, which I commented upon in my letter dated 1 July. The Committee raised five important issues and the Deputy Permanent Secretary has responded to each of these,

The first issue relates to the difference in interpretation on how much local government funding provided by Welsh Government has reduced in recent years. The response received from the Deputy Permanent Secretary acknowledges there are real difficulties in undertaking such an assessment but still does not provide a bottom line position on the total reductions in local government budgets between 2010-11 and 2014-15.

Work I am undertaking for the 'Picture of Public Services 3' report shows that local government receives the bulk of its funding through the Aggregate External Finance (AEF). Comparing AEF across the period 2010-11 to 2014-15 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into AEF grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in AEF, it is not necessarily a net increase in funding. The net value of grants incorporated into AEF since 2010-11 is around £137 million in real terms (adjusted for inflation). In addition, the picture is complicated by the devolution of council tax benefit, which has been incorporated into the AEF. My estimation is that having adjusted for these factors to get as close to a like-for-like comparison as is possible based on the information that is available, there has been a real-terms reduction in local government funding by Welsh Government between 2010-11 and 2014-15 of £464 million (10 per cent).

Secondly, on the issue of ring-fencing grants, the response from the Deputy Permanent Secretary broadly reiterates the original response from June Milligan and whilst it acknowledges that progress has been made in reducing the number of grants in some areas, grants still account for 10 per cent of revenue spending. The Deputy Permanent Secretary acknowledges that in the current financial climate it is important to reduce as much as possible the burden of administering grants and to look for efficiencies.

Whilst the response from the Deputy Permanent Secretary does not include any detail on how Welsh Government intends to improve this further, for some years now, I have been pressing the Welsh Government to review the scope and nature of their grant certification commissioned arrangements, so that we can re-focus elements of that work to generate greater impact and hence support improvements in grants management. Over the last few months, a review has been taking place working closely with the Welsh Government's project team and I believe we have now reached a satisfactory agreement with both the Welsh Government and the Welsh Local Government Association on the broad principles of a series of changes that will be made over the next couple of years. It is anticipated that the new approach will enhance the impact and added value of this work and improve the efficiency of grants management.

The third point relates to the Chairman's request for the Welsh Government's assessment of the proportions of local authorities' budgets that are committed to statutory responsibilities or Welsh Government policy priorities and that which is not 'ring-fenced'. In particular, the Committee was keen to understand how Welsh Government assesses where reductions are likely to fall, and of the longer-term consequences, particularly in relation to discretionary services.

The response from the Deputy Permanent Secretary rightly acknowledges that local authorities have the freedom to decide how best to deliver their statutory responsibilities and this is a matter for them. Whilst this is correct, the response does not address the point made by local authorities in their evidence to the Committee, namely that the decision of Welsh Government to maintain or increase education spend and to address financial pressures on social services, the remaining services have taken a disproportionate hit. Indeed, evidence presented to the Committee highlighted the concerns of local authorities that many important discretionary services such as leisure are at risk of disappearing.

The Deputy Permanent Secretary acknowledges that the Welsh Government does not at this time have detailed information (or plans to collect such data, primarily due to cost) and is therefore unable to quantify how and where budget cuts will be made or the impact of reductions on statutory and discretionary services. In response to the Committee's question that *"it would be helpful to understand whether the Welsh Government makes any assessment of where reductions are likely to fall, and the longer-term consequences"* the answer would appear to be no.

Fourthly, the Committee asked what use had been made (by Welsh Government) of the reserves information. The response from the Deputy Permanent Secretary provides a more rounded view on how the data has been used, in particular noting that there has been some improvements in how reserves data is presented in some local authority statutory accounts. For clarity, it is important to note that it is not for me as Auditor General to necessarily comment upon or approve

reserve levels, although I may from time to time comment on reserve levels as part of my accounts work at a specific authority.

The Code of Practice on Local Authority Accounting in the United Kingdom requires local authorities to include a narrative about the purpose of their reserves and whilst I can encourage them to be more explicit, it would not be a qualification issue if they meet the requirements set out in the Code. Overall most local authorities in Wales have responded well and improved the narrative following our prompts as the letter indicates. It is also worth noting that in England discussion is currently taking place as to whether the UK Government should set a limit on reserves for English authorities. This may be a line of enquiry the Committee may wish to explore further.

Finally, the Committee asked whether the Welsh Government is satisfied that local government appreciates the collaborative process in setting the funding formula and whether the collaboration allows the best decisions on allocations to be made, rather than the decisions that most readily find consensus. The answer from the Deputy Permanent Secretary addresses the Committee's concerns on the quality and the robustness of the data underpinning decisions being subject to consultation. Indeed, the Deputy Permanent Secretary's confirmation that this is developed via the Distribution Sub Group, which includes local authority representation, provides some assurance on how agreement between Welsh Government and local authorities is achieved.

In addition, the Deputy Permanent Secretary also acknowledges the difficulties in achieving consensus between 22 local authorities and this is not always possible. Overall, this response better addresses the issue expressed in the Chairman's letter to June Milligan dated 21 May 2015.

In conclusion, I believe the response from the Deputy Permanent Secretary provides greater assurance on how Welsh Government is addressing these matters, but there remain opportunities to provide a fuller and more detailed response in some areas. The Committee might wish to consider whether it would wish to revisit these and other matters arising from its work on the financial challenges facing local government between now and the end of the fourth Assembly.



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

24 Heol y Gadeirlan / Cathedral Road
Caerdydd / Cardiff CF11 9LJ
Ffôn / Tel: 029 20 320500
E-bost / Email: info@wao.gov.uk
www.wao.gov.uk

Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Date: 1 October 2015
Our ref: HVT/2393/caf
Page: 1 of 4

Dea Darren

WELSH GOVERNMENT RESPONSE – RESPONDING TO WELFARE REFORM IN WALES

The Deputy Clerk's letter of 7 September requested my advice on the Welsh Government's response to the Committee's report on *Responding to Welfare Reform in Wales* that was published in July 2015.

The Welsh Government has indicated that it fully accepts just six of the Committee's 17 recommendations, accepts one of the recommendations in principle and accepts the remaining 10 recommendations in part. Overall, I consider that the Welsh Government has not responded fully enough to the Committee's recommendations and I have highlighted below some areas where you might wish to seek further information or clarification.

Recommendation 1: The Welsh Government partly accepts this recommendation, on the basis that it sees mitigating the impact of welfare reform as one element of its strategy on tackling poverty, and that it has been providing strategic oversight through the Ministerial Task and Finish Group on Welfare Reform. Nevertheless, I took it that the Committee still wished to see published a stand-alone strategy document and, in that regard, the Welsh Government has essentially rejected the recommendation. The Committee might wish to consider whether it would, at least, welcome a more specific commitment on the actions the Welsh Government will practically undertake to alleviate the impact of welfare reform by, for example, developing a specific welfare reform action plan to support the tackling poverty strategy.

Recommendation 2: This recommendation is partly accepted, on the basis that the Welsh Government considers it is impracticable to publish all information considered by the Ministerial Task and Finish Group. The Committee was particularly interested in reviewing

the option in relation to the cost/benefit analysis of mitigating the full impact of the removal of the spare room subsidy through discretionary housing payments, as the Scottish Government chose to do. The response does not provide sufficient detail on whether this specific information will be added to the welfare reform pages on the Welsh Government's website. The Welsh Government has simply stated that it will provide a summary of its response to welfare reform.

Recommendation 3: This recommendation is again partly accepted, with the Welsh Government pointing to a range of existing mechanisms through which data is collected and considered, while also highlighting some new actions. My recollection is that the evidence presented to the Committee on performance and data issues was quite compelling and highlighted that at present the impact of welfare reform is not clearly understood and this stymies prospects to identify better ways of doing things. The Committee may wish to explore opportunities for the Welsh Government to enhance the range and quality of current evidence by, for example, including a small number of key data requests as set out in the Committee's report (page 13 to 15) as part of the research proposed in relation to **Recommendation 8**.

Recommendation 4: The Committee took evidence that currently development programmes are overtly focussed on three bedroom accommodation and not smaller units, suggesting that there is a disconnect between what landlords want to build – family housing – and the size of property those in housing need require as determined by the social rented size criteria. This in turn makes modelling of future demand difficult. My recollection on this specific concern highlighted in some of the evidence sessions was that Welsh Government needs to fully consider these matters when approving new build schemes.

Recommendation 5: This recommendation is only partially accepted, and I do not feel the response is adequate. I acknowledge that the guidance from the Department of Works and Pensions on Discretionary Housing Payments may not require local authorities to record information on the specific circumstances of tenants in adapted homes with disabilities. I would however have expected a more thorough response from the Welsh Government that considered this specific matter in relation to local authorities' duties under the Equality Act 2010 and the wider leadership role highlighted by the Committee under **Recommendation 1**. The Committee may wish to seek further assurance that these important equality duties are being fully addressed. For example, by requesting that Welsh Government reviews local authority equality impact assessments for administering Discretionary Housing Payments.

Recommendation 11: The Welsh Government has partially accepted this recommendation and has provided detail on the process for updating the Code of Guidance for Local Authorities on the Allocation of Accommodation and Homelessness. My understanding was that the issue highlighted by the Committee was primarily about the financial circumstances of individuals as

much as the priority need categories set out in the Code. The evidence received by the Committee suggested that some people may not receive assistance because of their financial situation especially where they have outstanding arrears or mortgage debt. The effect of this had resulted in a situation where some families seeking assistance from local authorities and registered social landlords are being excluded from housing registers and are thus considered as being "too poor for social housing."

Whilst it is positive to note that the Welsh Government intends to survey local authorities and registered social landlords under **Recommendation 8**, which will examine the assessment of people's financial circumstances, it would be advantageous to extend this to cover the work of advice agencies who are often better placed to provide an independent insight on these matters. The response to **Recommendation 11** as it stands is asking those who have made the decision not to assist a family or individual – local authorities and registered social landlords – to review their own practices which, for transparency and balance purposes, raises some concerns. The Committee may wish to suggest that this exercise is widened out to include advice organisations to provide a modicum of independence on this process.

Recommendation 13: The Welsh Government partly accepts this recommendation. However, evidence provided to the Committee suggested that advice provided by landlords focuses on dealing with "landlord" issues first and foremost which may not necessarily be the right course of action or the best option for the tenant. Conversely, independent advice looks at what is right for the individual and the landlord issues are one of a number of different strands that will be considered in prioritising and agreeing a way forward. My recollection is that the Committee through its recommendation was seeking to ensure advice to consider the broader needs of tenants not simply the priorities of their landlord. Given the response does not adequately address this point, the Committee may wish for more detail on how the Welsh Government will ensure the needs of the individual rather than the landlord are equally prioritised when conducting its planned review.

Recommendation 14: The Welsh Government accepts this recommendation. Whilst the response highlights some of the positive work of Cardiff Council, it is not clear if the new protocols for Discretionary Housing Payments covers all 22 local authorities. On this basis, the Committee might request Welsh Government to clarify that the two councils who at the time of the inquiry were not party to the agreement – Cardiff and Neath Port Talbot – are now participating in the new arrangements to ensure the consistent approach desired is being achieved.

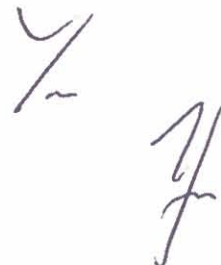
In addition, whilst the response also notes that the current framework of advice protocols and guidance provides "a consistent approach by the Local Authorities to disability benefits", I do not think this is entirely accurate when you consider the response to **Recommendation 5** noted above. The detail provided in response to **Recommendation 14** does not adequately

address the issues faced by people with disabilities that was highlighted in evidence provided to the Committee and in the Committee's report, and I believe it is reasonable to expect a more thorough and joined up response by Welsh Government on this point and those made under **Recommendation 5**. Namely, that the pan Wales scheme for Discretionary Housing Payments is adopted by all councils and issues around people with disabilities are more clearly addressed.

Recommendation 17: The Welsh Government fully accepts this recommendation to take an early view of the impact of further changes in the welfare system, especially for 18-21 year olds, and consult early and widely on its proposed response. However, the response may not be sufficiently detailed to provide the reassurance the Committee is seeking.

In the Committee's Report *Responding to Welfare Reform in Wales*, members stated in Paragraph 121 that "*the Welsh Government can do more to demonstrate leadership and coordinate the response to welfare reform in Wales*". Whilst the response from Welsh Government rightly focuses on understanding the potential impact of further welfare reforms and notes that work is in hand with local authorities, Registered Social Landlords and advice agencies, I believe the Welsh Government should provide clearer leadership by developing a specific welfare reform action plan which has been rejected in respect of **Recommendation 1**. This would provide a clear focus on the actions it intends to prioritise to address the needs of 18-21 year olds. As is stands, the Welsh Government appears to be undertaking further work to research the potential impact but does not want to formalise its response to these challenges into a strategy or action plan which would allow for clearer accountability and more effective scrutiny of performance.

I trust that this advice is helpful to the Committee.



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES