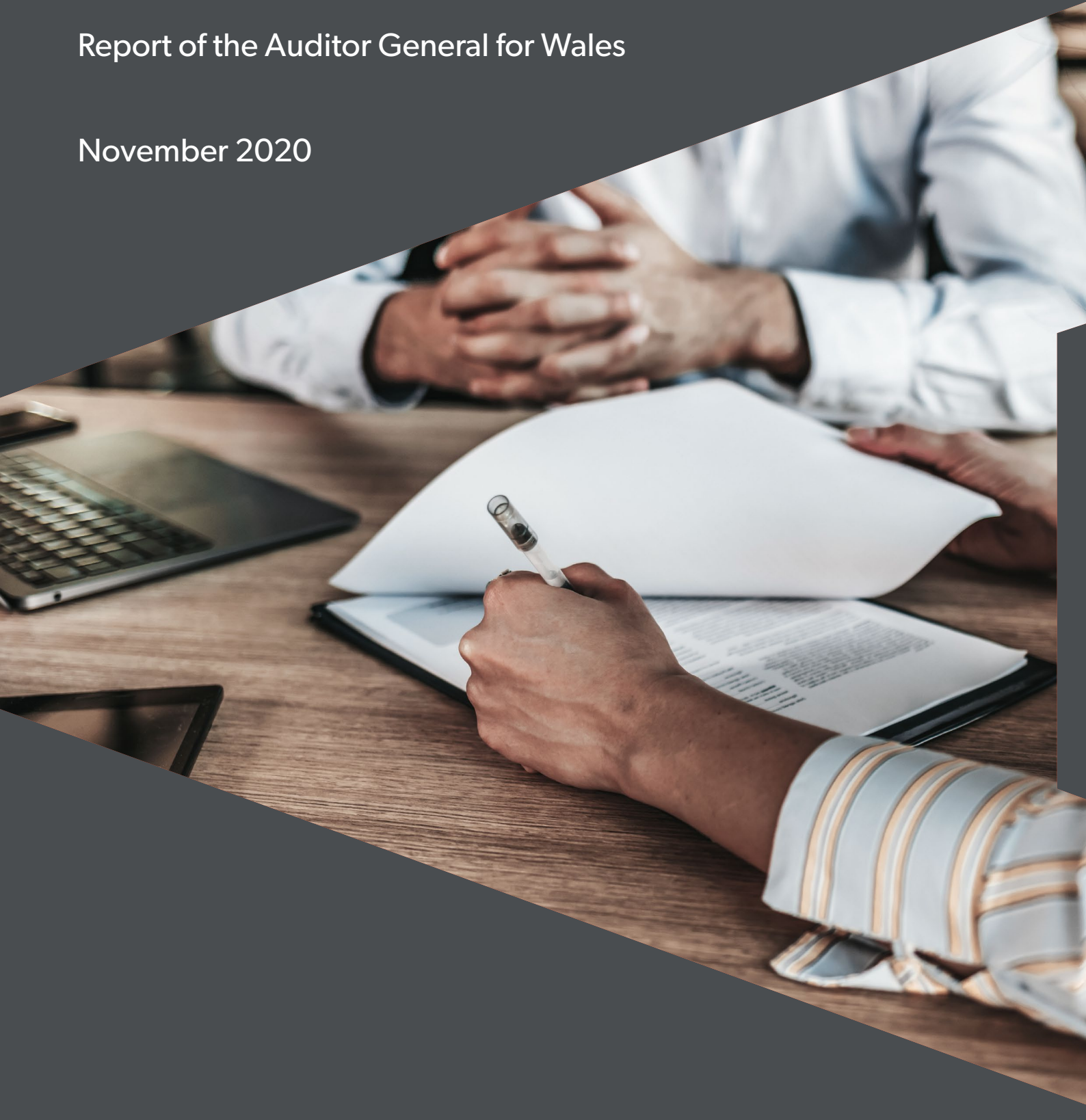


Commentary on the Welsh Government's Consolidated Accounts 2019-20

Report of the Auditor General for Wales

November 2020



I have prepared this commentary to assist consideration of my report under the Government of Wales Act 2006 on the Welsh Government Consolidated Accounts 2019-2020.

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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Auditor General's foreword

- 1 Our Audit Wales [Annual Plan 2020-21](#) described how we would seek to engage a wider range of audiences with the outcomes from our annual audits of public bodies' accounts. We have produced this commentary on the [Welsh Government's Consolidated Accounts 2019-20](#) in that context. It follows the release of a series of web-based infographics that present key information from the accounts of various public bodies, including the Welsh Government.
- 2 We have developed this commentary to inform the wider public and those responsible for scrutiny of the Welsh Government. Since autumn 2014, the Senedd's Public Accounts Committee has reported on matters arising from the Welsh Government's accounts on an annual basis, with its most recent report on the 2018-19 Consolidated Accounts published in May 2020¹. The Welsh Government has been making changes over that period in response to the Committee's recommendations to improve the overall presentation and transparency of its Consolidated Accounts. But there is more work still to do in response to the issues raised by the Committee, for example to provide a clear picture of the Welsh Government's organisational performance based on its new key performance indicator framework.
- 3 The commentary explains the accounts process and draws out and expands on information in the Consolidated Accounts, including some additional trend analysis drawn from information not contained within the accounts. It also draws on our examination of issues relating to Welsh Government governance and administration through our wider programme of audit work. However, the commentary is not exhaustive and we will be reflecting on how it might evolve in future years.

1 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#). The Committee has also reported on the accounts of certain other Welsh central government bodies.

- 4 During the early stages of the initial COVID-19 lockdown, Audit Wales staff worked closely with Welsh Government officials to assess the impact for all those organisations that contribute to the consolidated Welsh Government position. The process of preparing and auditing the accounts has, quite understandably, taken longer this year. But against the backdrop of the uncertainty and wider pressures arising from the pandemic, it is a tribute to all those involved that this work has been able to be completed in line with the timetable that we agreed with the Welsh Government in April 2020.
- 5 I issued a qualified opinion on the 2019-20 accounts given my view that there is a material omission of expenditure relating to certain business grants. This has arisen due to a disagreement with the Welsh Government on a complex technical accounting issue. The inclusion of this expenditure would have shown that the Welsh Government had exceeded its authorised net expenditure limit approved by the Senedd for 2019-20 and is therefore irregular.
- 6 The qualification is based on the accounting requirements to include this expenditure in the 2019-20 accounts, and is not a view on the nature of the funding or its value for money.
- 7 Looking forward to 2020-21, COVID-19 is continuing to have far reaching consequences across all aspects of society, with a significant impact on Welsh Government and its operations. At the end of May 2020, the Welsh Government produced an additional supplementary budget, setting out plans for £2.5 billion of new spending as part of its response to COVID-19. There is significant pressure on all aspects of public services with spending plans continually updated and service delivery models under review. I will consider the impact of these on my audit of the Welsh Government's Consolidated Accounts for 2020-21.



Adrian Crompton

Auditor General for
Wales



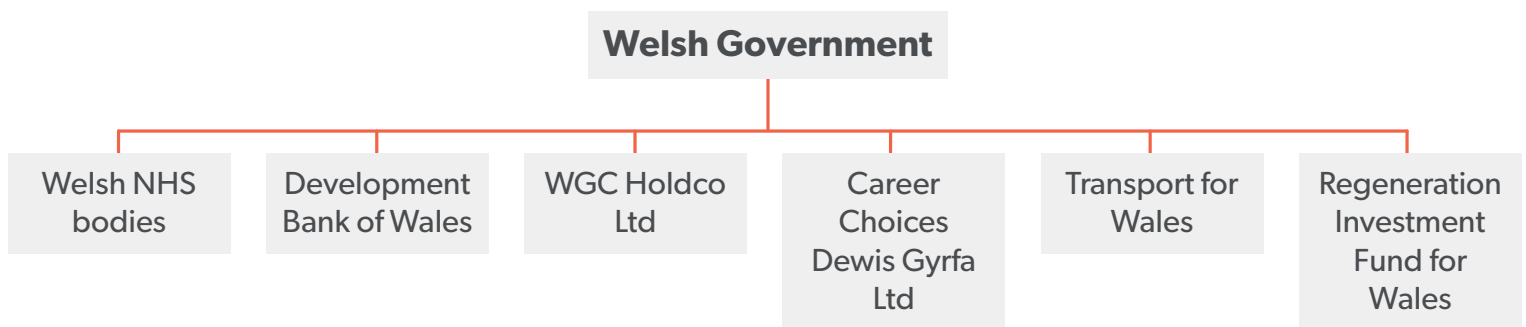
Introduction

01

Welsh Government Consolidated Accounts

- 8 The Consolidated Accounts are a key component of the Welsh Government's accountability to the Senedd and the public. **Exhibit 1** shows the entities that together make up the Welsh Government group.

Exhibit 1: the Welsh Government 'group' structure

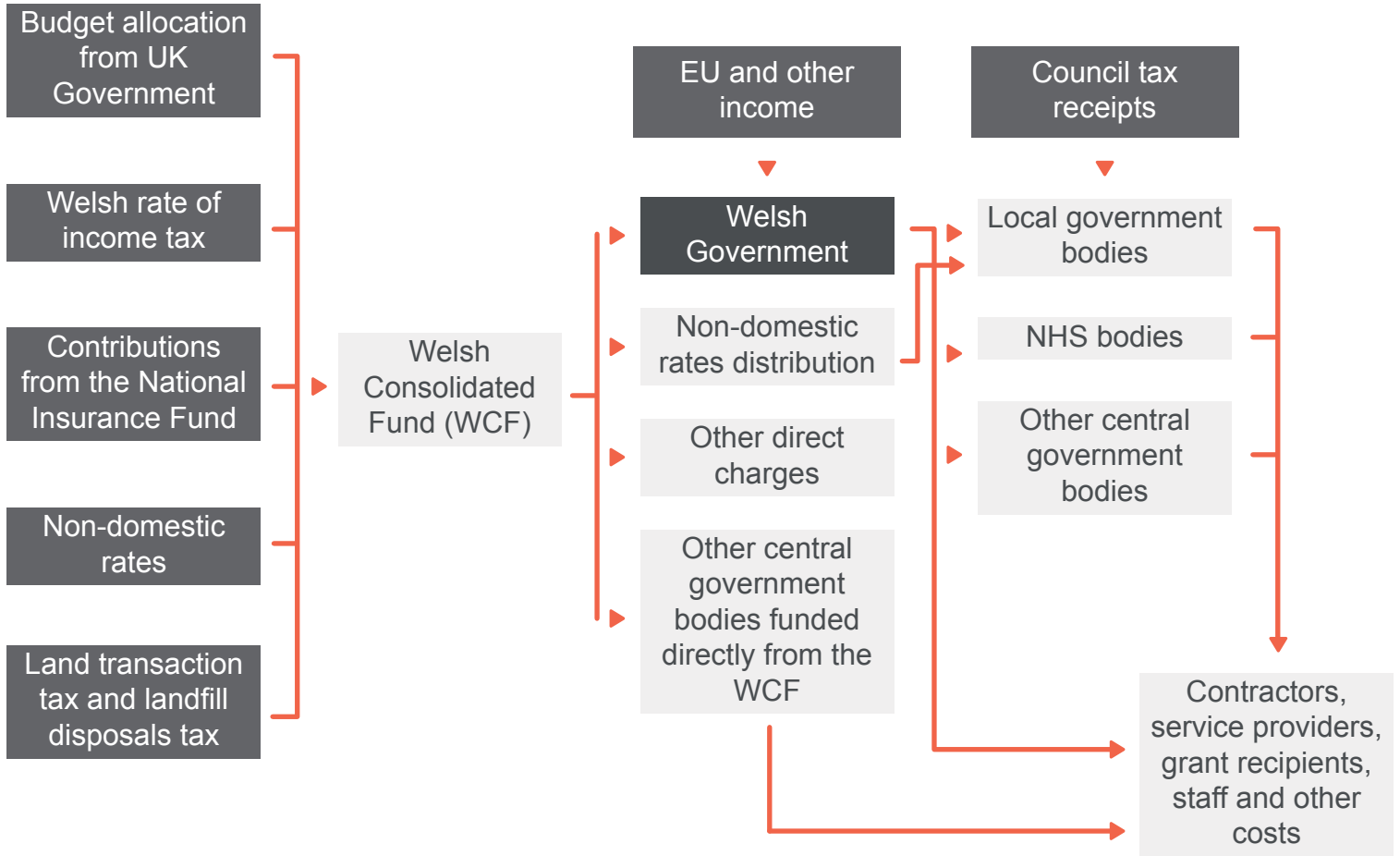


Note: WGC Holdco Ltd is the holding company through which the Welsh Government owns Cardiff International Airport Limited, which operates Cardiff Airport as an arms-length public corporation. Welsh NHS bodies include the 7 Local Health Boards, 3 NHS Trusts and the Special Health Authority Health Education and Improvement Wales (HEIW).

Source: Audit Wales

- 9 The group structure has changed recently, most notably to include the three NHS Trusts, HEIW and Transport for Wales. The results of the different organisations are consolidated into the financial statements with the 'core' presenting Welsh Government only results and the 'group' presenting the consolidated results of all organisations.
- 10 On consolidation, adjustments are required to each of the primary statements. The purpose of consolidated accounts is to present financial information about the whole group as if it were a single economic entity only transacting with external organisations. Therefore, the effect of intra-group operations, for example transactions between the parent and subsidiaries, must be eliminated when calculating the group (consolidated) figure in the accounts. The group figure in the accounts shows financial activity between the group and organisations outside the group.
- 11 The Consolidated Accounts detail the expenditure of the Welsh Government against its budget, which makes up over 99% of the overall budget approved by the Senedd. **Exhibit 2** shows how public money flows through Wales.

Exhibit 2: how public money flows through Wales



Source: Audit Wales

- 12 The Welsh Government's Consolidated Accounts consist of three sections: Part 1 – the Annual Report; Part 2 – the Accountability Report; and Part 3 – the Financial Statements. The Consolidated Accounts:
- provide an overview of what the Welsh Government is responsible for;
 - report the amounts of funding and income received by the Welsh Government;
 - show the amounts the Welsh Government spent against each Main Expenditure Group and the main reasons for any significant differences;
 - report the assets, liabilities and other financial commitments of the core Welsh Government and the bodies within the consolidated boundary (the Welsh Government group); and
 - include information on the remuneration of Welsh Government officials and Ministers and the governance and performance frameworks which operate at the Welsh Government.

Our audit of the Consolidated Accounts 2019-20

The Auditor General's role

- 13 The Auditor General is the Welsh Government's external auditor. In auditing the Welsh Government's Consolidated Accounts, his objective is to carry out an audit which discharges his statutory duties and fulfils his obligations under his [Code of Audit Practice](#), namely to:
- examine and certify whether the financial statements are true and fair and lay them before the Senedd together with any report that he makes on them; and
 - satisfy himself that the expenditure and income reported in the accounts have been incurred or received lawfully and in accordance with the authorities which govern them.

Audit coverage

14 **Exhibit 3** sets out the accounting requirements and the audit approach for each element of the Consolidated Accounts.

Exhibit 3: our audit of the Welsh Government's Consolidated Accounts

Contents	Requirements	Audit Responsibility
Part 1 - Annual Report	<p>HM Treasury issued the Welsh Government with an Accounts Direction in 2010, setting out the format and content of the accounts. This Accounts Direction does not specify the requirements for the Annual Report.</p> <p>HM Treasury's Government Financial Reporting Manual (FReM) states that it is for Welsh Government to determine the appropriate level of reporting.</p>	<p>We confirm that the information in the Annual Report is consistent with the financial statements.</p>
Part 2 - Accountability Report	<p>The Accounts Direction does not specify the requirements for the Accountability Report.</p> <p>The FReM provides guidance on the contents.</p>	<p>Our audit opinion covers the following aspects of the accountability report:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report (most but not all disclosures) • Losses and special payments • Summary of Resources Outturn <p>We also confirm that the other information in Part 2 is consistent with the financial statements.</p>
Part 3 - Financial Statements	<p>The accounts must comply with the FReM.</p>	<p>We examine and certify as to whether the accounts are true and fair and lay them before the Senedd, together with any report we make on them (our 'True and Fair' opinion).</p> <p>We also satisfy ourselves that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Senedd and the financial transactions recorded in the financial statements conform to the authorities which govern them (our 'Regularity' opinion).</p>

Audit materiality

- 15 We do not seek to obtain absolute assurance on the truth, fairness and regularity of the financial statements and related notes, but adopt a concept of materiality. Our aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. For the Consolidated Accounts 2019-20, the materiality level was set at £174 million.
- 16 There are some areas of the accounts that may be of more importance to the reader and we set a lower materiality level for these areas, as follows:
- remuneration of the Ministers and senior officials;
 - any related party transactions with Ministers and senior officials; and
 - contingent liabilities relating to the funding of clinicians' pension tax liabilities following a Ministerial Direction to the Permanent Secretary.

Audit findings and conclusion

- 17 The Welsh Government is responsible for the preparation of the Consolidated Accounts, but we work closely with officials to ensure the accounts production and audit timetable runs smoothly. There were significant improvements in the accounts production and audit process for 2018-19. This has continued for 2019-20, despite the wider pressures of the COVID-19 pandemic.
- 18 Nevertheless, the Auditor General issued a qualified true and fair opinion on the 2019-20 accounts given his view that there is a material omission of expenditure relating to certain business grants of £739 million. This has arisen due to a disagreement with the Welsh Government on a complex technical accounting issue. The inclusion of this expenditure would have shown that the Welsh Government had exceeded its authorised net expenditure limit approved by the Senedd for 2019-20 by £303 million and is therefore irregular. The Auditor General has therefore also qualified his regularity opinion. Further details are set out below. The matters leading to the audit qualification do not reflect a view on the nature of the funding or its value for money.

- 19 The audit report also includes an emphasis of matter, drawing attention to Note 12 of the accounts. This note describes the impact of a Ministerial Direction issued on 18 December 2019 to the Permanent Secretary of the Welsh Government, instructing her to fund NHS clinicians' pension tax liabilities incurred by NHS Wales bodies in respect of the 2019-20 financial year. The Welsh Government has disclosed the existence of a contingent liability at 31 March 2020, and the audit opinion is not modified in respect of this matter. The Public Accounts Committee took evidence on this matter in early 2020².

Qualified audit opinion

- 20 The Welsh Government announced in March 2020 support for businesses in responding to the immediate effects of the COVID-19 pandemic. Businesses eligible for Small Business Rates Relief would receive a grant of £10,000 and certain retail, leisure and hospitality businesses would receive a grant of £25,000. The Welsh Government has the responsibility of managing the schemes; payments to businesses are being administered by local authorities.
- 21 In the Auditor General's view, the announcements and actions taken prior to 31 March 2020 to ensure that cash was paid out to businesses as soon as possible created a constructive obligation under International Accounting Standard 37, Provisions, Contingent Liabilities and Contingent Assets, and the related expenditure should have been included in the 2019-20 financial statements. According to Welsh Government records, had the full sums involved been included in the financial statements then expenditure and provisions would have increased by £739 million. The Welsh Government does not agree with the Auditor General's interpretation of the accounting standard and has not included the full sum in the 2019-20 financial statements; as a result, the Auditor General qualified his true and fair opinion on the financial statements in respect of this material misstatement. The Welsh Government has included £42 million that was paid out by local authorities in 2019-20.
- 22 The net expenditure of the Welsh Government is authorised by the Senedd through budget motions under the Government of Wales Act 2006. The Welsh Government prepares and agrees budget motions for each financial year. The Welsh Government includes a Statement of Resource Outturn with their financial statements that sets out their actual net expenditure against that approved by the Senedd through budget motions. This is an essential statement to reflect Welsh Ministers' accountability to the Senedd.

2 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#).

- 23 For 2019-20, in addition to the main budget motion, two supplementary budget motions were prepared during the year. The second was prepared in February 2020, which was before the year-end and before the World Health Organisation declared COVID-19 as a pandemic. At the time of submitting the Second Supplementary Budget Motion to the Senedd, the Welsh Government would not have been in a position to assess the impact of the COVID-19 pandemic or the urgent action that it would need to take to support the economy.
- 24 For 2019-20, the Senedd authorised a net expenditure limit of £18.549 billion for the Welsh Government. Against this limit, the Welsh Government has reported in the Statement of Resource Outturn that it incurred actual outturn of £18.113 billion, with a net underspend of £436 million. However, in the Auditor General's view expenditure of £739 million arising from the business grants commitment should have been recognised in the financial statements and in the Statement of Resource Outturn. This Statement should have shown that the Welsh Government had exceeded its authorised net expenditure limit approved by the Senedd for 2019-20 by £303 million, making that expenditure irregular. The Auditor General has therefore qualified his regularity opinion as a result.



Welsh Government finances

02

- 25 Part Three of the Consolidated Accounts provides a range of information about the Welsh Government's financial transactions and position for 2019-20. We have not repeated all that detail here but have looked to pull together some key aspects that provide a summary, including some additional trend analysis. The figures that we present relate to the Welsh Government group unless stated otherwise.

How the Welsh Government is funded

- 26 The Welsh Government receives funding from the Welsh Consolidated Fund, drawing cash from the Fund in accordance with the budget approved by the Senedd (**Exhibit 4**). It also receives income from other sources, mainly from the European Union (EU). Some £2.5 billion has been received from the EU over the last 5 years, for agriculture, rural development and for projects that create jobs and support local growth.
- 27 Now that the UK has left the EU, this funding is changing. Beyond 2020 there will be no future budget allocations from the EU to Wales. However, under the terms of the Withdrawal Agreement between the UK and the EU, project expenditure is eligible up to 31 December 2023 and the Welsh Government has until June 2024 to draw funding down.
- 28 This year, other income has increased sharply, with a one-off £0.5 billion capital grant from the Department for Transport to purchase the Core Valleys Lines railway from Network Rail. Health income is wide ranging and includes, for example, dental fees and income from English health bodies.

Exhibit 4: Welsh Government funding and income, 2015-2020

	2015-16 £ million	2016-17 £ million	2017-18 £ million	2018-19 £ million	2019-20 £ million
European Structural Funds	184	118	181	258	254
Common Agricultural Policy	240	279	315	322	319
Health income	321	326	446	392	402
Other income	133	149	45	90	560
Total income	*878	*872	987	1,062	1,535
Funding from the Welsh Consolidated Fund	*14,574	*14,648	15,330	16,108	16,901
Total income and funding	15,452	15,520	16,317	17,170	18,436

Note (*): To ensure consistent comparison, Inland Revenue health funding contributions received from HMRC have been reclassified from income to funding for 2015-16 and 2016-17.

Source: Welsh Government Consolidated Accounts

How the Welsh Government spends its money

- 29 In 2019-20, Welsh Government spending increased by £1.2 billion (7%) compared with 2018-19. Total expenditure in 2019-20 amounted to £17.5 billion, of which the majority relates to grants, staff costs and general goods and services.
- 30 Total expenditure in 2019-20 for the Welsh Government core included:
- grants of £16.4 billion (of which £8.7 billion relates to flows within the group); and
 - staff costs of £318 million.

Grant expenditure

- 31 The Welsh Government uses grants to deliver a wide range of policy objectives. It provides support in the form of grants to various organisations each year. All this expenditure is presented as one line in **Note 3** to the accounts.
- 32 Grants are divided into two categories:
- hypothecated grants to entities where there are specific deliverables and criteria surrounding the purpose of the grants; and
 - unhypothecated grants to health, local government and other bodies.
- 33 Given the funding flows detailed in **Exhibit 2**, there are a significant amount of intra-group transactions within the Welsh Government group, with most of the group entities receiving grants from Welsh Government. This has the effect of the group grants expenditure figure, £7.7 billion, being lower than the core figure of £16.4 billion (**Exhibit 5**).

Exhibit 5: analysis of the Welsh Government's grant expenditure

Core: £16.4 billion

This shows the amount of grants provided by Welsh Government to all organisations (whether inside or outside the group)

£8.7 billion

The consolidation adjustments required to calculate the group figure. This eliminates grants within the group, eg Welsh Government funding to NHS bodies, and replaces it with their operating costs

Group: £7.7 billion

This shows the amount of grants provided by the group to organisations outside the group (eg to local government) so that financial information is presented as if the group were a single economic entity

Source: Audit Wales analysis

- 34 In 2019-20, Welsh Government core grant funding increased by £1.4 billion (10%) compared with 2018-19. This was primarily due to:
- Economy and Transport
 - increase in the Metro Rail grant, due to the purchase of the Core Valley Lines railway, of £536 million.
 - Health
 - payments to the NHS Pensions Agency to cover increased employer contributions for those staff on the NHS Pension scheme of £187 million;
 - increase in funding to Health Education and Improvement Wales of £106 million (due to 2019-20 being the body's first 12-month accounting period after being set up on 1 October 2018); and
 - a 2% inflationary uplift in the Health Board Core Allocation of £105 million.
 - Housing and Local Government
 - increase in the Housing Support Grant of £52 million; and
 - funding of £39 million for local authorities to meet the additional costs to teachers' pensions arising from the UK Government's announced changes to employer pension contributions.

- 35 An amount of £42 million has been included as an accrual in the 2019-20 Consolidated Accounts for grants to businesses eligible for Small Business Rates Relief and certain retail, leisure and hospitality businesses. This was based on cash payments made to businesses up to 31 March 2020. As set out in **paragraphs 20-24**, it is our view that this is not the full amount required to be provided for under International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets. Had the full amount of business grants been provided the grants expenditure would increase by £739 million.
- 36 **Exhibit 6** shows ten significant areas of grant expenditure in 2019-20 to entities outside the group. The largest grant provided to entities outside the group is the unhypothecated Revenue Support Grant. This is the main grant paid by Welsh Government to local authorities and police forces to deliver their services. This grant reduced in cash terms between 2015-16 and 2017-18 before increasing in 2018-19 and 2019-20.

Exhibit 6: ten areas of significant Welsh Government grant expenditure outside the Welsh Government group, 2019-20

Funded Programme Name	2019-20 £ million
Revenue Support Grant (local authorities and police)	3,320
Agricultural Funds	362
Further Education	338
Welsh European Funding Office (WEFO) project funding	223
Assembly Learning Grant (Higher Education)	197
Higher Education Revenue	158
Rail Services Agreement	153
Social Housing Capital Grant	143
Children and Communities Grant	137
Tuition Fee Grant	128

Note: Figures are based on our analysis of information that was provided to us by the Welsh Government to support the grants expenditure shown in the financial statements. Figures for the Agricultural Funds and WEFO grants cover all the relevant funding streams.

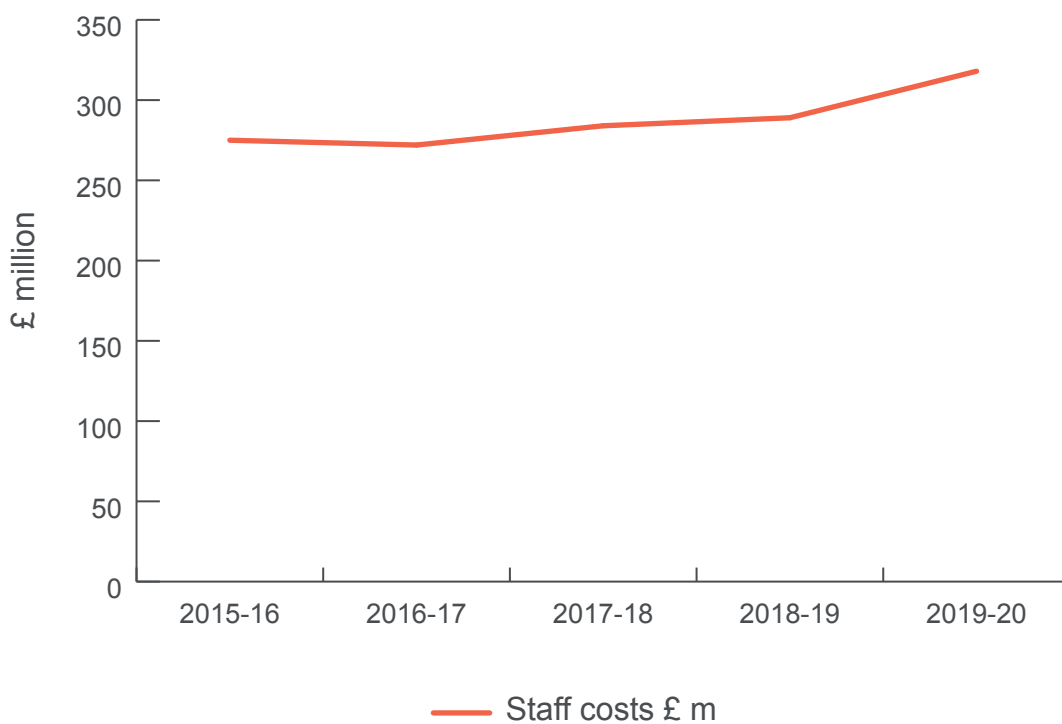
Source: Audit Wales analysis of the Welsh Government's financial ledger

- 37 As noted in the Annual Governance statement, the Auditor General for Wales issued a qualified 'Limitation of Scope for Legality and Regularity' opinion on the accounts of the Welsh European Agricultural Funds coming into Wales in 2018 and 2019. This was because the Welsh Government gave some European funding to organisations without evidence of a competitive application process. This did not comply with European funding rules, and the European Commission has asked for €3.9 million to be repaid by Welsh Government.
- 38 The Auditor General also undertook a more detailed study on the awarding of this agricultural subsidy across the Rural Development Plan, whether funded by the European funds above, or Welsh Government (**paragraph 85**).

Staff costs

39 Across the Welsh Government group, the Consolidated Accounts show staff costs of £4.6 billion in 2019-20 covering some 90,000 staff in total. The Welsh Government spent £318 million on its own core staff costs in 2019-20. Following a slight reduction between 2015-16 and 2016-17, these costs have since increased (**Exhibit 7**).

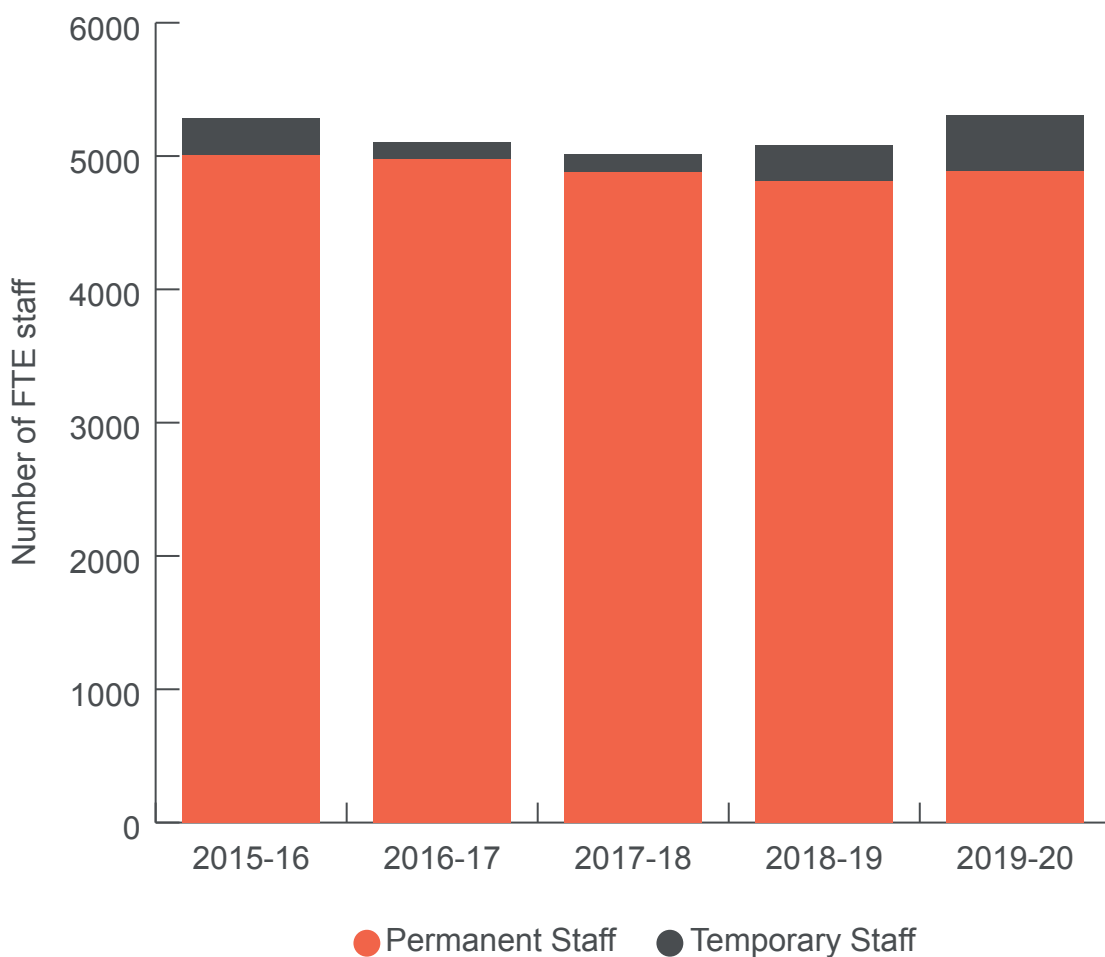
Exhibit 7: Welsh Government core staff costs, 2015-2020



Source: Welsh Government Consolidated Accounts, 2015-16 to 2019-20

40 To stay within the staffing budget that it has set for itself, the Welsh Government has imposed controls on external recruitment and run several voluntary severance campaigns. As **Exhibit 8** shows, however, staff numbers have increased since 2017-18. This reflects increased recruitment (particularly of temporary posts) to respond to urgent requirements such as Brexit. However, staff numbers are still well below the level seen 10 years ago. In 2009-10, there were 5,518 permanent and 628 temporary full-time equivalent staff, compared with the 4,891 permanent and 416 temporary staff reported for 2019-20.

Exhibit 8: Welsh Government core full-time-equivalent staff numbers, 2015-2020



Note: these figures are the average for the year based on the monthly data reported by the Welsh Government.

Source: [Welsh Government website](#)

What the Welsh Government owns

41 The Welsh Government group has assets of £30.4 billion as at 31 March 2020 (**Exhibit 9**). The main category of asset is property, plant and equipment but financial assets are also significant.

Exhibit 9: Welsh Government assets, at 31 March 2020

Category	Total value £ billion
Property, plant and equipment	24.2
Financial assets	4.4
Inventories	0.3
Cash	0.8
Trade and other receivables	0.7
Total	30.4

Source: Welsh Government Consolidated Accounts

Property, Plant and Equipment

42 The Welsh Government group has property, plant and equipment of £24.2 billion. This includes the road network (**paragraphs 43-44**); the rail network (**paragraphs 45-46**), land and buildings valued at £3 billion; fixtures, fittings, IT equipment and vehicles valued at £0.4 billion; and payments on account and assets under construction of £1.2 billion.

Road network

- 43 The road network is the largest asset on the Welsh Government balance sheet and was valued at £17.2 billion, as at 31 March 2020. The network comprises the M4 and the other trunk roads in Wales. The roads are valued using an estimation model known as Roads Authorities Asset Valuation Systems which is run through a joint contract with the other UK Highways Authorities. During 2019-20 one new stretch of road was completed, the Newtown bypass section of the A483, with a valuation of £89 million as at 31 March 2020.
- 44 The assets under construction in the balance sheet include the costs of roads that are under development and/or construction, so are not yet included in the Network Assets, and which totalled £596 million as at 31 March 2020. The largest elements of this are:
- A465 Section 2: £295 million relating to the conversion into dual carriageway between Gilwern and Brynmawr. We issued an interim findings report on this improvement work in February 2020³ and the Public Accounts Committee took evidence from the Welsh Government about the delays and cost overruns at the end of September 2020⁴.
 - M4 Magor to Castleton section: following the decision in 2019 not to proceed with the M4 relief road around Newport, officials reviewed the costs relating to the M4 and identified £43.1 million of costs with no future value and have written these off in 2019-20. As at 31 March 2020, there remain £92.6 million of historic costs relating to this scheme and the future value of these will be reassessed annually and when the South East Wales Transport Commission⁵ issues its final report and recommendations.

Rail network

- 45 In March 2020, the Welsh Government's subsidiary, Transport for Wales, purchased the Aberdare, Coryton, Merthyr Tydfil, Rhymney and Treherbert rail lines from Network Rail. This rail network is known as the Core Valleys Lines and was purchased at a cost of £0.5 billion, funded by a grant from the Department for Transport.
- 46 The last full valuation of the asset was undertaken by Network Rail at 31 March 2019. This has been updated by inflation to arrive at a valuation of £2.4 billion at 31 March 2020.

3 Auditor General for Wales, [A465 Section 2 – Interim Findings](#), February 2020

4 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#).

5 The South East Wales Transport Commission was established in 2019 to consider how to reduce congestion on the M4 in south east Wales.

Financial assets

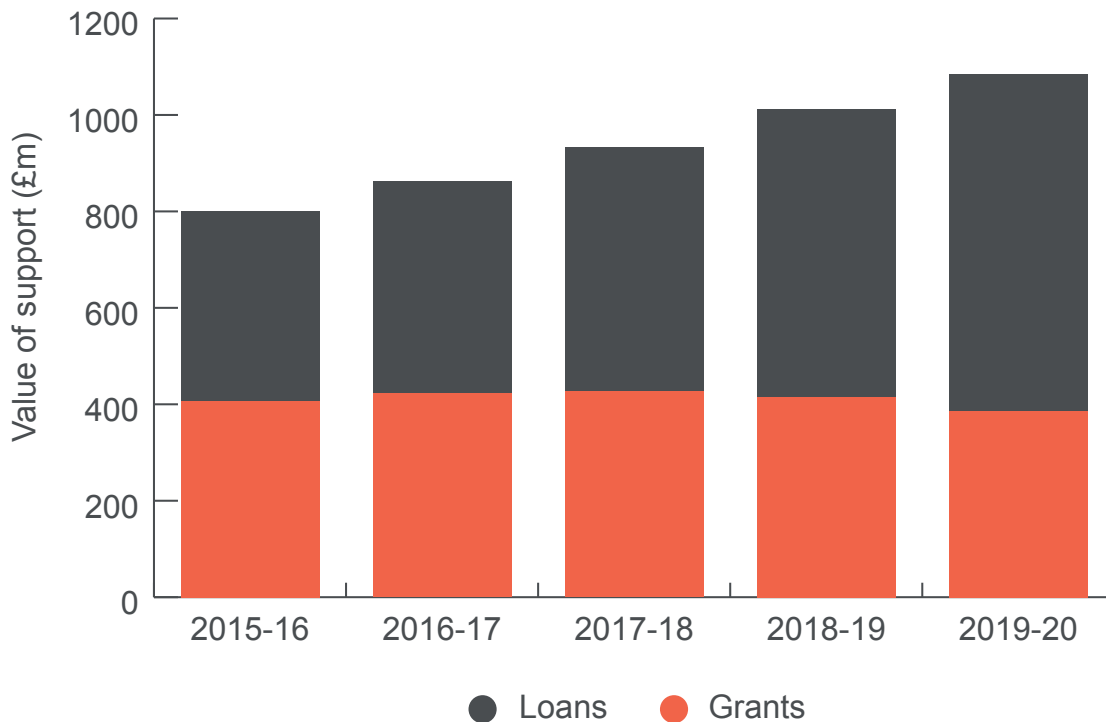
47 The Welsh Government group has financial assets of £4.4 billion. The largest element are student loans of £3.5 billion and the remaining balance comprises investments and other loans to businesses, public sector bodies and individuals of £0.9 billion.

Student finance

48 The Welsh Government provides financial support to students studying at higher education institutions (HEIs) through a mix of grants and loans, to help with living costs and tuition fees. While funded by the Welsh Government, student finance is administered by the Student Loans Company (SLC). The SLC makes the payments to eligible students and HEIs on behalf of the Welsh Government.

49 More than £1 billion was paid out to Welsh students as loans and grants in 2019-20. The annual cost of financial support for students has been gradually increasing. **Exhibit 10** shows that the total annual financial support has increased by 35% since 2015-16. The proportion of grant to loan support has reduced over the same period, reflecting policy decisions about the overall student finance support package.

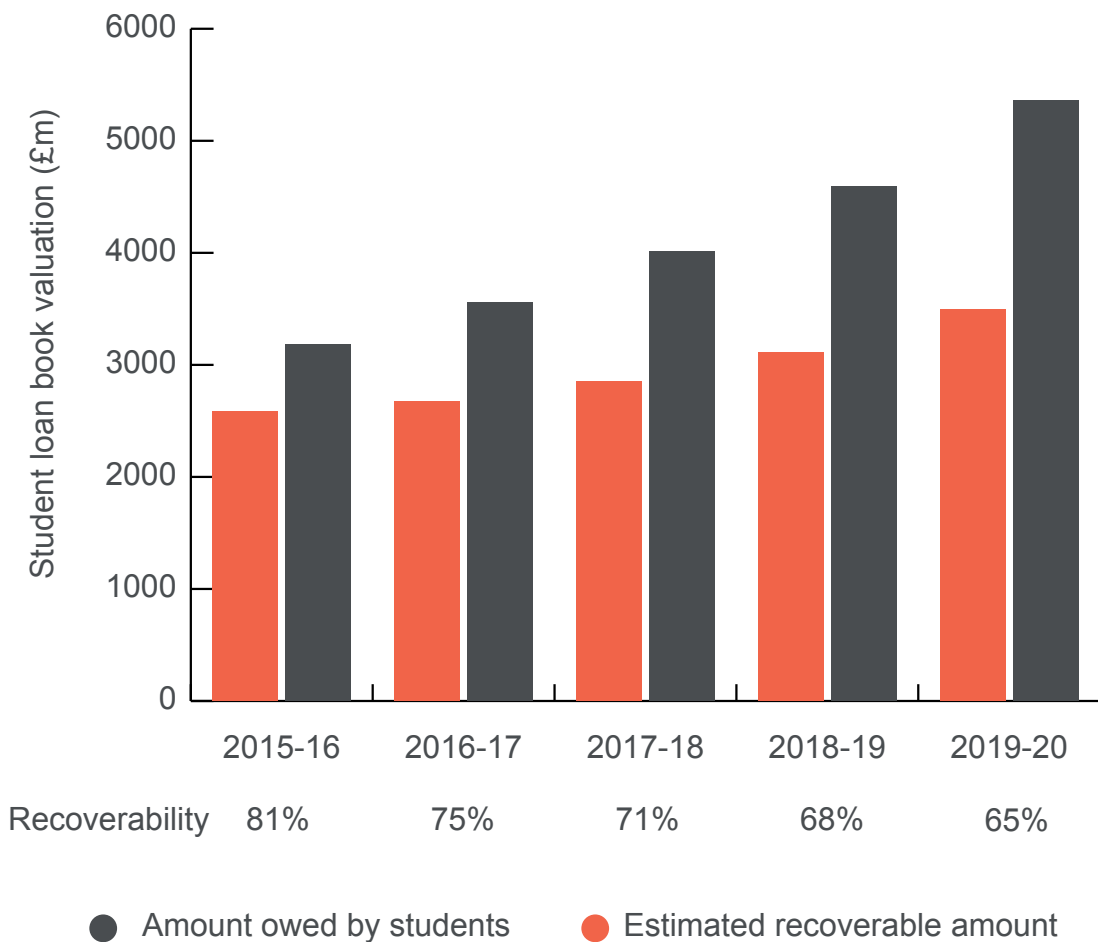
Exhibit 10: grant and loan support provided to Welsh students, 2015-2020



Source: Audit Wales analysis of data supplied by the Welsh Government (excludes further education grants)

- 50 As at 31 March 2020, the amount owed by students is £5.3 billion. The Welsh Government estimates it will receive £3.5 billion in repayments which is the value of these loans in the accounts. The value of the loans is calculated using forecasts for economic variables for up to 30 years into the future. Given this, there is an inherent uncertainty over the valuation. These variables are highlighted in Note 6 of the accounts.
- 51 While the amount owed by students has been increasing over recent years, the amount the Welsh Government estimates it will recover has not been increasing at the same rate (**Exhibit 11**). At the end of 2015-16, the Welsh Government estimated it would recover 81% of the loans outstanding, and by the end of 2019-20, this had fallen to 65%.

Exhibit 11: the amount owed by students and estimated level of repayment, 2015-2020



Source: Welsh Government Consolidated Accounts – Note 6 and supporting working papers

- 52 We are currently carrying out more detailed audit work relating to student finances and plan to publish a separate output(s) on this topic in 2021.

Investments and loans to businesses, other public sector bodies and individuals

- 53 The Welsh Government group had investments and loans to businesses, other public sector bodies and individuals of £913 million as at 31 March 2020 which comprised:
- loans of £432 million issued by Development Bank of Wales⁶;
 - investments in other bodies of £96 million including £22.9 million in Welsh International Convention Centre Wales⁷ and WGC HoldCo's investment of £61.3 million in Cardiff Airport (**paragraphs 55-59**); and
 - loans and investments of £385 million to local authorities, companies and other bodies including the £54.6 million loan to Cardiff International Airport Limited (**paragraphs 55-59**).

Development Bank for Wales

- 54 The Development Bank for Wales (the Development Bank) manages various funds on behalf of the Welsh Government that aim to provide investment to micro and small and medium-sized businesses and support the Welsh Government's Economic Action Plan. It also provides management services for the Help to Buy and the Self Build Wales schemes. As at 31 March 2020, the total placed by the Welsh Government with the Development Bank was £1.1 billion.

6 Development Bank of Wales, [Annual report and financial statements 2019/20](#), August 2020

7 In August 2020, the Welsh Government provided an overview of the impact of COVID-19 on the International Convention Centre in correspondence with the Public Accounts Committee that is available on the [Senedd website](#).

Cardiff International Airport Ltd

- 55 The Welsh Government purchased Cardiff Airport in 2013 for £52 million to safeguard the airport's long-term future and secure its contribution to the regional economy⁸. The Welsh Government owns the airport through a subsidiary, WGC Holdco Ltd, which owns all the shares in Cardiff International Airport Ltd (CIAL), the company which operates the airport itself.
- 56 As at 31 March 2020, the Welsh Government has invested a further £9.3 million in equity and £54.6 million in the form of a commercial loan to fund airport improvements and route marketing, bringing the total capital investment to £115.9 million. The loan is repayable over 19 years from 2025-26.
- 57 Since March 2020, the COVID-19 pandemic has had a major adverse impact on Cardiff Airport, as it has on civil aviation generally. Passenger numbers have fallen by more than 90% from the year before, resulting in substantial losses. The airport has eased the pressure on its finances by suspending capital investment, and by using the UK Government's furlough scheme to reduce costs. It has also drawn on funds available for 2020-21 under the current loan facility.
- 58 The Welsh Government is working with CIAL to develop recovery options, potentially including further financial support. The Welsh Government will then be in a better position to make a reliable estimate of future revenues and consider whether the valuation of the airport investments remains appropriate or needs to be impaired.
- 59 The Public Accounts Committee took evidence from representatives of CIAL in March 2020 and from the Welsh Government in November 2020⁹.

8 Cardiff International Airport Ltd is a public corporation and its transactions, assets and liabilities are not included in the Consolidated Accounts.

9 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#).

What the Welsh Government owes

60 The Welsh Government has a range of liabilities and obligations that it is required to manage. Trade and other payables account for over 60% of the total amount owed and relate to a wide range of liabilities, including amounts due for supplies, services, taxation and pension costs, and amounts owed to grant recipients (**Exhibit 12**).

Exhibit 12: Welsh Government liabilities and obligations, 2018-2020

	2018-19 £ million	2019-20 £ million
Trade and other payables	1,941	2,276
Medical negligence claims and other provisions	1,278	1,339
Other liabilities (mainly pension fund deficits)	102	109
Total	3,321	3,724

Source: Welsh Government Consolidated Accounts

61 The Welsh Government has provided for £1.3 billion of costs relating to medical negligence claims and other provisions (**Exhibit 13**). These liabilities have been classified as a provision in the accounts because there is uncertainty over the timing of payments or the amount. The liability exists because there is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources. Medical negligence claims are estimated at £1.1 billion, with personal injury claims and other provisions estimated at £0.2 billion.

Exhibit 13: medical negligence claims and other provisions, 2018-2020

	2018-19	2019-20
	£ million	£ million
Medical negligence claims	1,076	1,158
Wales Infected Blood Support Scheme	90	84
Personal injury claims	40	46
Defence fees and other related costs	14	15
Other	58	36
Total	1,278	1,339

Source: Welsh Government Consolidated Accounts, NHS summarised accounts and Audit Wales analysis of the Welsh Government financial ledger

- 62 Medical negligence claims include £441 million of cases where liability has been confirmed, with payments made over the lifetime of the claimant. Medical negligence claims also include £717 million of other claims which are expected to be settled in the claimant's favour. The £717 million includes claims relating to General Practitioner Medical Indemnity, with the Welsh Government responsible for such costs from 1 April 2019.
- 63 The accounts also disclose details of contingent liabilities, which the Welsh Government may be liable for in the future. These are disclosed as a narrative note only and do not form part of the primary financial statements. These include £1.1 billion of additional medical and personal injury claims, which the Welsh Government currently expects to be settled in its favour, and £0.1 billion for other potential contractual and legal obligations. Contingent liabilities are also disclosed in relation to the costs of EU transition and for clinicians' tax payments (**paragraph 19**), but there is insufficient information to quantify these costs at this time.
- 64 Narrative disclosures include other contingent liabilities where the likelihood of settlement is considered remote. These include guarantees, indemnities, and letters of assurance. The Consolidated Accounts note that the Welsh Government has recently issued a going concern letter of assurance to its subsidiary, Transport for Wales, to cover existing and future liabilities incurred in accordance with agreements between the two parties.



Welsh Government governance and administration

03

- 65 Parts 1 and 2 of the Consolidated Accounts provide a range of information about Welsh Government governance and administration. We have not repeated that detail here and have not undertaken a comprehensive review of the topic areas covered in the Consolidated Accounts. However, the commentary below on five specific areas draws on our examination of relevant issues through our wider programme of audit work.
- 66 The Consolidated Accounts include a summary of the work of the Internal Audit Service, with whom we liaise during the year to coordinate our work. Where relevant, we have referenced below some of the work undertaken by the Welsh Government's Internal Audit Service. We acknowledge that the accounts record that the Head of Internal Audit is satisfied with the positive response by management to the observations raised in internal audit reports and that there are arrangements for following up on these actions.
- 67 Some of the internal audit work that we reference was reported before 2019-20, but we consider that the issues raised remain relevant to the wider work we have been undertaking. We also reference reports published by the Auditor General outside of 2019-20 that draw on evidence collected during the period or where we consider the findings are still relevant.

Well-being of future generations

- 68 In May 2020, we published our statutory report on the implementation of the Well-being of Future Generations (Wales) Act 2015¹⁰ (the Act). The report reflected the findings from audit work across the 44 Welsh public bodies named under the Act. It also drew on our wider audit work. This included our work on the well-being of young people, which focussed on what the Welsh Government does but recognising it relies on other organisations to deliver services and support improvement¹¹.
- 69 The Welsh Government is responsible for the legislation, issuing guidance and supporting its implementation. It is also itself bound by the legislation as one of the 44 bodies covered by the Act. In addition, it has a wider leadership role and a responsibility not only to address barriers that are in its direct control, but also to help other public bodies implement the Act. The Public Accounts Committee has launched an inquiry¹² which will build on the findings from our report and the report of the Future Generations Commissioner that were published at the same time¹³.
- 70 We reported the findings from our local audit work at the Welsh Government in November 2019¹⁴. We recognised that the Welsh Government was taking action to embed the sustainable development principle in its core business¹⁵. We also found that the Welsh Government was applying the five ways of working in various ways in the specific areas we examined around apprenticeships, the Childcare Offer for Wales and the Healthy and Active Fund. However, we identified some common opportunities for improvement. The report included the Welsh Government's response to the issues raised.

10 Auditor General for Wales, [So, what's different? Findings from the Auditor General's Sustainable Development Principle Examinations](#), May 2020

11 Auditor General for Wales, [The Well-being of Young People](#), September 2019. This summary report includes links to a supporting data-tool and our related outputs on youth homelessness, young parents, young adult carers, mental health, and skills and employability.

12 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#).

13 Future Generations Commissioner for Wales, [The Future Generations Report 2020](#), May 2020

14 Auditor General for Wales, [Implementing the Well-being of Future Generations Act – Welsh Government](#), November 2019

15 The sustainable development principle is defined as acting in a manner... 'which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'. To do this public bodies must take account of five ways of working: long-term; prevention; integration; collaboration; involvement.

- 71 The Welsh Government's 'Futures and Integrated Policy-Making' Division had developed a high-level work programme and a Welsh Government-wide 'Route Map' for implementing the Act. More detailed plans were under discussion. We did not examine through our work how effectively the Division was delivering its programme. However, we reflected in our May 2020 report that the Future Generations Commissioner had been critical of the resourcing and support the Welsh Government has put in place.

Workforce planning and management

- 72 Progress with work that we had planned in this area has been affected by the impact of the COVID-19 pandemic. We expect to report to the Public Accounts Committee in more detail early in 2021 on the main workforce issues facing the Welsh Government and its plans to address them. We have also touched on related matters through our work looking at preparations for the end of Brexit transition¹⁶.
- 73 The Welsh Government delivers its objectives through a diverse range of functions and professional specialisms. Some functions have their own separate identity, for example Healthcare Inspectorate Wales, Care Inspectorate Wales and Cadw (the Welsh Government's historic environment service). The Welsh Government's work to develop its first ever Strategic Workforce Plan, for 2020-2025, has been delayed by the COVID-19 pandemic. The Welsh Government plans to develop the next phase of its digital and workplace strategy alongside its workforce strategy.
- 74 Workforce planning relies on accurate and timely data to support decision-making. The Welsh Government has recognised the need to improve the systems used to capture and share workforce data. Internal audit work has also highlighted some areas where workforce management information could be improved. For example, in an August 2018 follow-up report, Internal Audit highlighted that human resources (HR) and temporary duty allowances (TDA) data held by business partners at group level¹⁷ did not reconcile with the HR central records on TDAs and that there is no common convention on the saving and scrutiny of TDA data. The Welsh Government is exploring potential data platforms to improve the situation but some of this work has been delayed by the pandemic.

16 Auditor General for Wales, [Preparations for the end of Brexit transition](#), November 2020

17 The Welsh Government is structured around different operational groups. The Consolidated Accounts provide further detail on the senior leadership team and structure.

- 75 In 2019-20, the Welsh Government undertook a baseline review exercise of all posts in the organisation to try to better understand immediate resourcing pressures and inform longer-term plans for the size, shape and capability of the organisation. We understand that some of the baseline review data was used to identify staff with specific skill sets for essential roles in response to COVID-19.
- 76 However, events have overtaken the review to some extent and the Welsh Government intends to undertake a further baseline review later in 2020-21 to get an updated position. Work related to Brexit and the COVID-19 response has placed great strain on the Welsh Government's resources, making it necessary to redeploy many staff. The end of the Brexit transition period in December will also return many administrative functions to the Welsh Government that will need to be resourced.
- 77 Several of our own reports in recent years have highlighted staff shortages and/or turnover as a factor in slow progress against policy delivery. Staffing issues were also one of the findings in the European Funds Audit Team's March 2020 report on the Technical Assistance process that is mentioned in the Consolidated Accounts¹⁸. The Welsh Government has undertaken some limited external recruitment in response to immediate or significant demands such as Brexit and COVID-19. But it has largely sought to address recent operational pressures through other mechanisms, such as moving people internally, temporary allowances for extra duties and secondments as well as through development and training in areas where there are skills gaps.
- 78 Internal Audit has identified weaknesses with some of these workforce management initiatives, giving 'limited assurance' judgements in reports on secondments and the use of agency workers in 2019-20 and in the earlier August 2018 follow up of TDAs.

18 The Technical Assistance process supports the delivery of the Rural Development Plan.

Grants management

- 79 Progress with work that we had planned around grants management has been affected by the impact of the COVID-19 pandemic. We now intend to re-scope our planned work to take account of COVID-19 related developments.
- 80 The Welsh Government has committed to preparing a stand-alone commentary on grants management in early 2021 to replace its usual commentary within the Consolidated Accounts. The Welsh Government has indicated that this will focus on the work of the Grants Centre of Excellence during 2019-20 and reflect on the support and guidance provided during the COVID-19 response.
- 81 There are various elements of the Welsh Government's work to improve the management of grants. The Improving Efficiency Board – through its Grants and Assurance workstream – has identified specific areas where efficiencies can be made. The Board is overseeing the implementation of a revised Target Operating Model for the administration of grants. The Grants Centre of Excellence (the Centre) is responsible for improvements in grants management policy, providing practical support and advice to grants managers, training and embedding best practice across the organisation.
- 82 When we were originally planning our audit work on grants management in early 2020, the Welsh Government told us that staff shortages had impacted on the Centre's work. The Centre was focusing at the time on providing day-to-day advice and support to grant managers. Since then, the Centre has had to respond to the need for support and guidance around the impact of the COVID-19 pandemic on existing grant schemes, as well as helping to create new schemes to support the private, public and third sectors. Some additional staffing support was brought in from other departments on a short-term basis to help with this work. The Centre is now back at full complement having recruited new members of staff through the spring and summer.
- 83 The Welsh Government has developed a Target Operating Model with the aim of improving consistency and compliance with its hypothecated grants process from end-to-end. A key part of the model involves grant managers from policy divisions retaining responsibility for policy decisions but with transactional activities being carried out by a single team. Staffing issues had already delayed work to progress the model and with the COVID-19 response then having a further impact. Following some initial pilot work over the summer, we understand that additional resources have now been agreed with plans for a larger pilot in 2021.

- 84 The Welsh Government has also introduced two new functions. The Grants Assurance Panel¹⁹ aims to provide advice to grant managers at the outset of a grant scheme and ensure the scheme is consistent with wider Welsh Government policy. The Central Due Diligence Team²⁰ undertakes financial due diligence on organisations the Welsh Government is funding, or is considering funding, and prepares advice for grant managers. It also supports policy areas to be more consistent in dealing with external organisations.
- 85 Audit work shows that there have been ongoing issues identified with some individual grants, although these findings cover only a small portion of the Welsh Government's overall grant management activity, including some EU funded programmes, and should not be viewed as representative. For example, in June 2020 we reported that the Welsh Government awarded £53 million of rural development funds without ensuring the grants would deliver value for money²¹. In October 2020, the Public Accounts Committee considered our report and the Welsh Government's response²². Meanwhile, in March 2020 the European Funds Audit Team finalised a report on the Technical Assistance process and found that no assurance could be provided on the controls in place over the process for preparing and submitting claims for 2018-19, although the Welsh Government reports that corrective actions have now been applied.
- 86 In October 2019, the Welsh Government's internal audit service was only able to provide 'limited assurance' after a review of health technology grants identified concerns about due diligence and the management of conflicts of interest. The internal audit service has undertaken a follow up review in 2020-21, reporting a conclusion of 'reasonable assurance'.
- 87 In addition, we have previously identified weaknesses with some of the information systems for grants and the difficulty of building up a comprehensive and accurate picture of spending²³. While the Welsh Government has pointed to efforts to improve management information systems, producing detailed analysis on grant expenditure is still not straightforward.

19 The Panel met for the first time in September 2018 and in addition to officials from the Centre its membership includes officials from key Welsh Government departments.

20 The Team began its work in late 2018-2019.

21 Auditor General for Wales, [Ensuring Value for Money from Rural Development Grants Made Without Competition](#), June 2020

22 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#). The evidence session on this topic included consideration of related matters concerning the Auditor General's qualified opinion on the accounts of the Welsh European Agricultural Funds coming into Wales in 2018 and 2019 which related to similar matters (**paragraph 37**).

23 Auditor General for Wales, [Welsh Government Financial Support for Business](#), November 2018

Counter-fraud arrangements

- 88 In June 2019, we published an overview of counter-fraud in the Welsh public sector²⁴. It noted that there are limited counter-fraud resources within the Welsh Government. While pro-active work to prevent and/or detect fraud is undertaken and recognised to be beneficial, the team often has to prioritise reactive investigation work.
- 89 Following our report, the Public Accounts Committee asked the Welsh Government to consider whether there is scope and potential to support a national counter fraud team to work across local government in Wales²⁵. It also asked the Welsh Government to consider how it can best provide stronger national leadership and better-quality guidance on the sharing of information to help strengthen and improve the impact of counter fraud activities across the Welsh public sector. The Welsh Government accepted the recommendations and we reflected its detailed response in our further report on public sector counter-fraud arrangements in July 2020²⁶.
- 90 The recommendations for improvement in our July 2020 report were addressed to all public bodies under the Auditor General's remit, including the Welsh Government where appropriate. We also recommended that the Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a coordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities.
- 91 In addition, in October 2020 we published our latest report on outcomes from the National Fraud Initiative (NFI)²⁷. Working with the Welsh Government, we have recently extended the scope of our NFI work to enable local authorities in Wales to undertake eligibility checks on applications for COVID-19 business support grants. We are mandating that all 22 local authorities across Wales should submit COVID-19 grant and payment data to the NFI to help identify fraudulent applications. Audit Wales staff have also been discussing with Welsh Government officials the opportunity to include certain data about direct Welsh Government business support within the scope of the NFI.

24 Auditor General for Wales, [Counter Fraud Arrangements in the Welsh Public Sector](#), June 2019

25 Details of the Public Accounts Committee scrutiny are available on the [Senedd website](#).

26 Auditor General for Wales, ['Raising our Game' Tackling Fraud in Wales](#), July 2020

27 Auditor General for Wales, [The National Fraud Initiative in Wales 2018-20](#), October 2020. The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The NFI uses data sharing and matching to help confirm that services are provided to the correct people.

Information and communication technologies

- 92 The amount of data stored by public bodies is growing and digital technologies are increasingly important to the delivery of government. In the Consolidated Accounts the Welsh Government states that, during 2019-20, it completed its Future ICT Programme. The Welsh Government mentions the delivery of cost savings, improvements to ICT infrastructure, and improved resilience during the COVID-19 lockdown which drove rapid adoption of digital tools.
- 93 We are nearing completion of our examination into one related matter, namely the in-sourcing of the Welsh Government's ICT service. While we are not due to publish our report until early 2021, our emerging findings suggest a largely positive picture where the in-sourcing project has been well managed. We are finding that while some of the intended benefits are being delivered, the full benefits have not yet been realised. For example, while some financial savings have been delivered in 2019-20 this was not to the extent expected, largely due to an increase in costs for software and contractors. However, staff satisfaction with the ICT service has improved and the roll out of new laptops to most staff by the end of 2019 has clearly been a key factor allowing flexible and home working during lockdown.



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