

Agenda – Public Accounts Committee

Meeting Venue:	For further information contact:
Committee Room 3 – Senedd	Fay Buckle
Meeting date: Tuesday, 23 February 2016	Committee Clerk
	0300 200 6565
Meeting time: 09.00	SeneddPAC@Assembly.Wales

1 Introductions, apologies and substitutions

(09.00)

2 Papers to note

(09.00–09.05)

(Pages 1 – 5)

Committee Correspondence: Letter from Harriet Harman, Chair of the Joint Committee on Human Rights (27 January 2016)

(Pages 6 – 7)

3 Grants Management in Wales: 2015 Welsh Government Annual Report

(09.05–09.35)

(Pages 8 – 42)

PAC(4)–07–16 Paper 1

Research Briefing

Sir Derek Jones, Permanent Secretary, Welsh Government

David Richards, Director of Governance, Welsh Government

Gawain Evans, Director of Finance, Welsh Government

Peter Kennedy, Director Human Resources, Welsh Government

4 Ways of Working: Discussion with the Welsh Government's Permanent Secretary on the work of the Committee in the Fourth Assembly

(09.35–10.30)

(Pages 43 – 46)



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PAC(4)-07-16 Paper 2

PAC(4)-07-16 Paper 3

Sir Derek Jones, Permanent Secretary, Welsh Government

David Richards, Director of Governance, Welsh Government

Gawain Evans, Director of Finance, Welsh Government

Peter Kennedy, Director Human Resources, Welsh Government

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

(10.30)

Items 6 & 7

6 Grants Management in Wales: Consideration of evidence received

(10.30–10.45)

7 Ways of Working: Consideration of evidence received

(10.45–11.00)

Concise Minutes – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Tuesday, 9 February 2016

Meeting time: 09.02 – 10.57

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3345>

Attendance

Category	Names
Assembly Members:	Darren Millar AM (Chair) Mohammad Asghar (Oscar) AM Jocelyn Davies AM Mike Hedges AM Sandy Mewies AM Julie Morgan AM Jenny Rathbone AM Aled Roberts AM
Witnesses:	Simon Jones, Holdco
Committee Staff:	Fay Buckle (Clerk) Claire Griffiths (Deputy Clerk) Joanest Varney-Jackson (Legal Adviser) Matthew Mortlock (Wales Audit Office) Huw Vaughan Thomas (Auditor General for Wales)



Transcript

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

1.1 The Chair welcomed the Members to the meeting.

1.2 No apologies were received.

2 Papers to note

2.1 The papers were noted.

2.1 **Cardiff Airport: Letter from Roger Lewis, Chair – Cardiff Airport (26 January 2016)**

3 Cardiff Airport: Evidence Session 2

3.1 The Committee took evidence from Simon Jones, Welsh Government's Holding Company (WGC Holdco), as part of the inquiry into the Welsh Government's acquisition and ownership of Cardiff Airport.

3.2 Simon Jones agreed to send the following information to assist the Committee's inquiry:

- If BA received any financial incentive from the Welsh Government to locate its maintenance facilities at Cardiff Airport;
- Data on how passengers arrive at Cardiff Airport;
- The current value of Cardiff Airport; and
- Names of the loan providers to the airports referred to in the evidence session in receipt of loans.

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

4.1 The motion was agreed.

5 Cardiff Airport: Consideration of evidence received

5.1 The Committee considered the evidence received.

Concise Minutes – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Thursday, 11 February
2016

Meeting time: 09.05 – 12.53

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3553>

Attendance

Category	Names
Assembly Members:	Darren Millar AM (Chair) Mohammad Asghar (Oscar) AM Jocelyn Davies AM Mike Hedges AM Julie Morgan AM Jenny Rathbone AM
Witnesses:	James Price, Welsh Government Chris Cain, Northpoint Aviation Professor Stuart Cole, University of South Wales Andrew Miller, Glasgow Prestwick Airport John Nicholls, Transport Scotland
Committee Staff:	Fay Buckle (Clerk) Claire Griffiths (Deputy Clerk) Joanest Varney-Jackson (Legal Adviser) Huw Vaughan Thomas (Auditor General for Wales)



Cynulliad
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National
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Wales

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 and Aled Roberts. There were no substitutes.

2 Papers to note

2.1 The papers were noted.

3 Cardiff Airport: Evidence Session 3

3.1 The Committee took evidence from James Price, Deputy Permanent Secretary, Economy, Skills and Natural Resources Group, Welsh Government as part of the inquiry into the Welsh Government's acquisition and ownership of Cardiff Airport.

3.2 James Price agreed to send the following information to Committee:

- A list of the Anchor Companies in Wales together with the criteria required to be an Anchor Company;
- A note of the passenger figures and number of flights over the last 25 years;
- A plan and inventory of what the Welsh Government acquired;
- An explanation of the urgency as to why the purchase had to be completed within a short timeframe and why the S128 procedure contained within the Government of Wales Act 2006 was used;
- Full details of the various valuations carried out prior to the acquisition;
- Confirmation as to whether the original land value was carried out on the site as an airport or the Residual Land Value of the airport site prior to the time of purchase;
- If the calculations on the Residual Land Value are available; and
- A note on which valuation method is used to value the assets in the Holdco annual accounts.

4 Cardiff Airport: Evidence Session 4

4.1 The Committee took evidence from Chris Cain, Director and Head of Research, Northpoint Aviation and Professor Stuart Cole CBE, Emeritus Professor of Transport Economics and Policy, University of South Wales as part of the inquiry into the Welsh Government's acquisition and ownership of Cardiff Airport.

5 Cardiff Airport: Evidence Session 5

5.1 The Committee took evidence from John Nicholls, Director, Aviation, Maritime, Freight and Canals Transport Scotland and Andrew Miller, Chair of Glasgow Prestwick Airport as part of the inquiry into the Welsh Government's acquisition and ownership of Cardiff Airport.

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

6.1 The motion was agreed.

7 Cardiff Airport: Consideration of evidence received

7.1 Members discussed the evidence received.



Joint Committee on Human Rights

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From Rt Hon Harriet Harman MP, Chair

Rosemary Butler AM
Presiding Officer
National Assembly for Wales
Cardiff Bay
CN99 1NA

27 January 2015

Dear Rosemary,

I am writing to draw your attention to a letter I have sent to the Lord Chancellor following a recent visit by the Joint Committee on Human Rights to Edinburgh. During this visit, the Committee's attention was drawn to the need to ensure that the Scottish Parliament and the other devolved institutions, along with their committees and other relevant public bodies, are given a full opportunity to contribute to the Government's forthcoming consultation on its proposal to repeal the Human Rights Act and replace it with a British Bill of Rights.

You will see from my letter to Mr Gove that the JCHR has sought assurances from him that "no part of the consultation period will overlap with the period where purdah applies or the Scottish Parliament will be dissolved". I added that "clearly this will be a matter of importance not only for Scotland but also for Wales and Northern Ireland".

If the National Assembly for Wales or any of its committees wish to submit views on this matter, or on the Government's proposals, to the JCHR, I and my colleagues would be most happy to receive them, before or after the launch of the Government's consultation.

Yours sincerely,

Rt Hon Harriet Harman
Chair of the Joint Committee on Human Rights



Joint Committee on Human Rights

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From Rt Hon Harriet Harman MP, Chair

Rt Hon Michael Gove MP
Lord Chancellor and Secretary of State for Justice
102 Petty France
London
SW1H 9AJ

20 January 2015

Dear Michael,

I am writing following the visit last week of the Joint Committee on Human Rights to Edinburgh. The Committee took the opportunity to meet with the Scottish Parliament's European and External Relations Committee, the Scottish Human Rights Commission, representatives from NGOs, academics and lawyers to discuss, amongst other things, the Government's proposal to repeal the Human Rights Act and replace it with a Bill of Rights.

We are concerned to ensure that the voice of Scotland is fully heard as you consider how to take this proposal forward. It is not just that they need to have their say, we need to be able to hear from them to benefit from their views and experience.

It is now under 10 weeks till the commencement of purdah in respect of the Scottish Parliament election, when the Scottish Parliament will be dissolved. The Scottish Parliament has, through its European and External Relations Committee, considered the issue of the the potential implications for Scotland of the repeal of the Human Rights Act and its replacement with a British Bill of Rights in some considerable depth. Your consultation would undoubtedly benefit from their contribution. But bearing in mind the delay in publication of the consultation document it might be the case that they would not be able to comment as the consultation will overlap with purdah. This would clearly inhibit the possibility of taking note of, and learning from, the specific and different cultural traditions – particularly of Scotland and Northern Ireland.

We note your previous promise to us to engage with the devolved administrations and consult with all citizens of the United Kingdom, in your letter dated 27 November. Accordingly, we would like to seek your assurances that no part of the consultation period will overlap with the period where purdah applies or the Scottish Parliament will be dissolved. I would ask for a response at your earliest opportunity as clearly this will be a matter of importance not only for Scotland but also for Wales and Northern Ireland.

Yours sincerely,

Rt Hon Harriet Harman
Chair of the Joint Committee on Human Rights

cc. Rt Hon Oliver Letwin MP



Llywodraeth Cymru
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2015 Welsh Government Annual Report on Grants Management

Contents

	Page
Foreword from the Permanent Secretary	ii
SECTION 1: INTRODUCTION	1
SECTION 2: GRANTS MANAGEMENT IMPROVEMENTS	1
(i) Welsh Government Improvements	1
(a) Guidance and Support	1
(b) Communications	2
(c) Customer Surveys	3
(d) Training	4
(e) Governance	5
(f) IT Systems	5
(g) Working with Others	6
(h) Measuring Compliance	7
(ii) WEFO Improvements	8
(a) Responses to European Commissions Reviews	8
(b) Training	9
(c) WEFO Verification (Spot Checks)	9
(d) Project Reviews	10
SECTION 3: FUNDING	10
(i) Funding from Welsh Government	11
Public Sector	12
Private Sector	14
Third Sector	14
(ii) Funding from WEFO	15
SECTION 4: NEXT STEPS FOR GRANTS MANAGEMENT	16
(i) Welsh Government Next Steps	16
(ii) WEFO Next Steps	17

Foreword from the Permanent Secretary

The Welsh Government provided grant funding of more than £13.7bn in 2014/15 with more than £3.7bn being provided as targeted (hypothecated) grant funding. This represents a very substantial portion of the Welsh Government's budget and improving the way grants are managed therefore remains one of my priorities for the organisation.

The funding supports a huge range of organisations, businesses and projects across the length and breadth of Wales. The financial scale and wide variety of the types of grant funding we administer means that it is always important that our processes and staff development meet the highest possible standards. This year, we have put new training in place and made further improvements to our IT system. More than 730 Welsh Government staff have now received training on various topics relating to the funding cycle. Grant review work has resulted in good practice guides being developed and a community of practice has been put in place to support colleagues and encourage the transfer of knowledge and skills. The improvement work on our IT systems has resulted in an improved due diligence system which is linked to the grant payment system.

I am pleased to note that the work we have done to improve our grant processes has also been helpful to other organisations, with colleagues in both the Cabinet Office and the Northern Ireland administration currently drawing on our experiences, and with the Cabinet Office implementing some of our working models. Nevertheless, sometimes things do go wrong and we continue to come across instances where the public money being given to recipients is not being used properly. These cases are very much the exception – the vast majority of our grant recipients operate prudently and carefully and so by their nature do not draw adverse attention to themselves – but we need to be always vigilant.

In summary, I am reasonably pleased with the progress made during the past year, but not at all complacent. This is a large and important part of the organisation's work where, inevitably, the possibility of financial and reputational risk is always present. We will need to maintain our commitment to continuous improvement in the year ahead.



Sir Derek Jones
Permanent Secretary to the Welsh Government

SECTION 1: INTRODUCTION

1.0. As in previous years, this Annual Report provides details of the challenges faced and the progress made in the improvement of grant management in the Welsh Government. In addition, it outlines the challenges ahead and the planned improvements for the coming year against the backdrop of organisational restructure and reducing public funds.

1.1. This report provides details of funding provided directly from the Welsh Government and also from the Welsh European Funding Office (WEFO). The Welsh Government's definition of 'grant' is all non-procured payments to external bodies or individuals for activities which are linked to delivering Welsh Government policy objectives or statutory obligations.

SECTION 2: GRANTS MANAGEMENT IMPROVEMENTS

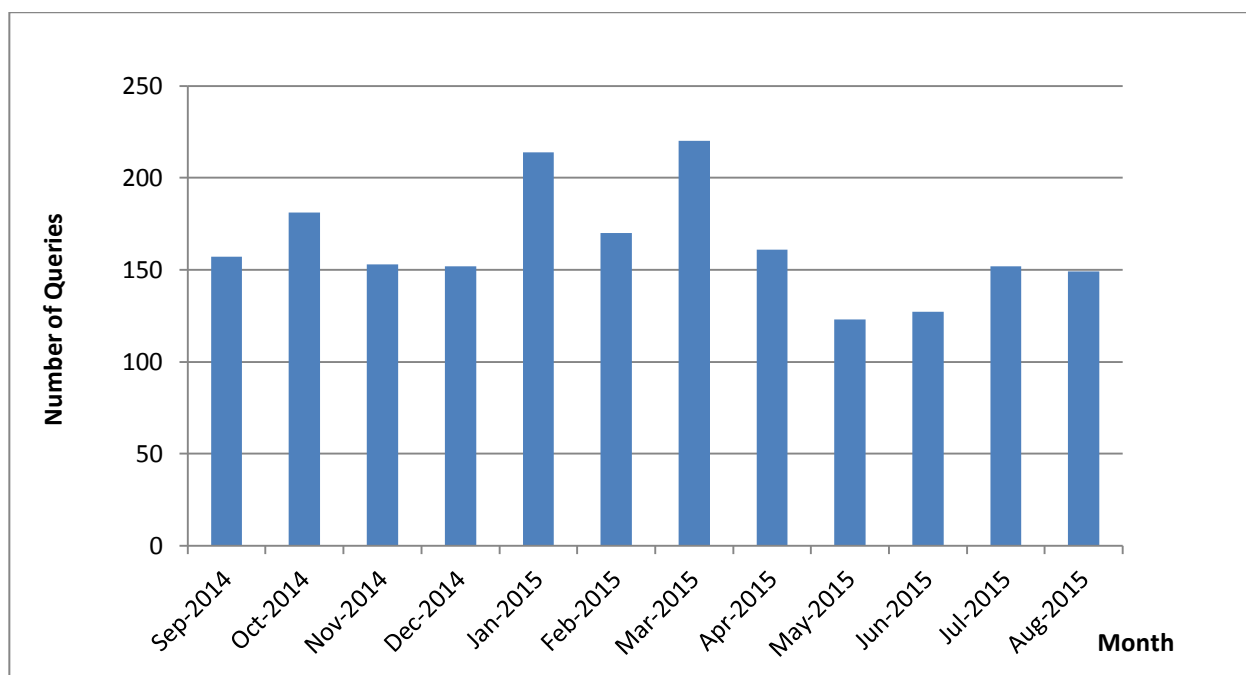
(i) WELSH GOVERNMENT IMPROVEMENTS

a) Guidance and Support

2.0. Direct contact with the Grants Centre of Excellence continues to be the first port of call for officials seeking support and guidance on grants management. Around 2,000 email queries have been resolved in the last year in addition to the provision of one to one support and responses to telephone queries. The Grants Centre of Excellence also provides an email query facility for external organisations and to date more than 350 queries have been dealt with during this year.

2.1. Grants management in the Welsh Government continues to be supported by a suite of guidance, templates and check lists. This has been further strengthened by the addition of regular Good Practice Guides, newsletters and a Grants Community of Practice (see paragraph 2.8 and 2.9). The grants standard award letter template continues to provide a structured approach for consistency of grants across the Welsh Government.

Figure 1: Query Comparison, September 2014 to August 2015



Sept 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015
157	181	153	152	214	170	220	161	123	127	152	149

Source: Welsh Government ishare system

b) Communications

General Communication

2.2. In the 2014 Annual Report, the Welsh Government made a commitment to share best practice and common issues identified within the wider grants community. Grant Compliance and Good Practice Guides have been developed for key themes which provide details of existing practices alongside more effective alternatives.

2.3. To date, three guides have been issued on “Reducing the use of Hard Copy Documentation”, “Using Minimum Standards” and “Writing Desk Instructions”.

2.4. Alternative ways for raising awareness of key issues have also been introduced including the use of posters in high footfall areas, a quarterly newsletter and the introduction of a Grants Community of Practice (see paragraph 2.8 and 2.9).

Due Diligence Communications

2.5. The sharing of information about external bodies is vital in protecting the Welsh Government from fraud, the misuse of public money and reputational damage. The Due Diligence system was set up in 2013 to share information about individuals and external bodies throughout the Welsh Government.

2.6. The importance of using the due diligence system was identified as an area for focused communications. Hence news articles, direct mailing and drop-in sessions have been used to raise awareness of the system. Sixteen drop-in sessions across thirteen locations were set up with a total of 134 officials attending. Topics for discussion included the importance of sharing information across the Welsh Government and potential improvement to the system.

2.7. As a result of this work a new due diligence search function has been introduced, which provides a comprehensive view of information held on organisations and individuals. Full details of these and other improvements are covered in section 2(f).

Grants Community of Practice

2.8. A Grants Community of Practice was established in June 2015 in order to provide an environment in which grant practitioners can engage with each other on a regular basis. The Community of Practice meets quarterly and provides an environment where officials can share best practice, participate in workshops and presentations on pertinent issues and benefit from the circulation of useful tips and tools. This facility also enables the Grants Centre of Excellence to identify areas of common concern and develop targeted responses such as communications exercises, updates to guidance and development of training material.

2.9. The Grants Community of Practice also has an on-line presence which facilitates the exchange of advice and feedback from the Centre of Excellence and other grant practitioners whilst providing links to grant guidance and virtual learning resources.

c) Customer Surveys

Internal Survey

2.10. In early 2015, an internal survey of Welsh Government officials involved in managing grants was undertaken, expanding on the original survey in 2013. The survey looked at Six key areas;

- awareness of the Grants Centre of Excellence;
- grants guidance information;
- training;
- how change was communicated;
- grants management processes; and
- overall satisfaction with the Grants Centre of Excellence.

2.11. The findings of the survey were positive and indicated an improving picture in a number of areas when compared to the original survey. These included 100% of respondents being either fully or partially aware of the role of Grants Centre of Excellence coupled with an 84% satisfaction rate for the support received.

External Survey

2.12. With the aim of understanding the impact of the grant improvements undertaken over the past few years, the Welsh Government commissioned an external survey to seek feedback from organisations in receipt of grant funding. The survey evaluated

whether the internal grant management changes implemented by the Welsh Government have impacted on grant recipient satisfaction levels in regard to applying for and receiving grants. The survey sought feedback from grant recipients in receipt of funding during 2014/15 and 2015/16 and sought feedback on both the Welsh Government's grants management processes and its services.

2.13. Over 1000 replies were received, 52% from the private sector, 21% from the public sector and a further 20% from the Third Sector.

2.14. Respondents were asked their awareness of improvement to grant management processes. Of those who had received grants since 2014, only 39% had noticed a change. However, of this cohort, 54% felt that processes were more consistent and 34% felt they were less burdensome.

2.15. Respondents were fairly positive with regard to grant processes overall and returned satisfaction scores of over 60% for all statements about each stage of the grant process. The highest levels of overall satisfaction were around the initial guidance on making an application (74%) and the support received from Welsh Government grants officials (74%).

2.16. A link to the final report can be found here;

<http://gov.wales/statistics-and-research/grant-recipients-survey/?lang=en>

d) Training

2.17. Training continues to be a key method for encouraging improvements in grants management skills and promoting best practice across the Welsh Government. The original three computer-based training courses are available to officials and face to face training sessions have again been run this year. Face to face training has continued to be provided in:

- Developing an application form
- Appraisal
- Monitoring
- Evaluating a grant scheme
- Understanding Risk
- Working with the Third Sector
- Due Diligence system
- PayGrants

2.18. A key focus this year has been the training of officials in the use of the new e-Grants interface, PayGrants. PayGrants provides improved management information for all grants across the Welsh Government. All relevant officials will be trained and moved across to PayGrants by the end of March 2016 when the old e-Grants system will cease to be supported.

2.19. To date, face to face training sessions have been provided in nine key Welsh Government locations with a total of 731 attendees being trained. Of this total, more than 426 officials have attended one or more course to date.

2.20. Feedback continues to be positive and has demonstrated that officials continue to welcome the ongoing support, advice, guidance and training provided by the Grants Centre of Excellence.

e) Governance

Good Governance Group

2.21. The Welsh Government continues to act as the Chair to the Good Governance Group which is made up of representatives from other key grant funders in Wales including the Charity Commission, Big Lottery Fund, WCVA and WLGA. As a major provider of grant funding in Wales, the Welsh Government is well positioned to contribute to the operating principle of the group which is to strengthen the governance arrangements within funded bodies, through the sharing of best practice and corporate intelligence.

2.22. The Group has continued to meet regularly. Discussions have included how member organisations have supported funded organisation to improve their governance, and the implications of introducing the PQASSO standard (see paragraph 2.24 and 2.25). A further session has been held on identifying and dealing with fraud within funded organisations.

2.23. Issues or concerns identified regarding individuals or organisations who receive or may apply for funding have also continued to be shared with the members as and when appropriate.

PQASSO

2.24. PQASSO has been developed to promote sound governance practices and improving financial and risk management procedures for the third sector. Participating organisations apply PQASSO to suit their particular needs and can gain accreditation once they have implemented PQASSO to a prescribed standard. The implementation of PQASSO in Wales is being funded by the Big Lottery Fund and the Welsh Government sits on the steering group for the project.

2.25. The Welsh Government is supportive of organisations achieving quality standards such as PQASSO. Organisations applying for funding from the Welsh Government will be encouraged to adopt and implement such a system.

f) IT System

2.26. Work on improving the grant payment system has continued this year. The main bulk of the work has been the development and deployment of PayGrants. PayGrants is essentially an enhanced user interface for the existing e-Grants payments system. A phased roll out of PayGrants began in December 2014, with the aim that all users will be trained and transferred to PayGrants by April 2016.

2.27. Some further reporting additions have also been implemented in PayGrants this year, including improved reporting and monitoring of grant accruals. This builds on the previous work to improve visibility of accrual information for officials.

2.28. Reflecting the importance of sharing information, the Due Diligence system has also been upgraded to expand the amount of data available to officials. This includes the implementation of a 'hub' which displays information about an external body and allows additional information to be entered easily. The checking and updating of the Due Diligence information has also been embedded into the PayGrants process to simplify the collection of this information.

g) Working with Others

Third Sector Infrastructure Fund

2.29. The Continuity and Change consultation in 2013 considered the broad spectrum of the relationship between the Welsh Government and the Third Sector in Wales. The consultation included specific consideration of the Third Sector Infrastructure (TSI) which consists primarily of Wales Council for Voluntary Action (WCVA), County Voluntary Councils (CVCs) and Volunteer Centres (VCs). Together the TSI provides an agreed set of core services which are accessible to people and organisations throughout the country. The Welsh Government subsequently commissioned a small Task and Finish Group (with membership from the Public and Third Sectors) to consider the future role and remit of the TSI.

2.30. Eight recommendations were put forward and accepted by the Welsh Government, relating to clarifying the role of the TSI, strengthening its relationship with Public Services and the wider Third Sector, streamlined support for volunteering, increased use of Information Technology and improved monitoring. Work is now underway to deliver each of the suggested recommendations.

The Cabinet Office

2.31. The Welsh Government's collaboration with colleagues in the UK Government's Cabinet Office has continued this year with regular meetings and correspondence to share key information on grants management.

2.32. The Cabinet Office have adopted many of the working models introduced by the Welsh Government including the set up of the Grants Centre of Expertise, guidance toolkit, a best practice network similar to the Welsh Government's Grants Community of Practice and department Grants Champions similar to the Grants Working Group. The Grants Centre of Excellence continues to work with Cabinet colleagues to share best practice.

Working with Devolved Administrations

2.33. The engagement with other UK government bodies has been encouraged following the positive discussion held with the Cabinet Office. Meetings with Northern Ireland Government have already been undertaken to discuss best practice and benefit from lessons learned. A further meeting with the Scottish Government will be undertaken in early 2016.

h) Measuring Compliance

Grant Reviews

2.34. As a way of embedding improved practice, a number of grant reviews have been undertaken. The purpose of the reviews was to consider the effectiveness, efficiency and compliance of internal grant funding processes.

2.35. 68 schemes were reviewed across twelve divisions with a further 28 schemes being formally closed, removing them from the PayGrants system and enabling accurate management reporting within the specific divisions. Process review reports and associated action plans have been issued to grant officials for each scheme, outlining the processes in place and highlighting good practice where it was identified. The action plans set out the required steps to improve compliance and areas where efficiencies could be implemented.

2.36. Whilst the reviews did not identify any major instances which were of concern, some minor areas of non-compliance and areas for improvement were identified in all cases. Minor areas of non-compliance included inconsistencies in the use of the grants payment system, disjointed audit trails, concerns around non-compliance with the Code of Practice for Funding the Third Sector and inconsistent use of the due diligence hub. It is unlikely that these minor areas of non-compliance would have resulted in financial or reputational damage to the Welsh Government.

Welsh Government Grant Health Checks

2.37. The Grants Centre of Excellence continues to undertake health checks (formally known as spot checks) across grant schemes to provide some reassurance that improvements are continuing to be embedded across the Welsh Government.

2.38. The revised process, Grant Health Checks, reviewed one discrete part of the funding life cycle focusing on the documentation which supported that part of the process. They also looked at the points at which the process touched on the e-Grants and due diligence system and whether adequate desk instructions were in place.

2.39. The revised process was more comprehensive and complex than the previous process and areas for improvement were identified in almost all of the 85 reviews undertaken. For example, 24 reviews identified poor desk instructions in respect of issues such as lack of version control, links and screen shots not used. Of the 24, nine were asked to re-submit due to more fundamental issues such as key grant process steps not being covered.

2.40. However, the majority of shortcomings identified were relatively minor. Since the complexity of the revised process proved burdensome a decision was taken to refocus the checks to a more proportionate sampling, desk based exercise. The PayGrants system has been used to examine how grants are managed, identifying areas for improvement and to assess the embedding of improved practices across the Welsh Government.

2.41. Since the implementation of the revised process, two blocks of health checks have been undertaken with 120 grants in total being checked. The first 60 focused on

the requirement for grant officials to add a link in PayGrants/e-Grants to the funding award letter. Checks focused on processing accuracy issues with the grants system and whether the letter itself was compliant. Processing accuracy issues identified in the checks were relatively minor. For example, nine were identified where the award letter was not attached to the PayGrants system in the correct manner. The inconsistencies identified with the content of the award letters were more varied. They included the incorrect version of the letter being used in 19 cases.

2.42. These checks contribute to the Grants Centre of Excellence's understanding of the level of improved practice which has occurred across Welsh Government. They are separate from internal audit and are designed to help improve processes and support officials with the ethos of the approach remaining one of open dialogue with the grant officials. The Grants Centre of Excellence continues to provide support and encouragement to move processes to align with best practice.

Code of Practice for the Third Sector

2.43. Each year the Third Sector Unit, in conjunction with the Grants Centre of Excellence, tests compliance with the requirements of the Code of Practice for Funding the Third Sector. The Code contains seventeen principles to which the Welsh Government is committed to adhere. Each year, the compliance of grants process against several of these principles is tested. Compliance with Principle IV (timely Decisions), is tested every year. The full text of the Third Sector Scheme and Annexed Code of Practice for Funding the Third Sector can be found here:

<http://gov.wales/docs/dsjlg/publications/comm/140130-third-sector-scheme-en.pdf>

For 2015/16, three principles were tested:

- Principle I - Delivery of strategic policy objectives;
- Principle IV - Timely decisions; and
- Principle VIII - Full cost recovery.

2.44. As reported to the Third Sector Partnership Council Funding and Compliance Sub Committee in October, initial investigations showed four grants which required closer consideration in relation to adherence to Principle IV of the Code. Subsequent discussion provided sufficient evidence to demonstrate that none of these constituted a breach of the Code of Practice and all had been resolved satisfactorily.

(ii) WEFO IMPROVEMENTS

a) Responses to European Commission Reviews

2.45. WEFO has been subject to routine reviews by the European Commission from both DG Regio European Regional Development Fund (ERDF) and DG Employ European Social Fund (ESF). The reviews focused on the Management Verifications of the ESF programme and the Audit Authority Processes for the ERDF programme.

2.46. The reports from the Commission have now been finalised and WEFO has made changes to a number of areas based on feedback from the Commission. Improvements have been made to the Management Verification processes including:

- scope and intensity of the reviews;
- sampling methodologies;
- guidance available to grant recipients; and
- quality and focus of the evidence held by recipients to demonstrate achievement of the grants objectives.

2.47. WEFO has worked closely with other areas of the Welsh Government to integrate the delivery of European Structural and Investment (ESI) Funds. ESI funds comprise Structural Funds, the European Agriculture Fund for Rural Development and the European Maritime and Fisheries Fund. This has resulted in the establishment of a single Programme Monitoring Committee, an ESI Delivery Board within Welsh Government with membership from across the funds, a one web portal for beneficiary access and an agreement to use the most appropriate funds for optimum delivery.

2.48. As part of the work around ESI funds, WEFO has simplified access to the funds and ensured alignment and consistency of information, including areas such as business process, the application process, guidance, fund criteria, payment options, etc.

2.49. In addition WEFO has continued to work on the delivery of “Simplified Costs Options” (SCO) across the programmes. SCO replace the more traditional methods for claiming costs (receipts, invoices, HR Record etc.) with pre-agreed unit costs for some cost types and “mark” ups on direct or staff costs to cover overhead or indirect costs. The benefit of SCO is to simplify the evidence requirements for certain costs and reduce the audit risk of those cost type that have traditionally proved difficult to evidence.

b) Training

2.50. Training and support has continued to be provided to WEFO staff and beneficiaries. In preparation for the new programmes, delivery of a series of training modules has been completed covering all aspects of the grant process including:

- the need for a clear business case to support the proposed intervention;
- the delivery of outcomes;
- Commission requirements on monitoring and reporting;
- preparing for successful audits;
- document retention;
- Simplified Cost Options; and
- quality control.

2.51. In addition, training has been provided to officials on risk management and fraud awareness whilst business process improvement implantation continues to be communicated to all relevant staff.

c) WEFO Verification (Spot checks)

2.52. WEFO undertakes management verifications (spot checks) to ensure that the expenditure declared to the European Commission is accurate, products or services have been delivered in accordance with the approval decision, applications for reimbursement by the beneficiary are correct and operations and expenditure comply with community and national rules.

2.53. The error rate for the 2007-2013 programmes measures the total value of irregular expenditure reported to the European Commission as a percentage of total certified eligible expenditure claimed by projects. The percentage error for all operational programmes is 0.67%, which is broken down by operational programme as detailed in Figure 2.

Figure 2: Total Expenditure Declared Against Total Irregularities Reported to the European Commission

Programme	Declared Expenditure (€)	Irregular Expenditure (€)	% Error Rate
ERDF Competitiveness	24,771,427	101,956	0.70
ESF Competitiveness	19,312,208	0	0.0
ERDF Convergence	274,413,730	1,295,869	0.85
ESF Convergence	191,974,023	14,784	0.03
Total	510,471,388	1,412,609	0.67

Source: Audit Authority Annual Control Report

2.54. By revising the scope and timing of the verification checks it undertakes, WEFO has further strengthened management verifications for the remainder of the 2007-2013 programme and the new 2014-2020 programmes. As a consequence, all grant claims will be reviewed and a sample of individual grants will be subject to “On-the-Spot” reviews. The reviews will cover most aspects of the grant including expenditure, procurement and proof of achievement of the purpose for which the grant was given. By increasing the scope of these reviews, the intention is to identify potential issues promptly and rectify issues at an early stage. The “On-the-spot” reviews will focus on the reality of the activity funded by the grant.

2.55. In addition to these regulatory requirements WEFO is also introducing its own Health Check visits, to raise awareness of newly approved grant recipients of the documentation and procedural requirements resulting from grant approval.

d) Project Reviews

2.56. All operations are subject to regular project reviews which are continuously being improved and updated to reflect best practice. A formal project closure process and review has been established for the 2007/13 programme. This process is project managed within WEFO and progress towards successfully closing programmes is underway. The results of these reviews are recorded on the Programme and Project Information Management System (PPIMS).

SECTION 3: FUNDING

3.1. This section provides an update on the overall funding and breakdown of grants to the various sectors in Wales. Funding direct from the Welsh Government is covered in 3(i) and from WEFO in 3(ii).

(i) FUNDING FROM THE WELSH GOVERNMENT

3.2. In the 2014 annual report, the Welsh Government reported that a range of improvements and data cleansing of the e-Grants system had been initiated with further improvements scheduled in 2015.

3.3. Following on from the improvement work undertaken to date on the IT system, a significant amount of work has been carried out again this year to further refine the reporting functionality of the Welsh Government's finance system. These changes have made a substantial improvement to the accuracy of the Welsh Government's management information and ultimately its reporting capability and a considerable amount of time and effort has been invested in implementing these changes.

3.4. One of the key changes is obtaining agreement across the Welsh Government of the differentiation between hypothecated and unhypothecated grant schemes.

3.5. Hypothecated Grants are defined as grants provided as a result of a discretionary decision by the Welsh Government to provide funding to an external body where the Welsh Government does not have a statutory or legal requirement to provide the funding. Hypothecated funding is provided to enable external bodies to undertake specific projects or deliver specific purposes as defined at the outset; it can be project specific and/or for core funding.


3.6. In comparison, unhypothecated grants are mainly provided by the Welsh Government to deliver statutory obligations; largely to Local Authorities, WGSBs and the NHS. Unhypothecated grants can be used by the recipient organisation in whatever manner it wishes to meet local objectives and services, subject to the delivery of its statutory responsibilities.

3.7. Part of this work has included migrating all grants onto one payment system. Previously a small number of payments which would now be classified as grants were paid outside of the grant system. These have now been reclassified and transferred to the payment system. All of the improvements have involved effort and changes to usual practice and continue to improve the management information that is held and reported by the Welsh Government. The improved system is able to differentiate between hypothecated and unhypothecated grants and significant work has been undertaken to determine exactly into which category the legacy schemes fall.

3.8. Continuous improvement in our reporting system means that comparisons with previous years have to be treated with some caution. This report details all grants that are now administered through the one system.

3.9. Figure 3 shows the total amount of grant provided over the last three financial years. These figures are derived from both hypothecated and unhypothecated grants and demonstrated a 1% increase in funding on last year.

Figure 3: Total Welsh Government Grant Funding by Financial Year

	2012/13	2013/14	2014/15	% Change 2013/14 to 2014/15
Level of grant provided (£bn)	13.2	13.6	13.7	1% 

Source: Welsh Government Finance System

3.10. The number of grant schemes which have made new offers in 2014/15 totals 446, of which 375 are hypothecated and 71 are unhypothecated. In comparison, re-analysis of the grants on the grants payment system for 2013/14 indicates that approximately 368 were hypothecated and a further 15 were unhypothecated. It is worth noting that the additional grants for 2014/15 were those transferred to the grants payments system from legacy systems.

3.11. As the work to improve data management and assurance has continued, some movement in budgets has been observed. This movement is due to the re-categorisation of funding between the two headings, unhypothecated and hypothecated, some re-categorisation of organisations between industry keys as well as the ebb and flow in the value of funding being awarded.

3.12. Figure 4 details the levels of hypothecated grant funding provided to each sector in both 2013/14 and 2014/15

Figure 4: Hypothecated Grant Funding by sector and Financial Year

Level of hypothecated funding £m	2013/14	2014/15
Local Authorities	1,339*	1,327
NHS	22	11
Central Government and Public Corporations	48*	43
Welsh Government Sponsored Bodies	19	42
Funding to Education	489	412
Private Sector	524*	614
Third Sector	240	208

Source: Welsh Government's finance system

* The grant funding for these areas for 2013/14 has been amended to reflect the position as determined by the recent improvements in the finance system.

Public Sector

3.13. Hypothecated grant funding is provided to Local Authorities, the NHS, Central Government and Public Corporations, Welsh Government Sponsored Bodies (WGSB) and education establishments.

a) Local Authorities

3.14. The Welsh Government remains committed to reducing the amount of hypothecated funding provided to Local Authorities. Wherever possible the funding for specific activities is transferred into the unhypothecated Revenue Support Grant which enables Local Authorities to determine local priorities and to use the funding as appropriate. This eliminates the administration costs associated with specific grants for both the Local Authority and the Welsh Government. However, hypothecated grants are still required in certain circumstances such as where the funding commitment is demand led or initiatives are being piloted. Examples of hypothecated grants include “Pupil Deprivation Grant” (£69m), “Reading and Numeracy Support Grant” (£1m), “Flying Start” (£68m) and “Sustainable Waste Management Grant” (£66m).

Case Study: New Gypsy Site at Kings Meadow in Brecon

The Welsh Government’s Gypsy and Traveller Sites Capital Grant was established in 2007/08 for the refurbishment of existing Local Authority owned Gypsy and Traveller sites. In 2008/09 the grant scheme was extended to offer funding for the establishment of new sites.

The grant, which provides 100% funding for projects, is intended to improve the quality of life and standard of living for Gypsy and Traveller residents throughout Wales.

On 9th April 2014, the new ‘Kings Meadow Gypsy and Traveller’ site in Brecon, Powys was officially opened following investment of almost £2m by the Welsh Government. The new site is the first Local Authority site of its kind to be built in Wales since 1997. The site has the capacity to provide up to fourteen pitches.

Powys Council's housing service team subsequently won the promoting equality and accessibility category at the Welsh Housing Awards for the Kings Meadow Gypsy site in November 2014. The awards are organised by the Chartered Institute of Housing Cymru and recognise good practice.

b) NHS

3.15. The Welsh Government’s Department for Health and Social Services is responsible for exercising strategic leadership for, and management of, the NHS in Wales and the overall stewardship of NHS funds. The vast majority of the NHS funding is provided as unhypothecated grant-in-aid which enables the NHS to deliver its statutory obligations and meet local priorities. Hypothecated grant funding in this sector is used to deliver specific activities to meet Welsh Government policy objectives.

3.16. As part of the reporting improvements described earlier, the Welsh Government has identified all hypothecated funding to health related organisations. This has resulted in the correct classification of the infrastructure support for research and development in the NHS moving from hypothecated grants to unhypothecated. There were also some small variances to figures provided over the two financial years, in addition to annual funding variations. Examples of hypothecated grants to the NHS include those grants for specific Research and Development studies and also an element for health improvement programmes.

c) Central Government & Public Corporations

3.17. The Welsh Government funds – for specific purposes - a number of organisations that are linked to Central Government or are Public Corporations such as Department for Work and Pensions, Education Workforce Council, Department for Health, HM Prison Service and Wales Audit Office. The reduction in funding indicated for this category is due to the reclassification of elements of funding as unhypothecated grants, e.g. the Welsh Commissioners.

d) Welsh Government Sponsored Bodies

3.18. The Welsh Government provides funding for various bodies collectively known as WGSBs. These include Sport Wales, Natural Resources Wales, Arts Council for Wales and Higher Education Funding Council for Wales (HEFCW). The core funding for WGSBs is classified as grant-in-aid which is unhypothecated funding. The hypothecated funding detailed below is for activities which are additional to this core grant.

3.19. The increase of funding to WGSBs in 2014/15 was principally due to the inclusion of the Care Council for Wales under this category. In addition, there were a number of large hypothecated grants provided to WGSB, including the Valleys Regional Park, Invest to Save grants, the Sustainable Development Fund, the Rights of Way Improvement Grant and the Physical Literacy Programme for Sports Wales.

e) Funding to Education

3.20. Hypothecated grant funding is not paid just directly to schools, colleges and higher education establishments, but also indirectly via the third sector, private organisations and Local Authorities which are covered under the relevant sections within this report. Whilst the exact expenditure provided by Local Authorities on education is not separately quantified it is included under the Local Authorities category (paragraph 3.14). A number of activities have been re-categorised from grant to procurement and are now administered under contract.

Private Sector

3.21. Grant funding to businesses is aimed at improving the economy and covers a wide range of activities including business start-ups, regeneration, energy saving initiatives, training and tourism. Grant funding in 2014/15 provided to this sector represents an increase of 17% on the previous financial year. This demonstrates the Welsh Government's continued commitment, at a time of reducing budgets, to support businesses to increase economic growth within Wales.

Third Sector

3.22. The Third Sector is defined as independent, non-governmental bodies, established voluntarily by citizens, who are motivated by the desire to further social, cultural or environmental objectives and are committed to reinvesting their surpluses into their objectives. The Welsh Government recognises that the Third Sector has a very important part to play in helping it achieve its objectives under its Programme for Government. The Welsh Government provides hypothecated grant funding to the Third Sector.

3.23. The reported reduction in grant funding to the Third Sector continues the downward trend of reducing budgets and reflects a range of circumstances across many Welsh Government departments. The overall economic situation and the reduction in UK Government funding for Wales have inevitably impacted on funding across all sectors. Figures covering the totality of Third Sector funding, including where procurement has been used as the funding vehicle rather than grants, will be published separately in the Annual Report on the Third Sector Scheme.

Case Study: Coed y Bont Community Woodland

Support from the Welsh Government's Aggregate Levy Fund, has enable Pontrhydfendigaid Community Woodland Association to develop 24.5 hectares of woodland.

The Coed y Bont Community Woodland community project involved the development of an existing site in order to create a community woodland, including trails, wildlife ponds and picnic area.

The primary objective was to open up access to the woodland for both local people and visitors to the area, and to manage the woodland to enhance its biodiversity. Local children and young people have been involved in building bird, bat and dormouse boxes, and an education programme, involving a programme of events and activities, is well established.

The project has energised the community and led to increased numbers of local volunteers working in the woodland and tourists visiting the area. The woodland is now well established as a living classroom for local schoolchildren.

(ii) FUNDING FROM WEFO

3.24. This section deals with funding provided direct to organisations from WEFO.

3.25. The European Commission sets the policy and priorities for the funding it provides to Wales. Following negotiation within these priorities, WEFO was able to secure considerable movement in the Commission's initial positions on various points. The Operational Programmes for 2014 – 2020 have now been approved by the European Commission and WEFO has made a successful start in approving grant applications for this new round of funding.

3.26. As WEFO funded operations are generally collaborative in nature, the vast majority of operations consist of a lead organisation (sponsor) and a number of partners from a number of sectors. Figure 11 shows WEFO's 2014/15 spend allocated against the sector of the lead sponsor.

Figure 11: EU Grant Spend by Sector for 2014/15 Financial Year

Sector	Spend (£m)
Higher & Further Education	64.2
Local Government	48.1
Private	4.7
Other Public	10.6
Third	11.0
Welsh Government	108.1
Total	246.7

Source: WEFO, 31/08/2015

3.27. The majority of the funding is allocated to the Welsh Government to deliver Welsh Government priorities. The transfer of this funding from the Welsh Government to third parties is subject to scrutiny from both WEFO and the Grants Centre of Excellence. The grant funding that is provided to third parties by the Welsh Government using WEFO funds is already included in the financial data previously reported for the relevant sector.

3.28. In many cases, the lead sponsor for a project is not the body that delivers the project. Having a public sector lead sponsor allows for the particular skillset needed for EU funded projects to be supported effectively, and allows for the actual delivery to be procured. This is essential for the private sector engagement as, without a transparent procurement exercise, the delivery body would have no scope for making a profit and would have little incentive to engage in the projects. Across the programmes, approximately 60% by value of the contracts procured go to the private sector with a further 17% going to the third sector.

SECTION 4: NEXT STEPS FOR GRANT MANAGEMENT

Welsh Government

4.0. The following activities are planned:

- **PayGrants IT System** – This improved IT system will be fully rolled out to Welsh Government officials by the end of 2015/16. This will include practical training to ensure correct use of the system
- **Grants Training** – Further training packages will be developed including short interactive sessions and computer based training modules. Training will continue to be delivered across Wales
- **Grant Health Checks** – The revised process will continue to check 20 grants per month with support being provided to implement improvements where necessary; and
- **Shared Services** – The Welsh Government will investigate the possibility of undertaking a shared services approach for grants management to look at addressing the wider changes required.

WEFO

4.1. The following activities are planned

- **WEFO ANTI-Fraud Risk Register** – Under the 2014-2020 programmes of Structural Funds, WEFO is required under the regulations to develop and implement a risk register to manage fraud both within the Managing Authority and recipients of EU funds. WEFO officials have developed a risk register based on a template provided by the European Commission. The risk register has been expanded to include controls with regard to Intermediary Bodies and is in advanced stages of being fully implemented, expected to be in late January 2016.
- **ARACHNE** – In early 2015, WEFO committed to implement an IT Based Data Mining Tool, ARACHNE, developed by the European Commission which will play a central role in identifying potential frauds and conflicts of interest. ARACHNE will complement WEFO's Anti-Fraud Risk Register and a number of users have been identified to have the software installed in early 2016. Training has been arranged for mid-January and it is anticipated ARACHNE will play a part in developing new operations and assist in investigations and reviews arising from whistle-blowers, audit teams, WEFO's own inspection visits, review meetings and reports from other third party sources.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Sir Derek Jones KCB
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Dear Darren,

12th February 2016

Public Accounts Committee Report: Senior Management Pay

Thank you for your letter of 15 January 2016 in which you sought further clarification around the work being undertaken by the Welsh Government to implement the recommendations made in the Public Accounts Committee's Report on Senior Management Pay.

Transparency of senior pay for Registered Social Landlords and the higher and further education sectors

Work on transparency of senior pay for Registered Social Landlords and the higher and further education sectors remains ongoing. Recommendation 17 was addressed through the distribution of the Transparency of Senior Remuneration in the Devolved Welsh Public Sector principles announced by the Minister for Public Services in December last year. With reference to Recommendation 13, a forward work plan has been developed to ensure we continue to make progress against the outstanding recommendations. Please see a note on the next steps below.

Grant award conditions for organisations which do not explicitly fall within the public sector

I note the Committee's comments on placing conditions on new grant awards. However, following further advice from Legal Services colleagues, I can confirm that the Welsh Government's position remains unchanged. The placing of such conditions onto grant awards to organisations, in particular organisations in the higher and further education sectors, would be legally problematic.

As I set out in my earlier letter, the conditions that may be attached to annual funding are not set out exhaustively in statute, but the general principles of public law provide that they may not stray too far from the purpose of the funding. The additional conditions contained within the Transparency Principles are too far removed from the purpose and effect of the funding itself.

Conditions which can be attached to funding must be reasonably related to the purpose(s) for which funding is being provided, taking into account only considerations which are relevant to those purpose(s). To take the examples in Recommendation 22, such considerations may be derived from the specific terms of the powers contained in relevant legislation involving FE/HE and housing, or drawn from wider obligations derived from other legislation such as the Equality Act 2010 which the Welsh Ministers must take into account. Conditions which are not reasonably related to the power in question are potentially unlawful. Each award of funding must, as a result, be considered on its own terms taking account only of considerations relevant to the exercise of that particular power. Whilst there are some grants that cap the amount of salary supported under the grant scheme, the Welsh Government does not control the total amount of salary paid to individuals, only how much grant is provided by the Welsh Government towards the salary costs. Attempting to introduce specific and prescriptive conditions such as how an organisation would manage recruitment, pay scales, pay arrangements, information that is on its website and job evaluations, is above and beyond what Welsh Ministers could reasonably impose as conditions attached to the annual funding.

Timetable for implementation of remaining recommendations

As mentioned above, a forward work plan is being developed to ensure we continue to make progress against the recommendations. A draft plan will be discussed with the Workforce Partnership Council and Public Service Staff Commission in the next few months; I would be happy to share the agreed plan with the Committee in due course. My expectation is that the vast majority of the work will be completed during the next financial year. The Committee will note that this is a longer period of time than the high level delivery outline attached to the Welsh Government's original response to the report. Whilst the response to the report did stress that the delivery of this work would need to take into account other pressures on our resources, I do acknowledge that the early timeline for the delivery of the outstanding research, reporting and embedding work, following the development of the Transparency Principles themselves, was over-optimistic.

I hope that the Committee will find this update useful. I look forward to discussing the report at the session on 23 February.

Yours,
Derek

Sir Derek Jones KCB
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

Dear Huw,

12th February 2016

Following the changes made to the organisation's senior management structure last July, to move from a senior structure of six Directors General to one of three, I appointed Director General/ Chief Executive of NHS Wales Andrew Goodall and Deputy Permanent Secretaries Owen Evans and James Price as Additional Accounting Officers (at this point I also appointed David Richards as Additional Accounting Officer with responsibility for the Central Services and Administration MEG).

Given the breadth of the new Deputy Permanent Secretary's responsibilities across their now much wider Groups, I subsequently sought approval from the First Minister to appoint Additional Accounting Officers at Director level. I have now issued Additional Accounting Officer Designations to the Directors listed in the attached annex. The annex sets out the areas of work which the AAO designations cover and the separately delegated budgets.

You will also note I have appointed Additional Accounting Officers to cover WEFO and the Welsh Treasury Implementation Programme.

I am copying this letter to the Clerk of the Public Accounts Committee.

Yours,
Derek



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Annex to the Memorandum for Additional Accounting Officers within the Welsh Government

This Annex sets out the “designated areas of responsibility” and associated budgets that define and clarify these designated areas in respect of Directors designated as Additional Accounting Officers

ECONOMY, SKILLS & NATURAL RESOURCES GROUP AAOs

Name	Area of Responsibility	Budget £'000s		
		Revenue DEL	Capital DEL	AME
Mick McGuire	Sectors and Business	89,763	141,512	0
Simon Jones	Infrastructure	530,433	387,810	0
Huw Morris	Skills, Higher Education & Lifelong Learning	1,243,988	0	338,804
Andrew Slade	Agriculture, Marine and Food	54,559	17,723	0
Christianne Glossop	Chief Veterinary Officer	30,656	0	0
Sue Moffatt	National Procurement Service	3,464	1,406	0

EDUCATION & PUBLIC SERVICES GROUP AAOs

Name	Area of Responsibility	Budget £'000s		
		Revenue DEL	Capital DEL	AME
John Howells	Housing and Regeneration	156,995	406,770	0
Reg Kilpatrick	Local Government MEG (excluding inspectorates)	3,400,372	22,639	982,130

OFFICE OF THE FIRST MINISTER & CABINET OFFICE AAOs

Name	Area of Responsibility	Budget £'000s		
		Revenue DEL	Capital DEL	AME
Andrew Jeffreys	Welsh Treasury Implementation Programme	3,481	8,116	0
Damien O'Brien	Welsh European Funding Office	12,790	1,048	0

HEALTH & SOCIAL SERVICES GROUP AAOs

Name	Area of Responsibility	Budget £'000s
No AAOs designated within WG at the present time		0

Budgets as at: 12 February 2016