

## Agenda Supplement – Public Accounts Committee

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Meeting Venue:

**Committee Room 3 – Senedd**

Meeting date: 19 September 2016

Meeting time: 13.45

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Please note the documents below are in addition to those published in the main Agenda and Reports pack for this Meeting

### – Supplementary Pack

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#### **5 Coastal flood and erosion risk management in Wales: Auditor**

##### **General for Wales Report**

(14.20–14.30)

(Pages 1 – 60)

PAC(5)–03–16 Paper 3 – Auditor General for Wales report

PAC(5)–03–16 Paper 4 – Welsh Government Response to the Auditor General for Wales’ report

Attached Documents:

PAC(5)–03–16 P4 – WG Response to AGW report on coastal flooding

PAC(5)–03–16 P3 – AGW Report on coastal flooding

#### **6 National Fraud Initiative: Auditor General for Wales Report**

(14.30–14.40)

(Pages 61 – 98)

PAC(5)–03–16 Paper 5 – Auditor General for Wales report

PAC(5)–03–16 Paper 6 – Welsh Government Response to the Auditor General for Wales’ report



Attached Documents:

PAC(5)-03-16 P6 – WG Response to AGW report on NFI

PAC(5)-03-16 P5 – AGW report on NFI

## **7 The Welsh Government's Funding of Kancoat Ltd: Auditor General for Wales Report**

(14.40-14.50)

(Pages 99 – 144)

PAC(5)-03-16 Paper 7 – Auditor General for Wales report

PAC(5)-03-16 Paper 8 – Welsh Government Response to the Auditor General for Wales' report

Attached Documents:

PAC(5)-03-16 P8 – WG response to AGW report on Kancoat

PAC(5)-03-16 P7 – AGW report on Kancoat

## **10 Scrutiny of Accounts 2015-16: Assembly Commission**

(15.30-16.30)

(Pages 145 – 281)

PAC(5)-03-16 Paper 13 – Assembly Commission Annual Report 2015-16

PAC(5)-03-16 Paper 14 – Assembly Commission Annual Report 2015-16 –

Executive Summary

Research Briefing

Suzy Davies AM – Assembly Commissioner

Claire Clancy – Chief Executive and Clerk to the Assembly

Nia Morgan – Director of Finance, National Assembly for Wales

Attached Documents:

PAC(5)-03-16 P14 – Assembly Commission Annual Report Summary

Research Briefing

PAC(5)-03-16 P13 – Assembly Commission Annual Report 2015-16

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Coastal Flood and Erosion Risk Management in Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



Cover and Part 2 photographs courtesy of Giles W Bennett.

Part 1 and Appendices photographs courtesy of Martin Gibson.

**Pack Page 2**

I have prepared and published this report in accordance with the Government of Wales Act 2006.

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# Summary

- 1 Sixty per cent of the population of Wales live on or near to the coast and across Wales 208,000 properties are at risk from flooding from rivers or from the sea. Over the next 100 years<sup>1</sup>, the current estimation is that 2,126 properties could be at risk of coastal erosion, assuming that there is no active intervention. Coastal flooding and erosion is also a risk to agricultural land, businesses, key national infrastructure including transport and utilities, and to sites of cultural or environmental importance.
- 2 Coastal flooding usually occurs through a combination of high tides and severe weather. Estuarine communities and environments are particularly susceptible to flooding because severe weather is also likely to mean that rivers are in flood, and the effect of high tides is to hold back the release of river water into the sea. Sometimes, sustainable land management techniques such as the preservation of upland bogs and riverside trees can help to slow the release of river floodwater, reducing the rapid increase in river height that can exacerbate flooding problems downstream. Coastal erosion can also increase the risk of flooding from the sea. Topography, geology, land use, wave height, sea levels, and the frequency and severity of coastal storms all have an impact on coastal erosion. The impact of climate change will increase the risks of coastal flooding and erosion as the sea level rises, and although predicted to be slightly less frequent, extreme rainfall events will become more intense and storm surges will become larger (Box 1).

## Box 1: Climate Change

In 2014, the Intergovernmental Panel on Climate Change reported<sup>2</sup> a number of changes in the climate system including warming of the atmosphere and ocean, diminishing levels of snow and ice, extreme precipitation events, and rising sea levels.

The most recent UK climate projections show that for the UK, the sea level rose by about one mm per year in the 20th century. Projections<sup>3</sup> of UK absolute sea level for 2095 range from approximately 120 mm to 760 mm. Winter wave heights in the south-west of the UK are also expected to increase by 2100, both in terms of mean heights and extreme wave heights during severe weather, but there are uncertainties with these projections.

The UK Climate Change Adaptation Sub Committee is currently producing evidence for the 2017 Climate Change Risk Assessment that shows the rise in sea level this century increases the likelihood of a severe 1 in 100 year coastal flood event in west Wales to between a 1 in 10 and 1 in 20 year chance.

<sup>1</sup> **Flood and Coastal Erosion Risk Management in Wales 2011-2014**, Natural Resources Wales, March 2014.

<sup>2</sup> **Synthesis Report 2014**, Intergovernmental Panel on Climate Change (IPCC). The United Nations Environment Programme and the World Meteorological Organisation established the IPCC in 1988. The IPCC is the internationally accepted authority on climate change.

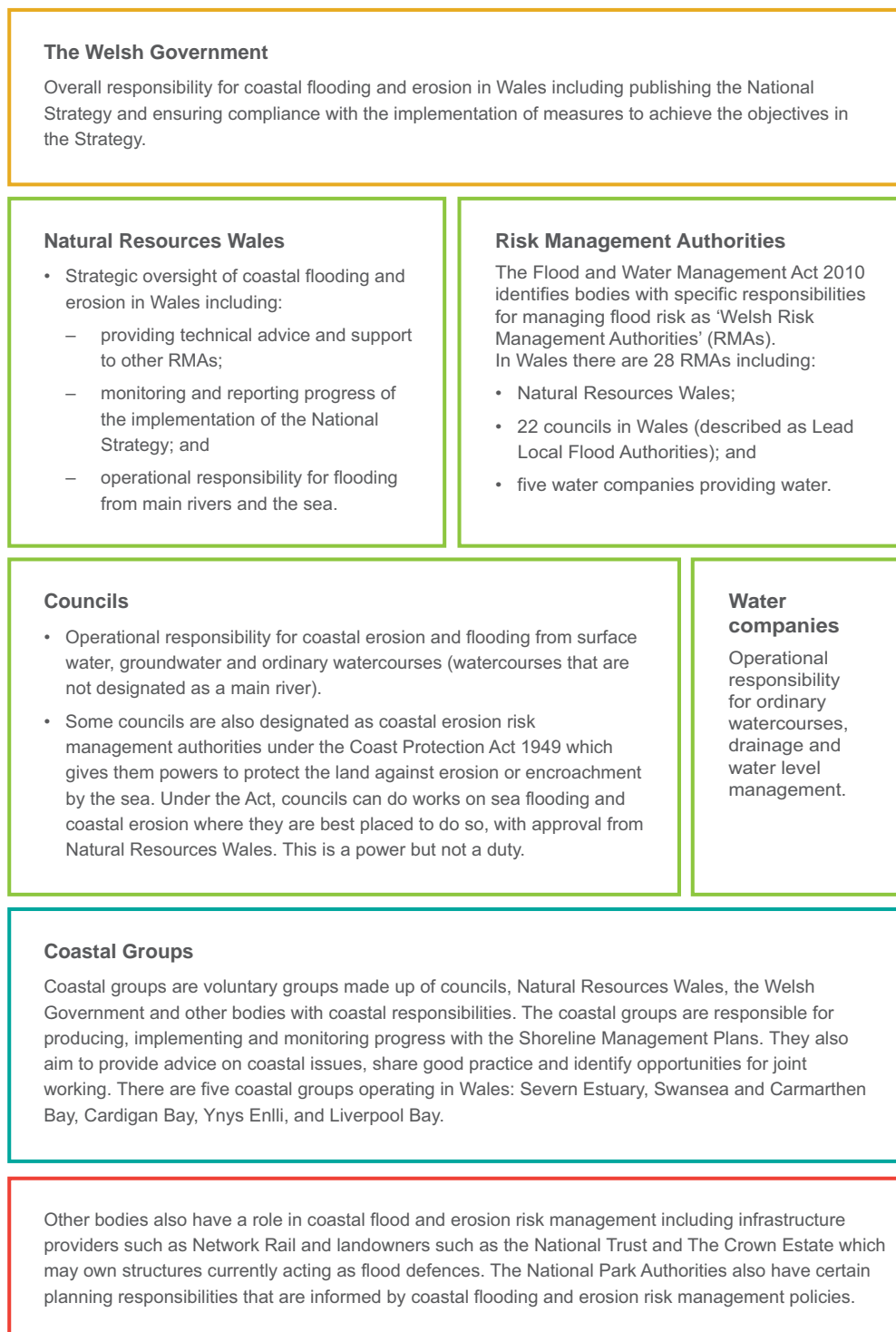
<sup>3</sup> **UK Climate Projections: Marine and Coastal Projections, UKCP09, 2009**. Projections are set out on the **UKCP09 website** managed by the Environment Agency working with the Met Office.



- 3 The UK Government's Flood and Water Management Act (2010) placed a duty on the Welsh Government to produce a national strategy on flood and coastal erosion, and on the then Environment Agency Wales, to report to Welsh Ministers on progress to implement the strategy. The Act also places a duty on unitary authorities (councils) to develop and implement Local Flood Risk Management Strategies. The local strategies set out objectives for managing local flood risk from surface water, groundwater and ordinary watercourses. From 1 April 2013, Natural Resources Wales took over all of Environment Agency Wales' duties relating to flooding and coastal erosion<sup>4</sup>.
- 4 The Welsh Government published its National Strategy for Flood and Coastal Erosion Risk Management in Wales in November 2011. The National Strategy recognises that it is not possible to prevent all flooding and coastal erosion and builds on the principles of the Welsh Government's previous 'New Approaches Programme' which marked a move away from using traditional coastal defences to managing the risks of coastal flooding and erosion. The Strategy gives an overview of responsibilities for all of the organisations involved in managing the risks of coastal flooding and erosion (Figure 1) and sets out four key objectives:
  - a reducing the consequences for individuals, communities, businesses and the environment from flooding and coastal erosion;
  - b raising awareness of and engaging people in the response to flood and coastal erosion risk;
  - c providing an effective and sustained response to flood and coastal erosion events; and
  - d prioritising investment in the most-at-risk communities.
- 5 Organisations responsible for managing coastal flooding and erosion must also work together to produce Shoreline Management Plans. Shoreline Management Plans were first developed in the early 2000s as part of the UK Government's strategy for flood and coastal defence and have continued to be a key part of the approach in England and Wales (Box 2). In Wales, the Shoreline Management Plans are intended to inform strategic decisions about coastal protection including planning and development along the coast.

<sup>4</sup> The Welsh Government created Natural Resources Wales on 1 April 2013, replacing three legacy bodies – the Countryside Council for Wales, Environment Agency Wales, and Forestry Commission Wales - as well as incorporating certain Welsh Government functions. On 1 April 2015, the Welsh Government transferred the functions of the three Internal Drainage Boards operating wholly or partly in Wales into Natural Resources Wales.

Figure 1: Roles and responsibilities for coastal flood and erosion risk management



Source: Wales Audit Office

## Box 2: Shoreline Management Plans

Shoreline Management Plans set out coastal management policies for the next 100 years in three epochs: 0 to 20 years, 20 to 50 years and 50 to 100 years. Organisations responsible for managing coastal flooding and erosion started updating the Shoreline Management Plans in 2011, based on improved data about changes to the coastline. A further review of the Shoreline Management Plans is likely in the next five to 10 years. The policy options suggested in the plans fall into four broad areas:

- **Hold the line:** by maintaining or changing the standard of protection;
- **Advance the line:** by constructing new defences seaward of the original defences.
- **Managed retreat:** by allowing the shoreline to move backwards and identifying a new line for coastal defences. This approach has implications where protecting the community from progressive flood risk is likely to become unsustainable in the future and residents may have to move to areas of lower risk.
- **No active intervention:** where coastal defences will no longer be maintained. Monitoring and inspection of the shoreline will still be required. Under the Flood and Water Management Act 2010, organisations responsible for managing the risks of coastal flooding and erosion have no obligation to provide, or to maintain, coastal defences.

There are four Shoreline Management Plans in Wales including two which, for oceanographic reasons, overlap the border with England<sup>5</sup>.

- 6 The Welsh Government provides capital and revenue funding for Natural Resources Wales and for local councils to manage the risks of coastal flooding and erosion. The Welsh Government is changing the way it allocates funding through two new programmes:
  - a **The Flood and Coastal Investment Programme** will allocate funding to Natural Resources Wales and councils based on national priorities.
  - b **The Coastal Risk Management Programme** will provide capital funding to support council coastal protection schemes delivered between 2018-19 and 2020-21.
- 7 Our 2009 report on **Coastal Erosion and Tidal Flooding Risks in Wales**<sup>6</sup> concluded that the Welsh Government's approach offered more sustainable solutions to managing coastal flooding and erosion. However, the report identified the need for the Welsh Government to show stronger strategic leadership, strengthen collaborative working and clarify the roles and responsibilities of all stakeholders. The report also recommended that the Welsh Government should work with partners to develop a way of prioritising investment based on the costs and benefits of coastal protection schemes. Since 2009, inquiries by the National Assembly's Public Accounts Committee (2010)<sup>7</sup> and the Environment and Sustainability Committee of the National Assembly for Wales (2012)<sup>8</sup> have also resulted in a number of recommendations for improvement.

5 North West England and North Wales Shoreline Management Plan (Liverpool Bay and Ynys Enlli Coastal Groups), West of Wales Shoreline Management Plan (Ynys Enlli and Cardigan Bay Coastal Groups), South Wales Shoreline Management Plan (Swansea and Carmarthen Bay Coastal Group), and the Severn Estuary Shoreline Management Plan (Severn Estuary Coastal Group).

6 **Coastal Erosion and Tidal Flooding Risks in Wales**, Wales Audit Office, October 2009.

7 **Coastal Erosion and Tidal Flooding Risks in Wales**, Public Accounts Committee, May 2010.

8 **Coastal Protection in Wales**, Environment and Sustainability Committee, October 2012.

- 8 In 2014, Natural Resources Wales was asked by the then Minister for Natural Resources and Food to review the impacts of the winter floods of December 2013 and January 2014. The **Wales Coastal Flooding Review** ([Appendix 2](#)) found that the overall response to the floods was 'coordinated and effective' but identified a number of areas for improvement in the overall approach. Many of the issues from the **Wales Coastal Flooding Review** had been identified by previous reviews. The recommendations have been grouped into 10 projects to improve coastal flooding and erosion risk management. These projects are included in the **Wales Coastal Flooding Review Delivery Plan** (2015).
- 9 On behalf of the Auditor General, Wales Audit Office staff have undertaken a further review to consider the progress that is being made by the Welsh Government and its partners to manage the risks of coastal flooding and erosion in Wales. This report assesses whether key objectives in the Welsh Government's National Strategy for Flood and Coastal Erosion Risk Management in Wales are being met but does not evaluate the effectiveness of emergency planning and resilience arrangements, nor the emergency response to flooding events. [Appendix 1](#) sets out more detail about our audit methods.
- 10 **Our overall conclusion is that recent Welsh Government investment has improved coastal protection and delivered some wider benefits. The Welsh Government and partners are improving their approach to managing the risks of coastal flooding and erosion, although the pace of change has been slower than planned. Further improvements are needed to address capacity issues, plan for the long term, and ensure that spending provides value for money. The Coastal Flooding Review Delivery Plan (2015) is providing impetus and the Welsh Government intends to refresh the National Strategy in 2017-18.**
- 11 The Welsh Government has allocated £381 million for inland and coastal flood and erosion risk management schemes and activities from 2010-11 to 2016-17, with more than half of this funding allocated to Natural Resources Wales (or Environment Agency Wales from 2010-11 to 2012-13). £219 million of funding was allocated for capital schemes from 2010-11, with £120 million of this allocated to coastal schemes; a figure that also includes £25.4 million from the European Regional Development Fund. Although EU funding ceased in 2015-16, the Welsh Government continues to allocate capital to coastal councils through the coastal protection grant. Investment has reduced the consequences of coastal flooding and erosion and led to other benefits including regeneration, increasing tourism, and creating employment. The Welsh Government has worked with partners to increase awareness of the risks of coastal flooding and erosion but there is evidence that the public still have a limited understanding of the implications of managed retreat.

- 12 The National Strategy clearly sets out the risk-based approach that the Welsh Government is pursuing, an approach that is based on learning from alternative approaches and engagement with key stakeholders. However, the Welsh Government has still not set out in its strategy some options to help councils to prepare communities for managed retreat. In addition, while partners work well together on specific initiatives, some roles, responsibilities and performance management arrangements remain unclear. It took longer than expected to finalise the Shoreline Management Plans and the Local Flood Risk Management Strategies, and some councils are only making slow progress to deliver related actions.
- 13 The Welsh Government's planned review of the National Strategy in 2017-18, together with new legislation including the Planning (Wales) Act 2015 and the Environment (Wales) Act 2016, presents a timely opportunity to more closely integrate flood risk management at a strategic level into wider policies, plans and funding arrangements. Moreover, from 1 April 2016, the key public bodies involved in the management of coastal flooding and erosion risk management – the Welsh Government, Natural Resources Wales, and local councils – have a duty under the Well-being of Future Generations (Wales) Act 2015 to demonstrate that they are applying the sustainable development principle in their decision making (Appendix 4).
- 14 There is now a broad understanding of the possible long-term costs of managing the risks of coastal flooding and erosion, and the Welsh Government has yet to develop parts of its long-term funding strategy. The Welsh Government has committed to contribute 75 per cent of the Coastal Risk Management Programme which will invest a maximum of £150 million on council capital schemes from 2018-19 to 2020-21. This funding can allow progress over the next few years with some of the priorities identified in the Shoreline Management Plans, but the Welsh Government's funding is dependent on councils contributing 25 per cent towards the cost of these projects within the Programme, including their ability to secure external contributions where such opportunities exist. The Welsh Government has not helped councils to secure options for external funding. The cost of meeting the priorities identified in the Shoreline Management Plans is estimated to increase from £20 million to £30 million per year over the next 50-100 years. The issue for the Welsh Government and councils is in sustaining enough funding for the implementation of Shoreline Management Planning policies after, and well beyond, 2020-21. More work is also needed to ensure that funding is prioritised to areas of greatest need.

- 15 The Flood Risk Management Wales Committee<sup>9</sup> explored long-term funding options in 2013, but the Welsh Government has not formally responded to the Committee's recommendations. Councils are also concerned about their ability to fund their own contribution to new capital projects and to fund maintenance activity. While key partners have an improved understanding of risk, the Welsh Government is considering options but is still to determine the preferred way forward for the Wales Coastal Monitoring Centre, previously hosted by Gwynedd Council. There is still no national register of coastal defence assets.
- 16 The Welsh Government's arrangements for monitoring its coastal protection grant have been weak, although some changes from April 2016 seek to improve progress reporting, and clarify benefits realised and any savings. Arrangements for prioritising grant funding for council coastal infrastructure projects are unclear. Where councils have made an application for grant aid that is of acceptable quality and is shown to have a positive benefit-to-cost ratio, the Welsh Government has been able to fund all schemes without the need to compare risks to prioritise one scheme over another. The Welsh Government is currently developing governance arrangements for its Coastal Risk Management Programme and has put in place a board to oversee delivery and represent stakeholder interests. The Welsh Government has yet to finalise governance arrangements for its Flood and Coastal Investment Programme.
- 17 Previous reviews have highlighted that progress to implement flood risk management has been hindered by a lack of capacity in the Welsh Government and in the councils. These issues are a concern in the context of future financial pressures, including also potentially for Natural Resources Wales, and the possibility of local government reform presents both risks and opportunities in this regard.
- 18 The development of the Wales Coastal Flooding Review Delivery Plan (2015) is widely recognised by stakeholders as a positive step towards improving coastal flooding and erosion risk management in Wales. However, deadlines for key actions in the Delivery Plan often relate to writing reports on options for improvement rather than agreeing and implementing solutions. The challenge for the Welsh Government and partners will be in sustaining momentum and implementing solutions to deliver the Coastal Review recommendations as soon as possible.

<sup>9</sup> The Environment (Wales) Act 2016 allows the Flood and Coastal Erosion Committee to replace the Flood Risk Management Wales Committee, providing an opportunity to more fully integrate a wider range of flood and coastal erosion issues than the previous committee.

## Recommendations

- R1 The Welsh Government has made slower progress than it had planned to address some of the recommendations of previous reviews and actions outlined in the National Strategy. Many of these outstanding actions have since been reflected in the Wales Coastal Flooding Review (2014) and Wales Coastal Review Delivery Plan (2015). **In refreshing its National Strategy in 2017/18, the Welsh Government should:**
- a **Evaluate its progress against the recommendations of previous reviews and update the Wales Coastal Review Delivery Plan to address any residual issues. The plan should set realistic targets and timescales to implement solutions.**
  - b **Develop a strategy to identify long-term funding for coastal protection including funding from across government departments and external bodies, and particularly to deliver multiple benefits. The Welsh Government should work with partners to learn from the partnership funding model in England to understand how councils have been able to attract external funding (paragraphs 2.25-2.31).**
  - c **Work with partners to ensure that adequate funding is available for revenue activities such as maintenance, coastal monitoring and community engagement (paragraphs 2.36-2.37). This work should include a review of council spending through the Single Environmental Revenue Grant and other sources of revenue funding to consider the impact of the new arrangements on the funding of flood risk management activities.**
  - d **Better integrate coastal flood and erosion risk management at a strategic level with new legislation including the Planning (Wales) Act 2015, Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Act 2016 (paragraphs 2.9-2.11).**
- R2 The Welsh Government described roles and responsibilities in its National Strategy but stakeholders told us they were still not clear in certain respects. The Wales Coastal Flooding Review Delivery Plan includes a project led by the Welsh Local Government Association and Natural Resources Wales to clarify the roles and responsibilities of organisations responsible for managing flood risk. **The Welsh Government should clarify Natural Resources Wales' oversight role and how it differs from the Welsh Government's role to manage performance (paragraph 2.17).**
- R3 There is evidence that some communities are still unaware of the long-term implications of the Welsh Government's risk-based approach. Community engagement has been hampered by a lack of options in the national strategy to help councils to prepare communities for managed retreat. **The Welsh Government should develop options within the national strategy to help councils to prepare communities where it is likely that managed retreat will be required. These options should consider the legal and financial arrangements necessary to relocate people and assets away from flood risk (paragraphs 2.7-2.8).** The Welsh Government should also set out how it will communicate the implications of its risk-based approach to the public (paragraphs 1.21 to 1.22).

R4 Natural Resources Wales reports on its own activities and progress against the National Strategy under section 18 of the Flood and Water Management Act 2010 without the benefits of an independent review. **The Welsh Government should review section 18 reporting arrangements and consider an independent review of performance, or a peer review of Natural Resources Wales section 18 reports (paragraph 2.17).**

R5 The Welsh Government and Natural Resources Wales are members of the Joint Flood and Coastal Erosion Risk Management Research and Development Programme with the UK Government's Department for the Environment, Food and Rural Affairs (Defra) and the Environment Agency. Although stakeholders could do more to engage in this Programme, the Welsh Government and Natural Resources Wales could more effectively share good practice identified by the Programme, particularly with councils. **The Welsh Government should work with Natural Resources Wales to share and promote the good practice identified in the Joint Flood and Coastal Erosion Risk Management Research and Development Programme with councils (paragraph 2.6).**



## Part 1

Recent investment has improved coastal flood protection and delivered some wider benefits, although further work is needed to engage communities about the risks of coastal flooding and erosion



- 1.1 This part of our report tries to set out where the Welsh Government has invested the £381 million that it has allocated to flood and coastal erosion risk management since 2010-11. The Welsh Government has prioritised flood and coastal erosion risk management during the current period of austerity, maintaining funding since 2011-12 at a time when there have been significant cuts in funding, and particularly capital, for other departments. Our national study **A Picture of Public Services 2015**<sup>10</sup> sets out funding for the Welsh Government's departments in more detail.
- 1.2 We were not always able to disaggregate funding allocated to coastal flood and erosion risk management activities from non-coastal activities. Where possible we have reported 'real-terms' expenditure figures throughout the report, this means that we have made adjustments to account for inflation. 2014-15 has been used as the base year against which we adjust previous years. Real-terms figures are based on HM Treasury GDP deflators issued in December 2015.
- 1.3 We also consider evidence of the impact of coastal risk management schemes across Wales, and how well the Welsh Government and its partners are engaging the public in their approach to coastal flooding and erosion.

## Welsh Government funding for flood and coastal erosion risk management had been broadly stable from 2010-11 to 2016-17, with variation in EU funding from year to year

Since 2010-11, the Welsh Government has allocated £120 million of capital to coastal schemes, but its revenue allocation of £162 million cannot be apportioned between coastal and non-coastal activities

- 1.4 The Welsh Government has allocated £219 million capital from 2010-11 to 2016-17<sup>11</sup>, with £120 million of this allocated to coastal schemes. This comprised £95 million of funding from the Welsh Government and £25.4 million from the European Regional Development Fund (ERDF)<sup>12</sup>. The Welsh Government also allocated £162 million in revenue funding for flood and coastal erosion risk management over the same period. The Welsh Government was not able to separate how much of this revenue was used for coastal flooding and erosion.
- 1.5 **Figure 2** shows the real-terms funding that the Welsh Government allocated to all flood and coastal erosion risk management each year since 2010-11. While **Figure 2** suggests a reduction in funding, the underlying picture is more complex, particularly due to variation in the amount of ERDF drawn down from year to year. In 2010-11, total capital funding reached a peak of £44.4 million in real terms, largely due to a particularly large allocation of ERDF for that year (**Appendix 3**). Annual variation in capital funding is expected to some extent: it may go up because large projects reach particular milestones or go down where there are

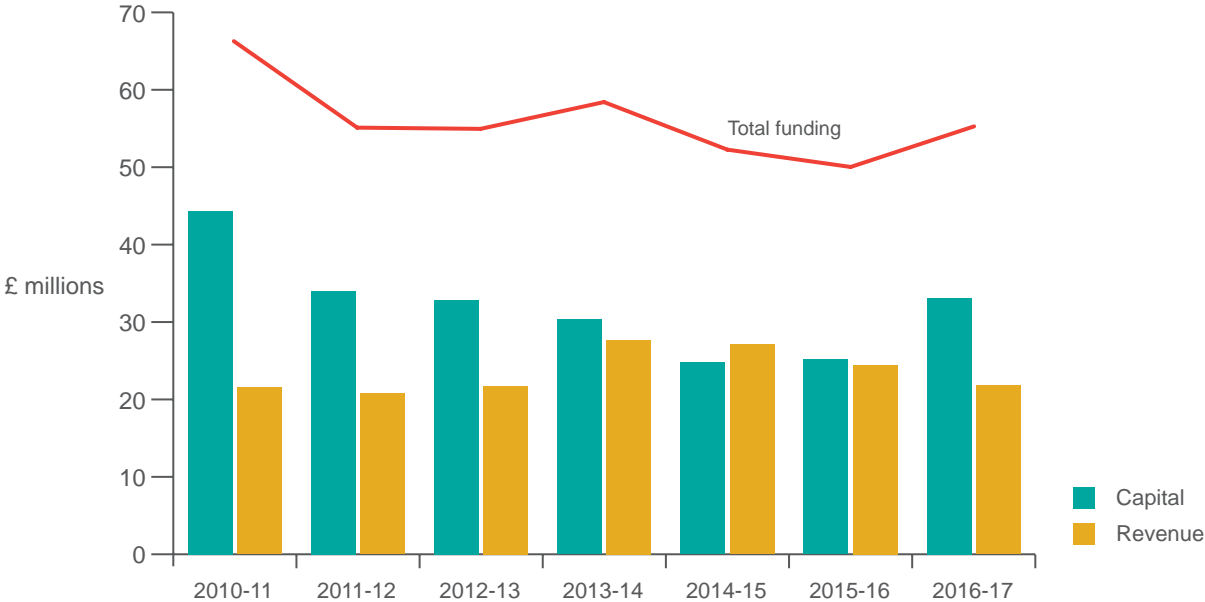
<sup>10</sup> **A Picture of Public Services 2015**: report by Wales Audit Office showing the devolved public services' response to the challenges they have been facing and their plans to face the future pressures.

<sup>11</sup> As of May 2016, with additional capital allocation likely later in 2016-17.

<sup>12</sup> Until autumn 2015, capital funding for coastal protection has been available from European structural funds, in particular the ERDF. The allocation of that European funding is determined by the Welsh European Funding Office which is part of the Welsh Government. We were unable to obtain consistent information to map council spending across Wales in addition to any specific funding that the Welsh Government has provided. The information we have suggests that the additional spending by councils has been marginal since 2010-11.

delays in getting projects started. The position for 2016-17 is also complicated by £9.2 million of consequential funding<sup>13</sup>. Without this consequential funding, funding in real terms would have been £46.6 million which is slightly less than received in 2015-16. Leaving aside ERDF, the capital funding contribution from the Welsh Government has been largely static over the period since 2010-11. Revenue funding has risen slightly in real terms from 2011-12 to 2013-14, but has now returned to a similar level to the period 2010-11 to 2012-13.

Figure 2: Welsh Government and European Union funding for flood and coastal erosion risk management from 2010-11 to 2016-17, shown in real terms



Notes

- 1 The graph shows total funding for all types of flooding (inland and coastal), as well as for coastal erosion risk management.
- 2 These figures include £6.8 million capital of funding distributed across 10 councils to address the damage caused by the winter flooding of 2013-14, and £9.2 million of consequential funding allocated to the Welsh Government in 2016-17.
- 3 Capital funding includes core funding from the Welsh Government’s flood and coastal erosion budget as well as different Welsh Government funding programmes such as the Wales Infrastructure Investment Plan (WIIP), where bids will have had to be made on a case-by-case basis in competition with other priorities. Appendix 3 provides a breakdown of Welsh Government funding.
- 4 Revenue funding includes funding for councils to manage all sources of flooding and erosion through the Lead Local Flood Authority Grant, funding to help councils produce Local Flood Risk Management Strategies and revenue funding for Natural Resources Wales.

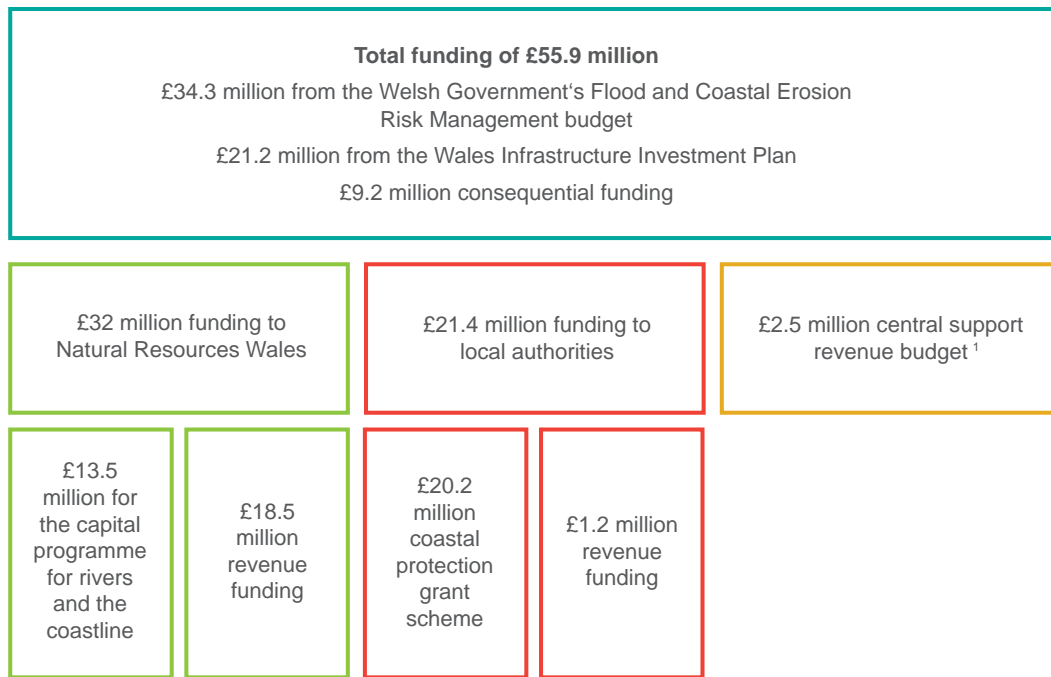
Source: Wales Audit Office analysis of Welsh Government data

<sup>13</sup> As a result of the winter storms in England in 2015, the UK Government made additional funding available, even though Wales was not as badly affected by these storms as England. Under the Barnett formula through which central funding is allocated, Wales received an additional £9.2 million in 2016-17. The Welsh Government anticipates that all of this consequential funding will be included in the core Flood and Coastal Erosion Risk Management budget for 2016-17, although other departments undertaking flood work could also receive some of this funding.

**In 2016-17, the Welsh Government allocated more than half of its budget for flood and coastal erosion risk management to Natural Resources Wales**

1.6 The Welsh Government splits its funding for Natural Resources Wales between its Capital Investment Programme for rivers and the coastline, and revenue funding for staff and other activities such as community engagement. Natural Resources Wales funds maintenance of coastal defences through a mix of capital and revenue budgets depending on the size and nature of repairs. **Figure 3** shows the distribution of funding in 2016-17.

**Figure 3: Welsh Government and European Union funding allocated for flood and coastal erosion risk management 2016-17 in cash terms**



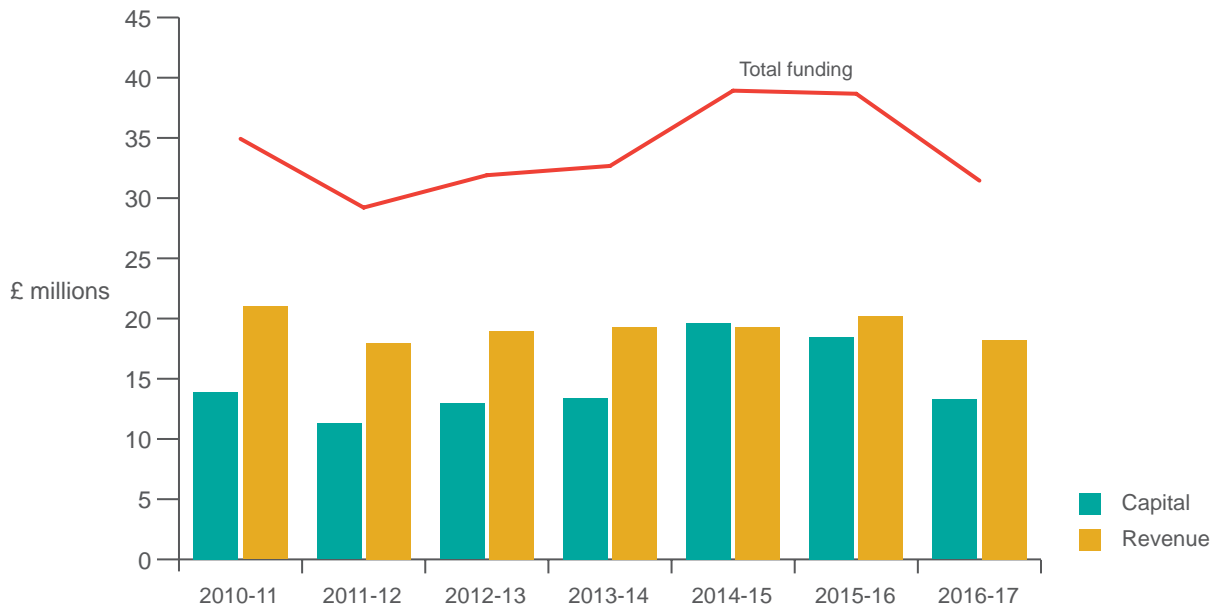
**Note**

Central support revenue budget covers coastal monitoring, research, conferences and exhibitions, administration and IT costs, consultancy fees for additional policy and project work, as well as salaries and training for the Welsh Government's Flood and Coastal Erosion Risk Management Branch.

Source: Wales Audit Office analysis of Welsh Government data

1.7 Natural Resources Wales became the single environment body for Wales in April 2013. Figures from 2010-11 to 2012-13 relate to Environment Agency Wales. Total real-terms funding to Environment Agency Wales or Natural Resources Wales for flood risk management peaked in 2014-15 at almost £39 million, but in 2016-17, this funding was £31.5 million. The Welsh Government advised us that rather than a cut in funding, the reduction since 2014-15 represents the progress that Natural Resources Wales is making with its capital programme and includes some funding carried over from previous years. (Figure 4).

Figure 4: Welsh Government and European Union flood and coastal erosion risk management funding allocated to Environment Agency Wales and Natural Resources Wales 2010-11 to 2016-17, shown in real terms



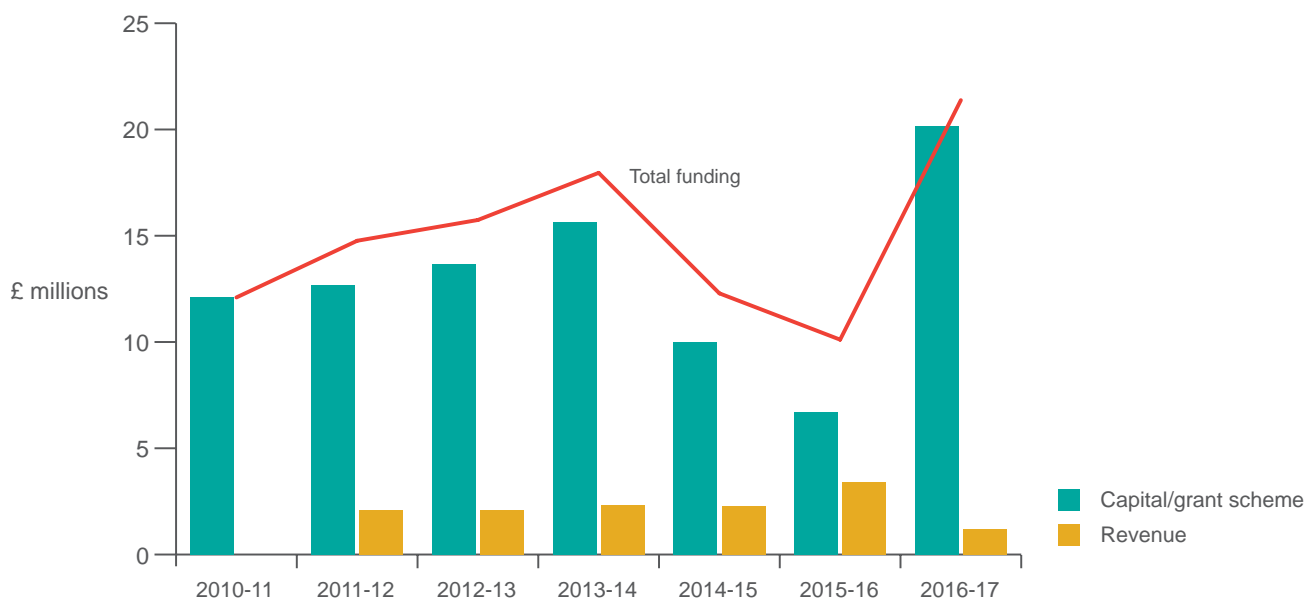
Note  
 Figures from 2010-11 to 2012-13 are for Environment Agency Wales. Figures from 2013-14 to 2016-17 are for Natural Resources Wales. The graph shows total funding, not just funding for coastal schemes and activities.

Source: Wales Audit Office analysis of Welsh Government data

The greatest part of funding allocated to councils from the Welsh Government for flood and coastal erosion risk management is capital allocated through the coastal protection grant

1.8 Councils receive revenue funding from the Welsh Government for staff costs, public engagement activities and routine maintenance work. All 22 councils each received £100,000 annual revenue funding to manage all sources of flooding and erosion through the Welsh Government’s Lead Local Flood Authority Grant from 2011-12 to 2014-15. Revenue funding to councils increased in 2015-16. Councils can also apply for the Welsh Government’s coastal protection grant for capital schemes. Total funding for councils increased in real terms between 2010-11 and 2013-14, but reduced sharply in 2014-15 and 2015-16, when funding was £10.1 million, before rising sharply to £21.4 million in 2016-17. The decrease is due to the reduction in capital spending. The Welsh Government said that following the winter storms of 2013-14, capacity constraints meant that councils submitted fewer applications for capital schemes (Figure 5).

Figure 5: Welsh Government and European Union flood and coastal erosion risk management funding for councils 2010-11 to 2016-17 shown in real terms



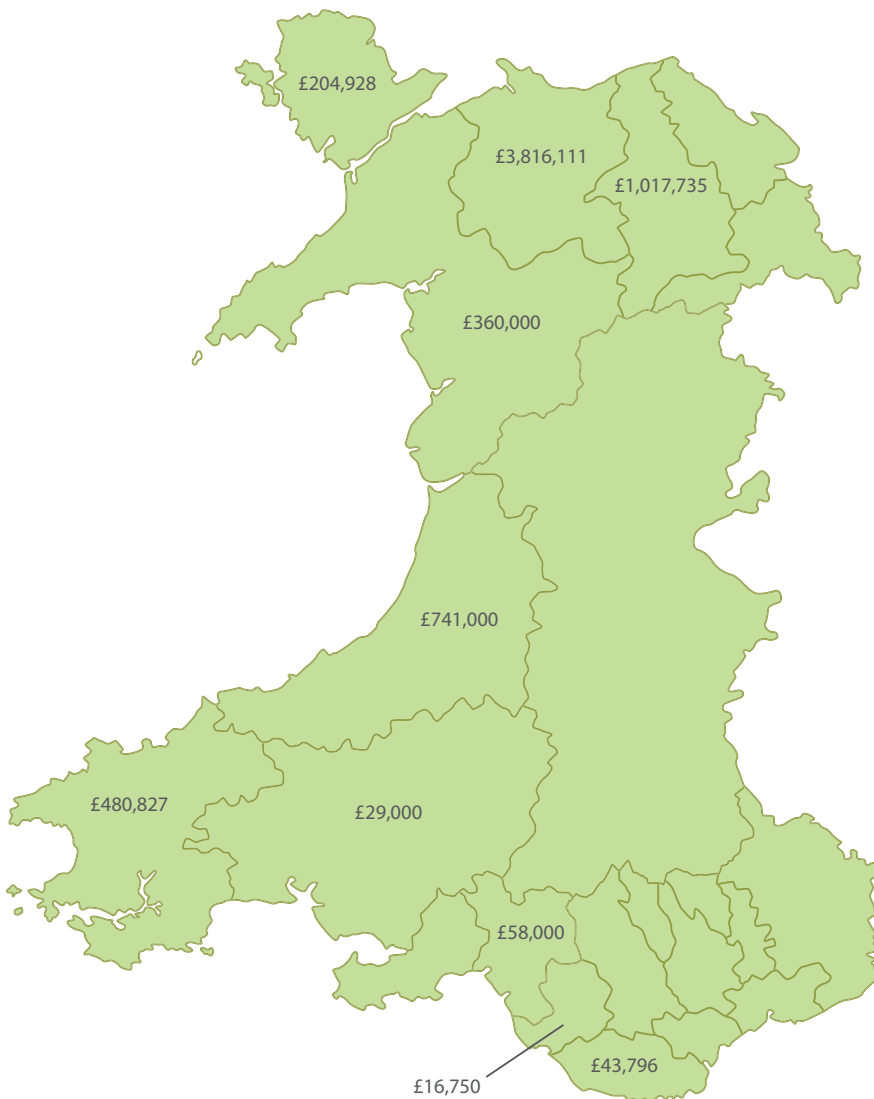
Note

These figures include £6.8 million capital funding distributed across 10 councils to address the damage caused by the winter flooding of 2013-14. The graph shows total funding, not just funding for coastal schemes and activities.

Source: Wales Audit Office analysis of Welsh Government data

1.9 The Welsh Government provided some councils with a share of £6.8 million of capital funding to address the damage caused by the winter flooding of 2013-14 (Figure 6). The Welsh Government provided this emergency funding from its 2013-14 budget. This funding could also be used to repair damage from non-coastal sources of flooding.

Figure 6: One-off funding to councils for damages after the winter floods of 2013-14 in cash terms



Source: Welsh Government

## Flood and coastal defence schemes have improved flood protection to thousands of properties over recent years and delivered other benefits, although the evaluation of wider benefits could be more comprehensive

- 1.10 At present, the available evidence with which to assess the overall impact of investment in coastal protection is limited. Assessments often focus on the direct benefits of the number of properties protected without looking at the wider benefits to the economy and natural environment. Recent changes that the Welsh Government has made to the arrangements for its coastal protection grant should more clearly show some of these benefits (see [paragraph 2.54](#)). Welsh Government figures show that investment in coastal protection has improved for 8,674 coastal properties from 2011 to 2015. In October 2015, the Minister for Natural Resources announced that a further 3,800 properties across Wales will benefit from coastal flood defence schemes in Rhyl, Dolgellau, Borth, Cardiff and along the Severn Estuary.
- 1.11 The winter storms of December 2013 and January 2014 put coastal defences to the test. Natural Resources Wales' report on the impact of the storms<sup>14</sup> estimated the cost of repairs to coastal defences at £8 million, with a further £3.3 million damages to street furniture, paths and paving<sup>15</sup>. The report also identified other impacts of the flooding including local erosion that caused beach loss around the coast; disruption to local rail and road networks; flooded agricultural land and damage to conservation sites.
- 1.12 While damage due to the winter storms was significant, not least because of the large waves that overtopped some sea defences, the damage could have been worse without investment in coastal protection. The Natural Resources Wales report concluded that the network of coastal defences owned by Natural Resources Wales and other stakeholders protected 99 per cent of properties at risk of flooding and protected 34,000 hectares of agricultural land from the damaging effects of saltwater incursion. The report estimates protection measures avoided nearly £3 billion in costs to individuals and businesses during the winter storms<sup>16</sup>. These measures also prevented additional financial costs associated with emergency services, infrastructure repairs and business losses<sup>17</sup>.
- 1.13 The Welsh Government commissioned research on the economic impact of flood defence schemes supported by European Regional Development Funding in 2012<sup>18</sup> but has not evaluated schemes funded by its coastal protection grant either individually, or to assess the overall impact of its investment since 2012. Councils are not required to evaluate individual schemes funded by the coastal

<sup>14</sup> **Wales Coastal Flooding Review Phase 1 Report – Assessment of Impacts**, Natural Resources Wales for the Minister for Natural Resources and Food, 2014.

<sup>15</sup> Excludes repair costs to privately owned assets.

<sup>16</sup> Costs were calculated by applying the average buildings insurance flood claim of £40,000 to the number of properties that were at risk of flooding but did not flood.

<sup>17</sup> Natural Resources Wales has not calculated these costs.

<sup>18</sup> **Flood and Coastal Risk Management Programme: An economic impact assessment**, Welsh Economy Research Unit, Cardiff University for the Welsh Government, 2012.



protection grant so there is no consistent national picture of the impact of the Welsh Government's investment. However, some councils have produced reports which highlight the wider benefits of specific schemes. Natural Resources Wales assesses the benefits of individual schemes delivered through its Capital Investment Programme, but it has not evaluated the impact of the Programme overall.

- 1.14 The available evidence suggests that investment in coastal flooding and erosion risk management provides a range of benefits beyond protection from flooding. For example, projects in Colwyn Bay and Borth combined improvements to coastal defences with wider regeneration to enhance recreation opportunities and tourism in the area and create employment (Case studies 1 and 2). A joint project between Natural Resources Wales and the National Trust at Cwm Ivy, in Gower (Case study 3) provided an alternative to traditional 'hard' engineering approaches to managing coastal flooding and erosion. Rather than repairing damage to the sea defence wall, the two organisations have agreed to let the area return to a saltmarsh habitat for birds and other wildlife. Natural Resources Wales has also worked with the City and County of Swansea in the lower Swansea Vale on a project which protects 284 businesses while creating valuable wildlife habitat (Case study 4).
- 1.15 In 2012, the research on the economic impact of European funded schemes estimated that over 100 years, schemes in the study<sup>19</sup> would protect 1,682 businesses and avoid job losses of between 6,380 and 38,280 full-time equivalents. Construction contracts for the schemes totalled £65 million, of which around £41 million was spent within Wales. This spending either directly or indirectly supported nearly £40 million of goods and services in Wales and over 900 person years of employment.

<sup>19</sup> The study included schemes to protect properties from non-coastal sources of flooding.

### Case Study 1: Colwyn Bay waterfront

In Colwyn Bay, Conwy County Borough Council improved coastal defences as part of the Porth Eirias regeneration scheme that provided a new water sports centre, restaurant and recreation area on the waterfront in the town. Coastal erosion had gradually washed away large amounts of sand from the beach and storms had caused significant damage to existing defences in Colwyn Bay. Because of this erosion, 180 homes, seven businesses and major infrastructure in the area including roads, railway and Dŵr Cymru Welsh Water assets were at risk of flooding. Partners including the Welsh Government, Arts Council Wales, the National Lottery and the ERDF invested a total of £25 million in the scheme. The first phase of the work improved coastal defences, which enabled the construction of the Porth Eirias development. Work began in 2010 and the new water sports centre opened to the public in 2013, increasing visitor numbers and creating 30 jobs. Four thousand people visited the water sports centre in its first year of operation. The project secured further funding for regeneration of the promenade between Porth Eirias and the existing pier, and provided funds to allow the Council to counter the impact of erosion by placing more sand on the beach.

An assessment of the scheme by Cardiff University in 2012 described the project as a positive example of joint working.

The photograph shows an aerial view of the Porth Eirias development.

Image provided by Conwy County Borough Council



### Case Study 2: Borth multi-purpose reef

Borth is a coastal village seven miles north of Aberystwyth and has a history of coastal flooding caused by the historic erosion of shingle from the beach over hundreds of years. Ceredigion County Council has engaged with residents since 2001 on its plans to manage the risks of coastal flooding in the village, through visioning workshops and a series of public meetings. The Council worked with residents to develop options for coastal protection over eight years and chose a scheme which creates a multi-purpose reef. The reef's main purpose is to reduce flood risk but it was also designed to enhance local surfing conditions to attract surfers and tourists to the area. Construction work was done in two phases. Work started in 2009 and was completed in April 2015. The scheme cost £18.8 million, funded mostly by the Welsh Government and ERDF. The project team designed the reef to protect and increase the height of the beach so that it offers improved coastal protection and shapes waves to create good surfing conditions at high tide. The project provides protection for 380 homes, and has reduced the risk of flooding to 40 businesses that provide the equivalent of 160 jobs. Local residents have reported that the defences have successfully protected their properties from flooding.

Ceredigion County Council engaged with local residents throughout the project. Meetings were well attended and the process benefitted significantly from the local councillor acting as a leader to engage with local people and Welsh Government officials. The councillor also

chaired the project steering group responsible for overseeing project delivery.

The photograph shows the Borth coastal protection scheme.

Image provided by Richard Workman



### Case Study 3: Cwm Ivy wetlands

Natural Resources Wales and the National Trust are working together to create a new tidal saltmarsh on the north Gower coast. The sea wall that protected farmland around Cwm Ivy has deteriorated significantly over the years and rising sea levels mean that repairing the wall is not a sustainable solution. In August 2014, sections of the sea wall and embankment collapsed and since then the sea has started to reclaim the land. The two organisations are working together to return around 100 acres of National Trust farmland in the area to its natural state as a saltmarsh habitat. This project is part of the National Trust's approach set out in its Shifting Shores report<sup>20</sup> to allow coastal realignment to happen naturally. The saltmarsh will provide new feeding and resting sites for birds and other wildlife and enable the Welsh Government and Natural Resources Wales to meet its obligation to create compensatory habitat as required under the EU Habitats and Birds Directive. This compensatory habitat is needed for other coastal defence work to take place in the Carmarthen Bay Special Area of Conservation<sup>21</sup>. The project team held two public drop-in sessions in June 2015 to collect views on future options for the area, including a solution for sections of the Wales Coastal Path, which were lost when the sea wall and embankment collapsed. Plans and estimated costs for the project are yet to be finalised.

The photograph below shows an aerial view of Cwm Ivy.

Image provided by G R Howe,  
The Gower Society



### Case Study 4: Lower Swansea Vale

A £7 million project in the lower Swansea Vale provides flood protection and mitigation measures along with valuable wetland wildlife habitat. The scheme is a joint project between Natural Resources Wales and the City and County of Swansea and protects 284 businesses employing more than 10,000 people, 20 houses, a caravan park and it reduces the risk to life of thousands of people frequenting the area for business, shopping and leisure. The scheme aims to provide more space for water by raising and re-aligning part of the embankment along the river Tawe and removing two bridges, and improves flood awareness and emergency response in the area. The lower Swansea Vale project creates a new bridge for cyclists and pedestrians above the level of flood flows and six hectares of wetland wildlife habitat and community space. Partners completed the scheme in 2014, which has attracted new wildlife and plant species to the area.

<sup>20</sup> **Shifting Shores – Adapting to Change**, National Trust, 2005. The National Trust published another Shifting Shores report in 2014.  
<sup>21</sup> Under the Habitats Directive, organisations responsible for sea defences that have negative impacts on natural habitats must provide compensatory habitat elsewhere.

## The Welsh Government has worked with partners to increase awareness of the risks of coastal flooding and erosion but there is evidence that the public still have a limited understanding of the implications of managed retreat

- 1.16 A key part of the Welsh Government's National Strategy involves raising awareness of the risks of coastal flooding and erosion and educating people on how to live with these risks. One of the key challenges is in engaging people in communities where Shoreline Management Plans indicate that existing defences will not be maintained ('no active intervention') or where the coastline will move landward in the future ('managed retreat') (Box 2). Our 2009 report found that the public were largely unaware of the increasing risks of coastal flooding and erosion. We recommended that the Welsh Government work with the main stakeholders to engage with communities at risk and give them a clear understanding of its strategic approach. The Welsh Government and partners have made some progress to engage with these communities, such as through the support provided for Fairbourne, but they could do more to increase awareness and to involve the public in long-term plans to manage the risks.
- 1.17 Covering issues relating to coastal and inland flooding, the Flood Awareness Wales Programme, operated by Natural Resources Wales in partnership with local councils, is one of the main ways that the Welsh Government raises public awareness of flood risk. Water companies and councils also undertake some activities to raise awareness of flood risk. Flood Awareness Wales changed focus in 2014 after evaluations showed the need to shift from targeting individuals to developing a community response. Staff now work with communities to make community flood plans and train local volunteers to act as flood wardens<sup>22</sup>. Natural Resources Wales also engages with local people on individual flood defence schemes.
- 1.18 Councils have engaged with the public and other stakeholders in a range of ways. Natural Resources Wales reported to us that several councils have conducted mapping exercises to identify and assess the needs of vulnerable people living in flood risk areas. In some places they have made flood plans to assist specific community groups in the event of a flood. Councils are also working with communities to look at specific flooding issues in public meetings, workshops, and consultation exercises. Grant funding from the Welsh Government has helped to support some of this work with communities.

<sup>22</sup> Since 2009, the Flood Awareness Wales team has worked with 314 communities, and helped create 624 community flood plans. Two hundred and seventy-four local flood wardens are involved with the Programme. Figures include coastal and inland flooding – **Flood and Coastal Erosion Risk Management in Wales 2011-2014**, Natural Resources Wales, March 2014.

- 1.19 Conwy County Borough Council is engaging with the Llandudno Coastal Forum on the future of Llandudno's beaches. Gwynedd Council chairs a multi-agency board that is working with the Fairbourne Facing Change citizens' group to develop joint plans to manage future flood risk (Case study 5). In Borth, Ceredigion County Council has engaged residents in planning for coastal protection schemes for a number of years (Case study 2). Citizens' groups formed because local people felt concerned about flood risk but excluded from decisions about their area. The formation of these groups has helped the councils to structure their approach to community engagement, and are positive examples of councils engaging with communities using bespoke approaches adopted for each community's needs.

### Case Study 5: Fairbourne, Gwynedd

The West of Wales Shoreline Management Plan identified Fairbourne as an area for managed retreat from 2055 onwards. The Plan raised questions about whether people living in parts of Fairbourne could relocate to land outside the flood risk, and, if so, where this land would be. Gwynedd Council adopted the second Shoreline Management Plan in January 2013, but a public meeting scheduled to explain the implications of the Plan did not take place. Following the winter storms in 2014, the BBC's 'Week In Week Out' programme ran a feature on Fairbourne stating that property prices had significantly reduced and new mortgages were being refused due to concerns that parts of the community may have to relocate in the next 10 years. The programme led to panic and anxiety in the community and Gwynedd Council held a series of public meetings in February 2014 to address public concerns.

Local residents formed the group 'Fairbourne Facing Change' as a way of engaging with Gwynedd Council. In response, the Council developed 'Fairbourne Moving Forward', a partnership of stakeholders to address the issues arising from flood risk. The Council established a project board to manage the project and invited Fairbourne Facing Change to join them. Fairbourne Facing Change now attends every meeting of the Council's project board. In the Fairbourne Moving Forward Annual Report 2014-15, the Chair of Fairbourne Facing Change said 'From very difficult beginnings it is a tribute to all involved that good working relationships have been established.' The project board recognises that it will not be

sustainable to maintain flood defences in Fairbourne beyond the next 40 years<sup>23</sup>. In the meantime, it will support the community to function as normal and plan for long-term change.

The photograph below shows Fairbourne during the winter storms of 2014.

Image provided by Gwynedd Council



<sup>23</sup> Gwynedd Council has calculated that flood defences in Fairbourne are likely to be unsustainable after 2054.

- 1.20 While work to engage communities continues, there is still a long way to go to raise public awareness. A survey conducted in 2014<sup>24</sup> for the Environment Agency and Natural Resources Wales showed that only half of interviewees living in high-risk areas considered themselves to be at risk of flooding. Of the 13 Council flooding officers who responded to our survey of councils along the Welsh coast (Appendix 1), only five considered that people who live, work, or own land in at-risk areas understand the risks from flooding to their land. The remaining eight officers told us that despite their efforts to engage with communities, correspondence, planning applications and reaction to local flooding events demonstrate a lack of awareness of flood risk and proposals to manage it. Stakeholders also told us that coastal residents generally do not understand the implications of the Shoreline Management Plans in areas where the approach suggested in these plans is managed retreat, or no further investment to maintain coastal defences.
- 1.21 In 2011, the Welsh Government produced a community engagement toolkit for organisations responsible for flood risk management. While the toolkit was produced at around the same time as the Welsh Government's National Strategy, it does not provide guidance to organisations in engaging communities in difficult issues like managed retreat. The Welsh Government has not developed a community engagement strategy to communicate the implications of its strategic approach to the general public in response to related recommendations from the National Assembly's Public Accounts and Environment and Sustainability Committees.
- 1.22 Although the Flood Awareness Wales Programme is helping engage a range of communities, it does not have a remit to communicate the difficult messages around the most appropriate long-term responses to future flood risk contained in the shoreline management plans. For example, the Programme does not communicate about managed retreat, where this is the recommended approach in the shoreline management plan. Although the Welsh Government has increased revenue funding for the Flood Awareness Wales Programme, we found that councils still have some capacity constraints that limit their involvement in the Programme. In areas like Borth and Fairbourne, the success of community engagement often relied on the enthusiasm of key individuals and council officers found maintaining momentum challenging when community interest started to fade.

<sup>24</sup> Ipsos MORI conducted the survey about flood risk awareness during May 2014. In Wales, 256 householders at risk of flooding in coastal and inland areas were interviewed by telephone, in addition to a further 795 interviews with householders at risk of flooding in England. The number of people surveyed is small and further work would be required to provide a more robust picture of public awareness along the Welsh coast.

## Part 2

The Welsh Government and partners are improving their approach to managing the risks of coastal flooding and erosion, although the pace of change has been slower than planned





- 2.1 This part of the report considers the clarity of aspects of the Welsh Government's strategic approach to manage the risks of coastal flooding and erosion. It also examines progress in developing funding, asset management and risk assessment arrangements and issues relating to the capacity of the Welsh Government, councils and other partners in the context of wider financial pressures.

## The Welsh Government is pursuing a risk-based approach but has not yet set out what aspects of its strategy mean in practice, especially in areas facing managed retreat

The Welsh Government's vision for a risk-based approach to managing coastal flooding and erosion is based on learning from alternative approaches and engagement with stakeholders

- 2.2 The Welsh Government's 2011 **National Strategy for Flood and Coastal Erosion Risk Management in Wales** (the National Strategy) recognises that climate change is increasing the risks of coastal flooding and erosion and appropriately reflects changes to legislation in the Flood and Water Management Act (2010). The National Strategy sets out a holistic approach to managing risks including better preparation and prevention, identifying areas for managed retreat, and working with the natural environment to use wetlands or salt marshes to reduce flood risk. We found that partners had a good understanding of the implications of the risk-based approach in the National Strategy and Shoreline Management Plans.
- 2.3 The Welsh Government engaged a range of stakeholders to evaluate and learn lessons from its previous New Approaches Programme and support the development of the National Strategy. This engagement has continued to inform its current strategic approach. The Welsh Government asked Natural Resources Wales to work with partners to learn from the joint response to the winter storms of 2013-14 through the Wales Coastal Flooding Review ([Appendix 2](#)) and produce a Delivery Plan to address the recommendations in the Review. Stakeholders described the Coastal Review process positively and recognised that the delivery plan workshops marked a change in momentum with genuine buy-in from a range of partners. One council flooding officer told us: 'The current Coastal Review led by Natural Resources Wales is making good progress and will throw up some helpful improvements.' Another flooding officer said: 'The recent coastal flooding review should be the catalyst for improvement, so my suggestion would be that the delivery plan be carefully monitored and fully implemented.'
- 2.4 The Welsh Government has made a clear commitment to the Delivery Plan by leading key projects and providing £150,000 of funding for Natural Resources Wales to develop and monitor the Plan. However, deadlines for key actions in the Delivery Plan often relate to writing reports on options for improvement rather than agreeing and implementing solutions. The challenge for the Welsh Government and partners will be in sustaining momentum and implementing solutions to the Coastal Review recommendations as soon as possible.

- 2.5 The Welsh Government and partners are also exploring international approaches to inform their approach to managing coastal flooding and erosion. We found that the Welsh Government and its partners had a good understanding of alternative approaches and were willing to look to other parts of the UK and further afield, such as the Delfland sand engine in Holland (Box 3), for examples of good practice.
- 2.6 The Welsh Government and Natural Resources Wales are also members of the Joint Flood and Coastal Erosion Risk Management Research and Development Programme with the UK Government's Department for the Environment, Food and Rural Affairs (Defra) and the Environment Agency. The Programme focuses on: policy, strategy and investment; asset management; and incident management and modelling in England and Wales. The Programme publishes information about research projects on its website, in a bi-annual newsletter and through workshops, conferences and webinars. However, although councils and other stakeholders can participate in the Programme's themed groups, stakeholders told us that the Welsh Government and Natural Resources Wales could do more to engage directly with councils to share research findings and good practice identified by the Programme.

### The Welsh Government has still not set out in its strategy some options to help councils to prepare communities for managed retreat

- 2.7 Paragraphs 1.21 to 1.22 noted that the public still have a limited understanding of the implications of managed retreat. In our 2009 report, we recommended that the Welsh Government develop a strategy on managed retreat, and it accepted this recommendation in full. Since 2009, Shoreline Management Plans have clearly identified the coastal communities threatened by climate change, and highlight where managed retreat is the recommended approach within the next 50 years. Some previous coastal adaptation schemes, including sea defences, should mitigate and potentially delay the need for managed retreat, and there are plans for more schemes offering increased protection for some threatened communities. However, the Welsh Government has still not set out the options and support that could help councils work with communities that need to be ready to relocate as climate changes make the risks of coastal flooding or erosion unsustainable. Councils acknowledge that public engagement with residents facing managed retreat will be required for many years. The Welsh Government has funded research with Gwynedd Council to learn lessons from Fairbourne, and to inform the coastal adaptation project in the Wales Coastal Flooding Review Delivery Plan (Appendix 2). The research includes buy-to-let schemes, where residents in areas identified for managed retreat in a Shoreline Management Plan could sell their home to the Welsh Government and then lease it back while they continue to live there. The Welsh Government has not decided whether to adopt such a scheme and has not considered its financial implications.

### Box 3: Delfland Sand Engine in Holland

About 120 kms of north and south Holland has a sand shoreline that provides some protection from coastal erosion. In 1990, Dutch coastal defence policy changed from the traditional approach of using dams and other fixed structures to large-scale beach nourishment, through a process known as the 'Delfland Sand Engine'. The sand engine involves mining 20 million cubic metres of sand offshore and depositing it on the shoreline to provide some protection against erosion and as a buffer for rising sea levels. In the long term, waves, currents and wind distribute the sand to enable the coast to grow naturally. The sand engine lessens disturbance to local ecosystems associated with smaller-scale beach nourishments and creates additional wildlife habitats, and some recreation and economic opportunities. Researchers are also using the Delfland Sand Engine to gather knowledge about adaptation to climate change.

In partnership with both the public and private sectors, The Crown Estate<sup>25</sup> is using good practice gained from the Delfland Sand Engine project to develop a new approach in the UK called 'Sandscaping', and has identified suitable locations to pilot this approach on the UK coastline, including in several locations on the Welsh coast. The picture below shows a new bank of sand created through the sandscaping process.

The picture below is an artist's impression of a sandscaped beach.



Image provided by The Crown Estate

<sup>25</sup> The Crown Estate has rights to most of the UK seabed to 12 nautical miles and the rights to natural resources on the continental shelf (excluding hydrocarbons).

- 2.8 Whether to relocate or compensate communities is a difficult issue, although there are examples of approaches that have been taken elsewhere in the world (Box 4). The UK Government has also provided financial support for people and businesses affected by recent winter flooding in England (Box 5), although the Welsh Government understands that this scheme was difficult to administer. Stakeholders in Wales are finding it difficult to plan and engage with local communities without the Welsh Government offering some clear strategic options for communities facing managed retreat. In the absence of a clear national strategic lead on managed retreat, some councils are funding community engagement activities to develop change management plans without a realistic picture of the options available and their legal and financial implications.

#### **Box 4: Relocating communities away from areas of flood risk**

##### **Home buy-out schemes in the United States**

In October 2012, Hurricane Sandy damaged or destroyed around 650,000 homes, killed at least 159 people, displaced 23,000 people and left around 8.5 million people without electricity, some for up to three weeks. The state of New York introduced the home buy-out scheme to transform the state's coastal zones into publicly owned open space such as wetlands or parks. The scheme is available on a voluntary basis to homeowners living in the flood plain where their house was damaged beyond 50 per cent of its value. Homeowners receive state funding for 100 per cent of the pre-storm market value for their property. The state provides additional incentives for people who relocate within the same county, homes in high-risk areas and for communities that collectively agree to relocate. The United States Government has operated similar schemes in Missouri (1993 and 2015) and Iowa (1993).

##### **Disaster Recovery Funding for flood victims in Alberta, Canada**

Homeowners with property affected by the 2013 floods in Alberta can apply to the Alberta Government's Disaster Recovery Programme to cover the cost of uninsurable loss. Residents have a choice of rebuilding their homes or relocating. People who use the fund to repair or reconstruct their home in a flood plain will not be eligible for future Disaster Recovery Programme funding.

#### **Box 5: Support for people affected by the winter floods in England**

In January 2016 the UK Government launched a package of measures to support people affected by the winter floods in 2015-16 including:

- a £5,000 repair and renew grant for all affected homeowners and businesses to pay for repairs which improve a property's ability to withstand future flooding;
- providing councils with over £500 for each household affected by the floods to help people with temporary accommodation costs;
- ensuring that flood victims will not pay council tax or business rates for their homes and businesses as long as they are not occupying their properties;
- providing councils with up to £2,500 to help businesses that have had their trading affected by the floods to start operating again; and
- grants of up to £20,000 to help farmers restore agricultural land, damaged as a result of the floods under the Farming Recovery Fund.

## Recent legislation provides the basis for better integration of coastal flooding and erosion risk management at a strategic level into wider policies, plans and funding arrangements

- 2.9 Our 2009 report recommended that the Welsh Government improve the integration of coastal flood and erosion risk management with other strategies. Increasingly there are examples of more integrated working such as after flooding events or on coastal regeneration schemes such as at Colwyn Bay. However, in our view the Welsh Government could still do more to ensure that the coastal flood and erosion risk management strategy is more closely integrated with other strategies, notably with tourism and more widely with the regeneration strategy. The Welsh Government plans to review the National Strategy in 2017-18.
- 2.10 The Flood and Coastal Erosion Risk Management Branch has already had some involvement with the development and early implementation of recent new legislation. This new legislation provides further opportunities for the Welsh Government to continue to integrate coastal flood and erosion risk management with other strategies. Recent legislation that promotes integration includes:
- a The Well-being of Future Generations (Wales) Act 2015 – improving partnership working through the new Public Service Board and Local Well-being Plan arrangements;
  - b The Environment (Wales) Act 2016 – learning from the natural resource management approach to manage flood risk more holistically (Box 6). Also to be established under this new legislation in October 2016, the Flood and Coastal Erosion Committee provides an opportunity to advise and to more fully integrate issues as it will consider a wider range of flood and coastal erosion issues than the previous Flood Risk Management Wales Committee.
  - c The Planning (Wales) Act 2015 – planning of flood risk management across local planning authority boundaries in the new Strategic Development Plans<sup>26</sup>.
- 2.11 From 1 April 2016, the Welsh Government, Natural Resources Wales and councils will have a duty under the Well-being of Future Generations (Wales) Act 2015 to show they have applied the sustainable development principle (Appendix 4) to their decisions. While the Welsh Government's National Strategy predates the Act, it reflects some of the things public bodies need to think about to show that they have applied the sustainable development principle:
- a balancing the short-term needs of communities at risk of flooding with the long-term focus on avoiding investment in areas where the costs of coastal protection outweigh the risks;
  - b focusing on flood prevention and improving the resilience of local communities to avoid higher costs in the future as a result of flood damage;
  - c promoting collaboration with relevant stakeholders; and

<sup>26</sup> The Planning (Wales) Act 2015 provides a legal framework for Strategic Development Plans. Strategic Development Plans allow local planning authorities to work together to address housing, employment and infrastructure arrangements which involve more than one authority. There is no legal requirement for local planning authorities to produce the Plans.

- d aiming to involve people with an interest in managing coastal flooding and erosion.

The Welsh Government's planned review of the National Strategy in 2017-18 provides the opportunity to build on the sustainable development principle and ensure that flood risk management objectives are integrated with the wider well-being goals for Wales.

#### **Box 6: Natural resource management trials**

Natural Resources Wales is running three pilot studies around the Dyfi, Rhondda and Tawe rivers using the natural resource management approach set out in the Environment (Wales) Act 2016. Rather than managing different parts of the environment in isolation, natural resource management looks at the continuity of natural resources across adjoining locations. Natural resource management seeks sustainable solutions for managing land in ways that support the natural functions within ecosystems. The approach aims to provide multiple benefits for people, wildlife and the economy, and involves engaging local people to use their knowledge of local issues and explore opportunities for managing natural resources. The three pilot studies have gathered evidence about a wide range of natural resource management issues, including flood risk. The pilot studies have so far explored tree planting, storage of water on farmland, creation of wetlands and reconnecting flood plains, but Natural Resources Wales needs to undertake more research to assess the benefits of each potential solution. Current trials focus on inland areas but the approach could be rolled out to include coastal catchment areas in the future.

- 2.12 Emerging plans for the Welsh Government's Coastal Risk Management Programme have the potential to improve integration. The Programme aims to secure 'multiple benefits' for the economy, environment and to improve social cohesion by developing closer links to other areas of government policy. The Programme will be overseen by a programme board of officials from partner organisations and a range of Welsh Government departments. Officials are currently developing critical success factors to ensure 'strategic fit' with national and local government policy. The Welsh Government has not set out how it plans to link its Flood and Coastal Investment Programme with relevant policy areas. The challenge for both programmes will be in securing funding from other Welsh Government departments to support coastal protection schemes. The Welsh Government's Flood and Coastal Erosion Risk Management team has promoted the benefits of flood prevention for tourism, regeneration and for the wider economy but has largely been unsuccessful in securing funding from other Welsh Government departments.
- 2.13 A recommendation in the Wales Coastal Flooding Review was that the Welsh Government endorse the strategic framework established by the Shoreline Management Plans. Giving the Shoreline Management Plans more formal recognition as policy with options and a suggested timescale could help communities develop their local adaptation plans to tackle increasing risks.

The Welsh Government has written to local planning authorities stating that Shoreline Management Plans should be a material consideration in planning decisions. Council flooding officers responding to our survey suggested giving the Plans statutory status would better integrate shoreline planning with national and local policy. Nevertheless, councils told us that the Shoreline Management Plans had influenced their Local Development Plans, individual planning applications and investment in coastal flood defence assets.

### Although partners work well together on specific initiatives, some roles and responsibilities and performance management arrangements remain unclear

- 2.14 We found positive examples of partnership working through the Wales Coastal Delivery Plan and individual projects. Natural Resources Wales is working with the National Trust at Cwm Ivy, Gower ([Case Study 3](#)), and with the City and County of Swansea in the lower Swansea Vale ([Case Study 4](#)). Conwy County Borough Council worked with a range of partners to develop Colwyn Bay ([Case Study 1](#)) and Gwynedd Council chairs a multi-agency board that is working with the Fairbourne Facing Change citizen's group to engage with the community ([Case Study 5](#)). Partners have also worked together to produce the Shoreline Management Plans and Local Flood Risk Management Strategies.
- 2.15 Stakeholders reported improved engagement from infrastructure and utility providers through the Wales Coastal Flooding Review Delivery Plan workshops but felt that engagement still varies across providers. The Wales Utility Group<sup>27</sup> could offer another forum for involving utility providers in coastal flood and erosion risk management.
- 2.16 Our previous report recommended that the Welsh Government make the roles and expectations of each stakeholder clear. In its National Strategy the Welsh Government has provided a broad description of the roles and responsibilities of organisations responsible for managing the risks of coastal flooding and erosion. Nevertheless, some partners are still unclear about some areas of responsibility.
- 2.17 Taking on the functions previously discharged by Environment Agency Wales, Natural Resources Wales' oversight role includes monitoring and reporting the progress of partners in delivering the aims of the National Strategy under section 18 of the Flood and Water Management Act. The Welsh Government is responsible for holding organisations to account and enforcing implementation where necessary. However, stakeholders were not always clear on the distinction between the responsibilities of the two organisations and some told us that local politicians misunderstood Natural Resources Wales to have an enforcement role on flooding issues. In addition, because Natural Resources Wales has a clear operational responsibility for delivering national objectives, it reports on its own activities and progress against the National Strategy under section 18 of the Flood and Water Management Act 2010 but without the benefits of an independent review<sup>28</sup>.

<sup>27</sup> The Wales Utility Group aims to bring utilities bodies in Wales together to ensure they are prepared in the event of an emergency, including flooding. The Group is currently chaired by the Welsh Government and reports to the Wales Resilience Partnership Team.

<sup>28</sup> In England, the Environment Agency is in a similar position because the Flood and Water Management Act 2010 also places a duty on it to report on its progress against objectives in the UK National Strategy.

- 2.18 The Welsh Government has checked the alignment of councils' Local Flood Risk Management Strategies with the national strategy. However, it has not developed routine arrangements to ensure that councils are implementing its National Strategy or the Shoreline Management Plans. Natural Resources Wales reports<sup>29</sup> every two years to the Minister about the application of the national strategy, but routine monitoring is limited.
- 2.19 In 2012, the Environment and Sustainability Committee recommended that the Welsh Government prioritise its assessments of the Shoreline Management Plans as a matter of urgency. The Welsh Government set a deadline of 2012 for delivery of the Shoreline Management Plans in its National Strategy. However, councils were slow to produce the Plans and the Welsh Government could not approve some until late in 2014 because the Habitats Directive<sup>30</sup> required councils to undertake an assessment of appropriate compensatory habitat for some of the proposed schemes. There were also some delays associated with Plans shared with coastal groups in England. The Coastal Groups are responsible for producing, implementing and monitoring progress of the Shoreline Management Plans. However, stakeholders told us that without clear guidelines from the Welsh Government on timescales or targets for delivering projects in the plans, the Coastal Groups are not sure what they are monitoring.
- 2.20 The Welsh Government has not enforced deadlines for Local Flood Risk Management Strategies and only two out of 15 councils with a coastline met the March 2013 deadline to produce the Strategies<sup>31</sup>. Some councils are making slow progress delivering actions from the Local Flood Risk Management Strategies and Shoreline Management Plans. Council flooding officers generally expressed positive views on the level of guidance provided by the Welsh Government. However, the Welsh Local Government Association and Natural Resources Wales told us they need more guidance on implementing parts of the National Strategy, Local Flood Risk Management Strategies and Shoreline Management Plans at a local level.
- 2.21 Stakeholders have also struggled to understand the distinction between responsibilities for flooding and erosion. Natural Resources Wales has the primary responsibility for coastal flooding, but the overall responsibility for coastal erosion is less clear, particularly after changes introduced in the Flood and Water Management Act (2010)<sup>32</sup>. There are also instances along the coast where it is difficult to determine if flood risk comes from coastal erosion or from other causes of sea flooding.

<sup>29</sup> Reports are made by Natural Resources Wales under section 18 of the Flood and Water Management Act 2010.

<sup>30</sup> The Habitats Directive required assessments of 'imperative reasons for overriding public interest'.

<sup>31</sup> Eight councils produced their Local Flood Risk Management Strategy by the end of 2013, another four by the end of 2014, and one in March 2015.

<sup>32</sup> The Coast Protection Act 1949 gave some councils in Wales powers to manage coastal erosion but the Flood and Water Management Act (2010) gave the Environment Agency (Wales) new operational responsibilities for coastal erosion. From 2011, councils must seek approval for coastal erosion works from Environment Agency Wales, and subsequently from Natural Resources Wales.



## The Welsh Government has yet to fully develop parts of its long-term funding strategy

The Welsh Government and partners have a broad understanding of the possible long-term costs of managing the risks of coastal flooding and erosion

- 2.22 With increasing risks associated with climate change, managing coastal flooding and erosion is likely to represent significant long-term costs. In 2011, the Environment Agency<sup>33</sup> estimated the cost of implementing the Shoreline Management Plans in England and Wales over the following 100 years. It put costs in Wales at around £2.7 billion (Figure 7), of which £1 billion would need to come from sources other than existing flood and coastal defence budgets.
- 2.23 The Environment Agency's estimates do not include revenue costs for staff and activities such as community engagement, flood forecasting and warning, awareness, development control, maintenance and incident response. The Agency's estimates are also restricted by limited information about the impact of climate change on the future costs of maintaining the coastal defence assets in Wales and in some cases make broad assumptions about increasing future costs. As the Shoreline Management Plans identify areas for managed retreat and no active intervention where investment will be reduced or stop altogether, the future costs of protecting the coastline could be considerably higher if these policies change.

Figure 7: Costs of implementing the Shoreline Management Plans over the next 100 years



Source: The Cost of Implementing Policies for Coastal Defence, Halcrow for the Environment Agency 2011

33 The Cost of Implementing Policies for Coastal Defence, Halcrow for the Environment Agency 2011

2.24 In 2013, the Flood Risk Management Wales Committee estimated the future costs of flood risk management in Wales<sup>34</sup> using information from Environment Agency Wales, council revenue budgets and average costs of protection per property. The Committee estimated that at least £60 million should be spent each year on flood risk management. However, the Committee's report did not break down the costs of protection from coastal flooding and erosion from other sources of flooding. Similarly, some other projections do not separate these costs.

**The Welsh Government has identified additional funding for coastal protection but has not developed a long-term funding strategy beyond 2020-21 or helped councils to secure options for external funding**

2.25 The Welsh Government missed its deadline in the National Strategy to develop a national funding policy and prioritisation methodology by the end of 2013, and some aspects of this policy remain unfinished. In December 2014, Ministers agreed the Welsh Government's initial business case for the Coastal Risk Management Programme<sup>35</sup>. The Welsh Government has committed that for the period of three years from 2018-19 to 2020-21, its new £150 million capital value Coastal Risk Management Programme will support councils<sup>36</sup> to implement capital schemes in line with local Shoreline Management Plans. Options for the Programme to make use of borrowing are still being confirmed, but include prudential borrowing by councils and direct borrowing by the Welsh Government. Funding may also include co-funding from other departments with the Welsh Government and contributions from local partners benefiting from schemes, although details are not yet developed. The Welsh Government has indicated that it intends funding for the Coastal Risk Management Programme to be additional to its annual core funding for flooding and coastal erosion risk management.

2.26 The Welsh Government has not made any firm commitments on departmental capital budgets beyond 2016-17, a year before the Coastal Risk Management Programme commences. The Welsh Government intention to allocate its core capital funding through the new Flood and Coastal Investment Programme will increase the competition for capital funding. The Welsh Government currently allocates capital funding separately to Natural Resources Wales through grant-in-aid arrangements, and to councils through its coastal protection grant. Under the new Programme, Natural Resources Wales and councils will compete for the same funding, and the Welsh Government will pilot the allocation of these funds using the Communities at Risk Register.

2.27 Between 2018-19 and 2020-21, the Coastal Risk Management Programme more than meets the annual cost identified by Halcrow in 2011 (Figure 7) for implementing the coastal schemes identified in Shoreline Management Plans. However, the issue for the Welsh Government and councils is in sustaining enough funding for the implementation of Shoreline Management Planning policies after, and well beyond, 2020-21.

<sup>34</sup> **Future funding of flood and coastal erosion risk management in Wales, interim report**, Flood Risk Management Wales for the Minister for Natural Resources and Food, Welsh Government, 2013.

<sup>35</sup> At the time it was called the Innovative Finance Coastal Programme.

<sup>36</sup> Within the £150 million for the Coastal Risk Management Programme, councils will need to contribute 25 per cent of the cost of capital schemes, with the Welsh Government providing the remaining 75 per cent. This simplifies the system and provides a flat-rate of grant support for councils whereas support under the coastal protection grant was variable and calculated according to means.

2.28 Some stakeholders had concerns that the Welsh Government has not explored all of the options available to fund coastal flood risk management. In 2012, the Environment and Sustainability Committee recommended that the Welsh Government undertake work to secure new sources of funding from across government budgets and from external bodies. The Flood Risk Management Wales Committee also recommended that the Welsh Government explore long-term funding options in its report on future funding in 2013<sup>37</sup>. The report examined a range of innovative approaches and recommended that the Welsh Government increase direct funding for flood risk management, and consider introducing council flood levies (Box 7)<sup>38</sup> and adopting a partnership funding system (Box 8). The Welsh Government has not formally responded to the Committee's recommendations or explored the options to generate additional income that the report raises.

#### Box 7: Using council tax to pay for flood risk management

Some councils in England have used council tax increases to fund flood risk management. For example, Gloucestershire Council introduced a 1.1 per cent flood levy as part of council tax increases in 2009 after residents voted in favour of the charges. The additional funds provided around £2.3 million that year for flood risk management.

#### Box 8: Partnership funding in England

The UK Government introduced partnership funding in England in 2012-13 to increase the funding available to communities from external sources to address flood risk. The amount of grant in aid available from the Department for the Environment, Food and Rural Affairs (Defra) depends on the proposed benefits of each scheme. Some schemes are eligible for 100 per cent funding from Defra while others get funding proportionate to their planned benefits and must meet remaining costs from other sources. A calculator on the UK Government website determines how much grant-in-aid funding schemes can expect to receive<sup>39</sup>. The calculator allocates more funding for schemes protecting households in deprived areas or projects that help meet the objectives of the Water Framework, Birds or Habitats Directives. In England, the Environment Agency approves grant-in-aid schemes on behalf of Defra.

An evaluation of partnership funding by JBA Consulting in 2013<sup>40</sup> reported an overall increase in funding for capital flood defence projects and greater local choice and responsibility over investment decisions. JBA's analysis of a sample of projects shows that 25 per cent of external contributions came from the private sector. Private-sector investors were often developers or private companies due to benefit directly from the scheme. The remaining 75 per cent of contributions came from councils and other public bodies. Before the UK Government introduced partnership funding, councils generally secured external contributions through a local levy administered by Regional Flood and Coastal Committees. External contributions to flooding schemes have increased from £5.4 million in 2011-12 before the UK Government introduced partnership funding to £54.5 million in 2013-14 and £60.5 million in 2014-15<sup>41</sup>.

JBA found that the partnership funding approach has led to a growing acceptance that central government cannot fully fund all projects but that many organisations have found the processes for securing partnership funding challenging. It recommended continued capacity building and guidance to address this issue.

37 **Future funding of flood and coastal erosion risk management in Wales, interim report**, Flood Risk Management Wales for the Minister for Natural Resources and Food, Welsh Government, 2013.

38 The report suggests flood alleviation levies on all residential council tax bills and a similar levy on businesses in Wales.

39 **Flood and Coastal Risk Management (FCRM) partnership funding calculator**, Environment Agency, February 2014 (on the gov.uk website).

40 **Flood and Coastal Erosion Resilience Partnership Funding Evaluation**, JBA Consulting for Defra, April 2014.

41 **Breaking the Bank? Funding for Flood and Coastal Erosion Risk Management in England**, Chartered Institution of Water and Environmental Management, March 2015.

- 2.29 In England, partnership funding has increased external funding for flood risk management from £5.4 million in 2011-12, to £60.5 million in 2014-15. The approach in England may provide lessons for the Welsh Government and partners in generating external funding and encouraging stakeholders to look beyond the Welsh Government for funding.
- 2.30 At the present time, the Welsh Government has chosen not to follow the partnership funding model in Wales. Instead, it hopes that match funding requirements for its Flood and Coastal Investment and Coastal Risk Management Programmes will encourage councils to seek funding from partners including from the private sector, infrastructure providers and others who may benefit from coastal defences. Both Programmes require councils to provide 25 per cent for each scheme, either using their prudential borrowing powers for the Coastal Risk Management Programme<sup>42</sup>, or by securing funding from other sources. The Welsh Government has held workshops for councils and has recently appointed external support to help councils to make funding bids that encompass wider benefits and contributions from partners.
- 2.31 Council officials told us they were concerned about their ability to match fund projects in a time of unprecedented pressure on budgets and in the context of uncertainties regarding local government reorganisation. In the past, some councils have found it difficult to identify alternative sources of funding. In our survey, only three councils reported attracting private sector funding in the last five years and funding was less than £30,000 in each case<sup>43</sup>. In addition, some council flooding officers felt they lacked the necessary skills to develop successful funding applications.
- 2.32 Applicants submitted a brief business case for proposed projects under the Coastal Risk Management Programme to the Welsh Government in September 2015. By December 2015, all councils with a coastline had applied for the Coastal Risk Management Programme funding. Some councils have identified potential funding partners in their initial application but most lack detail about sources of alternative funding at this stage.
- 2.33 Stakeholders told us that short-term, annual capital funding allocations restrict their ability to plan effectively and make efficiency savings. While the three-year funding commitment made to the Coastal Risk Management Programme is encouraging, the Welsh Government's intention is to keep allocating its core grant on an annual basis, and has not confirmed its funding strategy in the long term, beyond 2020-21. In contrast, the UK Government introduced a six-year funding cycle for flood and coastal erosion capital projects in England in 2015.
- 2.34 The Welsh Government is currently assessing proposals to produce a list of projects to go to the next stage. Feasibility studies and project appraisals are expected to take place between 2016-17 and 2018-19, with construction completed by March 2021. There is a risk that construction will be delayed due to short timescales for councils to develop designs, set up procurement arrangements

<sup>42</sup> The UK Government introduced Prudential Borrowing legislation in 2003 to give councils the power to borrow money to fund capital projects. The legislation requires councils to produce capital expenditure plans that are affordable, prudent and sustainable.

<sup>43</sup> Conwy County Borough Council: £25,000, Denbighshire County Council: £7,000 and Gwynedd Council: £21,000.

and consult on their plans, and then for the Welsh Government to appraise and approve final schemes. A 'Gateway Review' of the Coastal Risk Management Programme in October 2015 identified risks with the three-year delivery window. Following this review, the Welsh Government has decided to continue to plan to deliver the Programme over three years but has identified the need to consider contingency arrangements. The Welsh Government has secured grant funding through the Wales Infrastructure Investment Programme for the development of capital schemes that could receive funding from 2018-19 under the Coastal Risk Management Programme. This funding is confirmed at 100 per cent grant aided for 2016-17, and the Welsh Government is seeking to provide similar financial support to councils developing these schemes in 2017-18.

- 2.35 The Gateway Review also identified capacity and capability constraints which may impact on the Programme team's ability to deliver the Programme. The Welsh Government has not identified the human resources required to administer either its Flood and Coastal Investment or Coastal Risk Management Programmes, but told us it does not currently have the staff to do this effectively. The Welsh Government has recently recruited a second technical officer to assist with some aspects of the administration of its Coastal Risk Management Programme, and plans to increasingly use external support in the technical appraisal of projects.

### Revenue funding for councils is under pressure and may not be sufficient to maintain coastal defences

- 2.36 In 2015-16, the Welsh Government replaced the Lead Local Flood Authority grant with the Single Environmental Revenue Grant awarded annually to each council and administered by the Department for Natural Resources. To secure a share of their council's allocation of the new grant, flood risk management services must now compete with other services including waste management where councils risk fines if they fail to meet statutory targets, and for local environmental quality improvements. Although the Single Environmental Revenue Grant is not limited to £100,000 per council as was the case for the Lead Local Authority Flood grant, councils now have to prioritise this funding between several service areas. As previously, councils may decide to use revenue from their Revenue Support Grant, should they wish to use this source of funding for statutory flood risk duties.
- 2.37 Some councils responded to the Welsh Government's consultation on the Flood and Coastal Investment Programme saying that current revenue allocations are insufficient to meet their maintenance requirements. Only one council flooding officer responding to our survey felt they had sufficient revenue funding to maintain the effectiveness of coastal flood risk assets over the next three years<sup>44</sup>. Stakeholders were also concerned that plans for the new Programme do not include an assessment of revenue funding requirements for maintenance, coastal monitoring and community engagement activities.

<sup>44</sup> Seven respondents felt that their council did not have sufficient funding and five did not know.

## Although there has been some progress, more work is needed to ensure that funding can be prioritised to areas of greatest need

- 2.38 The Welsh Government and partners have made some progress in understanding risk since 2009. Natural Resources Wales has worked with other organisations responsible for managing flood risk to produce a National Flood Risk Assessment, flood-hazard and flood-risk maps for flooding from rivers, the sea, reservoirs and surface water. Interactive maps are available on the Natural Resources Wales website.
- 2.39 Environment Agency Wales published a National Coastal Erosion Risk Map in 2012. Since then, Natural Resources Wales has worked with the Welsh Government to analyse erosion risk to properties in Wales<sup>45</sup>. The revised Shoreline Management Plans<sup>46</sup> also improve the understanding of national risk across Wales. Natural Resources Wales<sup>47</sup> states that improvements in risk modelling and flood mapping have led to a reduction in the number of properties categorised as being at risk from river or sea flooding from 220,000 in 2009 to 208,000 in 2013. The reduction is also likely to reflect investment in coastal flooding and erosion risk management.
- 2.40 While information about the level of risk in Wales has improved in recent years, further enhancement is needed to identify high-risk priority areas for investment. However, the Welsh Government's progress has been held up, at least in part, due to a lack of information on assets held by Natural Resources Wales and by councils.
- 2.41 The Welsh Government established the Wales Coastal Monitoring Centre in 2010 to improve the co-ordination of coastal monitoring data collection, storage and analysis. Gwynedd Council hosted the Centre, but in recent years the Centre has been inactive although Gwynedd Council submitted a business case to the Welsh Government in 2012, and revised this business case in September 2014. The Council suggested that a consortium of councils, Natural Resources Wales, the Welsh Local Government Association, academics and the third-sector representatives should run the centre. The Wales Coastal Flooding Review recommended that the Welsh Government should make a decision on the future of the Wales Coastal Monitoring Centre, and stakeholders told us that uncertainty about the Centre's future role and remit had restricted its activities and undermined the understanding of national risk. Since early 2016, the Welsh Government has considered options and shortly expects to determine a preferred way forward for the Wales Coastal Monitoring Centre.

<sup>45</sup> The Welsh Government recognises that data on coastal erosion is relatively new and not always accurate.

<sup>46</sup> Coastal groups began revising the Shoreline Management Plans in 2011.

<sup>47</sup> **Flood and Coastal Risk Management in Wales 2011-2014**, Natural Resources Wales, 2014

- 2.42 The Welsh Government aims to improve its understanding of risk with a national flood risk index which combines flood and coastal erosion risk from all sources based on the likelihood of an event happening and the consequences if the event occurs. The Welsh Government plans to use the index to appraise both applications from Natural Resources Wales and councils for its Flood and Coastal Investment Programme. Developing the national flood risk index is a complex task and responses to the Welsh Government's consultation on its Flood and Coastal Investment Programme highlight a range of issues to be resolved. Stakeholders told us there are concerns that the index will be over-complicated and difficult for the public to understand. They were also concerned it may disadvantage inland councils in favour of councils where there are combined risks of coastal flooding and erosion. One stakeholder told us that the index should incorporate data on the economic impact of damage to agricultural land. The Welsh Government intends to trial the index in 2016-17, but does not know when the index will be finalised.
- 2.43 Natural Resources Wales is already using a 'Communities at Risk Register' that combines data on flooding risk from the sea and from watercourses. Natural Resources Wales is not responsible for risk from coastal erosion or from surface water and the Register did not include these risks, although it will soon do so. This Register indicates the potential impacts from these types of flooding and can inform investment decisions in areas where Natural Resources Wales has responsibility and will be used in the trial of the national flood risk index during 2016-17. The Register helps Natural Resources Wales to identify the highest priority projects, with each project assessed according to its business case and the Treasury Green Book. In this way, Natural Resources Wales prioritises and allocates funding through its Capital Programme to the highest risk areas.
- 2.44 Natural Resources Wales owns about a third of coastal defences, councils own a third and the private sector own the remaining third. Private sector owners include Network Rail, utility companies and large landowners such as the National Trust and The Crown Estate. Some coastal defences like railway embankments, highway retaining walls, beaches or sand dunes provide some protection but their owners do not recognise them, or maintain them, as flood defences. Stakeholders told us there are parts of the coast where it is difficult to determine ownership of coastal assets.
- 2.45 The Welsh Government has made little progress improving the national approach to coastal asset management, missing its own deadlines in the National Strategy to develop a register of coastal flood defence assets by 2014, and to establish a programme of regular maintenance. However, Natural Resources Wales is leading a project on coastal defences for the Coastal Review Delivery Plan and in late 2015 produced a report on options for a national defence dataset. In collaboration with the Welsh Government, the Welsh Local Government Association and councils, progress is now being made to combine data from Natural Resources Wales with data from councils.

- 2.46 Organisations responsible for managing coastal flooding and erosion do not collect information on the condition of assets in a consistent way. In 2009, we found that standards of inspection, recording and maintenance of coastal defence assets were variable although we found that Environment Agency Wales had good asset information and arrangements to inspect their assets. They still do. However, our survey in 2015 found that councils have several different approaches to asset management. Eight of the councils we surveyed reported that they had an asset management plan which sets out the location, nature and condition of their coastal assets. Some councils are using spreadsheets to manage the information, while others have invested in asset management software, although the type of software differs across Wales. Inspection regimes vary from annual or 'continuous' inspections in some areas, to ad hoc arrangements in others.
- 2.47 Natural Resources Wales has a regular programme of inspection and maintenance and has so far met its target to maintain the effectiveness of 99 per cent of its high-risk flood and coastal risk management assets during 2015-16<sup>48</sup>. Natural Resources Wales' Communities at Risk Register uses information on the condition of coastal defences to inform its prioritisation of resources but the information only relates to the defences Natural Resources Wales is responsible for.
- 2.48 Information about coastal defence assets is not being shared effectively amongst stakeholders and there is no national overview of coastal defence assets along the coast in terms of their condition, or integrity, including the impact of climate change. Most councils responding to our survey said they do not know the condition and effective life of assets held by private or third-sector stakeholders. Stakeholders also told us that the responsibilities of some organisations for maintaining and sharing information about their assets is not clear. We understand that the Coastal Delivery Plan project led by Natural Resources Wales on roles and responsibilities aims to clarify responsibilities relating to asset management.
- 2.49 Council flooding officers suggested that shared asset management software could also improve information sharing, but Natural Resources Wales say that councils have so far been reluctant to use the software that was developed. Recent progress to combine data from Natural Resources Wales with data from councils (see [paragraph 2.45](#)) suggests progress towards creating a shared asset management database. We also consider that the Welsh Government and partners could also learn lessons from Network Rail's national approach to asset management ([Box 9](#)).

<sup>48</sup> Based on performance from 1 April to 30 November 2015, Natural Resources Wales Performance Progress Update 28 January 2016.



### Box 9: Network Rail Coastal Defence Asset Management System

In Wales, 34 miles of Network Rail's coastal assets are vulnerable to overtopping, to coastal erosion, or to storm surges. Network Rail has a regular programme of inspection for its coastal defences and conducts a detailed annual assessment of all assets. Network Rail rates the condition of its assets from 1 to 5, and uploads information onto interactive software that shows the condition, risk, location and maintenance schedule for each asset. These asset management plans include links to local Shoreline Management Plans that show the suggested approach in each area. Where a coastal asset is made of different materials and forms of construction, each of these elements is assessed to determine its interrelationship, resilience and vulnerability to extreme weather events. If the coastal defence capability of an asset deteriorates or improves, the knock-on impact on other coastal assets updates automatically on the software.

In 2013, Network Rail started an evaluation of the UK coastline to assess the risks to their coastal defences on a national level and to inform their investment decisions. The evaluation assesses risks by considering the threats to the rail infrastructure, the consequences of weather impacts and the controls in place to manage these risks. The evaluation assesses vulnerability to weather impacts and potential future risks due to climate change. In 2014, Network Rail published the results of its evaluation in its Route Weather Resilience and Climate Change Adaptation Plan for Wales. The Plan highlights coastal defences and other asset infrastructure on the rail network where investment could increase resilience to present-day extreme weather events and the effects of future climate changes. Network Rail monitors progress against its plan every year.

## The Welsh Government plans to improve governance arrangements for future funding programmes

The Welsh Government's arrangements for monitoring its coastal protection grant have been weak although some changes from April 2016 seek to improve progress reporting, and clarify benefits realised and any savings

- 2.50 In 2010, the Public Accounts Committee recommended that the Welsh Government develop a transparent methodology to assess and prioritise funding of coastal defence schemes. The Welsh Government missed its objective in the National Strategy to develop a way of prioritising funding by the end of 2013 and has made slow progress since then.
- 2.51 The Welsh Government currently allocates funding to councils based on the strength of applications for its coastal protection grant. Councils applying for funding must set out clear objectives, methods, estimated costs and the duration of the work. Applications also include a project appraisal report, cost benefit analysis and relevant consents. The Welsh Government provides project appraisal guidance for applicants based on the Treasury Green Book. The Welsh Government has two technical officers that assess applications and recommend to the Flood and Coastal Erosion Risk Manager whether each scheme should receive grant funding.
- 2.52 So far, the Welsh Government has funded all of the schemes councils have applied for under the coastal protection grant and has not had to compare risks to make a decision on funding one scheme over another. The Welsh Government is currently producing a map to show the location and amounts of its coastal protection grant funding that councils and Natural Resources Wales have spent during the period 2010 to 2015, and the areas of highest risk. The map can also help the Welsh Government to identify vulnerable high-risk locations where councils have not bid for funding, so that these risks can be effectively managed. The Welsh Government is also now able to separate information on funding for council coastal and non-coastal flood protection schemes to provide a better picture of its spending.
- 2.53 Ministerial approval is required for council schemes costing £300,000 or more but in some instances it has been found that information recording the Welsh Government's assessments of applications lacks detail in terms of the assessment, or the rationale for approving schemes. Coastal risk management projects funded through ERDF were assessed for their suitability against the Programme's eligibility criteria by the European Funding Programme Board. The Welsh Government assesses business cases and project appraisal reports submitted by councils, and the Flood Risk Management Wales Committee oversees the allocation of funding for projects in Natural Resources Wales' Capital Programme.

- 2.54 The Welsh Government has lacked sufficient arrangements for scrutiny of its coastal protection grant. Councils provide regular progress reports, but the Welsh Government's Flood and Coastal Erosion Team told us staff capacity restricts their ability to review reports and visit schemes. The Welsh Government has recently recruited an additional technical officer to help with monitoring schemes (see [paragraph 2.35](#)). Councils have not been required to produce closure reports or demonstrate the impact of coastal protection schemes, so the Welsh Government had no assurance on whether projects represent value for money, or whether they could have achieved the same results for less. The Welsh Government has introduced changes to the grant arrangements from April 2016, to improve progress reporting, to clarify the benefits realised from funding, and to show any savings.
- 2.55 The Welsh Government pays its coastal protection grant in arrears based on councils' submissions of the costs incurred. For grant claims over £100,000, the Welsh Government holds five per cent of funds until the Wales Audit Office can certify the grant claims. Certification involves checking that funding allocations match Council spending and grants claims, and that applicants are not making ineligible claims<sup>50</sup> but it does not assess value for money. We have not reviewed the delivery of individual council coastal protection schemes as part of this study. However, in response to concerns raised locally, auditors have been undertaking work on behalf of the Auditor General to examine issues relating to work to repair the shoreline at Llandudno North Shore and Kinmel Bay in Conwy. That improvement work followed damage to the shoreline during the winter storms of 2013-14 and was supported by Welsh Government funding.
- 2.56 The Welsh Government and councils could learn from the approach Natural Resources Wales uses to monitor its Capital Programme. Natural Resources Wales has recently reviewed the Programme using 'lean' principles<sup>51</sup> to improve efficiency. As a result, Natural Resources Wales assesses projects at a fixed point in the year, which helps the team to build in efficiencies, such as grouping consultancy tenders together. Area teams have oversight of proposed works across Wales so they can manage competing demands for construction materials or contractors by altering timescales. Natural Resources Wales uses project management software to record monthly progress against key milestones and financial targets, and feeds data into progress reports that go to the Natural Resources Wales Capital Programme Board, their executive team and Board, Flood Risk Management Wales Committee, and to the Welsh Government.

<sup>50</sup> Since 2009, our certification work has not found major issues for the coastal protection grant.

<sup>51</sup> Lean thinking aims to maximise value and minimise waste by focusing on the key processes in an organisation to improve efficiency.

## The Welsh Government's plans for its Coastal Risk Management and Flood and Coastal Investment Programmes have the potential to improve decision making and monitoring of coastal spending

- 2.57 The Welsh Government is developing governance arrangements for the Coastal Risk Management Programme and has put in place a Board to ensure the Programme delivers its objectives, is accountable for investment and achieves expected benefits. Members of the Board include Natural Resources Wales, the Welsh Local Government Association and a range of Welsh Government departments. The Board will overview the Programme and its projects, with the Welsh Government reviewing the detail of applications for funding and making recommendations about suitable projects. As noted in [paragraph 2.34](#), the Programme is also part of a 'Gateway Review' process to review progress through the lifetime of the Programme.
- 2.58 Emerging plans for the Welsh Government's Flood and Coastal Investment Programme include similar board arrangements to oversee progress. Organisations in receipt of funding would be responsible for monitoring individual schemes using updated project appraisal guidance to be produced by the Welsh Government, with the aim of ensuring value for money and the incorporation of wider well-being benefits. The Welsh Government consulted stakeholders on its plans for the Programme in December 2014 but has yet to finalise delivery arrangements.
- 2.59 The Flood Risk Management Wales Committee currently oversees the Natural Resources Wales Capital Programme, but will be replaced in October 2016 by a new Flood and Coastal Erosion Committee. The Welsh Government intends the new committee to advise Ministers on the risks and benefits of all sources of flooding and erosion. The Welsh Government is not yet clear how the new committee will fit into governance arrangements for its Coastal Risk Management or Flood and Coastal Investment Programmes.

## Lack of capacity within the Welsh Government and councils has delayed progress and threatens to undermine the long-term approach to managing the risks of coastal flooding and erosion

- 2.60 In 2010, the Public Accounts Committee recommended that the Welsh Government should ensure that sufficient resources, including technical and project management capacity are available to manage coastal flooding and erosion. Some progress has been made in assessing skills and capacity gaps, but capacity issues remain, for the Welsh Government and councils.
- 2.61 The Welsh Government's Flood and Coastal Erosion Risk Management team currently employs 6.6 full-time equivalent staff. Stakeholders regarded the Welsh Government team as understaffed and considered that delays in policy development and decisions on managed retreat were due to a lack of capacity.

- 2.62 In response to a recommendation of the Wales Coastal Flooding Review, the Welsh Local Government Association and Natural Resources Wales conducted a skills audit in the summer of 2015<sup>52</sup>. The audit found that councils are not replacing vacant positions and that 20 per cent of the workforce could retire in the next 10 years. The skills audit found that due to a lack of capacity and funding, officers are increasingly becoming generalists, covering a wide range of work and most scored their abilities in managing flood risk as 'basic' or 'capable' rather than 'specialist'. The Welsh Local Government Association intends to work with the Welsh Government, Natural Resources Wales and councils to address skills and capacity gaps. Skills and capacity issues in both the Welsh Government and councils threaten to undermine the long-term approach if not addressed adequately.
- 2.63 Staff numbers vary across councils in Wales. While some variation reflects different levels of flood risk across Wales, current staffing levels may not be sufficient to manage the risks effectively in some councils. Many councils employ less than one full-time equivalent to manage all types of flooding risk and in several instances, employees are responsible for a range of other duties. Over half of the flooding officers that responded to our survey did not think their council had adequate capacity to develop the local strategic approach, or design and deliver solutions to manage coastal flooding or erosion.
- 2.64 The Local Government (Wales) Bill 2015 makes preparations for local government reform in Wales which could, if progressed, see the number of councils in Wales reduced. Local government reform could impact on local capacity to manage flood risk but also present opportunities for efficiency savings through joint working and to consolidate experience across Wales.
- 2.65 Natural Resources Wales currently employs 280 people to work in all aspects of flood risk, including coastal flooding and erosion<sup>53</sup>. While there were additional pressures arising from the creation of Natural Resources Wales in 2013, the organisation has discharged its flood risk management functions effectively and responded well to the challenges of the winter floods in 2013-14. In December 2015, the Welsh Government confirmed to Natural Resources Wales a cash-terms reduction of five per cent for its flood risk management activities. Funding pressures and new statutory responsibilities associated with the Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Act 2016 will create challenges for Natural Resources Wales in the future which may restrict its ability to manage flood risk effectively. Our report on the development of Natural Resources Wales<sup>54</sup> recommended that Natural Resources Wales should manage funding pressures and expectations about its role by agreeing key delivery priorities with the Welsh Government and stakeholders.

<sup>52</sup> The Welsh Local Government Association conducted a previous skills audit in 2012 and subsequently delivered training workshops with Natural Resources Wales to aim to address skills gaps identified in the audit.

<sup>53</sup> These are full-time equivalents. Natural Resources Wales is unable to separate staffing figures for coastal flooding and erosion and other types of flooding because staff have a range of responsibilities.

<sup>54</sup> **The Development of Natural Resources Wales**, Wales Audit Office, February 2016.

# Appendices



# Appendix 1 - Audit Methods

## Document Review

We have reviewed a range of documents published or provided by the Welsh Government including:

- the National Strategy for Flood and Coastal Erosion Risk Management in Wales, 2011 and information about the development of a national strategy;
- evaluations of previous initiatives including the New Approaches Programme and individual coastal protection schemes;
- financial information including budgets and spending on coastal flooding and erosion;
- information relating to the Welsh Government's coastal protection grant; and
- documents setting out emerging plans for the Welsh Government's Flood and Coastal Investment Programme and Coastal Risk Management Programme.

We also reviewed documents from Natural Resources Wales including:

- documents relating to the Wales Coastal Flooding Review and subsequent delivery plan;
- performance reporting under section 18 of the Flood and Water Management Act 2010;
- information relating to the Flood Risk Management Wales Committee including minutes and reports;
- information relating to Natural Resources Wales' capital programme;
- evaluations of Flood Awareness Wales and community engagement activities; and
- information on individual coastal protection schemes.

## Interviews

We interviewed a range of people including Welsh Government Officials, flood risk management staff at Natural Resources Wales, and representatives from Fairbourne Facing Change, the coastal groups, Network Rail, and the Welsh Local Government Association. We also met council flooding officers at Ceredigion, Gwynedd, Monmouthshire, Newport, Pembrokeshire, and Swansea councils.

We also wrote to other stakeholders including academics and coastal engineering consultants, NFU Cymru, the National Trust, Welsh Water, national parks, port authorities, trunk road agencies and the Met Office to invite their views.

## Survey of councils

We conducted a survey of councils in Wales with a coastline<sup>55</sup> during the spring and summer of 2015. The survey asked about councils' approach to coastal flood and erosion risk management and sought views on the national approach.

We also reviewed information on councils' management of coastal flooding and erosion including:

- strategic documents including Shoreline Management Plans, Local Flood Risk Management Strategies and Plans, Local Development Plans, and Asset Management Plans;
- scrutiny and cabinet reports on coastal flooding and erosion;
- staffing levels;
- consultation and community engagement activities; and
- information relating to individual coastal protection schemes.

We were unable to obtain consistent information to analyse councils' capital and revenue expenditure on coastal flooding and erosion over and above funds provided by the Welsh Government or through European Union funding.

<sup>55</sup> Bridgend, Cardiff, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Flintshire, Gwynedd, Isle of Anglesey, Monmouthshire, Neath Port Talbot, Newport, Pembrokeshire, Swansea, and the Vale of Glamorgan councils. The Isle of Anglesey County Council and Vale of Glamorgan Council did not respond to the survey.



# Appendix 2 - Wales Coastal Flooding Review

The **Wales Coastal Flooding Review**<sup>56</sup> examined the impacts of the winter floods during December 2013 and January 2014 across Wales in two phases. Natural Resources Wales conducted the review, with input from the organisations responsible for coastal flooding and erosion risk management in Wales at the request of the then Minister for Natural Resources and Food. The first phase of the review looked at the effects of the flooding and phase two at the lessons learnt from both events. The Phase Two Report includes 47 recommendations relating to the strategic and operational aspects of coastal flood risk management. The recommendations have been grouped into 10 projects to be addressed in the Wales Coastal Flooding Review Delivery Plan (2015).

- Project 1 – Flood forecasting and coastal design: to improve the accuracy of flood forecasts.
- Project 2 – Flood warning and forecasting: to improve the information used for flood warnings.
- Project 3 – Community resilience: working with communities to improve their resilience to flooding.
- Project 4 – Operational response: to improve the joint response to flooding events.
- Project 5 – Coastal defences: to review defences in high-risk areas to ensure defences are fit for purpose.
- Project 6 – National coastal defence dataset and inspections: to produce a national dataset of coastal defence assets and the areas they protect. The project will also identify options for a more consistent approach to inspecting coastal defences.
- Project 7 – Skills and capacity audit and roles and responsibilities: to carry out an audit of organisations responsible for managing coastal flooding and erosion to assess and develop options to address potential skills and capacity gaps. The project also aims to clarify roles and responsibilities amongst key stakeholders.
- Project 8 – Coastal Groups: to review the role of the Welsh Coastal Groups.
- Project 9 – Coastal adaptation: to improve support to communities to adapt to increasing risks and respond to local Shoreline Management Plan policies.
- Project 10 – Infrastructure resilience: to improve the way that organisations responsible for managing coastal flooding and erosion work with infrastructure and utility operators to increase resilience.

<sup>56</sup> **Wales Coastal Flooding Review Phase One and Two Reports**, Natural Resources Wales, 2014. The review was led by Natural Resources Wales with contributions from councils and other organisations responsible for managing flood risk.

# Appendix 3 - Welsh Government funding for flood and coastal erosion risk management from 2010-11 to 2016-17

The table shows sources of Welsh Government and European Union funding for flood and coastal erosion risk management from 2010-11 to 2016-17. The real-terms value of this funding is shown alongside the cash allocated.

	Welsh Government funding <sup>1,2</sup>						Total funding	
	Core flood and coastal erosion risk management budget		Additional Capital funding Received in Year <sup>4</sup>		European Regional Development Fund		Cash terms	Real terms
	Cash terms	Real terms	Cash terms	Real terms	Cash terms	Real terms		
2010-11	38.6	41.36	5.8	6.21	17.1	18.32	61.5	65.90
2011-12	36.7	38.72	5.7	6.01	9.5	10.02	51.9	54.76
2012-13	35.7	36.99	11	11.40	6	6.22	52.7	54.61
2013-14	37.1	37.66	14	14.21	6.1	6.19	57.2	58.06
2014-15	36.93	36.93	13.5	13.50	1.5	1.50	51.93	51.93
2015-16	36.58	36.51	10.5	10.48	3	2.99	49.81	49.71
2016-17 <sup>3</sup>	34.45	33.87	21.21	20.86	N/A	N/A	55.86	54.93

## Notes

- Figures include capital and revenue funding.
- Revenue funding includes funding for councils to manage all sources of flooding and erosion through the Lead Local Flood Authority Grant, funding to help councils produce Local Flood Risk Management Strategies and revenue funding for Natural Resources Wales.
- Figures for 2016-17 also included a £4.21 million additional allocation to specific projects (Porthcawl Town Beach and Boverton) and £9.2 million of consequential funding due to Barnett Formula funding adjustments made after the 2015 flooding in England. The Welsh Government anticipates that all of this consequential funding will be included in the core Flood and Coastal Erosion Risk Management budget for 2016-17, although other departments undertaking flood work could also receive some of this funding.
- Additional capital funding received in-year includes the Strategic Capital Investment Fund, which in 2011-12 became the Wales Infrastructure Investment Plan, as well as divisional transfers and in-year additional funding.

# Appendix 4 - Applying the sustainable development principle

The Well-being of Future Generations (Wales) Act 2015 places a duty on specified public bodies, including the Welsh Government, Natural Resources Wales and councils, to act in accordance with the sustainable development principle and to demonstrate that they are doing so. This means 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.

Public bodies need to be able to demonstrate how they are working to improve the economic, social, environmental and cultural well-being of Wales in the context of the following seven well-being goals:



Source: Welsh Government

There are five things that public bodies need to think about to show that they have applied the sustainable development principle:

- **Long-term** – The importance of balancing short-term needs with the need to safeguard the ability to meet long-term needs, especially where things done to meet short-term needs may have a detrimental long-term effect.
- **Integration** – The need to take an integrated approach, by considering how:
  - the body’s well-being objectives may impact upon each of the well-being goals; and
  - the body’s well-being objectives may impact upon each other or upon other public bodies’ objectives, in particular where steps taken by the body may contribute to meeting one objective but may be detrimental to meeting another.
- **Involvement** – The importance of involving other persons with an interest in achieving the well-being goals and of ensuring those persons reflect the diversity of the population of:
  - Wales (where the body exercises functions in relation to the whole of Wales); or
  - the part of Wales in relation to which the body exercises functions.
- **Collaboration** – How acting in collaboration with any other person (or how different parts of the body acting together) could assist the body to meet its well-being objectives, or assist another body to meet its objectives; and
- **Prevention** – How deploying resources to prevent problems occurring or getting worse may contribute to meeting the body’s well-being objectives, or another body’s objectives.

In particular, for coastal flooding and erosion, well-being assessments should include consideration of:

- the future impacts of coastal flooding and erosion on communities, business and infrastructure, and
- how well-being objectives address coastal flooding and erosion issues.



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Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# National Fraud Initiative 2014-15: Ensuring the proper use of public funds in Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU







This report summarises the findings of the National Fraud Initiative 2014-15. I have prepared this report for presentation to the National Assembly under the Public Audit (Wales) Act 2004.

Members of the Wales Audit Office staff who assisted me in preparing this report comprised David Rees and Anthony Barrett.

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# Summary report

## Foreword

The financial challenges facing Welsh public services are unprecedented and it is essential that with budgets reducing, public bodies do everything they can to ensure that they spend wisely and continue to provide vital services and support to those who need it the most.

Fraud is not a victimless crime. Those who make false claims to obtain benefits and services to which they are not entitled do so at the expense of the most vulnerable in society. Fraud impacts on the level of funding available for front-line services, so fighting fraud must remain a key element in ensuring that limited public funds are used effectively. It is vital that each public sector body does everything in its power to both prevent and detect fraud.

The National Fraud Initiative (NFI) is a highly effective tool which continues to play a major role in the fight against fraud and I am pleased to present the results of the latest biennial exercise. Since its inception in 1996, the NFI has been used to identify more than £30 million of fraud and overpayments against the Welsh public sector. The latest exercise has been another success, having uncovered £4.4 million of fraud and overpayments.

I am also delighted that in 2015, public bodies in Wales were given access to a new NFI module, 'AppCheck' at no charge to them, which has been designed to help public bodies identify fraudulent applications for services and benefits. I am confident that this new facility will in future years prove highly successful in preventing fraud entering the system and protecting the public purse.

Whilst these savings to the public purse are valuable in helping to protect front-line services, the benefit of the NFI extends beyond the identifiable financial savings. The NFI continues to be a significant deterrent to would-be fraudsters and has enabled public bodies to identify and address weaknesses in their counter-fraud arrangements.

I am continuing to implement a strategy for widening participation and usage of the NFI in Wales and encourage all public sector organisations to come forward with proposals for further potential data matches that could help in the prevention and detection of fraud.

I would like to publicly thank all those involved in the review and investigation of data matches for the essential work that they do. Once again, that work has proved fruitful in identifying a significant level of fraud and error. I would also like to thank the NFI team based in the Cabinet Office, for their invaluable support in the development and operation of the NFI in Wales.

Huw Vaughan Thomas  
Auditor General for Wales

## Summary

- 1 Public bodies in Wales spend many billions of pounds of taxpayers' money in providing benefits and services to address the social needs of the Welsh population. In most cases, the recipients of these benefits and services are entitled to them and they can make a considerable difference to improving quality of life.
- 2 Unfortunately, there are individuals who seek to claim benefits and services to which they are not entitled. They make fraudulent applications and claims and, in doing so, deprive the public services of valuable resources which could be used to fund vital public services. Fraud against the public services is not a victimless crime. It means that individuals in genuine need may have to wait longer for services, treatments or help because of the greed of others.
- 3 The public services in Wales are facing their biggest challenge for a generation. They face significant reductions in real-term budgets in the coming years. It is therefore imperative that public bodies work to eliminate waste and inefficiencies within their current services in order to minimise the potential impact on front-line services. This must include ensuring that those in receipt of public services and benefits are entitled to them.
- 4 In order to support Welsh public bodies in their fight against fraud, the Auditor General runs the NFI in Wales on a biennial basis. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The Auditor General collaborates on the NFI with the Cabinet Office, Audit Scotland and the Northern Ireland Audit Office to match data across 1,300 organisations in England, Scotland, Wales and Northern Ireland.
- 5 The NFI continues to be a highly effective tool in detecting fraud and overpayments, and delivering savings to the public purse. Since its commencement in 1996, NFI exercises have resulted in the identification of more than £30 million of fraud and overpayments in Wales, and £1.3 billion across the UK.
- 6 The majority of data matches for this latest NFI exercise were provided to public bodies in January 2015. Since then, most of the matches have been reviewed by participating bodies and, where appropriate, investigations undertaken. In 2013, it was announced that responsibility for investigating potential housing-benefit frauds would transfer from local authorities to the Department of Work and Pensions Fraud and Error Services (DWP FES). This transfer to DWP FES took place in Wales on a phased basis between July 2014 and March 2016. In consequence, many potential housing-benefit frauds identified through NFI data-matching were referred to DWP FES by Welsh local authorities for investigation. Many of these investigations are still in progress and therefore the outcomes of these cases are not yet known.

- 7 Nevertheless, the NFI 2014-15 has been highly effective and has already resulted in the identification of £4.4 million of fraud and overpayments in Wales, and £223 million across the UK.
- 8 These outcomes could not have been achieved without the hard work of staff within participating bodies who have shown commitment to reviewing and investigating the data-matches. Nevertheless, there remains considerable variability in the efforts made by participating bodies to review the matches. The Auditor General will provide additional support in the next biennial NFI exercise to those bodies which are not optimising the benefits of the NFI. This will include providing tailored training and additional guidance on following up NFI matches.
- 9 The Auditor General is committed to supporting public bodies in their efforts to prevent and detect fraud through further developing NFI. During 2015, the Auditor General provided Welsh public bodies with access to a new fraud prevention NFI module, 'AppCheck'. This has been made possible by the additional funding approved by the National Assembly. AppCheck has been designed as a fraud prevention tool, enabling public bodies to undertake real time checks for potential fraud within applications for benefits and services. AppCheck helps prevent fraud entering the system, thereby avoiding costly investigations and recovery action which is needed once fraudulent claims are in payment.
- 10 The Auditor General is seeking to extend participation in the NFI and has written to Welsh Government Sponsored Bodies and Housing Associations encouraging their participation in NFI 2016-17. He is also seeking to extend NFI into other areas which are susceptible to fraud. New datasets are being introduced for NFI 2016-2017 to help identify fraudulent transactions and the Auditor General is also intending to undertake Wales-specific data-matching pilot exercises in areas which he considers may be susceptible to fraud.

## Part 1

The latest National Fraud Initiative has been another successful exercise in detecting and preventing fraud against the Welsh public sector



## The latest NFI exercise in Wales has resulted in total savings to the public purse of £4.4 million

- 1.1 Fraud is not a victimless crime. Those who make false claims to obtain benefits and services to which they are not entitled do so at the expense of the most vulnerable in society. Fraud impacts on the level of funding available for front-line services, so fighting fraud must remain a key element in ensuring that limited public funds are used effectively. It is vital that each public sector body does everything in its power to both prevent and detect fraud.
- 1.2 In order to support Welsh public bodies in their fight against fraud, the Auditor General runs the NFI on a biennial basis. The NFI matches data across organisations and systems to help public bodies identify anomalies which may signify fraudulent claims and transactions. [Exhibit 1](#) sets out some of the data matches that are run through the NFI and the types of issues which may be found.

### Exhibit 1 - Councils with incomplete audits at 31 December 2015

Datasets matched	Issues uncovered
Housing benefit to housing-benefit claims	Individuals who are claiming housing benefit at more than one property.
Housing benefit, housing rent and payroll records to immigration data <sup>1</sup>	Individuals employed or in receipt of public benefits who have no entitlement to live or work in the UK.
Council tax single person discount (CTSPD) to electoral register	Individuals falsely claiming to be the sole adult occupant of a property in order to receive a 25 per cent discount on their council tax bill.
Payments to residential care home to deceased persons' records.	Ongoing payments to residential care home residents after the resident has died.
Creditor payments to creditor payments	Public bodies have paid twice for the same goods or service following the receipt of duplicate invoices.
Blue-badge holder records to deceased persons' records.	Improper use of blue badges, where a permit holder has died, but the local authority has not have been notified.

<sup>1</sup> This includes data about refused and expired visas, visas where there is no right to work and failed asylum applications.

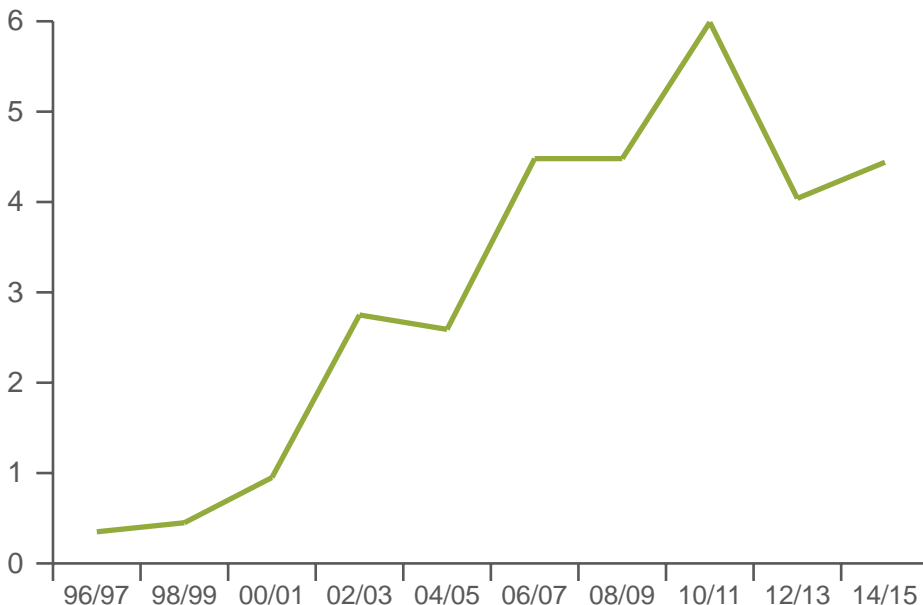


- 1.3 The NFI in Wales is run in collaboration with NFI exercises in England, Scotland and Northern Ireland to enable data to be matched across national boundaries. To ensure consistency of approach and to minimise duplication of effort, the Auditor General co operates with the Cabinet Office, Audit Scotland and the Northern Ireland Audit Office. This includes joint development of new data matching modules, sharing data processing arrangements and sharing resources such as staff and technical guidance. Further information on the NFI and how it works is provided in [Appendix 1](#).
- 1.4 The NFI has been a highly effective tool in detecting fraud and overpayments, and delivering savings to the public purse. Since its commencement in 1996, NFI exercises have identified over £30 million of fraud and overpayments in Wales, and £1.39 billion across the UK. Reported overpayments include sums of money that have already been paid out and forward projections, where it is reasonable to assume that fraud, overpayments and error would have continued undetected without NFI data matching.
- 1.5 The most recent exercise, NFI 2014-15, commenced in October 2014. Forty-two Welsh public sector bodies participated in the NFI 2014-15. These included the following mandatory participants:
- Local authorities
  - Police authorities
  - Fire authorities
  - NHS bodies
- 1.6 The Welsh Government, Cardiff University and Estyn participated in the NFI on a voluntary basis. In addition, the Wales Audit Office and other audit suppliers contracted by the Auditor General to audit public sector bodies in Wales participated in the NFI on a voluntary basis. These suppliers include Grant Thornton, KPMG and PricewaterhouseCoopers. The payroll details of the vast majority of public sector staff and their external auditors are included within NFI for data matching to detect and prevent fraud.
- 1.7 The majority of data matches for this latest NFI exercise were provided to public bodies in January 2015. Since then, most of the matches have been reviewed by participating bodies and, where appropriate, investigations undertaken.

1.8 In 2013, the Chancellor of the Exchequer announced the formation of a single fraud investigation service to be administered by the Department of Work and Pensions' Fraud and Error Services (DWP FES). As a result, DWP FES has responsibility for investigating Housing Benefit fraud and Tax Credit fraud across the UK. Local authorities and Her Majesty's Revenue and Customs (HMRC) were previously responsible for these investigations. In Wales, the transfer of responsibility to DWP FES took place on a phased basis in-between July 2014 and March 2016 and local authority investigation staff transferred to DWP FES. As a consequence, many potential housing-benefit frauds identified through NFI data-matches were referred by local authorities to DWP FES for investigation. In the past, Welsh local authorities would have investigated these matches themselves.

1.9 The current exercise (NFI 2014-2015) has detected and prevented fraud and overpayments against public bodies in Wales of over £4.4 million, compared to £4 million in the previous exercise. As set out in paragraph 1.19, a large number of housing-benefit cases referred to the DWP FES for investigation as potential frauds are still being investigated and once these investigations have been concluded, the total value of fraud detected and prevented is likely to increase. **Exhibit 2** demonstrates how the value of savings identified in Wales through the NFI has changed since the exercise started in 1996.

**Exhibit 2 - NFI reported savings in Wales £ millions**



Source: NFI database

- 1.10 As well as remaining a valuable tool in the detection of fraud, the NFI also provides an important deterrent against those who seek to perpetrate fraud. The latest NFI exercise has led, to date, to the successful prosecution of 25 offenders; other sanctions were imposed in a further 48 cases. These figures are lower than in the previous NFI exercise. However, this is due in part to the fact that a large number of cases are still being investigated by DWP FES. The number of prosecutions and other sanctions is expected to rise significantly in the next few months.
- 1.11 **Exhibit 3** shows a breakdown of the outcomes of NFI cases investigated as part of the NFI exercise 2014-15. NFI continues to help identify fraud and overpayments across a wide range of areas such as housing benefit, CTSPD and pensions.

**Exhibit 3 - NFI results – summary of cases for Wales**

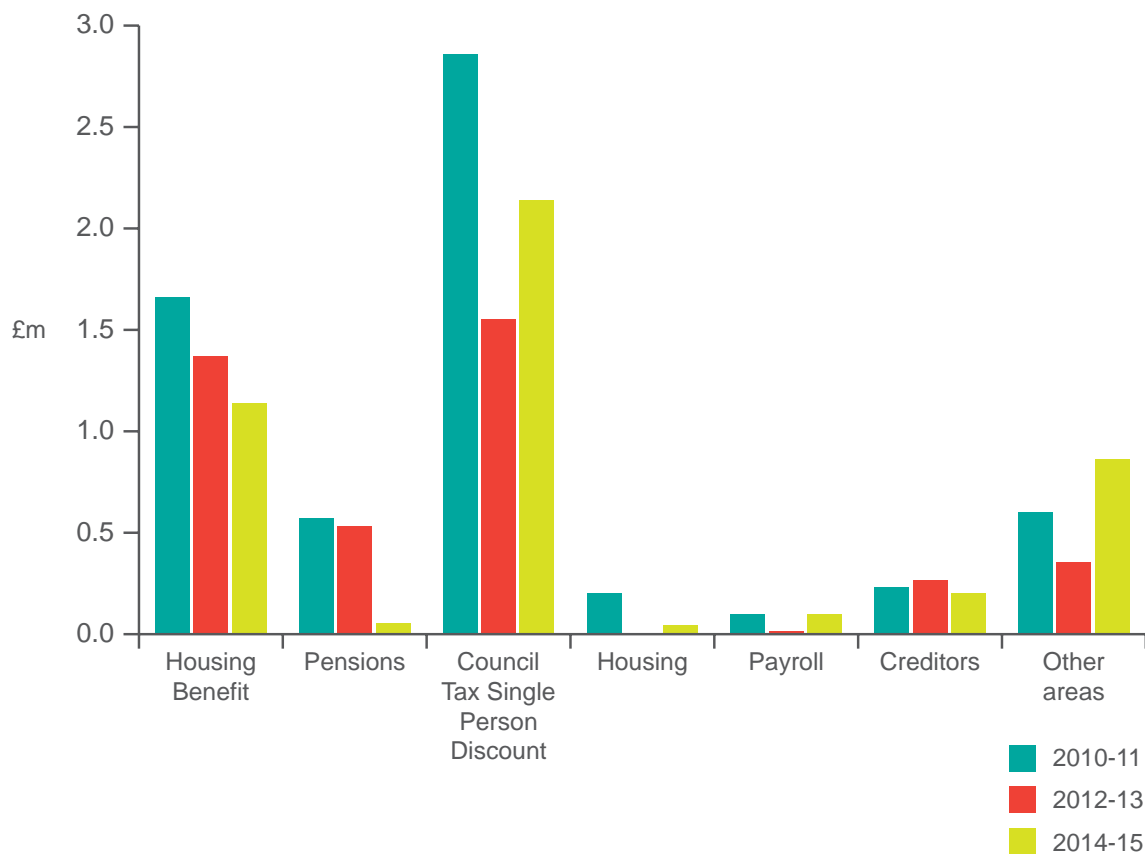
	NFI 2012-13	NFI 2014-15
Successful prosecutions	40	25
Housing-benefit cases which resulted in local authority official cautions	56	30
Housing-benefit cases which resulted in local authority administrative penalties	17	18
Employee dismissed/resigned	2	1
Occupational pension overpayments to deceased pensioners stopped	8	4
Cases of payments identified of overpayments being made to private care homes in respect of deceased patients	3	3
CTSPD applications revoked or withdrawn	1,703	1,988
Blue-badge parking permits cancelled	608	1,044
Concessionary travel permits cancelled	4,753	9,959
Housing-benefit cases involving students	42	46
Housing-benefit cases involving public sector pensioners	129	14
Housing-benefit cases involving local authority employees	94	32
Housing-benefit cases involving NHS employees	39	9
Housing-benefit cases involving licence holders	17	3

Source: NFI database

## NFI matching has helped to identify cases of fraud and overpayments in a wide range of areas

- 1.12 When the NFI began in 1996, the main thrust of the NFI was to match data to identify fraud and overpayments in what were considered high-risk areas, in particular:
- Student awards
  - Housing benefits
  - Public sector payroll
  - Public sector pensions
- 1.13 Over many years, data matching in these areas has led to the identification of high-value fraud and overpayments, including many longstanding frauds. In particular, longstanding pension payments made in the name of deceased pensioners have been stopped. The latest NFI exercise has found that these traditional data matches are still proving to be an effective tool in the detection of fraud and overpayments, and continue to detect frauds. The value of individual frauds in these areas tends to be lower because most longstanding frauds have been eliminated.
- 1.14 Since the first NFI exercise many new modules have been introduced which have provided the opportunity for participating organisations to identify fraud and overpayments in other areas, such as creditor payments and CTSPD claims. The highest-value areas of fraud and overpayments detected and prevented as part of NFI 2014-15 were CTSPD (£2.14 million) and Housing Benefit (£1.16 million).

Exhibit 4 - Overpayments and related future savings identified through NFI 2014-15 compared with NFI 2012-13 and NFI 2010-11



Source: NFI database

- 1.15 When NFI data-matching is introduced into new areas, it has the potential to make a significant financial impact in addressing long-standing fraud. When NFI first matched public sector pensions in payment to deceased persons records, it found significant numbers of pensions still being paid after the pensioner’s death. The cancellation of these payments resulted in significant savings to the public purse. Over time NFI has helped to largely eliminate this type of fraud and it is now rare for NFI to identify pensions in payment after a pensioner’s death.
- 1.16 In 2008-09, NFI started matching CTSPD to the electoral register for the first time. Since then fraud and overpayments of CTSPD amounting to £7.71 million have been detected and prevented. We anticipate that as local authorities continue to review and cancel ineligible claims and recover overpayments, the value of this type of fraud will reduce as longstanding frauds are eliminated.

## Whilst the NFI has been successful in identifying housing-benefit fraud and overpayments, some investigations have been delayed due to the transfer of benefit-fraud investigations from local authorities to the Department of Work and Pensions

- 1.17 The NFI matches housing-benefit records to a number of datasets to identify fraudulent or erroneous claims. The detection and recovery of housing-benefit fraud and overpayments have traditionally been, and continue to be, one of the most successful areas within the NFI. The 2014-15 exercise has identified £1.4 million of housing-benefit overpayments (compared to £1.5 million in 2012-13).
- 1.18 Investigating housing-benefit fraud often helps identify other overpayments. People that are in receipt of housing benefit may also be in receipt of other benefits and payments, such as council tax benefit or income support.
- 1.19 During the course of NFI 2014-15, responsibility for investigating housing-benefit fraud transferred from Welsh local authorities to DWP FES. The transfer was on a phased basis. The earliest transfers took place in July 2014 with the last transfer in March 2016. As a consequence, some Welsh local authorities carried out their own investigations into potential housing benefits arising from NFI data matches. Those Welsh local authorities which transferred their investigation function early referred the potential housing-benefit frauds to DWP FES for investigation. In total over 750 NFI cases were referred to DWP FES for investigation.
- 1.20 The above changes have impacted on the NFI housing-benefit outcomes over the reporting period and are expected to continue to do so as the new arrangements become embedded. The transition to DWP FES appears to have resulted in many of the NFI matches being investigated by local authorities or referred to DWP for investigation later in the period.
- 1.21 At the time of this report many cases referred by Welsh local authorities are still in progress and the outcomes of these cases are unknown. We anticipate that once the outcomes of the cases are known the value of benefit fraud and overpayments detected and prevented as a result of NFI 2014-15 will rise significantly. Now the transfer of responsibility for investigating housing-benefit fraud from local authorities to the DWP FES is complete, we will work with both DWP and local authorities to ensure the arrangements for the next NFI are aligned correctly with the new environment.
- 1.22 Despite the changes set out above, where NFI housing-benefit investigations have been concluded either by DWP FES or local authorities many cases have been identified where housing benefit has been claimed either fraudulently or in error.

1.23 NFI matches housing-benefit claimants across a range of other data sets to identify instances where claimants have failed to disclose their full income, their personal circumstances or have claimed housing benefit at more than one local authority simultaneously. The following case studies highlight some of the frauds or errors which were identified through the review and investigation of NFI housing-benefit data-matches.

### NFI helped to identify housing-benefit claimants in receipt of housing benefit from two local authorities at the same time

1.24 Housing benefit is a means-tested benefit intended to provide eligible persons with financial support towards their housing rental costs. A claimant may only claim financial support for the costs of renting one property. A claimant is therefore ineligible to receive housing benefit for two properties simultaneously.

#### Case Study 1

**Carmarthenshire County Council** reviewed an NFI match which appeared to show that an individual claiming Housing Benefit in Carmarthenshire had also been claiming Housing Benefit at a different property in a neighbouring local authority area. Carmarthenshire County Council followed up the match by making enquiries to the landlord of the Carmarthenshire property and with the neighbouring local authority. It was established that there was a substantial overlap of the claims with Housing Benefit being paid by both authorities simultaneously. The claimant was interviewed under caution and admitted overclaiming Housing Benefit amounting to £3,935. The claimant was given a formal caution.

#### Case Study 2

**Denbighshire County Council** reviewed an NFI-match report which highlights possible instances of Housing Benefit being claimed from more than one local authority at the same time. In one instance, an individual who had been claiming Housing Benefit from Denbighshire County Council since 2005 appeared to have started claiming Housing Benefit in May 2014 from a neighbouring authority without cancelling his Denbighshire claim. The Council confirmed with the neighbouring authority that both claims were in payment at the same time. The Council cancelled the claim and is seeking to recover an overclaimed Housing Benefit amounting to £3,160. The case has been referred to the DWP as a suspected fraud.

### Case Study 3

**Isle of Anglesey County Council** investigated an NFI data-match which indicated that an individual claiming Housing Benefit from the Authority may also be claiming Housing Benefit within a neighbouring authority. Enquiries made by the Corporate Counter Fraud Officer confirmed that the Housing Benefit claim with the Isle of Anglesey County Council was still live and in payment, with the Housing Benefit payments being made direct into the claimant's bank account. Further enquiries revealed that the claimant had vacated the Anglesey property in August 2015. The neighbouring authority confirmed that the claimant had been receiving Housing Benefit from that Council since August 2015. The Isle of Anglesey County Council claim was cancelled back to August 2015 and an overpayment of £2,799 was calculated. The recovery of the overpayment is ongoing. Details of the case have been referred to the DWP for further investigation.

### NFI helped to find housing-benefit claimants who had not fully disclosed employment or pension income

- 1.25 As housing benefit is means-tested, claimants are required to disclose to the local authority any pay and/or pension income they receive and to notify the local authority if their income changes. Claimants are also required to disclose the pay and/or pension of any non-dependents they live with. Failure to fully disclose income is likely to result in housing benefit being overpaid and can be fraudulent.

### Case Study 4

**Rhondda Cynon Taf County Borough Council** reviewed NFI matches between payroll and Housing Benefit. In one instance the Council found that an employee in receipt of Housing Benefit had failed to disclose that her pay had increased. The individual was interviewed and admitted that she had carried out a number of jobs and failed to report the pay she had received in order to retain entitlement to benefit. The Council calculated that the individual had received £2,199 of Housing Benefit and £610 of Council Tax Reduction which she was not entitled to. The overpayment is being recovered through a reduction to ongoing Housing Benefit payments. The individual received a formal caution.



### Case Study 5

**Denbighshire County Council** carried out a thorough review of NFI matches between its employees and Housing Benefit claimants. One of the matches related to a part-time employee of the Council who had claimed Housing Benefit from the Council since February 2012. Whilst the individual had declared the pay she had received from a second employer, she failed to declare the pay she was receiving from Denbighshire County Council. As a consequence she received £7,779 of Housing Benefit to which she was not entitled. The Council is recovering the over-claimed benefit.

### Case Study 6

**Rhondda Cynon Taf County Borough Council** investigated an NFI match which appeared to show that a Housing Benefit claimant was living at the same property as a Council employee, but had not declared the Council employee's income. The investigation found that the Council employee was a non-dependent daughter of the claimant. When interviewed the claimant explained the reason he had not informed the authority of his daughter's income was because he had assumed the Council would already know. The Council calculated that the individual had received £4,559 of Housing Benefit and £656 of Council Tax Reduction to which he was not entitled. The overpayment is being recovered through a reduction to ongoing Housing Benefit payments. The claimant received a formal caution.

### Case Study 7

**Carmarthenshire County Council** reviewed an NFI address match between a housing-benefit claimant and an individual in receipt of an armed-forces pension. The match appeared to show that the Housing Benefit claimant had not declared the pension income of someone she was living with who was in receipt of an occupational pension. The Council re-visited the housing-benefit claim and confirmed that the claimant had declared that she was the sole adult occupant of the property. Further enquiries were made at other local authorities and the National Anti-Fraud Network, and the claimant was interviewed under caution. The individual admitted having falsely claimed Housing Benefit amounting to £9,482 and was given an Administrative Penalty of an additional £2,000.

### Case Study 8

**Caerphilly County Borough Council** reviewed an NFI match between a Housing Benefit claimant and an occupational pensioner, which raised a concern that the claimant may not have declared their pension income. Initially, the match was referred to DWP FES. However, whilst awaiting a response from DWP FES, the Council obtained information from the HMRC Real Time information system which provided evidence that the claimant was in receipt of undeclared pension income. The Housing Benefit claim was immediately reassessed and an overpayment of £1,583 was confirmed. The overpayment is currently being recovered.

### NFI was used to identify housing-benefit claimants who had no right to work or stay in the UK

- 1.26 NFI data-matches housing-benefit claimants against Home Office immigration and visa records. Individuals who do not have, or have not been granted, a right to reside or work in the UK are ineligible to receive housing benefit.

### Case Study 9

**City and County of Swansea Council** investigated an NFI match between a housing-benefit claimant and Home Office immigration data. The match appeared to show that the individual had been claiming housing benefit since May 2014 but had no right to work or reside in the UK. The Council made further enquiries of the Home Office which confirmed the individual's immigration status. The Council cancelled the housing-benefit claim and is now seeking to recover over-claimed housing benefit amounting to £5,488 and Council Tax Reduction of £841. The case has also been referred to DWP for further investigation as the individual was also in receipt of Income Support.

### NFI helped to identify students claiming housing benefit when not entitled to do so

- 1.27 Most students in receipt of a student loan are ineligible to claim housing benefit. The NFI exercise matched student loan data to housing-benefit records to identify potentially fraudulent or erroneous housing-benefit payments. Following a review of the matched data, local authorities in Wales identified a large number of cases where it was suspected that students had claimed housing benefit when ineligible to do so. Many of these cases were referred to DWP FES and are still under investigation.

### Case Study 10

Staff within the Housing Benefits Department of **Denbighshire County Council** carried out an investigation into an NFI match which appeared to show that an individual who had been in receipt of Housing Benefit since 2012 had failed to notify the Council that he had started a university course in September 2013 and was in receipt of student finance. The Council obtained independent confirmation from the Student Loan Company that the individual had been in receipt of student finance since September 2013 and as a consequence cancelled the Housing Benefit claim. The Council is now seeking to recover over-claimed Housing Benefit amounting to £8,135.

### Case Study 11

**The City and County of Swansea Council** carried out a thorough review of matches between Housing Benefit claimants and students in receipt of student finance. Following this review, several suspected cases of fraud were referred to DWP FES for investigation. In one case, DWP FES found that the individual had failed to disclose their student status and had claimed £5,517 of Housing Benefit, £6,841 of Jobseekers Allowance and £2,999 of Employment and Support Allowance to which he was not entitled. The individual was prosecuted and given a community order.

In a further case referred by the Council, DWP FES found that an individual had failed to disclose their student status and had claimed £3,273 of Housing Benefit and £2,789 of Jobseekers Allowance to which he was not entitled. The individual accepted an administrative penalty of £1,000 for Housing Benefit and £2,000 for Jobseekers Allowance. The overpayment is in the process of being recovered.

### Case Study 12

**Conwy County Borough Council** investigated an NFI match that showed that a Housing Benefit claimant was in receipt of student loans and grant awards. In most cases, students in receipt of a student loan are not entitled to receive Housing Benefit. The Council reviewed the Housing Benefit claim and confirmed that the individual had not declared the student finance received. The Council also identified that the individual was paying reduced council tax based on his disclosed income. A referral was sent to the DWP with details of the student income, and the Council wrote to the claimant requesting a breakdown of the loan/grant they had received for the 2013 academic year. The customer did not respond and so his claim was adjusted. The claimant has agreed to repay the overpayment over a specified period.

## The NFI pension matches have successfully helped to eliminate many longstanding pension frauds and overpayments but a small number of new cases are still being identified

- 1.28 The NFI matches occupational pensions in payment to deceased people to identify instances where pensions were still being paid after a pensioner had deceased.
- 1.29 When this NFI data match was first introduced as part of NFI 2004-05, it identified 61 instances of pensions continuing to be paid in the name of a deceased pensioner. In the last few NFI exercises, the number of cases being identified has steadily declined. NFI 2010-11 identified 17 cases, NFI 2012-13 eight cases and NFI 2014-15 just four cases.
- 1.30 The NFI pensions-to-deceased-persons match is a good example of how successful the NFI can be in helping to reduce fraud in an area which had traditionally been susceptible to fraud.

## NFI matching between council-tax data and the electoral register has achieved savings to the public purse of £2.1 million

- 1.31 Council-tax payers are eligible for a discount on their bill where they are the only occupant of a household aged over 18, or the other occupants of the household fall into exempted categories, for instance students. The discount results in a reduction of 25 per cent of the full council-tax bill payable on the property. This discount is commonly referred to as the Council Tax Single Persons Discount (CTSPD).
- 1.32 Claims for CTSPD were matched with the electoral register. The match identified claims for CTSPD where the claimant was residing in the same property as another individual on the electoral register. Whilst not all matches signified inappropriate claims, the exercise proved to be highly successful. To date, the NFI 2014-15 has resulted in the cancellation of 1,988 CTSPDs (1,703 in NFI 2012-13) and identified savings to the public purse of £2.1 million (£1.5 million in NFI 2012-13). This figure includes related future savings.
- 1.33 In many cases, CTSPD claimants were eligible on application but failed to declare changes in their personal circumstances. The effort of local authorities to establish the dates of changes in circumstances has enabled local authorities to recover previous years' ineligible discounts rather than just stopping the discount going forward.
- 1.34 Local authorities are recovering over 70 per cent of the discount incorrectly awarded. Furthermore, local authorities have found that some individuals, who inappropriately claimed the discount, also claimed other benefits inappropriately.

- 1.35 Whilst some Welsh local authorities have been very proactive in reviewing and where necessary cancelling inappropriate claims for CTSPD, others have not invested sufficient resources to addressing the matches. This is unfortunate, because those authorities which have adopted a rigorous approach have realised significant financial benefits. Case studies 13 and 14 provide two examples of authorities which have been very proactive in this area.

### Case Study 13

**Caerphilly County Borough Council** applied a rigorous approach to the review and investigation of NFI matches showing individuals in receipt of NFI CTSPD, where the electoral register showed that more than one individual was registered to vote at the property in question. As a consequence of following up these matches, 361 fraudulent and 52 erroneous claims were identified where claimants had not or were no longer entitled to a discount. The amount overclaimed amounted to £96,153 of which £92,783 is being recovered. The cancellation of these claims has also increased the council-tax revenue being collected going forward.

### Case Study 14

Since the last NFI exercise, one Welsh local authority has systematically reviewed matches between those in receipt of CTSPD and properties on the electoral register where more than one person was registered to vote. The Council followed up these matches and after seeking evidence of continuing entitlement to a discount has cancelled 710 claims. The value of discounts claimed when there was no entitlement amounted to £226,817 of which £164,895 has been, or is in the process of being recovered.

## NFI matching of creditor-payment data has helped to identify £201,000 of creditor overpayments

- 1.36 The match is designed to help public bodies identify problems such as duplicate invoices or incorrect VAT rates. It also enables public bodies to highlight system deficiencies which could make them susceptible to fraud or error.
- 1.37 The NFI 2014-15 has identified overpayments of £201,000; these overpayments have been or are being recovered wherever possible.

### Case Study 15

**Caerphilly County Borough Council** undertook a rigorous review of creditor-payment matches to identify and investigate potential duplicates. A number of duplicates were identified which had already been recovered by means of supplier credits or refunds but a number of unrecovered duplicates were identified through this exercise. Thirty-one unrecovered duplicated payments were identified with a total value of £114,968, of which £71,897 related to two large-value duplicates. The Council has now recovered all the duplicate payments identified and has introduced additional system controls to prevent duplicate payments in the future.

### Case Study 16

One Welsh local health board reviewed an NFI match which suggested that an invoice for £19,708 had been paid twice. Further checks confirmed that a duplicate payment had been made. The health board recovered the overpayment from future payments to the supplier.

## Review of the NFI matches has led to 1,044 blue badges and 9,959 concessionary travel passes being cancelled

- 1.38 NFI matches blue badges and concessionary travel permits to deceased persons' records. The match is designed to identify badges and permits which are potentially still in circulation after the death of the registered owner. Blue-badge records are also matched to identify cases where blue-badge holders have been issued badges by more than one local authority.
- 1.39 Blue badges provide a range of parking concessions and are a lifeline for people with severe mobility problems. However, it is essential that the badges are cancelled when the holder dies. Failure to do so can lead to badges being used by those who have no entitlement.
- 1.40 It is a criminal offence to display a blue badge for the purposes of evading parking charges or to obtain preferential parking when the car driver or passenger is not the legitimate owner of the badge. This does not stop fraudsters targeting the scheme, and blue badges may be sold for considerable sums of money. The fraud not only results in a loss of parking revenues for the local authority, but it also means that parking spaces may be denied to genuine blue-badge holders.
- 1.41 This year, the match has led to the cancellation of 1,044 blue badges across Wales. Once the badges have been cancelled, it is possible for local authorities to check whether the cancelled badges are being fraudulently displayed.
- 1.42 The Welsh concessionary travel passes scheme entitles all those aged 60 and over and people with disabilities to free bus travel across Wales. Where owners of concessionary travel passes have died, this is not always reported to the local authority and the pass may remain in circulation. This provides the opportunity for fraudsters to avoid travel costs. As a result of work undertaken by Welsh local authorities to review the matches, 9,959 passes were cancelled.

### Case Study 17

**Cardiff Council** received a number of NFI matches between blue-badge holders and deceased persons. Having reviewed these matches the Council was able to confirm in 288 cases that the blue-badge holder had died but the Council had not been notified. The blue badges were cancelled and the Council's records updated.

## The NFI data matches of local-authority payments for residential care have identified a small number of cases where local authorities have been charged for residential care costs after the death of a resident

- 1.43 Dependent upon circumstances, local authorities may contribute to the cost of care for residents of private residential homes. The NFI matches local-authority payments for residential care to deceased persons. If payments continue to be made after a resident's death, very substantial overpayments can accrue.

### Case Study 18

**Cardiff Council** investigated two NFI matches which suggested that the Council had continued to make payments to two residential-care-home providers after a resident had died. The Council's investigations confirmed this to be the case, and the overpayments amounting to £2,166 in one case and £6,386 in the other had accrued. Both providers were asked to refund the money and the full amounts have been recovered.

### Case Study 19

**Conwy County Borough Council** investigated an NFI match which appeared to show that a private residential-care-home provider was still receiving payments from the Council for a service user after their death. On receipt of the match in January 2015, the Council confirmed that the resident had died in July 2014 but the Council had continued to pay for the resident. The Council immediately stopped payment for the resident. Further investigation found that whilst the Council had been notified of the death by the provider, the provider had given an incorrect name to the Council of the deceased. The overpayment, which amounted to £13,155, was therefore deemed to be an error. The overpayment has been fully recovered from the provider.



## NFI matching of housing-tenancy data detected and prevented a small number of housing-tenancy frauds

- 1.44 NFI data matches details of local-authority housing tenancy with other data sets and can help identify issues such as individuals:
- holding tenancies for more than one Council-owned property;
  - claiming housing benefit in respect of one property whilst being a tenant of a different Council-owned property; and
  - claiming the right to purchase a Council-owned property when not entitled to do so.
- 1.45 NFI 2014-15 identified a small number of cases where tenancy fraud had been perpetrated or attempted. Whilst the numbers of such cases identified through NFI have fallen from previous NFI exercises, individual housing-tenancy frauds are often high value and have an impact on the availability of scarce social housing stock.
- 1.46 One of the primary reasons for the reduction in the number of tenancy frauds detected through NFI is because a number of Welsh local authorities have transferred their housing stock to housing associations which do not currently participate in NFI. The Auditor General has written to the largest housing associations in Wales encouraging them to participate in future NFI exercises. The Auditor General will also be considering how NFI can be further developed to achieve improved outcomes in this area in the future.

### Case Study 20

**Cardiff Council** undertook a review of all matches relating to Right-to-Buy applications. As a result, the Council was able to cancel 27 Right-to-Buy applications where the applicants were not, or were no longer, eligible to purchase the properties concerned.

## Case Study 21

**Carmarthenshire County Council** reviewed an NFI match which appeared to show that an individual with a tenancy in a Council-provided council house since September 2014, and in receipt of housing benefit and reduced council tax for low income, was also claiming housing benefit from a local authority in England. Carmarthenshire County Council followed up this match and made enquiries of the English local authority. It was confirmed that the individual had been in receipt of housing benefit in England since December 2012 was still resident in England. The Carmarthenshire housing-benefit claim was cancelled from the outset as the investigation proved that the tenant had never moved in, resulting in a recoverable housing-benefit overpayment of £1,953 and an adjustment to council-tax reduction of £1,525.

### An NFI data-matching pilot exercise designed to prevent housing waiting-list fraud was successful and the Auditor General plans to include housing waiting-list data-matching in future NFI exercises

- 1.47 There is a scarcity of social-housing stock available to provide accommodation to those who need housing. The demand for social housing is increasing and most providers of social housing have long waiting lists. It is essential that social housing is only provided to those entitled to be housed. When individuals apply for housing that they have no entitlement to, or they fail to notify the housing provider that their circumstances have changed, it can lead to tenancies being granted to those who do not qualify for them.
- 1.48 As part of NFI 2014-15, local authorities across the UK were invited on a voluntary basis to submit their housing waiting lists to the NFI to be matched against other data-sets including existing housing tenancies, housing-benefit claimants, immigration data and deceased persons. The purpose of the matching was to identify examples where fraudulent applications had been made, or where personal circumstances had changed, meaning that individuals on waiting lists no longer qualified to be housed.
- 1.49 The exercise was very successful and led to over 2,000 ineligible applicants being removed from housing waiting lists across the UK. Cardiff Council was the only Welsh local authority to participate in the pilot. The results of Cardiff Council's review of the NFI data matches in this area are highlighted in case study 22.
- 1.50 In view of the success of the pilot exercise, the Auditor General has decided to mandate local authorities in Wales to participate in housing-waiting-list matching as part of NFI 2016-17.

## Case Study 21

**Cardiff Council** volunteered to take part in an NFI Social Housing Waiting List Pilot which ran in conjunction with the main NFI exercise. Following data submission the Authority received a number of reports matching records to Housing, Home Office, Social Housing Waiting List, Housing Benefit and DWP records of deceased persons. Cardiff Council adopted a considered approach and focused on prioritising high-quality matches. The pilot proved to be effective and resulted in Cardiff Council removing 31 applicants who were not eligible to be housed from its Social Housing Waiting List.

### Most Welsh public-sector bodies participating in the NFI were proactive in reviewing the data matches but a small number of participants did not adequately engage in the initiative

- 1.51 Auditors have reviewed the work undertaken by authorities to make the best use of the NFI 2014-15 matches and have found that most participants have an effective approach for managing the NFI and reviewing data matches. The commitment of bodies to investigate the matches has increased, and participants are generally more proactive in investigating all of the different types of matches.
- 1.52 However, there is still considerable variation in the level of commitment being shown by participants and, in a small number of cases, participants have failed to adequately review NFI matches in an effective or timely manner. As part of NFI 2016-17, the Auditor General's auditors will be working closely with those participating organisations which did not engage effectively with NFI 2014-15.

## Part 2

The National Fraud Initiative is continuing to be developed in order to ensure its effectiveness



- 2.1 Fraud is completely unacceptable wherever and whenever it is perpetrated. When fraud is committed against public bodies it inevitably impacts most on those who rely on the help of public bodies to provide vital services. Those who commit fraud either do not think about the impact of their actions, or do not care. It is essential that public bodies and their auditors do whatever is necessary to prevent and detect fraud occurring in order to ensure that good use is made of the limited available resources. This includes:
- establishing a zero-tolerance culture in respect of fraud;
  - ensuring that rigorous controls are put in place to prevent fraud occurring;
  - sharing information with other organisations to help fight fraud in all sectors;
  - using effective tools to detect fraudulent transactions; and
  - pursuing rigorous sanctions against anyone found to have committed fraud.
- 2.2 The NFI is one important tool available to public bodies in Wales to use as part of a wider fraud-prevention and detection strategy. The NFI has been a highly effective tool in the prevention and detection of fraud against the public sector for a number of years. Fraud, however, changes over time. New fraud trends emerge and fraudsters themselves change their practices to target areas which they perceive have the weakest controls to prevent and/or detect their fraudulent activities. The NFI must therefore adapt and develop if it is to remain effective. The NFI must respond to emerging trends and policy changes, and introduce new types of data matches in areas which are susceptible to fraud.
- 2.3 The Auditor General has identified the following key areas for maintaining, developing and improving the NFI in the future:
- increased focus on fraud prevention;
  - increasing the number of organisations in Wales participating in the NFI;
  - extending the NFI into new areas which are susceptible to fraud; and
  - ensuring that the current high standards of the NFI data security are maintained.

## The Auditor General is continuing to develop NFI to support public bodies to prevent fraud as well as helping to detect fraud, and has provided Welsh participants with access to AppCheck, a new point-of-application fraud-prevention tool

- 2.4 Since the NFI commenced in 1996 it has been highly successful in helping public bodies detect fraud which has already taken place. As NFI is a biennial exercise this means that a fraud found through NFI may have gone undetected for up to two years. Recovery of money fraudulently claimed can be difficult and fraud investigations are often complex, resource intensive and costly. It is therefore far better to prevent fraud entering the system in the first place through the use of fraud-prevention controls and tools.
- 2.5 Over the last two years the Auditor General has been working with his NFI counterparts in other parts of the UK to develop and roll out a new NFI module, 'AppCheck'. AppCheck is a point-of-application data-matching system that enables NFI participants to cross-check information provided by applicants for benefits, goods or services against other datasets at the time the application is made. The resultant matches identify anomalies which could be due to fraud, enabling public bodies to investigate and resolve these anomalies in advance of decisions on applications being taken.
- 2.6 In 2015, the Auditor General decided to make AppCheck available to all Welsh NFI participants on a no-fee basis. Many participants are currently considering how they can best integrate AppCheck into their existing system-control arrangements. However, AppCheck is already being used by some participants to check applications for employment, housing benefits, CTSPD, blue badges, and taxi and alcohol licences.
- 2.7 The Auditor General is committed to the continued development of AppCheck, in conjunction with NFI teams in other parts of the UK, and to promoting its use going forward. This includes engaging with relevant third-party system suppliers to integrate AppCheck into their systems, thereby enabling participants to automatically access AppCheck through external systems they are already using, for example, existing case management systems.
- 2.8 The Auditor General has also offered to provide all NFI participants on-site training in how best to use AppCheck, and a number of NFI participants have already taken up this offer.

## The Auditor General is committed to encouraging more organisations to participate in the NFI in order to maximise the potential benefits of the exercise

- 2.9 The Auditor General conducts the NFI under the provisions of Section 64A of the Public Audit (Wales) Act 2004. This provision enables the Auditor General to conduct data-matching exercises for the prevention and detection of fraud in or with respect to Wales. The Auditor General can require local authorities and NHS bodies to participate in data-matching exercises and has required all unitary, police, fire and probation authorities, and NHS bodies in Wales to participate in the NFI. The legislation also provides that other organisations, both public and private sector, may voluntarily participate in data-matching exercises run by the Auditor General. The Welsh Government and Cardiff University are voluntary participants in the NFI and their commitment to addressing fraud through participating in the data matching is commendable. The Wales Audit Office also participates in the NFI on a voluntary basis.
- 2.10 The more organisations that contribute to the NFI the greater the impact and effectiveness of the exercise. The greater the number of participants, the more datasets that are available for matching; providing greater potential for frauds to be identified. It can be the case that there is no direct benefit to an organisation participating in the NFI, but if a fraud or overpayment against another public body is prevented or detected then this is to the benefit of the public purse as a whole.
- 2.11 The Auditor General wishes to extend participation in the NFI to as many public bodies in Wales as possible and actively encourages all publicly funded bodies to participate on a voluntary basis. In 2015, the National Assembly for Wales approved a request from the Auditor General for additional funding to increase participation in NFI. This additional funding has enabled the Auditor General to write to potential new participants inviting voluntary participation on a no-fee basis.
- 2.12 Several organisations including some Welsh Government Sponsored Bodies and housing associations have responded indicating that they would like to participate in NFI 2016-17 which is due to commence in October 2016.
- 2.13 The Auditor General continues to encourage more bodies to participate and invites any organisation which is interested to contact the Wales Audit Office for further information.
- 2.14 Welsh public bodies also derive greater benefit from the NFI when public bodies in other parts of the UK participate in the exercise. Fraudsters do not respect geographical boundaries. Local government and NHS bodies in England, Scotland and Northern Ireland currently participate in the NFI, as do a number of government departments.

## The Auditor General will continue to extend NFI into new areas of public services which are susceptible to fraud

- 2.15 The NFI needs to be extended into new areas susceptible to fraud. This is necessary because, when fraudsters know that counter-fraud controls are strong in some areas, they will instead target perceived weaker areas.
- 2.16 As part of NFI 2014-15, pilot data-matching exercises were undertaken at volunteer sites aimed at preventing and detecting fraud in respect of social housing waiting lists and the council-tax reduction scheme (CTRS). The housing-waiting-list pilot exercise (see paragraphs 1.47 to 1.50) resulted in 3,000 applications for social housing across the UK being removed from a social-housing waiting list. The local authorities removing these applicants have estimated that the exercise saved almost £20 million.
- 2.17 Following the replacement of council-tax benefits by locally administered CTRSs in April 2013, CTRS data matching was piloted to detect fraud in this area. Fifty-one local authorities took part in the CTRS pilot (no Welsh authorities were involved). The exercise prevented and detected fraud and overpayments amounting to £0.25 million.
- 2.18 In view of the success of these pilots, the Auditor General is planning to require Welsh local authorities to provide social-housing waiting-list data and CTRS data in NFI 2016-17.
- 2.19 The Auditor General is also in discussion with the Welsh Government regarding the feasibility of undertaking Wales-specific data-matching pilot exercises designed to prevent and detect fraud as part of NFI 2016-17. Areas currently being considered relate to commercial fisheries licences and private landlords.
- 2.20 Other areas where UK-wide NFI data pilot exercises are planned or in progress include pilots to:
- target property fraud using Land Registry data;
  - establish the benefits NFI can offer in helping reduce fraud and error in European Health Insurance Cards; and
  - prevent fraud and/or identify undisclosed interests using Companies House data.
- 2.21 The Auditor General will continue to develop the NFI to meet new fraud risks by:
- working with the Welsh Government to identify how NFI can help address any inherent fraud risks associated with new policy developments;
  - listening to the concerns raised by organisations about emerging challenges facing them; and
  - working with key stakeholders in the public and private sectors.



## The Auditor General will continue to ensure that the current high standards of NFI data security are maintained

- 2.22 Fundamental to the success of the NFI, is public confidence in the security of the data it holds. There are extremely robust controls in place to ensure data security and to minimise the risk of data being accessed inappropriately. These controls include:
- automatic data encryption on the upload of data to the NFI;
  - controls to restrict access to only those who need it; and
  - security measures in place to secure the physical environment where the data is held.
- 2.23 The Auditor General recognises that data must not just be held and processed lawfully and securely, it must also be seen to be the case. Furthermore, as cyber-attacks become more sophisticated, the NFI must utilise the most advanced technology available to counteract this threat. The Auditor General is committed to ensuring that the highest standards of security continue to be applied to the NFI going forward.
- 2.24 With advancements in the NFI process and constantly emerging risks, there is always a need to regularly review the security environment to ensure that the arrangements in place are still sufficiently robust. The Wales Audit Office, on behalf of the Auditor General, the Cabinet Office, Audit Scotland, the Northern Ireland Audit Office and the National Audit Office undertake joint security reviews of the NFI on a cyclical basis to ensure that the NFI continues to meet strict security standards (ISO27001). These reviews have confirmed that security controls are strong. Where recommendations are made to enhance the security arrangements, monitoring arrangements have been established to ensure effective implementation. NFI is also accredited under the UK Government's information-assurance standards.
- 2.25 In 2008, in accordance with Part 4A of the Public Audit (Wales) Act 2004, the Auditor General prepared a Code of Data Matching Practice (the Code). Following an extensive public consultation exercise, the Code was laid before the National Assembly and approved. The Code has statutory status and is designed to ensure that people's information is protected and processed appropriately during data-matching exercises, in accordance with the Data Protection Act 1998 and best practice. The Auditor General will continue to keep the Code under review to ensure it is consistent with new legislation and best practice.
- 2.26 When considering the extension of the NFI to new areas, the Auditor General is committed to balancing the privacy of data subjects with the potential benefits to be achieved through the data-matching exercise. The Auditor General will therefore only consider new NFI matches in areas where there is an appreciable risk of fraud.

## Appendices

### Appendix 1 – How the NFI works



# Appendix 1 - How the NFI works

In 1996, the Audit Commission in England and Wales launched the NFI to help public bodies match claimant information across different service areas and geographical boundaries. The exercise was a success, and since then NFI has run biennially, introducing new participants and new modules for identifying fraud and overpayments in each new exercise. Whilst NFI is run as a UK-wide initiative, it is administered in Wales by the Auditor General for Wales, in Scotland by Audit Scotland and in Northern Ireland by the Northern Ireland Audit Office. NFI was administered in England by the Audit Commission until 2015 when responsibility transferred to the Cabinet Office.

The NFI has established itself as the UK's premier public-sector fraud-detection exercise. Since 1996, the NFI has identified more than £30 million of fraud and overpayments in Wales, and over £1.3 billion across the UK.

Welsh NFI participants in the NFI provide data relating to their financial systems to the Cabinet Office on behalf of the Auditor General. The information submitted is wide-ranging and includes data relating to housing benefits, student-loan recipients, payroll and pension payments. The data is uploaded to the NFI system which has been designed to match different sets of data for the purpose of identifying fraudulent or erroneous claims and payments. Where a match is found, it may indicate an inconsistency which requires further investigation; it is not in itself evidence of a fraud.

Participating organisations are provided with online reports containing the matches which relate to their organisation and they are responsible for analysing those matches. The participants must review the matches in an appropriate and proportionate way to enable them to eliminate co-incidental matches. They must use evidence from a range of other sources to undertake appropriate investigations to determine whether individual matches have arisen due to a fraudulent claim or payment. In many cases, matches arise because of errors in the data, and because the NFI has highlighted the issue, it allows participants to correct or update the data held in their records.

The results of investigations are recorded by appropriate staff members. Where fraudulent payments or overpayments are identified, the value of those transactions is recorded and the information is provided to the Auditor General.

Datasets are transferred by participants to the NFI system using an electronic transfer process which encrypts data on upload. The data is transferred via a secure NFI website, and all matches are provided back to participants using the same tool. Access to the tool and NFI matches is controlled by password access, and strict controls exist to ensure access is provided to appropriate individuals.

Auditors review the progress made by participants, and provide guidance and advice to auditors as required.

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Auditor General for Wales

# The Welsh Government's funding of Kancoat Ltd



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with section 135 of the Government of Wales Act 2006.

The Wales Audit Office team who delivered the work for the Auditor General comprised Ian Hughes and Emma Woodcock, under the direction of Mike Usher.

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The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General, together with appointed auditors, also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

For further information please write to the Auditor General at the address above, telephone 029 2032 0500, email: [info@audit.wales](mailto:info@audit.wales), or see website [www.audit.wales](http://www.audit.wales)

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## Contents

Our review examined the events leading to a start-up business called Kancoat Ltd, which received a package of financial support from the Welsh Government, going into administration. In the context of the Welsh Government's approach to supporting businesses, we considered the funding package and how the Welsh Government managed related risks.

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## What this review is about

- 1 Kancoat Ltd (Kancoat) was a limited company set up in early 2012 to take over the operation of a metal-coil-coating production line at the Alcoa site on the Waunarlwydd estate in Swansea. The line processed pre-lacquered steel and tinplate strip for the manufacture of can components. These components, known as can stock, include ring pulls, aerosol caps and can ends. At the time, there were no other volume producers of pre-lacquered strip in the UK.
- 2 Although the Welsh Government provided Kancoat with a funding package for acquiring a coil-coating line and operating the line totalling £3.4 million, its business venture failed and the company went into administration in September 2014.
- 3 Shortly afterwards, the Auditor General for Wales received correspondence raising questions about the:
  - a value for money of the financial support package that the Welsh Government had made available to Kancoat, and
  - b the transparency of Kancoat's relationship with another company called Coilcolor Ltd (Coilcolor).
- 4 At our request, the Welsh Government's Internal Audit Service (Internal Audit) initially considered these matters as part of its review of Welsh Government compliance with its own policies and procedures in supporting Kancoat. Internal Audit concluded that whilst the Welsh Government had complied with its policies and procedures in so far as these were relevant, it needed to introduce additional procedures to address commercial loans and property transactions used in the Kancoat support package.
- 5 Risk management was not explicitly part of the scope of Internal Audit's review, but their working papers noted some issues regarding the management of risk by the sponsors of the project within the Welsh Government's Economy, Skills and Natural Resources Group<sup>1</sup>. We were also aware of other instances when companies in receipt of Welsh Government financial support had gone into administration. These factors, taken together, led the Auditor General to conduct an external audit review of the Kancoat case.
- 6 This report sets out a factual account of the key matters relating to the Welsh Government's financial support package for Kancoat and presents these in the wider context of the Welsh Government's approach to supporting businesses in Wales.
- 7 **Appendix 1** sets out our audit approach and methods.

<sup>1</sup> In February 2016, the Welsh Government restructured, one of the groups established was Economy, Skills and Natural Resources.

## Key findings

- 8 As part of its wider role in promoting Welsh economic development, the Welsh Government provides a range of financial and non-financial support to businesses in seven key industrial sectors, including the advanced materials and manufacturing sector (paragraphs 1.1 to 1.14).
- 9 The Welsh Government provided Kancoat, a company operating within that sector, with financial support worth £3.4 million to purchase and operate a metal-coil-coating production line. This support package was intended to enable Kancoat to secure a sub-lease on its business premises, purchase the coating line, restart manufacturing and weather a period of difficult trading (paragraphs 2.1 to 3.3).
- 10 The scale of the Welsh Government's support package increased between August 2013 and February 2014, and eventually comprised:
  - a property support: a lease commitment of £1.4 million (to be offset by an equivalent level of income from the sublease – paragraphs 3.4 to 3.11);
  - b Repayable Business Finance<sup>2</sup> offered on a non-repayable basis of £0.7 million (paragraphs 3.12 to 3.34); and
  - c commercial loans of £1.3 million (paragraphs 3.35 to 3.50).
- 11 As a result of Kancoat going into administration in September 2014 the 'cost per job created/safeguarded' was nearly three times higher than the Welsh Government's original expectation in the context of its assistance to the project via Repayable Business Finance (paragraphs 3.51 to 3.56).
- 12 As at the end of June 2016, Kancoat owes the Welsh Government nearly £2.6 million in repayment of the financial support that it has received (Exhibit 16). Based on the likely proceeds from the sale of the coating line meeting the lower end of the market valuation available at the time the line was purchased, the maximum potential irrecoverable loss to the public purse is currently estimated to be £1.5 million (paragraphs 3.57 to 3.59).

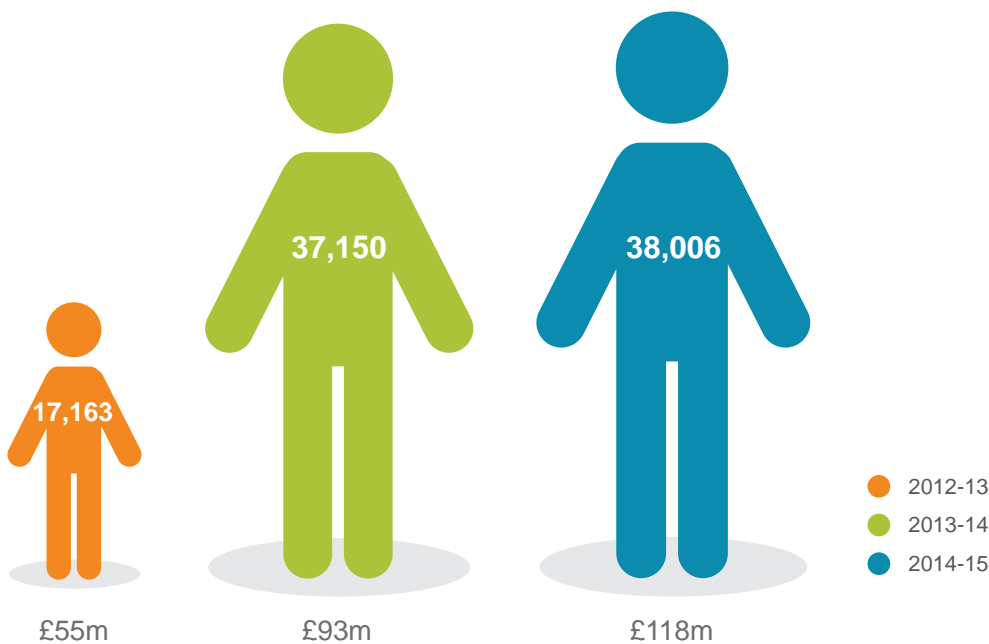
<sup>2</sup> See Exhibit 3 for Repayable Business Finance definition.

## Part 1

How the Welsh Government supports  
the 'Advanced Materials and  
Manufacturing' business sector

- 1.1 The Welsh Government's Economy, Skills and Natural Resources Group operates eight Sector Teams providing financial and non-financial support to businesses:
- a Energy and Environment
  - b Construction
  - c Creative Industries
  - d Advanced Materials and Manufacturing
  - e Financial and Professional services
  - f Information and Communications Technologies
  - g Life Sciences
  - h Tourism
- 1.2 Between 2012-13 and 2014-15, the Welsh Government reports that it has provided some £266 million of financing to businesses operating in these eight sectors, creating or safeguarding over 90,000 jobs as shown in **Exhibit 1**.

**Exhibit 1: Jobs created or safeguarded and the value of financial support provided by the Welsh Government**



**Note**  
The Welsh Government's definition for 'safeguarded' jobs is: The number of permanent full time equivalent paid jobs in a business which would have been lost and have therefore been safeguarded through Welsh Government support. In addition, European Union State Aid rules require that any jobs created or safeguarded remain in place (as part of conditions of support) for five years for large companies, and for three years for SMEs.

Source: Welsh Government data

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- 1.3 There is an established process for evaluating and approving applications for financial support. An Investment Panel meets weekly to consider applications for support that are put forward by each of the Sector Teams. The case papers that must be completed to support each application being presented to the panel are set out in [Exhibit 2](#).

### Exhibit 2: Case papers necessary for Investment Panel decision

Documents details
All documentation supporting the application is presented and the application signed by the applicant.
A financial due diligence appraisal.
Investment Advisory team will undertake a quality assurance role on sectors cases with the exception of the tourism sector, which undertakes its own quality assurance.
A fully completed appraisal document.
Head of Sector recommendation to support.
Confirmation by Senior Finance and Performance Manager that budget approval has been given.

Source: [Welsh Government](#)

- 1.4 The Investment Panel comprises at least one member of the Group's Corporate Leadership Team, together with senior members of the Management Team. A member of the Investment Advisory Team chairs the panel and undertakes the secretariat role. A minimum of four members must be present for the panel to be quorate, and the member attending from the sector sponsoring the application is precluded from voting on the outcome. The Investment Panel presents recommendations for consideration to the Minister via a 'Ministerial Advice Folder'.

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- 1.5 The appraisal document presented to the Investment Panel ensures that the project meets the Welsh Government's own 'Value for Money' guidelines. These guidelines are based on a cost-per-job calculation, which was £24,638 (based on 70 per cent of the average salaries of £27,375, plus 20 per cent uplift for the jobs being located in a tier 1 area).
- 1.6 All investment decisions involve a degree of risk and this is particularly the case for start-up companies with no previous track record and limited working capital. In Wales, the five-year survival rate for new businesses from 2008 to 2013 was 42.5 per cent. This is slightly higher than the UK-wide survival rate of 41.3 per cent for the same period.
- 1.7 The Welsh Government's risk appetite can be high when trying to support and promote the Welsh economy. Officials refer to their role as 'lender of last resort', stepping in where the commercial finance market is unwilling to do so at a reasonable lending rate. In many cases, applicants presenting themselves to the Welsh Government for financial support will often have tried but failed to secure sufficient backing from private-sector finance sources.
- 1.8 In November 2011, in response to the economic downturn the Minister announced the first round of the Wales Economic Growth Fund which was an economic stimulus package aimed at supporting businesses that were able to bring forward investment ready projects. As the economy improved the number of Repayable Business Finance applications increased.
- 1.9 Repayable Business Finance offers 'discretionary' financial support to eligible businesses. This aims to help fund capital-investment and job-creation projects throughout Wales. The key objectives of this type of financial support are to:
  - a encourage new investment which increases competitiveness and productivity, especially within the Assisted Areas;
  - b help create and/or safeguard better skilled jobs; and
  - c develop key sectors in Wales.
- 1.10 Of the £266 million of financial support provided to the eight sectors over the three-year period 2012-13 to 2014-15, around £166 million (62 per cent) was Repayable Business Finance. However, some £154 million of this Repayable Business Finance support (93 per cent) was actually made available to companies (including Kancoat) on a non-repayable basis.

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- 1.11 Welsh Government officials told us that Repayable Business Finance can be deemed non-repayable in either of the following circumstances:
- a A mobile project, which would include inward investment. Mobile projects only become repayable if key targets are not met, for example: the number and quality of jobs, longevity of project, etc.
  - b With Ministerial approval and in 'exceptional circumstances', it is possible for the scheme to be offered on a non-repayable basis. An example of this was during the delivery of the Wales Economic Growth Fund, under which approval was given for Repayable Business Finance applications to be considered on a non-repayable basis.
- 1.12 During the same period, the Welsh Government advanced £38.5 million in commercial loans to 17 businesses including Kancoat.
- 1.13 The Welsh Government has made recoveries from 54 of the 1,110 companies which received financial assistance (4.9 per cent) in the last five years. The reasons for grant funding recovery in these 54 cases are: liquidation (35 cases); administration (14 cases); and failure to deliver the required outputs (five cases). In those five cases, the new jobs created by the companies concerned were not maintained for the necessary three to five years specified within the Welsh Government's funding conditions. In financial terms, the amount targeted for recovery from these 54 cases is £11.2 million out of £337.3 million awarded (3.3 per cent).
- 1.14 Kancoat's application was to the Advanced Materials and Manufacturing Sector Team and so this report focuses on the financial packages that are available to companies operating within that sector as shown in [Exhibit 3](#).



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**Exhibit 3: Financial packages available to the Advanced Manufacturing and Materials sector**

Type	Detail
Repayable Business Finance	<p>Economic Renewal: A new Direction' published by the Welsh Government in July 2010 sets out the approach for discretionary support to businesses. One of the main sources of funding is through Repayable Business Finance which offers financial support to eligible businesses. It aims to help fund capital-investment and job-creation projects throughout Wales.</p> <p>Repayable Business Finance is provided as a grant and the level of support is negotiable but must always be within State Aid ceilings and no more than is necessary to enable the project to go ahead. Any funding support made is 100 per cent repayable unless it is a mobile project ie, the project could be undertaken outside of Wales or there are exceptional circumstances where it can be considered on a non-repayable basis.</p> <p>Notwithstanding the above all funding offered under the Repayable Business Finance scheme is 100 per cent repayable, should the agreed terms and conditions of support not be met.</p> <p>European State Aid cover for Repayable Business Finance is provided by the current General Block Exemption regulations that came into force on 1 July 2014 (GBER).</p> <p>Specifically: Repayable Business Finance for capital investment projects is provided through the Welsh Government Capital Investment and Employment Aid Scheme (State Aid reference SA 39086).</p>
Commercial loan	<p>Loans made available on commercial terms and in compliance with the provisions of sections 60(1) and 70 of the Government of Wales Act 2006 and sections 1(2)(a), 1(3)(b) and 1(7)(d) of the Welsh Development Agency Act 1975.</p>
Property solution – Head lease	<p>It is not financial support but a means of enabling the company to secure possession of premises that was essential for its business, and was delivered on commercial terms.</p>

Source: Welsh Government

## Part 2

Kancoat – a business supported by  
the Welsh Government

- 2.1 Kancoat was established to take over the operation of a metal-coil-coating production line at the Alcoa site on the Waunarlwydd estate in Swansea. The production line had been in situ for many years and a brief history of its ownership is set out below, with further details of the key events in [Appendix 2](#).

### **The Waunarlwydd metal-coil-coating line**

- 2.2 The coil-coating line was originally in use by Alcoa Manufacturing (GB) Ltd (Alcoa), the owners of the Waunarlwydd site. With the support of a £350,000 grant from the Welsh Government, a company called Falcon Steel Ltd negotiated a lease for use of part of the site with Alcoa in 2009. However, Falcon Steel Ltd was unable to make a commercial success of the line and transferred both the lease and ownership of the line to Falcon Holdings UK Ltd in 2010. Both companies went into administration in 2011.
- 2.3 Coilcolor Ltd (Coilcolor) which was an established coil coater in Newport, set up a new company, Coilcolor (West) Ltd in December 2010 to take over the lease with Alcoa and the ownership of the coating line from the administrator of Falcon Holdings UK Ltd. Coilcolor also planned to relocate as a sub-tenant to the Waunarlwydd site in 2012 since the development of housing on the land surrounding its Newport site would make its continuing operations and potential for future growth difficult.
- 2.4 A picture of the coating line can be seen in [Exhibit 4](#).

**Exhibit 4: The coil-coating line at Waunarlwydd Industrial site, Swansea**



Photo: Kancoat Ltd

- 2.5 A condition of the site lease Alcoa entered into with Falcon Steel and Coilcolor (West) Ltd was that a standing prohibition on the processing of aluminium on the site until 1 January 2018 would remain extant. This meant that only steel or other substrates such as tinplate could be processed by the existing machinery on the line until that date. Coilcolor's intention was that, if it could agree an earlier date for aluminium processing with Alcoa, it would operate the line and develop specialised markets to which the line was suited. Coilcolor's business strategy was therefore to remove the threat of another competitor buying the site and operating the facility.
- 2.6 Coilcolor (West) Ltd continued to negotiate with Alcoa over the terms of its lease but failed to obtain Alcoa's agreement to lift the restriction for processing aluminium on the site any earlier than 2018. In June 2011, Coilcolor therefore approached the Welsh Government at both official and Ministerial level to seek assistance in securing Alcoa's consent to the removal of the restriction.
- 2.7 In December 2011, the Minister for Economy, Science and Transport wrote to the Alcoa Board requesting that the company continue to negotiate with Coilcolor (West) Ltd. In doing so, the Minister made it clear that she did not want the Welsh Government to intervene in any commercial negotiations between Alcoa and Coilcolor (West) Ltd. The Minister also provided an assurance to Alcoa that, where possible, the Welsh Government would continue to support Coilcolor's plans for its operations at Swansea.
- 2.8 However, by July 2012 Coilcolor (West) Ltd had accrued £200,000 in debt plus interest to Alcoa in respect of payments due under its lease. The title of the coil-coating line had transferred to HSBC finance under a pre-existing charge. The subsequent decision to close Coilcolor (West) Ltd was taken to allow a new company to take over production at the line and reach wider markets than the Coilcolor brand could facilitate.

## **The establishment of Kancoat, its ownership and business plan**

- 2.9 Despite the setbacks outlined above, the owners of Coilcolor itself were keen to maintain production at the line and sought to attract other investors to fund either it, or a brand new company to continue production based on a different business model.
- 2.10 Coilcolor, together with two other investors (Building Products Offshore Fze and BLF Investments Limited) therefore established a new company called Kancoat Ltd to take the business forward. Kancoat's Managing Director had 20 years of relevant industry experience, and the company was supported by another highly experienced consultant and advisor. There was also a workforce on hand with experience of operating the line.
- 2.11 Kancoat was incorporated as a private limited company on 6 March 2012, with an initial share capital allocation of one ordinary share allocated to Coilcolor. Its sole Director was a Director of Coilcolor between 1 May 2011 and 31 March 2012. Although there was a short overlap in tenure it was always the intention by Kancoat's director to resign from Coilcolor as soon as Kancoat was formally incorporated.
- 2.12 On 15 August 2013, Kancoat adopted 250,000 preference shares<sup>3</sup> and 250,100 ordinary shares<sup>4</sup> as its share capital; split equally between Building Products Offshore Fze and BLF Investments Limited. However, in order to demonstrate the independence of Kancoat from the existing owner of the coil-coating line, Coilcolor itself did not take an equity shareholding in the company as it had originally intended.
- 2.13 Kancoat's business plan was to purchase the coil-coating line from Coilcolor (which would also involve settling the charge over the line by HSBC Asset Finance) and take over the lease with Alcoa. Coilcolor, which at the time was operating in Newport with 50 employees and a turnover of over £12.5 million, was expected to be Kancoat's major customer for its first year of trading (as set out in Kancoat's business plan). Coilcolor and Kancoat would operate totally autonomously, with no common executive directors.
- 2.14 Kancoat's business plan was incremental. Initially, it expected to supply Coilcolor as its main customer, but it hoped to expand its customer base and attract new investors as confidence grew in its successful operation of the line. The Directors of Coilcolor have since told us that they do not recognise the expectation that it would be Kancoat's main customer for the first year of trading. Kancoat, as set out in its business plan, expected that the most lucrative phase of the venture would begin in 2018 with the lifting of the Alcoa-imposed aluminium processing restriction.

<sup>3</sup> Preference shares; a share which entitles the holder to a fixed dividend, the payment of which takes priority over that of ordinary share dividends.

<sup>4</sup> Ordinary shares; a share entitling its holder to dividends which vary in amount and may even be missed, depending on the profits of the company.

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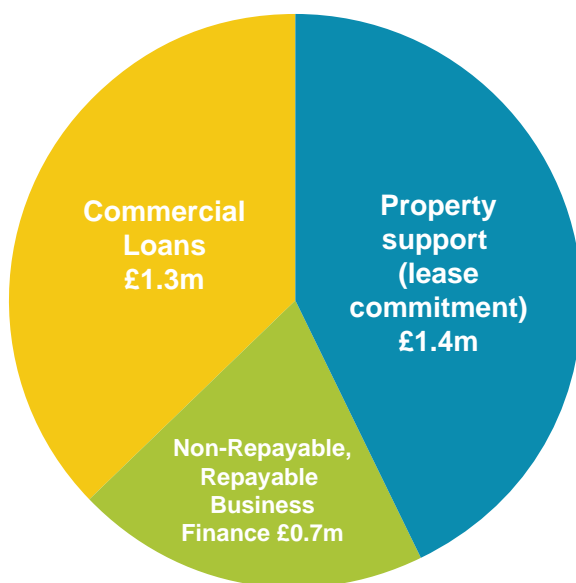
- 2.15 The coating line itself had been independently valued for Coilcolor in March 2011 at a £5 million market value 'in situ', and at £1.25 million based on its piecemeal disposal. Kancoat intended to purchase the line from Coilcolor at an agreed price of £2.5 million, adapt the building and then re-commence production at an estimated total cost of £7.1 million. This figure included the cost of the lease with Alcoa, capitalised over a 10-year period.
- 2.16 As Kancoat was a new and untested company, which had close links with Coilcolor and Coilcolor (West) Ltd, Alcoa was not prepared to enter into a lease with it directly. However, Alcoa indicated that it was prepared to lease the site to the Welsh Government so that in turn the Welsh Government could sub-let the site to Kancoat.
- 2.17 In light of the earlier correspondence between the Minister and both Alcoa and Coilcolor, officials looked at how the Welsh Government could do two things:
- a support Kancoat's wish to use the Alcoa-owned site; and
  - b provide business finance for Kancoat's purchase and subsequent operation of the coil-coating line.
- 2.18 Kancoat asserted that the Welsh Government's assistance would help it bring back into operation a state of the art production line, whilst creating 32 jobs over three years and safeguarding one further job in an economically important area.
- 2.19 Although the Kancoat business plan was inherently high risk given the nature of new start-up companies and the previous history of the line, Welsh Government officials told us that they had considered it carefully. They thought it worth taking the risk subject to securing appropriate security over the coil-coating-line fixed asset, as this had a resale value. In addition to this the company's medium to longer-term prospects were assessed as promising providing Kancoat could secure new investors and expand its customer base in the lead up to being able to process aluminium from 2018 onwards.
- 2.20 Kancoat's business plan was consistent with market opportunities and conditions at the time and was strategically sound provided it could meet the particular challenges associated with the first few years of trading. Welsh Government officials also told us that they considered that the company's management capacity and experience was good.

## Part 3

Kancoat's support package from the Welsh Government between August 2013 and February 2014

- 3.1 Between August 2013 and February 2014, the Welsh Government provided Kancoat with a package of support valued at £3.4 million comprising three main elements as set out in [Exhibit 5](#).

Exhibit 5: Welsh Government provided three types of support to Kancoat



Note

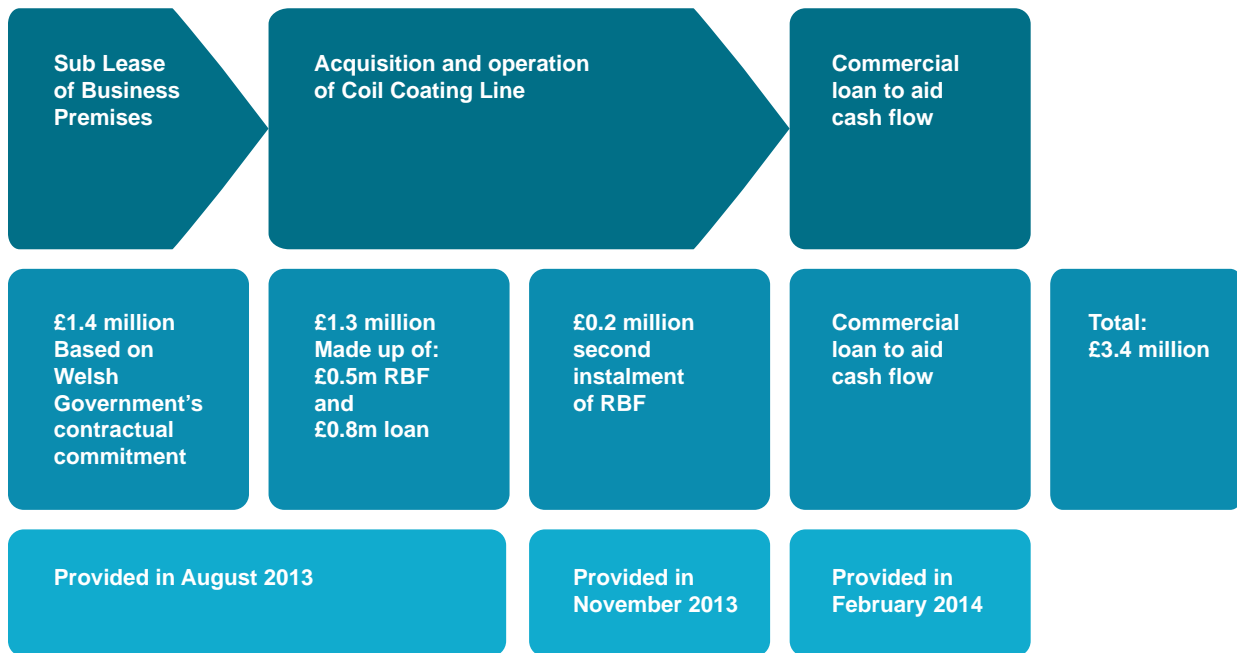
The £1.4 million is over a five-year period, up to the first break clause in August 2018; it includes an eight-month rent-free period in the first year.

Source: Wales Audit Office analysis

- 3.2 This support package enabled Kancoat to:
- secure a sub-lease on its business premises (see [paragraphs 3.4 to 3.11](#));
  - purchase and restart manufacturing at the coil coating line ([paragraphs 3.12 to 3.44](#)); and
  - weather a period of trading difficulty with a commercial loan ([paragraphs 3.45 to 3.50](#)).
- 3.3 [Exhibit 6](#) shows how and when these elements came together.



Exhibit 6: The timing of Kancoat's support package



Note

The £1.4 million is over a five-year period, up to the first break clause in August 2018, it includes an eight-month rent-free period in the first year. The lease agreement also provides for remediation and separation works that may be necessary at the appropriate time.

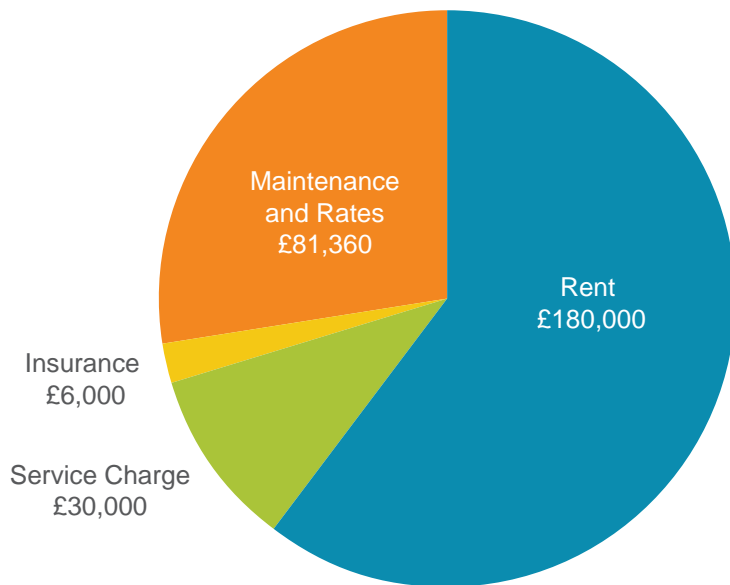
Source: Wales Audit Office analysis

## **The Welsh Government secured a lease with Alcoa**

- 3.4 The Welsh Government's Property Infrastructure Team was tasked with securing the accommodation required by Kancoat by undertaking head lease negotiations with Alcoa. Kancoat was an Advanced Materials and Manufacturing-led project, one of the key sectors the Welsh Government was supporting. The Sector Team therefore viewed the provision of financial support for the company and its business proposal as contributing to the Programme for Government's goals of creating growth and sustainable jobs.
- 3.5 The Welsh Government did not have a formal policy and procedure for approving leases (or other property interventions) jointly with other investment decisions, where a company was requesting property and financial support at the time of the negotiations, but has since developed one<sup>5</sup>. The negotiations took place at the same time as, and solely as a consequence of the Investment Panel discussing the approval of a Repayable Business Finance application (paragraphs 3.12 to 3.34) and as part of that approval it was suggested that the Welsh Government should only enter into a lease with Alcoa if it included a two-year opt-out clause, to help manage the uncertainties associated with the future success of Kancoat.
- 3.6 Welsh Government officials negotiated directly with Alcoa, initially requesting a two-year break clause, however, this request was unsuccessful. After further negotiations officials secured 'break clauses' either five or 10 years into the lease (in 2018 and 2023 respectively), providing there is no sub-lease in place at that time. The lease for the premises housing the metal-coating line commenced in August 2013, coinciding with Kancoat's purchase of the coating line from Coilcolor, expiring in February 2029.
- 3.7 The annual cost of the lease agreed between Alcoa and the Welsh Government is £297,360 and comprises rent, service charges, insurance, maintenance and rates, as shown in Exhibit 7.
- 3.8 The Property Leadership Team considered the lease terms agreed with Alcoa to be the best they could achieve, supported by independent market valuations undertaken.

<sup>5</sup> Now all proposals to secure leases or other property solutions for companies which are also seeking other forms of financial support must be considered by the Investment Recommendation Panel (with the benefit of appropriate advice from the Property Leadership Team), which makes a formal recommendation to the Minister having taken into account the results of due diligence.

Exhibit 7: Breakdown of the Welsh Government's annual lease costs of £297,360



Source: Welsh Government analysis

### The sub-lease between the Welsh Government and Kancoat

- 3.9 As soon as the Welsh Government agreed the lease with Alcoa it granted a sub-lease of the premises to Kancoat. The terms of this sub-lease are substantially the same as those agreed between the Welsh Government and Alcoa, except that Kancoat did not benefit from any opt-out provisions in years five and 10 (ie, Kancoat was contractually committed to the full 16-year term of the lease until February 2029).
- 3.10 Kancoat was required to pay the full cost of the lease to the Welsh Government under its sub-lease (ie, £297,360 per annum). However, to date Kancoat has only paid the Welsh Government a total of £13,166, as shown in [Exhibit 8](#).

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**Exhibit 8: Lease payments made by Kancoat Ltd**

<b>Repayment of:</b>	<b>£</b>
Service charge for August 2013	3,002
Insurance and rent for August 2013 to May 2014	10,164
<b>Total</b>	<b>13,166</b>

Source: Welsh Government

3.11 Unless a new tenant can be found to sub-let the premises, the Welsh Government will be liable to Alcoa for the remaining lease costs until it is able to exercise its break clause in 2018. These liabilities will amount to just under £1.4 million, as shown in **Exhibit 9**.

**Exhibit 9: Lease payments due from Kancoat Ltd**

<b>Year commencing</b>	<b>Sub-lease payment due to Welsh Government from Kancoat, £</b>	<b>Payments made by Kancoat, £</b>	<b>Cumulative balance of unpaid sub lease costs, £</b>
2013	177,360	13,166	164,194
2014	297,360	–	461,544
2015	297,360	–	758,914
2016	297,360	–	1,056,274
2017	297,360	–	1,353,634

**Note**

In the first year a rent-free period of eight months was awarded to Kancoat, and the lease agreement also provides for any remediation and separation works necessary.

Source: Welsh Government

## Kancoat initially intended to seek £3 million of Welsh Government assistance

- 3.12 Coilcolor had offered the line for sale to Kancoat for £2.5 million. The proposed terms were that £1.5 million would be paid upfront and the balance of £1 million could be paid back over two years under a loan agreement.
- 3.13 Kancoat found that it could not raise the £1.5 million from private capital finance to purchase the line. It was a new start-up company proposing to operate a production line that had failed on two previous occasions. Kancoat had secured £500,000 of working capital from its two private investors, but this was sufficient only to cover operating costs.
- 3.14 In April 2013 Kancoat approached Finance Wales PLC to discuss potential sources of finance. Discussions between the two parties culminated with an application for an investment of £325,000 which was subsequently declined by Finance Wales because of the unacceptably high level of risk that it associated with this start-up project, particularly in the first year of trading.
- 3.15 Whilst discussing the offer of a sub-lease with officials from the Welsh Government's Property Team, Kancoat also sought to secure additional financial support from the Welsh Government's Advanced Materials and Manufacturing Sector Team to aid its purchase and reinstatement of the metal-coil-coating line from Coilcolor. The coil coating line in operation is shown in [Exhibit 10](#).

### Exhibit 10: The coil-coating line in operation



Photo: Wales Audit Office

- 3.16 In April 2012 Kancoat suggested that they would seek financial support in the region of £3 million from the Welsh Government. Welsh Government officials have told us that it was made clear that a formal application for this amount would not be approved because both the risks and the forecast 'cost per job created' were too great. The Director of Kancoat believes that the company was initially encouraged by the Welsh Government to apply for a higher level of funding towards capital costs and understood that cost per job and value for money were not criteria that were being applied at this time.

### **Kancoat's formal application for £1.8 million of Repayable Business Finance was rejected**

- 3.17 Kancoat subsequently submitted a formal application to the Welsh Government for £1.8 million of Repayable Business Finance on 9 May 2012. The funding sought was towards a project capital cost of £6.7 million and the creation/safeguarding of 33 jobs. The Welsh Government turned down this application on the basis of poor value for money, with the 'cost per job created' too high at £54,545.
- 3.18 Instead, the Welsh Government invited Kancoat to re-submit its application to seek £500,000 of Repayable Business Finance. This figure was the maximum funding level that could be approved by the Investment Panel at the time, as all applications over £500,000 required approval by the Wales Industrial Development Advisory Board (WIDAB)<sup>6</sup>.

### **Kancoat's revised application for £500,000 Repayable Business Finance was approved**

- 3.19 Towards the end of May 2012 and shortly after the rejection of the first formal application for £1.8 million of support, Kancoat submitted a revised formal application for £500,000 Repayable Business Finance, towards the cost of the project. As part of the revised terms of the application, Coilcolor would provide private-sector capital of £2.5 million; Kancoat was expected to make an immediate payment of £1.3 million to Coilcolor with the balance being repayable over two years.
- 3.20 The Welsh Government's financial due diligence reviewer who examined the application concluded that:  
'with the exception of Coilcolor Ltd [Welsh Government] have no financial information as to the financial or otherwise standings of the other two shareholders. Building Products Offshore Fze would appear to be the name of a UAE business, however, internet searches do not find an entity of this name, we do not have a CV for [the Kancoat Managing Director].'

<sup>6</sup> As noted in paragraph 3.28, the threshold for WIDAB approval was increased in January 2013 to £1 million.

- 3.21 We have, however, seen documents provided by the Director of Kancoat that more details of the two private investors were available at the time than that which was made available for the purpose of the due diligence review. The Director is of the view that the Business Development Manager overseeing this application was aware of the background and experience of these investors.
- 3.22 The financial due-diligence reviewer had concerns about Kancoat's financial projections as set out in its business plan. From the year ended 31 March 2018 onwards, the plan projected an increase of £500,000 in forecast turnover due to the ability to process aluminium at the site from 2018 onwards. However, in reviewing the breakdown of this increase in the monthly sales of processed aluminium, the additional £500,000 of income did not allow for any increase in raw-material costs. This led the reviewer to place a high degree of scepticism on the resultant projected increase in gross profit margin from 15 per cent to 31 per cent.
- 3.23 The Welsh Government Business Development Manager responsible for supporting this project told us that customers would have been expected to provide their own aluminium-based raw materials for processing, and that this addresses the observation made by the due-diligence reviewer in his appraisal.
- 3.24 On 5 November 2012, the Welsh Government sent an offer letter to Kancoat approving its application for £500,000 of Repayable Business Finance, but on a non-repayable basis, since Kancoat's owners had made it clear they would not be able to agree to an offer of repayable finance. Such an arrangement was not unusual at the time since, as explained in [paragraph 1.10](#), the majority of Repayable Business Finance approved by the Welsh Government in this period was actually non-repayable.
- 3.25 The Director of Kancoat has told us that he became unhappy with how the Welsh Government was dealing with Kancoat's request for financial support and what he saw as inconsistent messages being given about what could be provided in support to the company. He complained about the position and in his view this resulted in a series of further discussions and the consideration of the subsequent formal application for Repayable Business Finance. Welsh Government officials state that the further discussions and the consideration of the subsequent application for Repayable Business Finance arose because of a change in Kancoat's business plan which is considered next.

## **The Welsh Government subsequently increased its approval of Repayable Business Finance to £778,000**

- 3.26 Between October 2012 and January 2013 market conditions for Kancoat suddenly improved. Kancoat informed the relevant Welsh Government Business Development Manager that a major supplier of coated aluminium had relocated to Europe, and this resulted in new customers approaching Kancoat as an alternative supplier for can stock some 12 months earlier than anticipated. This scenario contrasted with Kancoat's previous business plan, which had set out an intention to rely on revenue from one single customer, Coilcolor, for the first year of trading.
- 3.27 In addition to the above, changes in circumstances prevented Coilcolor from relocating its business to Swansea as planned.
- 3.28 Due to Kancoat moving into a new market and Coilcolor being unable to relocate to Waunarlwydd, it was anticipated that Coilcolor would reduce the amount of finance it was prepared to advance to Kancoat for the completion of the purchase of the coil-coating line. Therefore, in order to meet the new customer needs and to get the line into operation earlier than initially anticipated, Kancoat increased its application for Repayable Business Finance from £500,000 to £990,000. This coincided with the threshold for WIDAB approval of Repayable Business Finance applications increasing from £500,000 to £1 million, and so Kancoat's revised application only required Investment Panel approval, rather than WIDAB consideration.
- 3.29 The Welsh Government's due-diligence review prepared in respect of the previous application was also updated to take into account the changes in circumstances. The conclusions of this review, dated 21 February 2013, were as follows:  
'The business plan appears weak and inconsistent. The inherent risks associated with Kancoat as a start-up remain. The replacement of the Coilcolor Group and the loss of their participation and guarantee leave the risks identified as essentially unmitigated. The proposal involves the WG taking on a significant landlord risk in addition. The project was identified as high risk in the initial assessment. The revised proposal and developments surrounding this have increased the level of risk rather than mitigated it.'
- 3.30 The Investment Panel considered the revised application for £990,000 of Repayable Business Finance on 12 March 2013. The Panel noted that, based on the Kancoat's latest proposal for the creation of 31 jobs and one safeguarded job, £788,400 was the maximum amount of funding that could be awarded<sup>7</sup>.

<sup>7</sup> The £778,400 of funding created a higher cost per job than the Welsh Government's value-for-money guidelines.



- 3.31 At this time, officials in the Welsh Government's Property Team were still negotiating the terms of the lease with Alcoa. Members of the Investment Panel were therefore concerned about the potential £4.8 million Welsh Government liability for lease payments over a 16-year lease term should Kancoat, a high-risk venture, fail and no other companies come forward to take on the sub-lease for the site. The Panel's recommendation was therefore to reject the new application, but it also concluded that the existing offer of £500,000 could remain available to Kancoat.
- 3.32 The Investment Panel met again a week later on 19 March 2013 to consider the Kancoat application again, paying particular attention to the risks associated with entering into a 16-year lease with Alcoa. The Panel agreed to recommend to the Minister the offer of '£788,400 non-repayable business finance with a steer to the Property Leadership Team to make a commercial decision on the property aspect'.<sup>8</sup>
- 3.33 The Minister approved the Kancoat application for Repayable Business Finance, on a non-repayable basis due to 'exceptional circumstances', which took into account Alcoa's restriction on the use of the site until January 2018 (see [paragraph 2.5](#)) and the start-up nature of the business.
- 3.34 The Welsh Government paid two Repayable Business Finance instalments (of £500,000 and £200,000) totalling £0.7 million to Kancoat on 1 August and 27 November 2013 (see [paragraphs 3.12 to 3.34](#)). The first instalment of £500,000, together with a loan from Coilcolor of £1.2 million, was used by Kancoat to purchase the coil-coating line from Coilcolor for £2.5 million; the balance of £0.8 million having to be made up from private sources on a commercial basis (see next section). The second instalment of £200,000 was paid following a site visit by Welsh Government officials, as they assessed that the terms of the offer letter had been complied with. However, the Welsh Government did not release the £88,400 balance, as in the meantime Kancoat had requested additional investment from the Welsh Government. This issue is considered in the next section of the report.

### **The Welsh Government's approval of a £0.8 million commercial loan**

- 3.35 In light of the changes in circumstances set out above the financing of the purchase of the line was revised. Coilcolor required an initial payment of £1.3 million from Kancoat and the remaining balance of £1.2 million would be repaid over two years. The £1.3 million up-front payment would be made up of the application of £500,000 Repayable Business Finance together with a commercial loan requirement of £800,000, the changes in funding requirements for the purchase of the line are set out in [Exhibit 11](#).

<sup>8</sup> The Panel also suggested that the Welsh Government should only enter into the lease with Alcoa if it included a two-year opt-out clause, to help manage the uncertainties associated with the future commercial success of Kancoat, detailed in paragraphs 3.5 and 3.6.

**Exhibit 11: Changes in funding requirements for purchasing the line**

<b>Detail</b>	<b>First requirement, £</b>	<b>Second requirement, £</b>	<b>Third requirement, £</b>
Coilcolor	2,500,000	1,200,000	1,200,000
Commercial Loan (commercial lender)	0	800,000	0
Commercial Loan (Welsh Government)	0	0	800,000
Repayable Business Finance	0	500,000	500,000
<b>Total</b>	<b>2,500,000</b>	<b>2,500,000</b>	<b>2,500,000</b>

Source: Wales Audit Office analysis

- 3.36 Kancoat had obtained an offer of commercial finance in the form of a secured loan of £800,000 over five years from a merchant bank. This offer was conditional upon the Welsh Government entering into a 'step-in agreement', obligating the Welsh Government to guarantee the loan and becoming directly liable for any outstanding loan debt in the event of a default by Kancoat.
- 3.37 In order to remain supportive of the project whilst complying with its internal legal advice in respect of providing guarantees, the Welsh Government explored the option of instead lending £800,000 itself to Kancoat on a commercial basis.
- 3.38 For the Welsh Government officials who appraised this proposed loan to Kancoat, a key factor was the value of the coating line as security. They were aware that a third-party company which had marketed the line in November 2011 on behalf of Coilcolor had placed a value of around £3 million on the metal-coating line for resale as an operational asset. One of Alcoa's competitors had also expressed an interest in buying the line around this time for £3.74 million, but no firm offer for this amount was actually received.

- 3.39 The Welsh Government officials therefore recommended that either the terms of the security should be negotiated to allow the coating production line to be sold 'in situ' as an operational asset (as opposed to breaking it up into parts or scrapping), or else that some other form of security or guarantee should be sought from Kancoat. The financial due diligence officer also recommended that the Welsh Government may wish to consider undertaking an independent valuation of the coating line, to ensure valuation figures previously obtained by Coilcolor remained valid.
- 3.40 However, no further asset valuation was obtained as Welsh Government officials decided that the valuation of between £1.25 million and £5 million obtained by Coilcolor in March 2011 remained sufficiently current to be relied upon to support the purchase of the line at £2.5 million and to cover the Welsh Government's exposure to any potential loss. A best-case resale of the line 'in situ' at £5 million would enable the Welsh Government to recoup all of its contributions to facilitate the acquisition of the line by Kancoat. Conversely, a worst case 'piecemeal' disposal of the line at £1.25 million would leave Welsh Government with a potential irrecoverable loss of some £1.5 million (as at August 2013).
- 3.41 The Welsh Government therefore granted the commercial loan of £800,000, and secured its investment in the coating line via the 'Deed of Priority' set out in [Exhibit 12](#).

**Exhibit 12: Deed of priority over Kancoat's assets**

<b>Priority</b>	<b>Over</b>
1 Welsh Ministers	The first £800,000 plus interest and charges
2 Alcoa Manufacturing GB Ltd	The next £200,000 plus interest and charges, which related to the Coilcolor arrears on the line
3 Welsh Ministers	Priority without limitation on subsequent amounts
4 Alcoa Ltd	Priority without limitation on subsequent amounts
5 Coilcolor Ltd	Priority without limitation on subsequent amounts

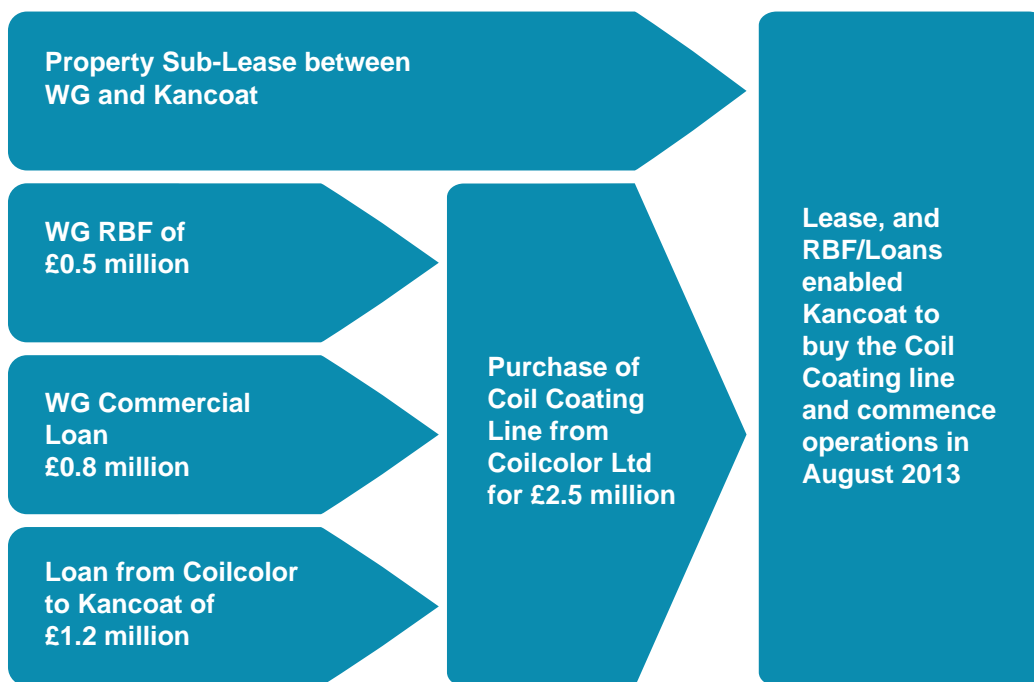
**Note**

In order to fund the acquisition of the coating line, Coilcolor had obtained finance from a commercial bank. This bank funding was secured on various assets to include the coating line, Coilcolor (West) Ltd defaulted on its payments to the bank, which resulted in arrears of £200,000.

Source: Welsh Government

3.42 Kancoat accepted the commercial loan offer of £800,000 on 1 August 2013, and purchased the metal coating line from Coilcolor for £2.5 million on 15 August 2013, as summarised in [Exhibit 13](#).

Exhibit 13: Completion of purchase of the coil-coating line and the start of Kancoat's operations



Source: Wales Audit Office analysis

3.43 To date, Kancoat has made seven repayments totalling £121,923 against this £800,000 commercial loan, leaving an outstanding balance (including both principal and interest debt) of £955,677 due to the Welsh Government, as shown in [Exhibit 14](#).

**Exhibit 14: Commercial loan payments due to the Welsh Government from Kancoat Ltd**

<b>Financial Year</b>	<b>Commercial loan payments due to Welsh Government £</b>	<b>Payments made by Kancoat £</b>	<b>Cumulative balance of unpaid loan instalments £</b>
2013-14 (one month after drawdown)	125,720	121,923	3,797
2014-15	215,520	–	219,317
2015-16	215,520	–	434,837
2016-17	215,520	–	650,357
2017-18	215,520	–	865,877
2018-19	89,800	–	955,677

Source: Wales Audit Office analysis

3.44 At the time the loan of £800,000 was advanced, the Welsh Government did not have a formal policy and procedure for assessing and approving loans to businesses. The Welsh Government told us that it has since addressed this gap by ensuring that:

- a all commercial loans are subject to Investment Panel consideration;
- b Senior Management Team ratify any recommendation by the Investment Panel for commercial loans above £1 million;
- c the monitoring of loans is undertaken by a Central Monitoring Team;
- d a separate appraisal in addition to the Ministerial Advice Folder for the Minister must be undertaken; and
- e loan applicants are more thoroughly assessed for their ability to repay.

## **The Welsh Government provided a further loan to Kancoat to help it overcome unforeseen operating difficulties**

- 3.45 In early 2014, some five months after the completion of the deal to secure the lease with the Welsh Government and purchase the coil-coating line from Coilcolor, Kancoat experienced operating difficulties. These difficulties led to further discussions with Welsh Government officials regarding the provision of additional financial support.
- 3.46 Unforeseen difficulties with Kancoat's main UK supplier of steel coil meant that Kancoat considered it had no alternative other than to seek new suppliers in France and Korea. The consequent two-month lead time for the product led to delays in the receipt of income against the sales forecast in the business plan. In addition, both overseas suppliers demanded payment in advance. These two factors, taken together, created a significant cash-flow problem for Kancoat. Kancoat sought finance from other commercial sources, including an additional application to Finance Wales and the Enterprise Finance Guarantee scheme – a UK Government lending scheme intended to help smaller viable businesses who may be struggling to secure finance, by facilitating bank loans of between £1,000 and £1 million – but was unsuccessful.
- 3.47 Kancoat officials projected that without an immediate injection of £500,000, the firm would be unable to purchase raw materials in order to meet its order book and would cease trading. The 12 jobs already created would be lost, together with the further 20 jobs expected to be created over the next three years. Closure would also result in Kancoat defaulting on its loan from Coilcolor, the Welsh Government's commercial loan of £800,000, and its obligations under the sub-lease agreement.
- 3.48 Welsh Government officials examined and accepted Kancoat's revenue and cash-flow projections when considering whether to provide a further short-term loan of £500,000 to the company. However, this second commercial loan was conditional on Kancoat being up to date with its lease payments to the Welsh Government. By January 2014, Kancoat had made seven repayments totalling £121,923 against its first £800,000 commercial loan. However, it had not made any payments under its sub-lease from the Welsh Government, other than a contribution of £13,166 towards service charges and insurance (see [Exhibit 8](#)).
- 3.49 The Welsh Government approved the second loan and advanced it on 14 February 2014, despite Kancoat still not having made any further payments against its lease obligations<sup>9</sup>. The award of the second commercial loan of £500,000, secured on the same terms, did not provide the Welsh Government with a commensurate level of security given Kancoat's weak trading situation at the time, as the existing Deed of Priority was not amended.

<sup>9</sup> Although Kancoat had not satisfied the pre-payment condition, Welsh Government Officials informed us that the central finance do not identify a company being in arrears until the Welsh Government has issued three reminder notices. Consequently, Kancoat was not in arrears at the time of the second loan.

- 3.50 In March 2014, in light of the ongoing cash flow difficulties that Kancoat was experiencing, the Welsh Government also granted it a 90-day 'payment holiday' on both the first commercial loan and its rental payments under the sub-lease.

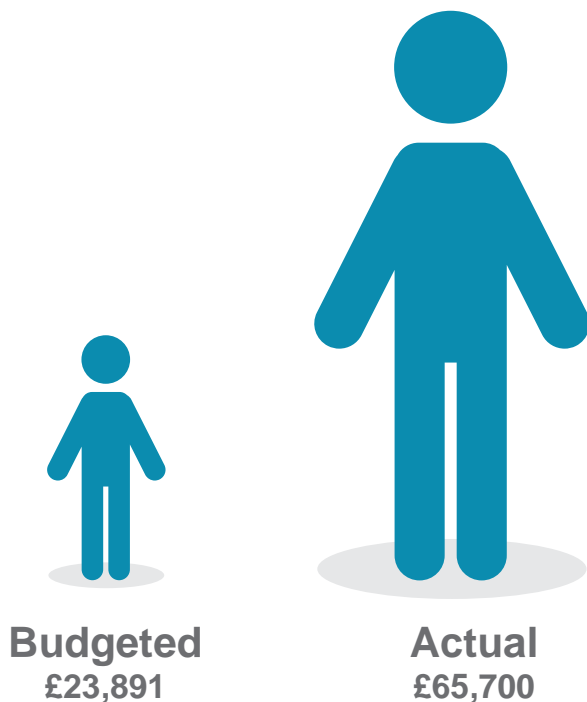
### **Despite the Welsh Government's increased financial support, Kancoat went into administration in September 2014**

- 3.51 In [paragraph 3.17](#), we note that in May 2012 the Welsh Government was not prepared to consider an initial application by Kancoat for Repayable Business Finance of £1.8 million on the basis that the risk was too great. However, over the life of the project, the Welsh Government has committed some £3.4 million towards the cost of Kancoat's business venture. Of the £1.3 million commercial loans that are repayable, only £135,000 has been remitted by Kancoat to the Welsh Government. Coilcolor representatives have advised us that the amount outstanding to Coilcolor Ltd when Kancoat went into receivership was actually £1,409,731.
- 3.52 Despite receiving the second commercial loan of £0.5 million in February 2014 from the Welsh Government, and the 90-day repayment holiday granted in March 2014, Kancoat was unable to operate as a viable business and by July 2014 its owners were looking to sell the business.
- 3.53 Negotiations with a consortium based in Russia, which had expressed an interest in the acquisition of circa 70 per cent of Kancoat for between £1.5 million and £3 million and potentially the purchase of the Waunarlyydd site from Alcoa, did not lead to a satisfactory outcome. Kancoat's sole Director resigned on 24 July 2014 and the company went into administration on 15 September 2014.
- 3.54 In January 2015, Welsh Government officials referred Kancoat to Finance Wales to see if it could provide the company with any assistance. Despite Finance Wales introducing three sets of potential investors to Kancoat, none of these decided to invest.
- 3.55 At the time of publishing, Kancoat's administrator has not received any bids for the steel-coating line. Alcoa has recently offered the whole of its Waunarlyydd Industrial Park for sale and Welsh Government officials informed us it has received an expression of interest for both the plant and the site as a whole from a high-profile, well-regarded company with significant steel assets.

The Welsh Government faces a potential irrecoverable loss of £1.5 million arising from its financial support for Kancoat, and the actual 'cost per job created' was nearly three times higher than originally expected

3.56 Welsh Government officials considered that supporting Kancoat would contribute to the Programme for Government's goals of creating growth and sustainable jobs. The project was expected to create some 32 new jobs over three years and safeguard one other job, in an economically important sector. In the event, as a result of Kancoat going into administration, the project created 12 jobs and the actual 'cost per job created' was nearly three times higher than the Welsh Government's original expectation, as shown in Exhibit 15.

Exhibit 15: Expected cost per job against the actual cost per job created/safeguarded



Source: Wales Audit Office analysis



- 3.57 Welsh Government officials told us that if the Kancoat application were received now, given the higher volumes of applications and fewer funds available to the Welsh Government, they thought it very unlikely that such an application would be successful.
- 3.58 In total, the Welsh Government provided financial support worth £3.4 million to Kancoat. Of this, £700,000 was in the form of non-repayable Repayable Business Finance. When Kancoat entered administration, it had made loan repayments to the Welsh Government of £121,923, and the remaining £2.6 million of financial support became immediately due for repayment.
- 3.59 On the basis that the coating line can be disposed of at the lower end of the market valuation obtained by Coilcolor in March 2011 at £1.25 million ie, piecemeal disposal, the first £800,000 of any sale receipts will be payable to the Welsh Government and the next £200,000 is payable to Alcoa. The maximum potential loss to the public purse is therefore currently estimated to be some £1.5 million, as shown in **Exhibit 16**. It is important to stress that it is only possible to provide an estimated figure on the loss here and the final figure could be significantly different depending on the key factors such as the scrap value of steel, and what a potential buyer may pay for the site if it can be sold on or the site re-let.

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**Exhibit 16: Potential maximum irrecoverable loss for the Welsh Government**

Welsh Government financial support provided:

• Commercial Loan #1	800,000
• Commercial Loan #2	500,000
• Non-repayable Repayable Business Finance #1	500,000
• Non-repayable Repayable Business Finance #2	200,000
• Property support (lease commitment) up to five-year break clause	1,400,000
<b>Total Welsh Government financing</b>	<b>3,400,000</b>
Less: Commercial loan repayments by Kancoat	(121,923)
Less: Non-repayable Repayable Business Finance	(700,000)
Less: Insurance and service charge paid	(13,166)
<b>Balance due for repayment to the Welsh Government</b>	<b>2,564,911</b>
Less: Potential proceeds from piecemeal disposal of the coil-coating line	(1,250,000)
	1,314,911
Plus: 'Deed of Priority' liabilities owing to Alcoa (see <a href="#">Exhibit 12</a> )	200,000
<b>Welsh Government potential maximum irrecoverable loss</b>	<b>1,514,911</b>

**Note**

The Property Support total will only arise if Kancoat's business fails and the under lease was terminated on the first day of the term. Although Kancoat has been in administration since September 2014, the business continues to exist as a legal entity and it remains to be the under tenant of the premises. Therefore, any liability to pay business rates to the Rating Authority remains with it and not the Welsh Government. The administration period has been extended to September 2016 and on the assumption that Kancoat's under lease will be terminated at that time, the Welsh Government's maximum exposure to such costs would be for 23 months (until the Welsh Government's break date in August 2018).

Source: Wales Audit Office analysis

## **Welsh Government lessons learnt after providing financial support to Kancoat**

- 3.60 The Welsh Government's Director of Sector and Business has recognised that Kancoat was a particularly complex case and commissioned a lessons-learnt exercise by the Head of Monitoring, Financial Due Diligence and Investment Advice.
- 3.61 The lessons learnt review recognised that there was a need to ensure that the scrutiny that was applied to Business Finance applications should be applied to other forms of funding such as commercial loans. In June 2014, a revised Financial Approval process was presented to the Corporate Leadership team, which incorporated the need for commercial loans to in future follow the departmental Financial Approval process.
- 3.62 As a result of that review, and as part of the department's continuous improvement, Welsh Government officials informed us that a number of key changes in procedures have since been implemented:
- a the consideration of commercial loans now forms part of the Financial Approval process and are subject to Investment Panel recommendation before Ministerial approval is sought;
  - b Senior Management Team must now ratify any recommendation by the Investment Panel for commercial loans above £1 million;
  - c as part of the Financial Approval process a standalone appraisal of all projects involving commercial loans must be undertaken;
  - d the monitoring of loans has moved to the Central Monitoring team, an agreed departmental protocol has been established to provide clarity on areas of responsibility;
  - e loan applicants are more robustly assessed for their ability to repay by undertaking appropriate Financial Due Diligence;
  - f a standardised approach to risk assessment has been introduced to ensure consistency across funding schemes;
  - g where multiple interventions are being considered (ie, financial support and property solutions) they are now considered by a single body (Investment Panel) with appropriate advice from the Property Leadership Team;
  - h the introduction of a standardised appraisal document has ensured a consistent approach to project appraisal is applied across funding schemes;

**Y Pwyllgor Cyfrifon Cyhoeddus / Public Accounts Committee**  
**PAC(5)-03-16 P7**

- i improvement in management information by driving increased and improved use of the department's Customer Relationship Management (CRM) system; and
- j centralised the issue of award letters to a single team: this has improved customer service and ensured that conditions of award are more consistent and robust.

# Appendices

# Appendix 1 - Our audit approach and methods

## Scope

We conducted an audit review of the financial support that Kancoat Ltd received from the Welsh Government, and considered this within the wider context of the Welsh Government's support for businesses in Wales that operate within the 'advanced materials and manufacturing' sector.

Our audit set out to establish the underlying facts in respect of concerns that had been raised in correspondence with the Auditor General. We have not sought to form evaluative conclusions from our work or to make specific recommendations; rather, the report sets out the facts of the matter for consideration by the Public Accounts Committee of the National Assembly for Wales.

## Methods

In undertaking the review we gathered documentary evidence from the Welsh Government and Kancoat's administrator between November 2015 and February 2016.

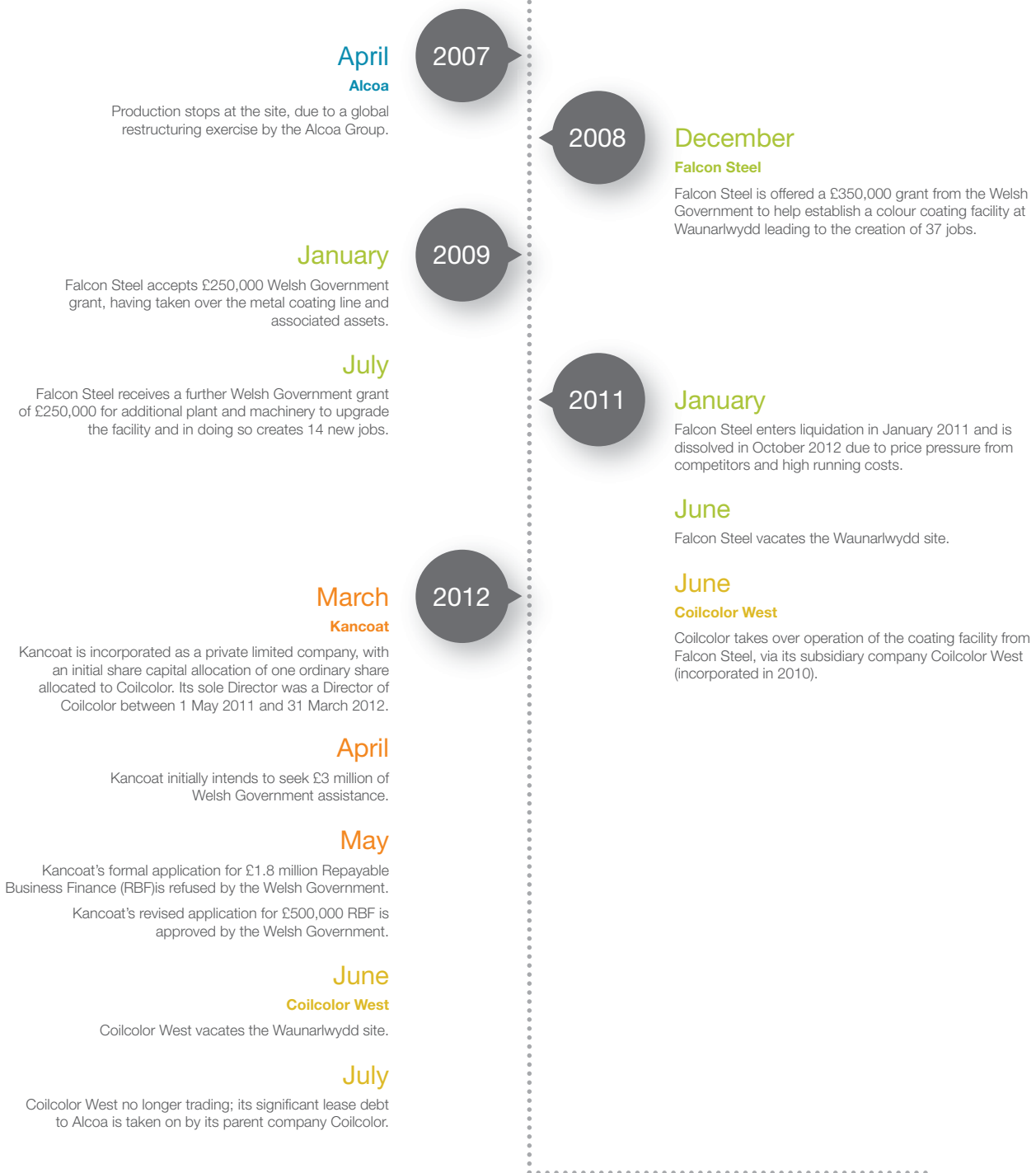
In particular, we examined documents held by the Welsh Government's Internal Audit Service, which set out the scope and findings of its review of the Welsh Government's compliance with its internal policies and procedures in respect of the sub-lease, the Repayable Business Finance and the two commercial loans made to Kancoat.

We interviewed relevant Welsh Government officials, and undertook a site visit to Waunarlwydd accompanied by Kancoat's administrator.

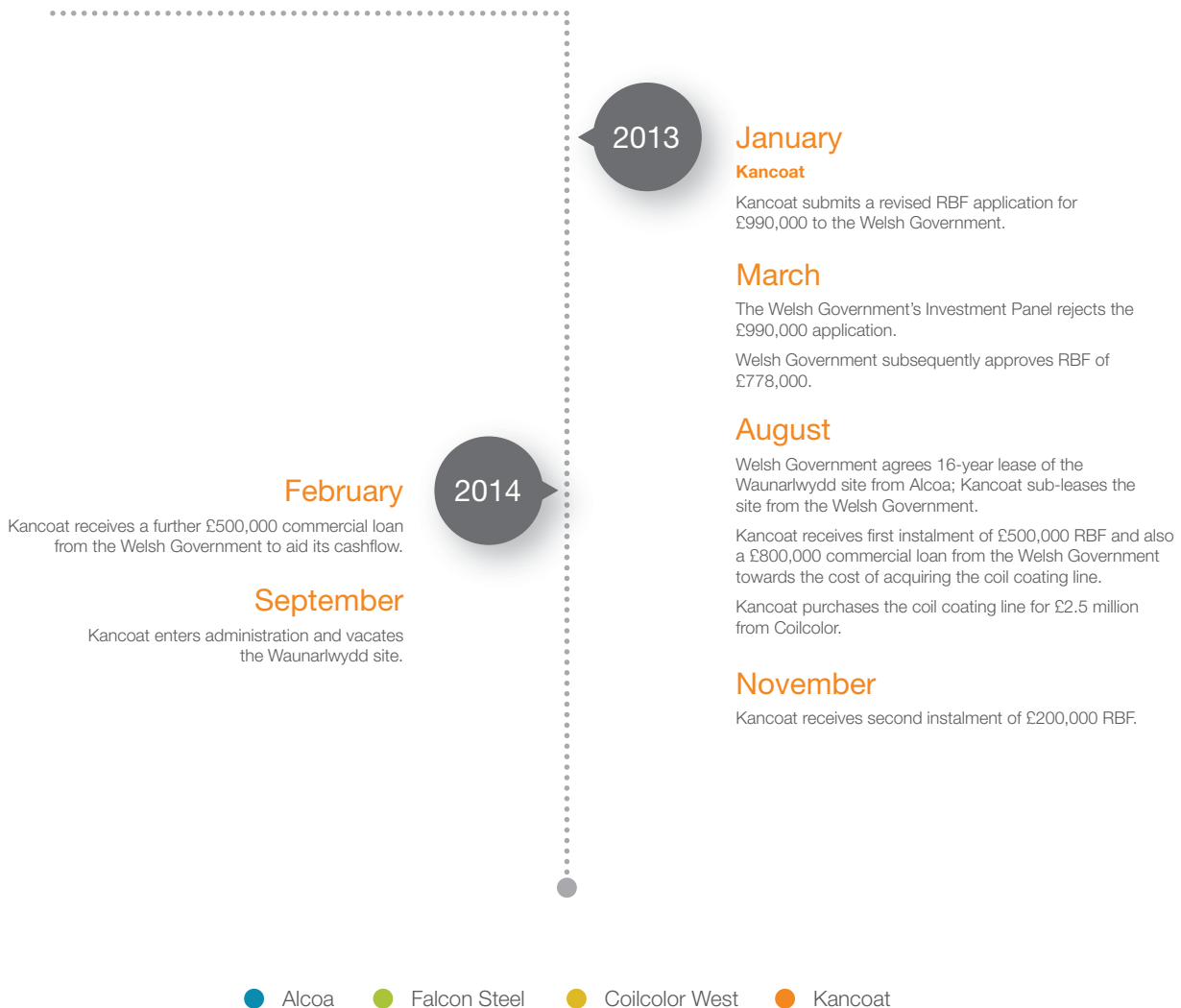
Prior to publication, we agreed the factual accuracy of our report with the Welsh Government and the named third parties.

## Appendix 2 - Timeline of key events

### Timeline



● Alcoa ● Falcon Steel ● Coilcolor West ● Kancoat







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# Delivery and transition **Annual report and accounts** **2015–16**

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July 2016



**National Assembly for Wales**  
Assembly Commission

Pack Page 145

The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales and holds the Welsh Government to account.

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Delivery and transition  
**Annual report and accounts**  
**2015–16**

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July 2016





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### 10 years of the Senedd: 2006-2016

Pontyclun Primary School performing at the 'Building for Democracy' event to mark 10 years since the opening of the Senedd.



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# Our performance: overview

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# Llywydd's foreword



Elin Jones AM

## **Llywydd and Chair of the Assembly Commission**

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I am delighted to present this annual report. It is a great honour and a real privilege to have been elected to this role by my fellow Assembly Members.

But of course the achievements described in this annual report predate my appointment. So the credit properly belongs to others. I would like to take this opportunity to pay tribute to my predecessor, Dame Rosemary Butler, who broke down barriers to participation in the democratic process in Wales, particularly amongst women through her Women in Public Life campaign and by placing young people firmly at the centre of Assembly business.

Rosemary was ably supported by Deputy Presiding Officer David Melding, whose insightful and diligent contribution both within and beyond the debating Chamber, including as a committee chair, enhanced the work of the Assembly in numerous ways. Together with Commissioners - Sandy Mewies, Angela Burns, Rhodri Glyn Thomas and Peter Black - they formed an effective leadership team which drove continuous improvement throughout all aspects of the Assembly Commission's strategic goals.

In doing so, Commissioners drew on the expertise, passion and commitment of Assembly Commission staff, led by Claire Clancy, the Chief Executive and Clerk. I know from my own experience of working with Commission staff in previous Assemblies that I can rely on the highest quality advice, responsive services and effective delivery in my new role. I am extremely grateful to Claire and her staff for their support at the start of my tenure.

It is important that the services provided by the Assembly Commission support my priorities for how this Fifth Assembly will operate. The first of these is to be fair, safeguarding the rights of all Members and treating every Member equally. Second, promoting and protecting the good reputation of this Assembly, in the Chamber and beyond, in every community within Wales. Third, ensuring lively, healthy, democratic debate supported by transparency about our procedures. Finally, I want the Assembly to play a constructive, collaborative role working with other Parliaments within the United Kingdom and beyond.

I am looking forward to working with the Deputy Presiding Officer, Ann Jones, and my fellow Commissioners, Joyce Watson, Dai Lloyd, Suzy Davies and Caroline Jones, to build on the successes of the Fourth Assembly. I intend to emulate the approach taken by our predecessors in setting out a clear strategy, underpinned by robust financial planning and effective governance. We will do this against a background of continuing change in Wales and internationally: constitutional, political, socio-economic and environmental. The Assembly will acquire new powers and responsibilities as well as new challenges, and we must be ready to serve the people of Wales fittingly.

# Introduction from Chief Executive and Clerk



Claire Clancy

**Chief Executive and Clerk of the National Assembly for Wales**

---

This was certainly a year of delivery and important transition.

We continued to deliver with pace and professionalism. Assembly Commission staff successfully completed the programme of investment and service improvement driven by the strategic goals set out by our Commissioners at the start of the Fourth Assembly. We supported the final, and busiest, phase of legislative scrutiny in this first Assembly with full law-making powers, including the first tax legislation. We continued to extend the breadth and depth of our engagement with the people of Wales, using new techniques. We confirmed the Senedd's role as a focus for public life, and celebrated its tenth birthday – many of the photographs in this report are from those celebrations.

We also continued to strengthen our approach to planning and delivery, and were recognised in a number of ways for how we nurture and get the best from our staff. Our governance framework enabled us to provide robust assurance about the appropriate use of resources, for which I have personal responsibility as Principal Accounting Officer.

As the end of the Fourth Assembly approached, our thoughts and indeed our work inevitably turned to the transition to the next Assembly. Commission staff supported Members to reflect on and record the legacy of the Fourth Assembly. They also put in place a range of projects and work streams to prepare to give the best possible experience to incoming Members and help them take the decisions required to establish the Fifth Assembly. Although events after the election in May will no doubt be covered in the next annual report, I cannot resist mentioning here that our induction was a fantastic success, complimented by new and returning Members alike.

I would like to take this opportunity to place on record my thanks to all Assembly Members and their staff, Commission Directors, Heads of Service and their staff, contractors and colleagues from other organisations who have all contributed to the Assembly's success.

I consider myself very fortunate indeed to have the opportunity to lead the organisation during such an important period in the history of devolution. I am very proud of what we have achieved together. Together as a team, we have tackled, with relish and panache, increasing responsibilities and other challenges. At the same time we have built a modern parliamentary democracy fit for a strong and confident Wales.

# Fifth Assembly Commissioners

The Assembly Commission's role is to provide the Assembly with the staff, property and services it requires. The Commissioners appointed at the start of the Fifth Assembly were responsible for this report.

## Commissioners

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**Elin Jones AM** (Plaid Cymru)

The Llywydd is Chair of the Assembly Commission and also has responsibility as a Commissioner for communications and engagement.

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**Suzy Davies AM** (Welsh Conservatives)

Commissioner with responsibility for budget and governance, including Audit and Risk Assurance Committee membership.

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**Joyce Watson AM** (Welsh Labour)

Commissioner with responsibility for equalities, and the Commission as the employer of Assembly staff.

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**Dai Lloyd AM** (Plaid Cymru)

Commissioner with responsibility for official languages, and delivery and transformation of services to Members.

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**Caroline Jones AM** (UKIP)

Commissioner with responsibility for security and Assembly resources.

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## Deputy Presiding Officer

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**Ann Jones AM** (Welsh Labour)

The main function of the Deputy Presiding Officer is to alternate with the Llywydd in chairing Assembly Plenary sessions. The role is similar to that of a Deputy Speaker in the House of Commons. The Deputy Presiding Officer also attends meetings and functions in her own right as well as on behalf of the Llywydd in order to raise the profile of the Assembly.

---

# Fourth Assembly Commissioners

In the Fourth Assembly, the Commission set out its purpose as serving the National Assembly for Wales to help make it a strong, accessible and forward-looking democratic institution and legislature that delivers effectively for the people of Wales. The Commissioners oversaw the activities described in this report.

The Commission of the Fourth Assembly consisted of the Presiding Officer and four Assembly Members, one nominated by each of the four party groups represented in the Assembly.

## Commissioners

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**Dame Rosemary Butler AM** (Welsh Labour)

Presiding Officer and Commission Chair, taking lead responsibility for communications and professional development for Members and their staff.

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**Angela Burns AM** (Welsh Conservatives)

Commissioner with responsibility for budget, governance (including Audit and Risk Assurance Committee membership) and links with the Remuneration Board. Angela also had responsibility for the improvement of services to Assembly Members and the Commission's role as the employer of Assembly staff.

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**Peter Black AM** (Welsh Liberal Democrats)

Commissioner with responsibility for ICT, broadcasting, e-democracy, the Assembly estate, and sustainability.

---



**Sandy Mewies AM** (Welsh Labour)

Commissioner with responsibility for education services, front of house, the Assembly's facilities, retail, catering and security. Sandy also had responsibility for the Commission's statutory equality functions.

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**Rhodri Glyn Thomas AM** (Plaid Cymru)

Commissioner with responsibility for the Assembly's Official Languages, legal services and Freedom of Information.

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## Deputy Presiding Officer

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**David Melding AM** (Welsh Conservatives)

In addition to deputising for the Presiding Officer, the Deputy Presiding Officer also attended meetings and functions in his own right in order to raise the profile of the Assembly.

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# Independent advisers

The Commission appointed independent advisers to ensure that Commissioners and the senior management team were supported and constructively challenged in their roles.

The advisers participated in Commission meetings; considered our performance management and reporting arrangements; advised on the Commission's responsibilities for staff appraisal and remuneration policies and systems; and maintained a critical overview of the Commission's financial controls and risk management procedure.

## Independent advisers

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### **Keith Baldwin**

Keith is currently a Special Advisor to the Board at the Bar Standards Board, is a Council and Audit Committee member at the National Army Museum and is a Board Member and Audit Committee member at CVQO Ltd, where he also chairs the Remuneration Committee. Keith spent 20 years as a partner at PricewaterhouseCoopers (PWC). Apart from his client responsibilities during this period, he also held a number of management roles including Deputy Partner-in-Charge of Government Consulting and partner responsible for the risk and quality management functions within PWC's Advisory Business. He has held a number of non-executive and advisory roles since leaving PWC.

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### **Mair Barnes**

Mair advises and mentors a number of Board directors across a variety of sectors in addition to being a non-executive director of a global business. She is the former Chair of Vantios plc and Managing Director of Woolworths plc. She has held non-executive directorships at the Department of Trade and Industry and the Cabinet Office.

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### **Helena Feltham**

Helena has experienced a long career in Retail and Human Resource Leadership. She is currently the Director of Human Resources for B&Q and has previously held appointments as the Global HR Director for TOPSHOP TOPMAN and as HR Director at Marks & Spencer, Jack Wills Ltd. and Woolworths South Africa. She has also spent time in executive search with Odgers Berndtson, covering senior appointments across both public and private sectors. Helena has served as a non-executive director of an NHS Trust, is currently a Justice of the Peace, and Board Member and Trustee of Action for Children and The Retail Trust.

---



**Eric Gregory**

Eric is Chair of the Assembly Commission Audit and Risk Assurance Committee. He is also an Independent Adviser and Chair of the Risk and Assurance Committee for Her Majesty's Passport Office (HMPO), and a non-executive director for both the Ministry of Justice Legal Aid Agency (LAA), where he is a member of the Audit and Risk Assurance Committee, and the Cabinet Office Modern Electoral Registration Programme, where he chairs the Programme Risk and Assurance Board. He worked for the John Lewis Partnership for 25 years until 2009, where he was a Board Director for seven years, holding all three principal IT Director roles before becoming Personnel Director John Lewis. He was previously non-executive director for the Crown Prosecution Service (CPS) London and a member of their ICT Board. He has also held the position of Chair of the Consumer Goods Forum IT Board, and was a member of the e-skills Businesses Board for six years.

---

## Independent member of the Audit and Risk Assurance Committee

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**Hugh Widdis**

Hugh is the Head of the Government Legal Service for Northern Ireland and Departmental Solicitor for the Northern Ireland Executive. He has over 15 years' experience in parliamentary and government legal services. Prior to joining the Northern Ireland Executive, Hugh was Director of Legal and Governance Services for the Northern Ireland Assembly. He has previously worked in research, as a barrister in private practice and as an in-house lawyer in a leading financial services provider. He has also worked in the Scottish Parliament's legal office, and on discrimination law in the Office of the First Minister and deputy First Minister. Hugh is a barrister and member of the Bar of Ireland and the Bar of Northern Ireland.

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## Statement of purpose

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Our statement of purpose for the Fourth Assembly was:

“The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales and holds the Welsh Government to account.

The Assembly Commission serves the National Assembly to help make it a strong, accessible and forward-looking democratic institution and legislature that delivers effectively for the people of Wales.”

Our strategic goals for the Fourth Assembly were to:

- provide outstanding parliamentary support;
  - engage with the people of Wales and promote Wales; and
  - use resources wisely.
-

# Our purpose and activities

This report sets out Assembly Commission achievements against our strategic goals between April 2015 and March 2016.

## Context

---

Wales receives around £16 billion per year to provide essential public services, such as schools and hospitals, for the people of Wales. This is known as the “Welsh Block”.

The Commission is allocated a small proportion of the Welsh Block (0.3 per cent) to cover the costs of the National Assembly for Wales. This money allows the 60 Assembly Members to represent the people of Wales, make laws and scrutinise the policies and spending decisions of the Welsh Government.

## Our budget

---

During 2015-16, the Commission had responsibility for a budget of £52.3 million, which comprised:

- £15.7 million for the remuneration of our 60 Assembly Members, that of their support staff, pension finance costs and the costs of running their constituency and regional offices all over Wales; and
- £36.6 million for the Commission to provide the property, staff and services for the Assembly to function.

At the start of the Fourth Assembly, the Commission agreed a budget strategy to set out the framework for our annual budget. The Commission publishes Key Performance Indicators to demonstrate corporate performance across all areas of activity (see pages 20 to 21). We obtain external assurance on our expenditure from the Auditor General for Wales as well as scrutiny by the Assembly’s Public Accounts and Finance Committees.

## Our plan to achieve the Commission’s strategy

---

Our strategic plan for the final two years of the Fourth Assembly, published in May 2014, identified five priority areas for change, innovation and investment:

- enabling the Assembly to be as effective as possible through the support we provide, including through the impact of the next stages of our ICT Strategy;
- enhanced bilingual services;
- increased engagement with people in Wales;
- making the most of our estate; and
- complete readiness for the transition to, and new challenges of, the Fifth Assembly.

Commission staff used these priorities and the strategic goals to develop their service plans and their own performance objectives.

## How the Assembly Commission is organised

---

The *Government of Wales Act 2006* prescribes that the Assembly Commission consists of the Presiding Officer and four other Assembly Members. The Assembly's Standing Orders set out how the Members are appointed. In the Fourth Assembly, this meant that each of the four political parties represented in the Assembly nominated a Commissioner.

The Commission employs around 450 permanent, politically impartial members of staff, led by the Chief Executive and Clerk. The Chief Executive is the Principal Accounting Officer for the Commission, and has a number of other statutory functions. The Commission delegates some of its functions to the Chief Executive.

The senior management team consists of the Chief Executive and her team of five directors, responsible for Assembly Business, Resources, Legal Services, Commission Services and Finance.

The directors meet as a forum and as the Investment and Resourcing Board. They are joined by twelve senior officials from across their directorates to make up the Management Board.

Management Board members have established a number of other groupings of Commission staff to lead key areas of work, such as constitutional change, legislation and the transformation of Assembly business services.

## Chief Executive and Clerk of the Assembly

**Claire Clancy**

### Assembly Business Directorate

Provides specialist parliamentary support to Members to ensure the efficient and effective conduct of business.

Director of Assembly Business

**Adrian Crompton**

### Assembly Resources Directorate

Provides ICT, HR, estates and facilities, front of house and security services, as well as managing procurement and governance arrangements.

Director of Assembly Resources

**David Tosh**

### Commission Services Directorate

Provides services and support to the Llywydd, Commission, and Management Board, as well as translation and reporting and business support and professional development for Members.

Director of Commission Services

**Craig Stephenson**

### Legal Services Directorate

Provides legal advice to support scrutiny by Members and committees, as well as for the Commission in exercising its functions.

Director and Chief Legal Advisor

**Elisabeth Jones**

### Financial Services Directorate

Provides services relating to corporate financial planning, budget management, payments and pensions.

Director of Finance

**Nicola Callow** (until 21 April 2016)

# From Fourth to Fifth: our legacy

During the final year of the Fourth Assembly, we saw the culmination of the Commission's investment and delivery strategy. We consolidated the achievements against our strategic goals to provide a firm foundation for the challenges of the Fifth Assembly.

## Legacy report

---

On St David's Day, 1 March 2016, we published '**A Platform for Strength: The Legacy Report of the National Assembly for Wales Commission 2011–2016**'. The legacy report reflected upon how we had focused on high standards, continuous improvement, innovation and value for money in meeting the challenges of the Fourth Assembly. This was the Assembly's first five-year term and the first with full law-making powers. With only 60 Members, the Assembly is small by any objective local, national or international comparison. The report also highlighted our key achievements and made recommendations to help the new Commission in the Fifth Assembly.

## Providing outstanding parliamentary support

---

During the Fourth Assembly, we developed a range of Member-centred services which have put the Assembly in a strong and often enviable position when compared with other parliamentary institutions across the United Kingdom and beyond. We have evidence of this from the increasing demand from other legislatures for information about our work and from improved satisfaction results in our regular surveys of Members and their support staff.

The legacy report highlighted a number of achievements:

- **Induction and continuous professional development (CPD).** We supported 23 newly elected Members in 2011 and three between 2013 and 2015. At least 40 Members and 150 support staff participated in our flexible and varied programmes in each of the first four years of the Fourth Assembly.
- **Working in both our official languages.** We introduced what became the *National Assembly for Wales (Official Languages) Act 2012*. Under our Official Languages Scheme, we worked with Microsoft to make Translator software available in Welsh, launched a bilingual skills strategy, increased Welsh language learning opportunities, made more committee briefing material available in Welsh and provided lanyards to improve the visibility of the Welsh language in the workplace. In Member survey results, working in the language of choice achieved the highest score out of all the areas of Commission support.
- **Supporting our vision for world class parliamentary committees.** We reviewed and strengthened the integration of committee services, provided more CPD opportunities, extended the range of engagement and reporting methods and continued to invest in a dedicated EU office in Brussels.
- **Supporting legislative scrutiny.** We met the challenge of the increasing volume and complexity of legislation considered by the Assembly through effective capacity planning across all service areas, as well as specific initiatives such as strengthening the legislative drafting skills of

Commission lawyers. Integrated teams of Commission staff supported five Members to introduce their own Bills, two of which became law.

- **The constitutional landscape.** The Presiding Officer was an active and authoritative voice in devolution discussions throughout the Fourth Assembly. She presented strong and persuasive evidence to the Commission on Devolution in Wales (the Silk Commission) and worked closely with the Secretary of State for Wales on the *Wales Act 2014* and the draft Wales Bill published in 2015. We facilitated robust scrutiny by the Assembly at every constitutional milestone and ensured that we are well prepared for the changes to Commission services required by further devolution.
- **Building links with the independent Remuneration Board.** Through regular dialogue, including a joint meeting, Commissioners sought to ensure that the Board fully recognised the breadth and demanding nature of the role of Members and the need for consultation with them.
- **A modern democracy with the right tools.** We brought ICT services in-house through an 18-month programme which was delivered on time and under budget and recognised as an exemplar by external auditors. This resulted in annual savings of around £700,000 and released £400,000 for re-investment. In addition, we put in place better, cheaper networks, telephony and audio-visual equipment, a new website platform, and cloud services.
- **Becoming an open, digital parliament.** We reviewed the way we report Assembly proceedings and published our first open data sets (information that can be freely used, shared and built on by anyone, anywhere, for any purpose). We then initiated a wider programme of digital transformation, including improving our website.
- **Improving visitor facilities.** We invested in our Tŷ Hywel entrance to enhance the experience for visitors. The changes included more covered space to shelter visitors, equality of access for disabled visitors and more flexible meeting and events spaces. During the Fourth Assembly over 780,000 people visited the Assembly estate, and over 98,000 were given tours of the Senedd.

## Engaging with the people of Wales and promoting Wales

---

Engagement efforts focused on improving understanding of the Assembly's work through reaching a broader audience, both at the Senedd and right across Wales.

The legacy report highlighted a number of achievements:

- **A parliamentary estate to be proud of.** We developed a 10-year investment programme for our estate to ensure that it continued to attract more visitors and facilitate public engagement with the Assembly's work. In 2012, the Presiding Officer welcomed the millionth visitor to the Senedd, which received a Trip Advisor Certificate of Excellence in 2015. During the Fourth Assembly we hosted hundreds of national events, from St David's Day celebrations and remembrance services to celebrations of Welsh sporting achievements in the Olympics and Paralympics, the Commonwealth Games and the Six Nations.
- **Youth engagement and education.** Following a consultation with almost 3,000 young people, we developed a Children and Young People Engagement Charter which was signed by the Presiding Officer and all party leaders. Since then, almost 13,000 young people have been directly involved in the work of committees. Over 10,000 young people took part in a national conversation about reducing the voting age to 16. We strengthened links with youth groups and other organisations so that we can engage with young people outside formal education settings.

- **Senedd@Wrexham and Senedd@Swansea.** We took the Assembly on the road to Wrexham in March 2015 and Swansea in October 2015. Events for schools, local organisations and the general public brought our work closer to the people we serve than ever before.
- **Addressing the democratic deficit.** We engaged with senior figures in the UK media, as well as universities and hyperlocal (community) journalists, to seek more coverage of the work of the Assembly for Welsh audiences.
- **Embracing social media.** We grew our online presence significantly and now have over 50 social media accounts providing information in Welsh and English. We extended our reach to over 30,000 profiles on Twitter and 75,000 YouTube views. Through our Senedd.tv service we enabled users to share video clips of Assembly proceedings and we achieved an average of 7,500 views per month and 22 posts per month on our Research Service blog, In Brief/Pigion. We continued to innovate, using online platforms to provide information and seek feedback.
- **Reflecting our diverse society.** We reported annually on progress against the actions set out in our Equality Plan. In 2016 we were ranked third in the Stonewall Workplace Equality Index of the top 100 UK employers and named Top Welsh Public Sector Employer for the third year running. Other accolades included recognition from Action on Hearing Loss and the National Autistic Society, being in the Top Ten Employers for Working Families 2012 and The Times Top 50 Employers for Women 2014, as well as achieving the Investors in People Gold Standard. We also appointed a temporary co-ordinator to help us recruit, retain and develop more BME staff.
- **Women in Public Life.** The Presiding Officer held a series of regional seminars to explore ways to encourage more women to participate in public life, culminating in a national conference. The programme of initiatives which followed included a series of lectures by high profile speakers, a mentoring scheme, an online hub for career opportunities and a Women in Democracy Caucus involving representatives from all four political parties in the Assembly.
- **International engagement.** Commissioners and other Assembly Members participated extensively in the work of international networks and forums, including the Commonwealth Parliamentary Association, the British-Irish Parliamentary Assembly and the Conference of European Regional Legislative Assemblies. The Assembly engaged positively with EU institutions and Welsh MEPs, supported by our Brussels office.
- **Improving access to our Record of Proceedings.** Following a wide-ranging review, we identified a number of efficiencies and improvements in the process of publishing the bilingual official parliamentary report. A new editing style enabled the written record to be used more easily alongside the audio-visual version.

## Using resources wisely

---

The legacy report highlighted a number of achievements:

- **Budget.** Our budget strategy delivered clarity, transparency and consistency by enabling us to produce detailed plans based on a long-term view of spending requirements.
- **Governance.** We were recognised as a beacon of good practice for our governance framework, which uses multiple strands of oversight supported by independent advice and assurance.
- **Scrutiny and transparency.** We engaged openly and positively with the work of the Assembly's committees.



- **Effectiveness.** Commissioners adopted corporate governance principles at their first meeting and conducted three effectiveness reviews during the Fourth Assembly. These resulted in improvements to aspects of the Commission’s work such as strategy; budget and investment; forward work planning; working together and communications.
- **Key Performance Indicators (KPIs).** We developed a set of KPIs on service delivery, budgetary performance, governance and assurance and we regularly published corporate performance reports. These provided a breakdown of performance against detailed measures and targets, comparisons with previous periods, and commentaries. A traffic-light overview gave a clear indication of overall performance and helped identify areas where action was needed. The KPIs showed increases in Member and visitor satisfaction and online engagement, as well as meeting our targets for value for money savings, and the timeliness of supplier payments and Member services.
- **Value for money and efficiency.** We improved management information, simplified processes and maximised benefits and cost savings from procurement and contract management. As a result, we exceeded our £500,000 annual efficiency saving target year on year since 2012 and generated savings to our operating baselines from procurement, in-sourcing and supplier development.
- **Staffing.** We value our highly skilled, professional and flexible workforce. The Management Board established a system of biannual capacity planning to ensure that we deployed the right people, with the right skills, in the right places. Regular staff surveys showed higher than public sector average levels of staff engagement.
- **Independent advisers.** We appointed independent advisers to provide support and challenge to Commissioners and the senior management team. The advisers were involved in a range of activities, including taking part in Commission meetings, advising on performance management and maintaining critical oversight of financial controls and risk management.
- **Improving our carbon footprint.** In December 2014 we completed the Carbon Management Plan developed during the Third Assembly and achieved a Welsh public sector leading 35 per cent reduction in energy emissions. We also achieved a 4 per cent reduction in business travel emissions despite a 16 per cent increase in mileage. We were awarded Most Sustainable Public Sector Organisation in Government across the UK in 2014 and we continued to be certified to the Green Dragon Environmental Standard through to 2016. We agreed an Energy Reduction Route Map in June 2014, which sets a target of reducing energy emissions by a further 30 per cent by 2021.

## PERFORMANCE SUMMARY

### PROVIDING OUTSTANDING PARLIAMENTARY SUPPORT

 **8.70 OUT OF 10**

WAS THE AVERAGE SCORE GIVEN BY MEMBERS AND SUPPORT STAFF FOR PLENARY SUPPORT IN THE ANNUAL SURVEY (UP FROM 7.70 THE PREVIOUS YEAR)



**46**

STAFF WERE LEARNING WELSH

 **90,004**

VIEWS OF INBRIEF/PIGION, THE RESEARCH SERVICE BLOG



**100%**

OF COMMITTEE REPORTS WERE COVERED BY BROADCAST OR PRINT MEDIA

### ENGAGING WITH THE PEOPLE OF WALES AND PROMOTING WALES

 **131**  
SCHOOLS ENGAGED FOR THE FIRST TIME



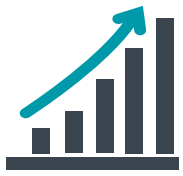
**163,158**  
VISITORS TO THE SENEDD AND PIERHEAD



**274,905**  
AVERAGE MONTHLY WEBSITE PAGE VIEWS



**239**  
INTERNATIONAL VISITS TO OR FROM THE ASSEMBLY



**72%**

STAFF ENGAGEMENT LEVEL MEASURED  
IN ANNUAL STAFF SURVEY  
(AGAINST CIVIL SERVICE MEDIAN OF 59%)

**7.6%**

REDUCTION IN EMISSIONS  
(WELL IN EXCESS OF THE 6% ANNUAL TARGET)



**£866,000**

VALUE FOR MONEY SAVINGS (AGAINST A TARGET OF £500,000)



**0.13%**

BUDGET UNDERSPEND  
(WELL WITHIN THE TARGET OF <1%)

















**450**



PERMANENT, POLITICALLY IMPARTIAL STAFF  
WORK FOR THE ASSEMBLY COMMISSION







**£52.3 MILLION**







THE ANNUAL BUDGET OF THE NATIONAL ASSEMBLY FOR WALES

## Summary of Key Performance Indicators




Providing outstanding parliamentary support	April 2014 - March 2015	April 2015 - March 2016
<p><b>KPI 1: Timeliness and service delivery</b> A consistently high performance on timeliness of issuing committee papers, briefings and Record of Proceedings, despite a peak in legislative scrutiny.</p>	 green	 green
<p><b>KPI 2: Professional development</b> A review of language learning provision for Members and staff led to the creation of a new Language Skills team. The Commission continued to share its experience and expertise on working bilingually and was represented on the Ministerial Working Group on the Welsh language in Local Government administration and economic development.</p>	 amber	 green
Engage with the people of Wales and promote Wales	April 2014 - March 2015	April 2015 - March 2016
<p><b>KPI 3: Engagement at the Assembly</b> Although visitor numbers decreased, the number engaging through tours increased. Visitor satisfaction levels remained above target.</p>	 green	 green
<p><b>KPI 4: External profile of the Assembly</b> Using social media, our online presence grew significantly. Considerable media coverage for the work of committees continues.</p>	 green	 green
Use resources wisely	April 2014 - March 2015	April 2015 - March 2016
<p><b>KPI 5: Budgetary performance</b> A strong position: delivering an underspend of 0.13 per cent of the budget, well within the less than one per cent target; also exceeded the value for money target.</p>	 green	 green
<p><b>KPI 6: Staff</b> Absence management continued to be a strategic priority, with absence levels giving some cause for concern. Enhancements to our staff performance management and development approach were introduced and positive feedback received.</p>	 amber	 amber
<p><b>KPI 7: ICT customer service</b> Improvements were made through ongoing training for Service Desk agents. This was reflected via an increase in customer satisfaction scores.</p>	 amber	 amber
<p><b>KPI 8: Governance</b> Despite an increase in the number of Freedom of Information requests received, the number answered within the statutory deadline increased.</p>	 green	 green

<b>KPI 9: Sustainability</b>		
Good progress continued against the new target for reduction in total energy. A new target of zero tonnes of waste to landfill by March 2021 was set and work began towards achieving it.	 green	 green

Progress on Corporate Plan priorities	April 2014 - March 2015	April 2015 - March 2016
<b>Provide outstanding parliamentary support</b> Commission staff supported committees to produce legacy reports which described the impact of their work during the Fourth Assembly, and made recommendations to inform the work of successor committees in the Fifth Assembly.	 green	 green
<b>Engage with the people of Wales and promote Wales</b> Good levels of engagement with Assembly business continued. Social media engagement made significant improvements.	 green	 green
<b>Use resources wisely</b> The work to refresh the Senedd Siambr ICT and improve the ergonomics was almost complete at the year end. Improved wireless networking was delivered to all constituency offices, and changes were made to help drive down energy usage and achieve sustainability targets.	 green	 green

Member satisfaction survey	April 2014 - March 2015	April 2015 - March 2016
<b>Provide outstanding parliamentary support</b> The satisfaction survey 2015 showed a significant improvement in scores for overall support for Plenary and committee meetings, up from 7.7 to 8.7 and 7.9 to 8.4 respectively.	 green	 green
<b>Engage with the people of Wales and promote Wales</b> The satisfaction survey 2015 showed a marked improvement in the score for overall effectiveness on engagement, up from 6.7 to 7.4.	 amber	 green
<b>Use resources wisely</b> The satisfaction survey 2015 showed a significant improvement in scores on a range of services to Members, including allowances and staffing, and ICT, up from 8.7 to 9.3 and 7.5 to 8.4 respectively.	 green	 green

## Key

-  RED: There are significant issues impacting the achievement of business objectives. To achieve delivery, changes must be made to timing, costs and/or scope.
-  AMBER: There are issues or risks which must be addressed. However, successful delivery is achievable without major impacts to budget, service standards or target dates.
-  GREEN: Work is meeting agreed standards or is proceeding to plan. All known risks are being managed.



**10 years of the Senedd: 2006-2016**

Lord Richard Rogers, one of the architects who designed the Senedd, signing the guest book following a tour of the building with the Presiding Officer.

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# Our performance: analysis

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## ASSEMBLY BUSINESS

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During 2015–16, Assembly Members represented their constituents and scrutinised government policy, legislation and expenditure in weekly Plenary and committee meetings.



**66**  
PLENARY  
MEETINGS

**20**  
URGENT  
QUESTIONS



**8** INDIVIDUAL  
MEMBER  
DEBATES



**10**  
BILLS RECEIVED  
ROYAL ASSENT



**286**  
COMMITTEE  
MEETINGS

 **82**  
COMMITTEE  
REPORTS



# Providing outstanding parliamentary support

This year, the Commission provided a range of support for Members to complete the Assembly's heavy programme of legislative scrutiny (including the first tax Bill); examine proposals for further constitutional change; undertake committee work; use both our official languages; consider procedural and process changes; transform the way we create, use and share information; and reflect on the work of the Fourth Assembly. All these activities informed detailed preparations for the Fifth Assembly.

## Legislative scrutiny and the first tax Bill

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The Assembly scrutinised 11 Bills this year, including four Bills introduced this year. Between April and October, this regularly involved the Assembly considering eight Bills simultaneously. Of the 11 Bills, nine were remitted to only three committees. Between January and March, 930 amendments to five Bills were debated in Plenary. These included 34 amendments which were tabled by non-Government Members and accepted by the Assembly. We ensured effective support for this level of scrutiny through well-managed capacity planning and working in an integrated way across service areas to deliver responsiveness and flexibility.

Service improvements introduced during the year included refreshed guidance about the legislative process, publishing printing changes (corrections to Bills between amending stages) to improve transparency and an updated template for Members to use to table amendments. We also strengthened the approach to scrutiny of human rights issues, for example during Stage 1 of the Public Health (Wales) Bill, in the light of the Supreme Court's judgment on the Recovery of Medical Costs for Asbestos Diseases (Wales) Bill. Alongside the core teams directly involved in supporting legislative scrutiny (clerks, lawyers, researchers, communications specialists and translators), key roles were played by technicians, security staff and caterers.

During the year, Royal Assent was received to laws designed to:

- ensure a focus across the public sector on the prevention of violence against women, domestic abuse and sexual violence, the protection of victims and the support for those affected by these issues;
- establish an independent regulatory body responsible for the recognition of awarding bodies and the review and approval of non-degree qualifications;
- give more effective protection to listed buildings and scheduled monuments, enhance existing mechanisms for the sustainable management of the historic environment, and introduce greater transparency and accountability into decisions taken on the historic environment;
- allow for certain preparatory work to enable a programme of local government mergers and reform and included provisions to facilitate the voluntary early merger of two or more local authorities;
- reform the regulatory regime for care and support services;

- set a framework within which Welsh public authorities will seek to ensure the needs of the present are met without compromising the ability of future generations to meet their own needs (the sustainable development principle);
- strengthen the plan-led approach to planning, including a new new legal framework for the Welsh Ministers to prepare a national land use plan;
- reform the legal basis for renting a home from a private landlord or community landlord, including local authorities and registered landlords;
- make changes to the planning and management of Wales’ natural resources at a national and local level; and
- require health service bodies to ensure that nurses are deployed in sufficient numbers.

The *Nurse Staffing Levels (Wales) Act 2016* became the second Bill introduced by an individual Assembly Member (rather than on behalf of the Welsh Government, the Commission or a committee) to become law. The Commission has a dual role in relation to such a Bill. We provide support to the Member in charge for the development and promotion of the Bill, as well as support for scrutiny of the Bill by other Members.

The scrutiny of Legislative Consent Memorandums (LCMs) has been a regular feature in the work of committees. These provide information to help the Assembly decide whether or not to give permission to the UK Parliament to make laws which have effect in Wales. Committees considered and reported on 10 LCMs this year, which were subsequently debated in Plenary. The Assembly gave consent for eight LCMs and of the two Bills for which consent was withheld, one was amended by the UK Parliament.

July 2015 saw the introduction of the Tax Collection and Management (Wales) Bill. This was the first Assembly Bill on taxation, following the devolution of certain tax powers to the Assembly by the *Wales Act 2014*. The Bill puts in place the legal framework necessary for the collection and management of devolved taxes in Wales, namely those on land transactions and landfill disposal, which will be the first Welsh taxes in 800 years.

In preparation for scrutiny of the Bill, the Assembly’s Finance Committee undertook a preliminary inquiry into the collection and management of devolved taxes in Wales. The Committee met its Scottish counterpart to share good practice and draw on its experience of scrutiny of tax legislation, following on from powers granted under the *Scotland Act 2012*. Given the complex and technical nature of the Bill, the Committee appointed an expert adviser who worked alongside Commission staff to provide the highest standard of support throughout the legislative scrutiny process.

The devolution of tax powers adds a new dimension to the Assembly’s work. In recognition of this, we put in place a programme of development for Members, support staff and Commission staff. The aim of the programme is to build internal skills and knowledge in relation to taxation and to draw in external expertise and good practice from other legislatures. We also commenced work on new budget procedures to ensure readiness for budget scrutiny following the fiscal changes in 2018.

## Learning and improving through engagement

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The complex and technical nature of the Tax Collection and Management (Wales) Bill led the Finance Committee to hold an informal stakeholder event before formally considering the Bill. The event was designed to give participants the opportunity to share their views and provide scope for more open discussion. The Committee was keen to hear from tax specialists and representatives of the legal and accounting sector, and secured continuous professional development accreditation for the event as an added incentive for people to attend. Following the event, participants gave positive feedback that they welcomed a full and frank discussion of the issues and wanted to attend similar events to discuss future devolved tax Bills.

As part of our mission to increase engagement in committee work, Commission staff, in partnership with Chwarae Teg, developed a training programme aimed at encouraging more women, particularly those from underrepresented groups, to take part in committee activities. The programme was designed to de-mystify the experience of giving evidence to a committee and build confidence in speaking in front of an audience. As well as receiving presentations on the committee process from Assembly Members and Commission staff, participants were asked to produce a written submission, in advance of presenting it to a mock committee meeting. The programme has been running for two years and has received very positive feedback from participants.

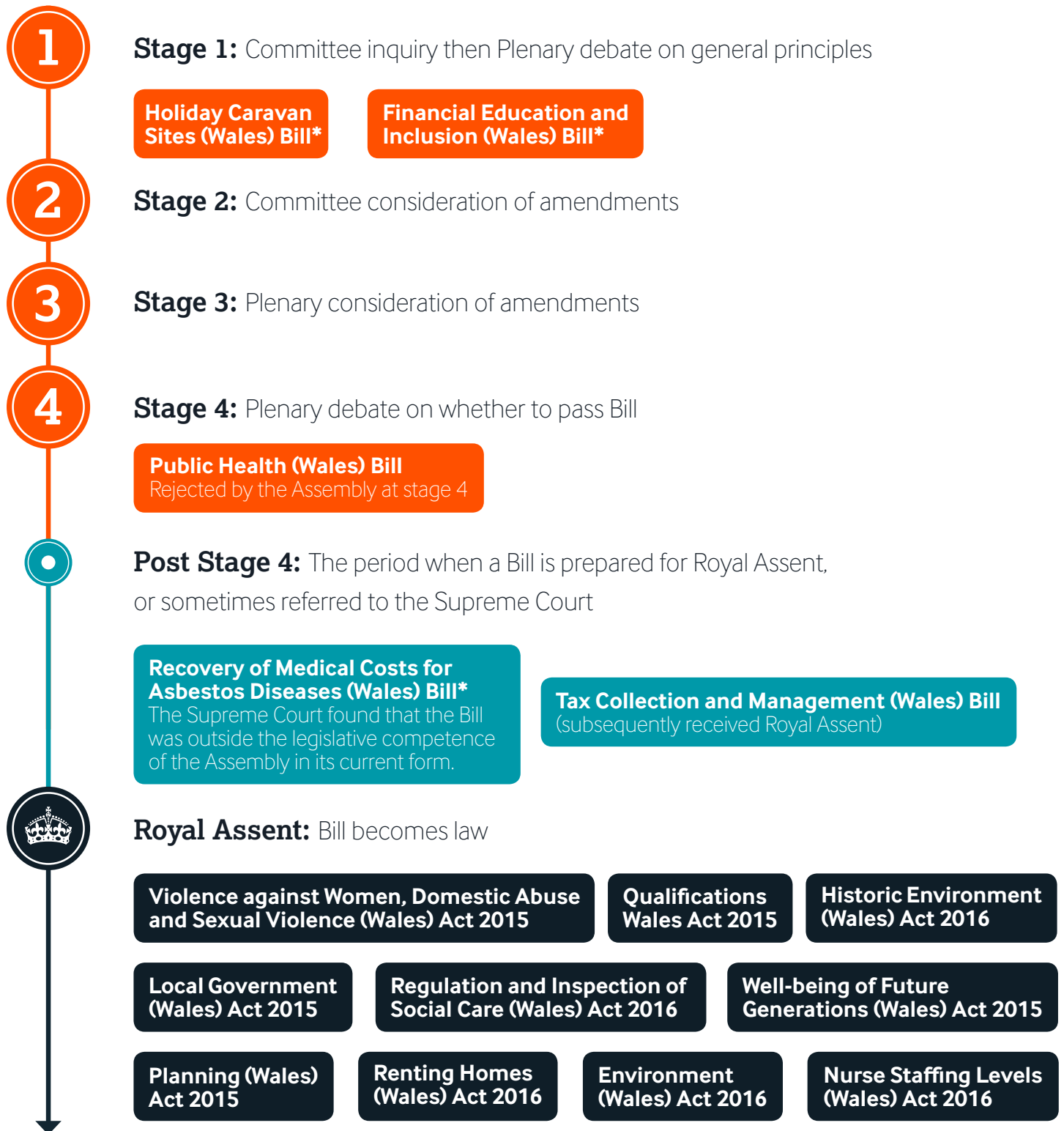
The Constitutional and Legislative Affairs Committee used an expert panel of three legal practitioners to consider a first draft of a report on making laws in Wales. The Committee was able to test initial findings and recommendations with the panel, which was extremely useful in helping to ensure a high-quality and well-received report.

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# MAKING LAWS FOR WALES

Bills and their progress through the Assembly (on 31 March 2016) and the Bills which received Royal Assent during the year.



\* The Holiday Caravan Sites (Wales) Bill, the Financial Education and Inclusion (Wales) Bill and the Recovery of Medical Costs for Asbestos Diseases (Wales) Bill subsequently fell at the end of the Fourth Assembly (5 April 2016).

## Further constitutional change and the draft Wales Bill

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The much-anticipated draft Wales Bill was published in October 2015. The draft Bill set out the UK Government's proposals for a new devolution settlement for Wales. It provided for a "reserved powers" model, which would enable the Assembly to legislate on any matter that is not expressly reserved. The model, together with the tests of competence to be applied to Assembly legislation, was intended to create the future framework within which devolution in Wales will operate. Given its constitutional significance, it is not surprising that the draft Bill and the approach taken by the UK Government in developing the draft Bill's provisions were the subject of considerable debate.

The Presiding Officer played a leading role in working with the Secretary of State for Wales to seek to influence the proposals in the draft Bill, both before and after its publication. The Presiding Officer also contributed to UK Parliament work relating to a number of other constitutional issues, including English Votes for English Laws, the future of the UK, the BBC Charter Review and the application of the Wilson Doctrine to Assembly Members.

The Commission provided support for the Assembly's deliberations on the draft Bill, including regular briefings for Members. Staff worked with experts in constitutional and governance arrangements, ensuring that the Assembly would continue to have access to additional capacity and expertise to help prepare for and deliver constitutional change.

Shortly after its publication, the Assembly's Constitutional and Legislative Affairs (CLA) Committee undertook an inquiry on the draft Bill and consulted a wide range of stakeholders. Following a request from the Presiding Officer, other Assembly committees examined the likely impact of the draft Bill on the subject areas within their remits. Commission lawyers, in collaboration with clerks and researchers, provided detailed briefing to inform this pre-legislative scrutiny process. The briefing included an analysis of the proposed reservations as well as advice on technical and drafting matters. The committees submitted their conclusions as evidence to inform the CLA Committee's inquiry and sent them to the First Minister, the Presiding Officer and the Secretary of State for Wales. Commission officials supported Members of the CLA Committee to publish a thorough and authoritative report despite the constraints of a very tight timetable for consultation on the legislation. The report was the subject of what the Presiding Officer hailed as an "unprecedented" debate in Plenary, structured around the key conclusions from the inquiry. Members who participated in the debate were unanimous in welcoming the report.

These actions were undoubtedly influential in the subsequent pause in the introduction of the Bill and the changes promised by the UK Government.

## Using innovative methods of reporting

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The Health and Social Care Committee adopted a number of innovative engagement methods as part of its inquiry into alcohol and substance misuse. Two reference groups set up in partnership with NewLink Wales enabled Members to draw on the experiences of service users and front-line service providers. An online forum enabled reference group members to share their views between meetings. The group later met Committee members to discuss key questions and issues ahead of an evidence session with the Deputy Minister.

For an inquiry on supply teaching, the Children, Young People and Education Committee created two surveys: for children and young people of school age, and for their parents and carers. The survey asked participants about the use of supply teachers and its impact on pupils, including how lessons taught by supply teachers differ from those led by permanent teachers. The Committee received 1,486 survey responses: 929 from children and young people, and 557 from parents and carers. The survey results became a news item in their own right, as they were picked up by the media before the inquiry had been completed.

In addition to the more traditional production of hard copy reports, a number of committees have produced engaging summary reports designed to be read on mobile devices. Committees published these summaries on their webpages, shared them on social media accounts and embedded them within blog posts. The Communities, Equality and Local Government Committee saw the benefit of this approach for a report on poverty and inequality in Wales. The summary was viewed over 3,000 times.

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How can poverty be reduced in Wales?

WELSH NATIONAL ASSEMBLY FOR WALES COMMITTEE HAS BEEN LOOKING AT POVERTY IN WALES, AND SUGGESTING HOW THE WELSH GOVERNMENT CAN DO MORE TO HELP PEOPLE STRUGGLING TO GET BY

## Supporting world-class committees

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Committees are the backbone of the democratic process in Wales. Fourth Assembly committees carried out the dual role of examining legislation and holding the Welsh Government to account by scrutinising expenditure, administration and policy matters. They also considered EU policy and funding, where appropriate to their remit. This dual scrutiny role was designed to both draw on and build Members' knowledge and expertise in their subject areas, enabling better, more in-depth scrutiny of policy and legislation.

The Commission set out a vision for committees to:

“Demonstrably improve the quality of policy outcomes, legislation, public services and government spending for society as a whole in Wales. They should be respected, influential and accessible, acting with integrity and independence. Their work should be strategic and rigorous.”

Each committee was supported in its work by an integrated team, made up of clerks; researchers; outreach and communications staff; lawyers; and translators, providing specialist advice and knowledge. Members drew on this expertise over the course of the year to balance a heavy legislative scrutiny workload with a range of important and innovative policy inquiries on a range of topics.

Integrated teams continuously improved the services provided to Members. Building on the results of the previous year's Member preferences exercise, teams worked with Members and their staff to ensure the support they received took account of their individual needs. Members' satisfaction with these services continued to increase. The results of the 2015 Assembly Member and Support Staff Survey showed an overall improvement in the rating by Members (from 7.9 out of 10 to 8.4) and extremely positive comments received, praising the helpfulness of team members and the quality of the research briefing, including legal aspects.

Committees continued to pursue the Commission's aim of widening engagement with, and improving understanding of, the work of the Assembly. They did this by holding meetings and events outside Cardiff, as well as by finding new ways of capturing the views of people whose voices might not previously have been heard.

The use of social media became integral to engaging people in the work of committees. Every committee used dedicated English and Welsh Twitter feeds to promote their work and events to a wider audience online. Committees also took advantage of other technologies to present their work in increasingly innovative and accessible ways, for example using Storify to share information on social media about committee inquiries, producing 60-second video reports and publishing summary reports designed to be viewed on mobile devices.

## Continuous Professional Development for Members and their staff

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This year Members and their support staff took up a wide range of opportunities for continuous professional development, including:

- Programme for committee Chairs
  - Member induction for two new Members
  - Legislation workshop
  - Wales Bill and reserved powers briefing
  - St. David's Day Announcement briefing
  - Gloywi iaith (refresher sessions for fluent Welsh speakers)
  - Weekly Welsh lessons and intensive Welsh courses
  - Speech writing
  - Level 5 Management and Leadership Diploma
  - Research service policy knowledge session
  - First Aid at work and mental health First Aid
  - Public engagement and communications, including social media and newsletter writing
  - Equality
- 





## Working in both our official languages

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We worked hard throughout the year to make tangible progress towards our goal of being recognised as a truly bilingual institution. The latest annual report on compliance with the Official Languages Scheme demonstrated further improvements in the Commission's bilingual services. April 2015 saw the publication of the first Bilingual Skills Strategy, which outlined how we provide a high quality bilingual service to Members and the public. We used the strategy to start refocusing staff resources and changing organisational culture to make bilingual working the norm. It is underpinned by a language plan for every service area, which enables recruiting officers to consider a team's capacity to deliver bilingual services before advertising vacancies.

We also reviewed and strengthened the provision of Welsh language teaching and learning opportunities for Members, support staff and Commission staff.

The bilingual service provided to people who call the Assembly's main contact number has improved with the new option to select English or Welsh for continuing the call, so that callers can hear announcements and be greeted by a member of the Public Information team in their preferred language.

Language choice was a major part of the work undertaken by committee integrated teams to capture and act on Members' preferences. This resulted in an increase in the number of private committee papers available in both Welsh and English. A permanent clerk-translator post established in the Table Office has increased the speed and efficiency of bilingual tabling of questions to Ministers and motions for debate in Plenary.

## Reviewing procedures and processes

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Two significant sets of Standing Order changes were approved during the year. In June 2015, the Assembly revised its procedures on declaring interests, in line with recommendations made by the Commissioner for Standards and the Standards of Conduct Committee. The main change introduced a new requirement that Members declare "relevant" interests before taking part in proceedings, where the interest could be reasonably thought by others to have influenced the Member's contribution. Previously, declarations of interests had only been required in very specific circumstances, so the changes improved transparency.

The second set of procedural changes related to Assembly legislation. Standing Order 26 (Acts of the Assembly) was reviewed following recommendations made by the CLA Committee in its 'Making Laws in Wales' report. The report identified a number of ways in which the law-making process could be improved and made recommendations to the Commission as well as to the Welsh Government and the Business Committee, which is responsible for the Assembly's structure, timetabling and procedures. The Commission responded positively to the Committee's report and accepted all the recommendations. The Business Committee proposed significant changes, such as increasing the amount of information that must be provided when a Bill is introduced and improving the clarity and consistency of the legislative procedure as a whole. The Assembly agreed these changes, as well as amendments to extend the scope of Standing Order 26A on private Bills. A completely new procedure for hybrid Bills was also introduced, combining elements of the public and private Bills procedures.

Following a review of public petitions arrangements, which included visits to Dublin and Brussels to learn from the experiences of other parliaments, the Petitions Committee made a number of recommendations for consideration by the Fifth Assembly.

We were afforded an unexpected opportunity to test some of our procedures and processes when the Presiding Officer, at the request of the First Minister, summoned the Assembly during the Easter recess to consider a matter of urgent public importance: the announcement of the sale of Tata Steel UK. The Chair of the Enterprise and Business Committee also called a meeting of his Committee to be held the following day. As the Easter recess had been expected to dovetail with the dissolution of the Assembly, our preparations for the physical refurbishment of the Assembly estate (including the Siambr – see page 52) had commenced after the close of business on 16 March and, by the time of the recall on 30 March, were well underway. However, as a result of our robust risk management and business continuity planning, we were able to restore the estate to readiness for supporting Assembly business with only a few days' notice. Members were able to return to debate and scrutinise this important issue and assess its impacts on the Welsh economy.

## Transforming our information

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This year we pursued a number of projects to improve Assembly business services and so maximise our ability to deliver world class support and enable the Assembly to be truly accessible and transparent. The key drivers for this work included:

- increasing pressures on Members and on Commission services;
- rapidly changing public expectations about how they engage with politics, including their digital experience; and
- the opportunity to make the information we offer more accessible, easy to find, relevant and reusable to better serve Members and the people of Wales.

At the end of 2015 we completed a major review of the Record of Proceedings, taking account of users' views. The Commission agreed a vision for the future in an evolving digital world, that the Record should be "reusable, available earlier, and accessible". The Commission recognised that making Assembly proceedings more transparent needed to be an integral part of our communications strategy, to help the people of Wales understand what is being debated and decided by the Assembly.

In readiness for the Fifth Assembly and at no additional cost, we realigned resources to publish a draft Record within two hours of being spoken and in a more useable format. The final bilingual Record is available sooner than the previous five-day timescale. The public can search for individual Members' speeches and voting records and the Record is published as open data sets. As well as introducing a number of efficiencies during the process, the Commission agreed that further integration was required across the Record, committee transcripts, Senedd.tv, news releases and our social media channels to give them greater visibility on our internet homepage and our news services.

We also increased our range of digital engagement techniques and improved the Assembly website in the light of feedback from the Assembly's Public Accounts and Finance Committees.

We recognise that a step change is required in the Fifth Assembly in how we produce, manage and use Assembly business information if the Commission wishes the Assembly to be regarded as a world class digital parliament that is open, inclusive and easy to engage with.

## Senedd10

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In March 2016 we ran the Senedd10 campaign to mark the 10-year anniversary of the Senedd and raise awareness of the Assembly, its Members and their work. The campaign also formed part of a wider programme of activity to promote the Assembly election.

The Presiding Officer held a lunchtime reception on St David's Day to celebrate the achievements of the Fourth Assembly and thank those individuals and organisations that helped the Assembly over the past five years. In the evening, the 'Building for Democracy' event saw the Senedd's architects, Lord Richard Rogers and Ivan Harbour, discuss their thoughts about the Senedd a decade after its opening. Menna Richards OBE, former controller of BBC Wales, chaired the event which was delivered in partnership with the Royal Society of Architects Wales.

The Senedd also hosted a weekend of family fun, attracting over 3,000 visitors, and including performances by S4C's Sioe Cyw, Britain's Got Talent finalists Ysgol Glanaethwy and local groups City Voices Choir and No Fit State circus.

The Senedd10 campaign attracted significant media coverage, including live broadcasts from the Senedd on St David's Day by BBC Radio 2, Radio Wales and Radio Cymru.

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## The Remuneration Board: transition

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The independent Remuneration Board considered every aspect of the Fifth Assembly Remuneration package for Assembly Members. This included a full review of pension arrangements, changes to matters relating to the arrangements for Members' support staff, and allowances and salaries for Assembly Members. The Board published its Determination for the Fifth Assembly in May 2015, a full year before the Assembly election in 2016.

The Remuneration Board members completed their term of office in September 2015 and a new Board was appointed. The Commission was delighted to attract high calibre individuals to serve for the Board's second five-year term.

The new Board undertook a work shadowing exercise of a variety of Members' roles, including office holders and backbenchers, as well as support staff, to inform its strategic programme for the next term.

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## Preparing for the Fifth Assembly

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The Commission put in place a plan for the transition to the Fifth Assembly, informed by experiences from 2011. The plan included distinct work strands led by senior staff and was overseen by the Management Board. Key areas of planning encompassed scenario-planning; preparation for the period immediately before and after the election; and preparing to support Members to develop in their roles and to enhance the capacity of the Fifth Assembly. Guidance was prepared for all candidates in the election and for new and returning Members and their staff.

Outplacement services were put in place to assist the staff of Members standing down or unsuccessful at the election. A wide range of continuing professional development services was procured for incoming Members and their staff, both experienced and new, as part of developing a comprehensive induction package.

Like the Commission, Assembly committees took the opportunity to review their work over the last five years as the end of the Fourth Assembly approached. Committees adopted different methods of carrying out this work, including public consultations, stakeholder events, ministerial scrutiny sessions and follow-up inquiries. Each committee published a legacy report reflecting on its work during the Fourth Assembly and its impact on Welsh Government policy. The legacy reports also identified areas for successor committees to prioritise.

A Chairs' Forum, comprising the chairs of all of the Assembly's committees, was convened in September 2015. It was chaired by the Deputy Presiding Officer, who was also Chair of the CLA Committee and the Committee for Scrutiny of the First Minister. The aim was to take a strategic and frank view of the committee system during the Fourth Assembly and make recommendations for improving on performance in the Fifth Assembly. The group reported to the Presiding Officer in November 2015, making a number of recommendations responding to the ten criteria set out by the Commission for high performing committees.

The Business Committee also produced a legacy report, drawing on the views of the public, Assembly committees and political groups, and the Chairs' Forum. The legacy report published on 1 March 2016 made a number of recommendations regarding the Assembly's procedures and structures for the new Business Committee to consider, including on:

- the size and structure of the committee system;
- the use of time in Plenary;
- the Assembly timetable; and
- the role and operation of the Business Committee itself.

## Senedd@Swansea

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The second Senedd@... initiative took place in Swansea in October 2015, building on the success of the Assembly's visit to Wrexham. Swansea was chosen as the location for the second of these initiatives owing to the area's low voter turnout in the 2011 Assembly election, to help create momentum for the 2016 election.

The week's activities were delivered in partnership with the South Wales Evening Post and we also worked closely with Swansea University and the National Waterfront Museum. The Public Accounts Committee, Enterprise and Business Committee and Committee for Scrutiny of the First Minister held formal meetings in the Waterfront Museum. To complement the formal Assembly business, Commission staff delivered 33 workshops, as well as five other events and seminars, around the city. We engaged directly with over 1,500 individuals and established links with numerous schools, youth groups and other organisations.

In the build-up to Senedd@Swansea, we reached over 300,000 people through editorial content in the Evening Post and on The Wave radio station. During the week itself, we reached over 500,000 people through the Evening Post, The Wave and BBC Radio Wales.

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# Engaging with the people of Wales and promoting Wales

We continued to increase the breadth and depth of the Assembly's engagement with the people of Wales. We ensured that the Assembly has attended, hosted and delivered national events. We continued to prioritise youth engagement and the Presiding Officer's Women in Public Life campaign. We also maintained strong working relationships with EU institutions and Welsh MEPs, and forged new connections across the world.

## A focus for commemoration

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The increasing number of national events held on our estate has consolidated the Assembly's role at the centre of Welsh public life. The Presiding Officer hosted a commemorative service in the Pierhead to mark the 75<sup>th</sup> anniversary of the Battle of Britain. The service, attended by veterans, provided an opportunity to say "thank you" to Wales and the Welsh people for the part they played in the historic battle. Invited guests enjoyed a 'Sunset Ceremony' from the Band of the RAF Regiment.

To mark the 800<sup>th</sup> anniversary of the sealing of the Magna Carta, renowned historian Professor David Carpenter gave a lecture in the Pierhead exploring the role played by the Welsh rulers in its creation. Professor Carpenter focused on the rebellion against King John by Llewelyn, Prince of North Wales (later known as Llewelyn the Great) and his allies and explored the chapters dealing with their grievances. This revealed that the Magna Carta is very much a British document, with important chapters on both Wales and Scotland.

We continued to mark the centenary of the First World War. In addition to the annual Armistice Day commemoration held in partnership with the Royal British Legion, 2015 also saw the Presiding Officer host a lecture by another renowned historian, Sir Deian Hopkin, about the life of Keir Hardie and the launch of an exhibition: The National Assembly for Wales Remembers. The exhibition included personal memorabilia from Assembly Members and Commission staff and told the story of the contributions their families made to the Great War – either at home or in active service. To complement the exhibition, we worked in partnership with the Welsh Centre for International Affairs to display the Welsh Book of Remembrance in the Senedd. The book is 1,100 pages long and contains the names of 35,000 men and women of Welsh birth and parentage, as well as those who served in Welsh Regiments, who lost their lives in the Great War.

## Representing the Assembly across Wales

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During our most ambitious summer programme we attended nine events and engaged with 8,000 people. Visitors to the Assembly stand contributed to ongoing committee inquiries through a series of questionnaires and learned more about the Assembly, its Members and their work. We delivered a series of events for the Environment and Sustainability Committee at the Royal Welsh Show and sponsored the Societies Pavilion at the National Eisteddfod for the fifth year running.

We held 49 “Understanding and Engaging” sessions for 1,243 delegates this year, involving a range of groups, including RNIB Cymru, several regional sections of the Association of Voluntary Organisations, People First, Chwarae Teg and Popeth Cymraeg.

Our estate continued to attract and delight visitors from all over the world. Over 160,000 visited this year, of whom over 22,000 were given tours of the Senedd. In May 2015 the Assembly received the Certificate of Excellence from Trip Advisor. The Certificate of Excellence is awarded to accommodation, attractions and restaurants that consistently earn great reviews.

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## National Assembly for Wales

The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales and holds the Welsh Government to account.

[www.assembly.wales](http://www.assembly.wales)

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Wales



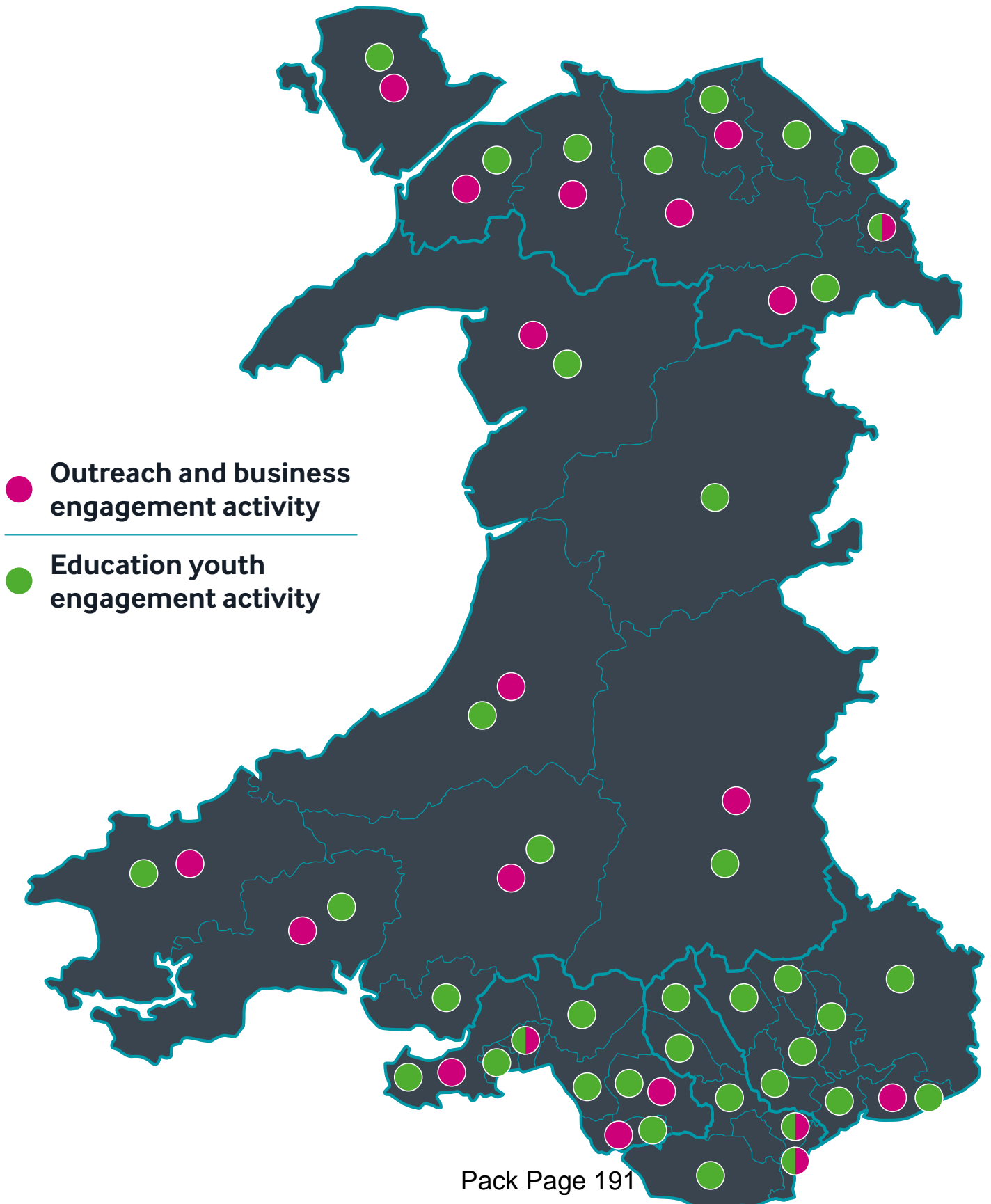


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## ENGAGEMENT

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Our outreach and youth engagement teams, alongside committees, have been all over Wales showing people how they can effect change in their communities by getting involved in Assembly business. Committees also gained insights from other countries; they travelled to London, Dublin, Brussels, and Baden-Württemberg this year.



## EDUCATION AND YOUTH ENGAGEMENT

We continued to see large numbers of young people from across Wales this year – sharing knowledge about the Assembly’s work and how young people can get involved.

**215**

EDUCATIONAL  
ACTIVITIES  
AT THE ASSEMBLY

**234**

GROUPS

**6,027**

STUDENTS IN  
ATTENDANCE



**251**

EDUCATION  
OUTREACH  
ACTIVITIES

**154**

GROUPS

**11,757**

STUDENTS IN  
ATTENDANCE

**128**

YOUTH ENGAGEMENT  
ACTIVITIES



**183**

GROUPS

**3,183**

STUDENTS IN  
ATTENDANCE

**85**

MEETINGS WITH  
YOUTH GROUPS

**571**

TOTAL NUMBER  
OF GROUPS

**649**

TOTAL NUMBER  
OF ACTIVITIES

TOTAL NUMBER OF STUDENTS  
IN ATTENDANCE

**20,967**

## Engaging with young people

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Following the 2014 publication of the Assembly's Children and Young People Engagement Charter, we extended our programme of youth engagement. This included establishing a Young Assembly Ambassador Scheme designed to enable youth organisations to train their young people to engage others in the work of the Assembly. We also improved our dedicated Your Assembly online youth channels.

The culmination of this year's work was the 'Assemble the Youth Conference' on 15 July, where 27 groups of young people came together to debate the outcomes of the Presiding Officer's 'Vote@16?' consultation. This followed a six-month consultation, during which 10,375 young people gave their opinions on lowering the voting age - the biggest ever response to an Assembly consultation. The young delegates discussed issues relating to voter registration and education, and encouraging more young people to vote in future elections. The Children, Young People and Education Committee used this event, as well as the summer shows, to canvass young people's views on issues that should appear in the Committee's future work programme.

The new 2015 Welsh Baccalaureate Qualification presented a new opportunity to further engage young people in Assembly business. We therefore developed new Community and Global Citizenship challenges and delivered new skills based workshops at Aberystwyth University.

We also continued to engage young people as an employer. We offered a range of work experience opportunities in different parts of the Commission, successfully completed our second apprenticeship scheme and launched the third.

## Women in Public Life

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The Presiding Officer continued her focus on breaking down barriers to more women entering public life through her #POWiPL campaign. In July, the former Prime Minister of Australia, Wales-born Julia Gillard, was the guest speaker at the final #POWiPL lecture in the Senedd. This was the best attended lecture of the series.

A Women in Public Life Networking Fair took place at the National Eisteddfod in August. Organisations were able to promote vacancies on their boards and women looking for board positions gained a better understanding of the roles available.

In September, the Assembly's cross-party Women in Democracy Caucus discussed the implementation of some of the recommendations included in its earlier 2015 report. Representatives from S4C and ITV were invited to the meeting to discuss how they intended to address the lack of women being used as expert contributors to their news and current affairs programming.

The Presiding Officer also hosted a reception at the Senedd in December to mark the end of the #POWiPL mentoring scheme and to celebrate its many achievements. The scheme was very successful, with 11 out of the 14 mentees applying for positions in public life.

The #POWiPL campaign attracted attention from other European legislatures. Sixteen women representing the Belfast Interface Project's Women in Society programme came to the Senedd to learn more about the campaign. The Presiding Officer visited the Georgian Parliament to share her experiences of leading this initiative.

## International relations

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The Assembly continued to maintain an active interest in European issues and strong ties with European Union institutions. Both of the Assembly's representatives on the Committee of the Regions prepared rapporteur reports this year and one was presented in Welsh.

In May, the Presiding Officer hosted a meeting between committee chairs and all four Welsh MEPs, the first formal meeting of its kind since the 2014 European Parliament election. Welsh MEPs participated in a meeting of the Assembly's Cross-Party Group on Europe, hosted by the European Commission's Office in Wales. They also participated in the work of a number of committees, including video conferencing and during Brussels visits.

Members considered a wide range of EU-related issues in committees and in Plenary. One of the regular features of the Fourth Assembly, which continued this year, was a biannual meeting of chairs of committees with the UK Ambassador of the relevant EU Presidency of the Council.

Our EU Office and the Research Service produced a range of pro-active publications to support Members' work on EU issues, such as the EU Weekly Update, the Europe Matters bulletin, the @SeneddEurope Twitter feed and EU Policy updates and blogs. Topics covered included the Juncker Investment Plan, the Transatlantic Trade and Investment Partnership (EU-US trade negotiations), biodiversity policy, organic products, genetically modified organisms, the farming crisis, rural development and the UK Government's EU reform agenda.

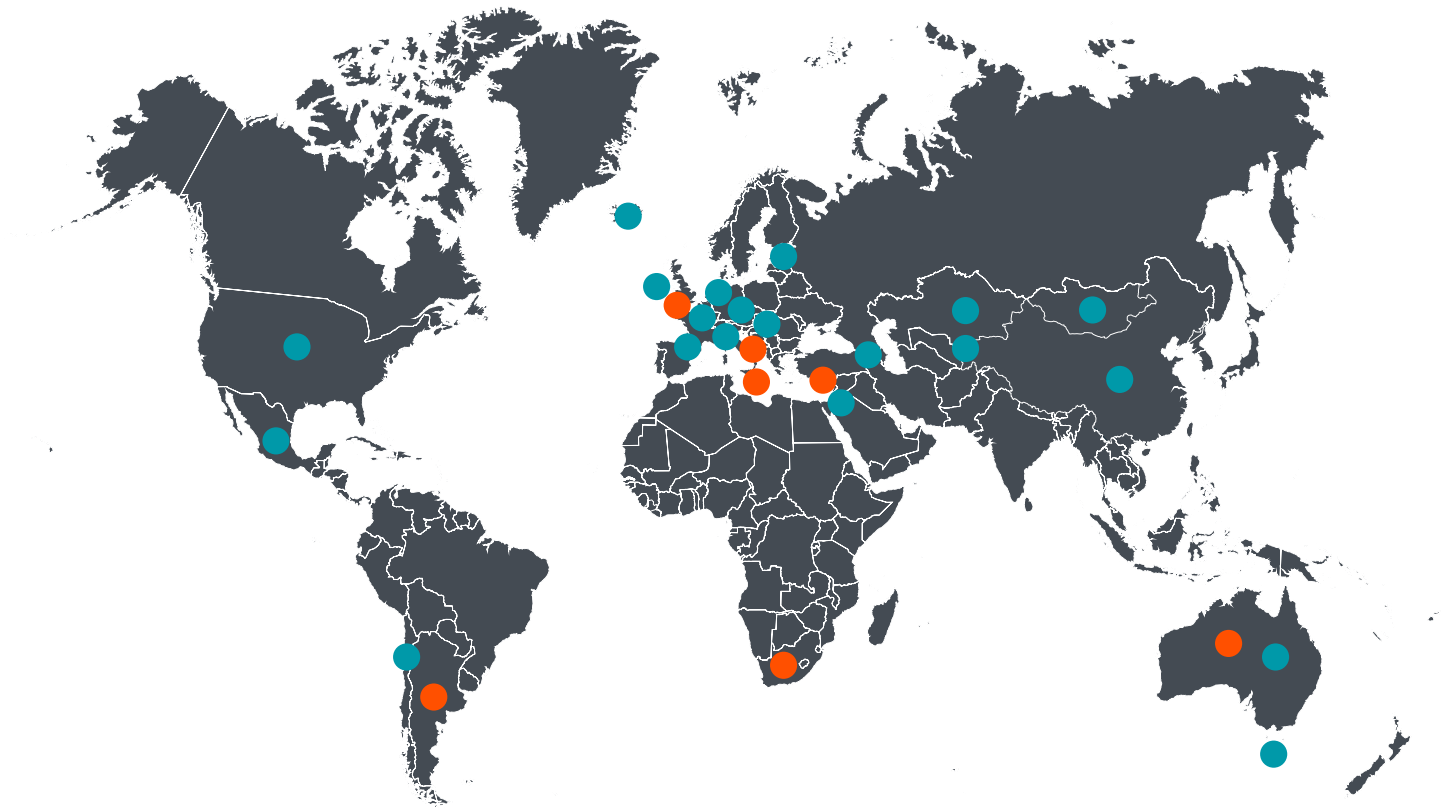
Members participated in several international conferences throughout the year. The Deputy Presiding Officer led a delegation of Members to the 51st British-Irish Parliamentary Assembly Plenary Conference in Cheltenham in November. Members also attended the Commonwealth Parliamentary Association (CPA) regional conference on 'Parliaments in the Face of Contemporary Challenges', as well as the CPA British Isles and Mediterranean Region conference in Limassol, Cyprus.

Commission staff and their counterparts have also been increasingly involved in secondments and visits. We have worked with organisations such as Global Partners Governance, the United Nations, the Westminster Foundation for Democracy and the Commonwealth Parliamentary Association. As part of an ongoing relationship, the Fijian Parliament's head of ICT spent two weeks with our ICT team to find out more about how the Assembly uses systems and applications to present business information to Members, with a focus on using mobile devices. We also provided advice on parliamentary ICT to the parliaments of Bougainville and Papua New Guinea. Closer to home, we seconded staff to the House of Lords and the House of Commons and hosted successful UK interparliamentary conferences of Research and Library services, and corporate services specialists.

Our international activities have raised the profile of the Assembly and enabled good practice to be shared to enhance parliamentary democracy in Wales and elsewhere.

# INTERNATIONAL VISITS

The Assembly has hosted a range of delegates from around the world, as well as undertaking visits to our counterparts to promote Wales and the Assembly.



## Visits to the Assembly – April 2015-March 2016

<b>Luxembourg</b> April 2015	<b>Northern Ireland</b> May 2015	<b>China</b> May 2015	<b>Jordan</b> May 2015	<b>USA</b> May 2015	<b>Estonia</b> May 2015
<b>Kazakhstan</b> June 2015	<b>Chile</b> June 2015	<b>Australia</b> June 2015	<b>Australia</b> July 2015	<b>Mexico</b> August 2015	<b>Luxembourg</b> September 2015
<b>Georgia</b> October 2015	<b>Germany</b> November 2015	<b>Hungary</b> November 2015	<b>Tasmania</b> December 2015	<b>Austria</b> December 2015	<b>France</b> January 2016
<b>Netherlands</b> February 2016	<b>Mongolia</b> February 2016	<b>Iceland</b> March 2016	<b>Kyrgyzstan</b> March 2016		

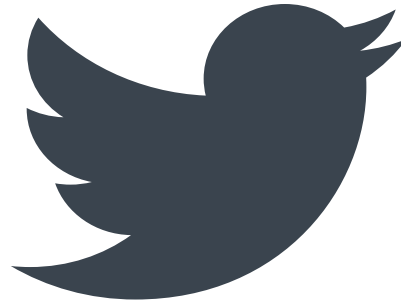
## Visits to other countries – April 2015-March 2016

<b>Cyprus</b> May 2015	<b>Italy</b> October 2015	<b>Argentina</b> October 2015	<b>Australia</b> November 2015	<b>Malta</b> November 2015	<b>South Africa</b> February 2016
<b>Guernsey</b> February 2016					

## SOCIAL MEDIA

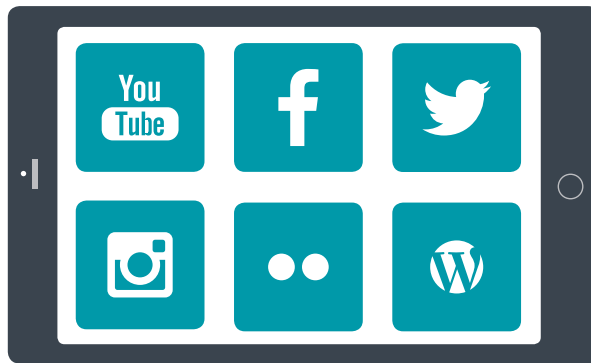
Over the past year, we have been keeping in touch with more people and providing interesting content through all our online platforms.

OUR TWITTER FOLLOWERS  
HAVE INCREASED BY  
**8,988**



AVERAGING  
**749**  
NEW  
FOLLOWERS  
A MONTH

IN 2015 OUR  
TWITTER  
ACCOUNTS  
SENT OVER  
**17,000**  
TWEETS



WE HAVE OVER  
**50**  
CHANNELS ACROSS MULTIPLE  
SOCIAL MEDIA PLATFORMS



OUR FACEBOOK  
LIKES HAVE  
INCREASED BY  
**59%**

WE NOW HAVE  
**4,792**  
LIKES OVER 5  
FACEBOOK PAGES



THE NUMBER OF VIEWS ON OUR  
YOUTUBE CHANNEL IS NOW OVER  
**130,000**

Pack Page 196

THAT'S A  
**73%**  
INCREASE SINCE  
LAST YEAR

# Using resources wisely

The accountability and financial statements sections of this report include detailed descriptions of the many ways in which we use resources wisely. In this section, we highlight some of the key areas of activity and the benefits realised and present our sustainability report for the year.

## Our approach to investment

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We are absolutely focused in everything we do on ensuring that we deliver high quality service at best value to the public purse, in a way which is open and effective. We achieve this through expert, thorough, transparent budget planning, collective workforce capacity planning, a comprehensive governance framework (see page 64), oversight of investment and resourcing by the Investment and Resourcing Board and regular financial reporting. Our budgets and accounts are subject to annual scrutiny by the Assembly's Finance and Public Accounts Committees.

This year we continued to pursue quality, value and transparency. We reported regularly on our full suite of corporate performance measures. We set an annual target to underspend by within 1 per cent of our budget. In the autumn, we intensified our assessment of our forecasts. We then decided whether we had credible investment plans to gain maximum value from the budget available. Our guiding principle is that if it is clear at that point in the year that we will not achieve our underspend target, we will return money to the Welsh Block so that our budget is revised to reflect our spending plans.

## Our people

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The commitment, capability, capacity and well-being of our people is critical to the Commission's successful delivery of services to the Assembly and its Members. This year, we continued to maintain focus on capacity planning, projecting this forward to the first years of the Fifth Assembly. We also reviewed our approach to performance management as a means of continuously improving organisational performance through our people. For example, we enhanced our performance management practices to include values and expected behaviours within our competency framework and we introduced benchmarking of performance management and development reviews.

Through this approach, we significantly improved the quality of performance and development discussions held, there was an increase in the number of reviews being completed before the deadline and the quality of competency-based reviews improved.

We further strengthened our competency-based recruitment practices by introducing more sophisticated assessment methods. We completely revised our staff induction process to provide a warm welcome to new recruits and ensure a focus, from the outset, on our high performance culture and our organisational aims, objectives and values.

We made changes within our Human Resources department to provide all Commission service areas with a dedicated HR business partner. This allowed both service and partner to work together to focus on specific people management issues, performance, capability and capacity.

The Payroll, HR Systems and Recruitment teams were subject to external audit reviews during the year, which resulted in a strong assurance rating. The Payroll team were finalists in the Payroll Team Award – Public Sector category of the Payroll World Awards 2015.

## Voluntary Exit Scheme

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To help us to ensure that the Commission is in a strong position to meet the challenges of the Fifth Assembly, in November 2015, we launched a Voluntary Exit Scheme (VES). The aims of the scheme were to:

- allow the organisation to respond to shifts in our skill requirements;
- facilitate organisational change, including within particular teams;
- improve workforce efficiency; and
- deliver long-term savings where possible and/or avoid additional costs in meeting skills shortages.

In preparing for the Scheme, we reviewed our previous VES processes and the recommendations from our Internal Audit and the Wales Audit Office. The assessment and decision-making processes included independent assurance and the Panel was attended by a representative from our recognised trades unions (collectively known as “the TUS”).

## Equality and diversity

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We published our Annual Equality Report 2014–15 in July 2015. It charts progress on achieving the objectives set out in our Equality Plan, celebrates good work across the organisation and provides staff and recruitment monitoring data as well as the outcomes of our Equal Pay Audit.

In June 2015, we held a week of activities and awareness raising as part of our annual Equality and Diversity Week. This year we delivered training on:

- Transgender Awareness;
- Bisexuality Awareness;
- Disability Confidence;
- Dementia Friends; and
- Supporting LGBT staff.

We also promoted equality internally and externally, with awareness raising articles on:

- Carers Week;
- the Assembly as an Inclusive Employer;
- Gender Stereotypes;
- Cultural Diversity;
- our BME Action Plan;
- Equality Impact Assessments;
- Supporting Disabled Staff;



- Unconscious Bias; and
- the Assembly as a Dementia Friendly organisation.

We retained the Action on Hearing Loss 'Louder than Words' Charter Mark, a best practice charter for organisations striving to offer excellent levels of service for people who are deaf or have hearing loss. As part of this process, our facilities, communications support equipment and working practices were audited for their suitability and accessibility. We were also awarded the Action on Hearing Loss Excellence Wales Silver Award, which recognises success in providing deaf-friendly services to people who are deaf or have a hearing loss. We also provided training to Mental Health First Aiders across the organisation and we provided a taster session for staff on British Sign Language. We were pleased to retain our National Autistic Society Access Award, which recognises organisations that have made adjustments to their buildings, facilities and working practices so that people with autism, their families and carers find it easier to visit and use them. Beyond the Assembly itself, we were represented at a range of community events over the summer, including Cardiff Pride and the Mela.

We have a number of Staff Networks which cover employees with parenting or caring responsibilities, along with disability, LGBT and BME Networks. The Health and Well-being Team, along with our Equalities Team, have been working with the Office of National Statistics (ONS) to share best practice and learning points which feed into our ways of working and policy and procedures. Our staff networks play a vital role in valuing diversity. This year our BME staff network hosted the inaugural meeting of the Welsh Public Sector BME Staff Networks. Our Working Parent and Carer staff network undertook a survey to identify where improvements can be made to the processes of supporting working parents and carers.

This year the Assembly was ranked third in Stonewall's Workplace Equality Index, a benchmarking exercise that enables organisations across the UK to assess their achievements and progress on LGBT equality in the workplace including policy, staff engagement and career development. The Assembly has also been named the Top Public Sector Employer in Wales for LGBT people for the third year running. At the Stonewall Cymru awards on 27 January, the Presiding Officer was given a special recognition award for her commitment to driving forward LGBT equality. Our LGBT staff network, OUT-NAW, continues to thrive and marked International Day Against Homophobia, Biphobia and Transphobia in May. It also organised training sessions for the LGBT Allies who support their LGBT colleagues.

## Health, safety and well-being

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### Health and safety

We invest in the health, safety and well-being of all Commission staff, Assembly Members and their staff, contractors and all visitors to the Assembly estate and we ensure that the organisation complies with current legislation. During the year, our well-being strategy concentrated on mental well-being and healthy backs. We ran a series of health promotion programmes, including healthy back week, and we participated in On Your Feet Britain, which encouraged employees to move more whilst in work. We also encouraged staff to talk about their mental well-being as part of Time to Talk Day, and employees blogged about their experiences of mental health.

## **Sickness absence data**

The overall sickness absence rate for the year was 3.68 per cent, or 8.09 average working days per person. We maintain a strategic focus on absence management and actively support absences through line management, Human Resources and Occupational Health support.

## **Disability**

We have measures in place to support employees who identify as having a disability. Our Vacancy Filling Policy references our guaranteed interview position for applicants who meet the minimum role requirements, which also applies internally for employees seeking promotion.

Reasonable adjustments are made, wherever possible, following discussions between employees and managers for employees in post or returning to work following injury or development of an illness that may have an impact on their ability to do their work.

## **Employee consultation**

We comply with the Information and Consultation of Employees Regulations and consult with employees, both directly and through recognised unions, on major changes in the organisation. These are supported by our Partnership and Collective Bargaining Agreements.

We hold monthly Partnership Meetings between management and the TUS to discuss matters relating to all aspects of the organisation, from changes affecting terms and conditions, to pay and reward, through to general relevant topics. The minutes of these meetings are shared with our Management Board.

We invite TUS to attend various formal meetings and work in partnership to comment on all of the Assembly's policies and procedures, facilitating openness and transparency.

This year we formally consulted with TUS on the following changes:

- Introduction of Personal Protective Equipment (PPE) (April 2015)
- A review of the structure and resourcing of the Assembly's Security Service (ongoing from June 2015)
- Introduction of higher vetting requirements for all posts (June 2015)
- Travel and Subsistence Policy (October 2015)
- Voluntary Exit Scheme (VES) (November 2015)
- Pay Negotiations (ongoing from December 2015)
- Recruitment Policy (March 2016)
- Pay and Reward Policy (March 2016)
- Priority Postings Policy (March 2016)

## Employee engagement

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We have introduced or reviewed a number of policies this year with the aim of the Assembly continuing to be an employer of choice:

- Shared parental leave;
- Parental leave policy;
- Maternity leave; and
- Occupational Health Management referral process.

Each policy goes to TUS and all staff networks for comment and each is subject to an Equality Impact Assessment.

HR held drop in sessions, attended service meetings and published news items to raise awareness of the policies and their changes.

The Chief Executive, directors and Management Board issue information on our news page. The Chief Executive publishes a work-related blog, which is available for all employees to read.

### Breakfast meetings

Before the Summer recess, the Chief Executive hosted three informal breakfast seminars. Those attending had the opportunity to ask questions and talk about working at the Assembly while enjoying a light breakfast. This formed part of a series of engagement events prior to our staff survey launch and was also an opportunity for employees to discuss and re-visit the Commission's core values. The Chief Executive and directors hosted three additional breakfast meetings in February to address some of the key outcomes which came from our staff survey, e.g. communication, leadership, and work/life balance. Over 120 employees attended these breakfast meetings and the majority welcomed the opportunity to discuss work-related issues with senior leaders in less formal surroundings.

### Staff survey

We launched our fifth staff survey in May 2016. It deliberately mirrored the approach taken in 2015 so that outcomes could be used to support ongoing business activities.

Our 2015 staff engagement level, as measured by the survey, was 72 per cent against a Civil Service median of 59 per cent.

A total of 402 responses were received to the Staff Survey 2015. This very high response rate of 93 per cent was a significant increase from recent years (77 per cent in August 2013 and 52 per cent in July 2012). The Civil Service median response rate and the Welsh Government response rate were both 62 per cent in 2014.

Success from our survey in 2015 was also measured by an increase in engagement activities which saw a number of breakfast meetings and High Performing Team Days being arranged to address themes such as leadership, communication and well-being. Commitment by Management Board to address the outcomes of the previous survey has helped us to develop and continue to seek constructive feedback from staff.

## Modernising the debating chamber

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The conferencing, voting and audio technology systems used in the Senedd Siambr, our debating chamber for Plenary meetings, were installed in 2006. At that time they were innovative and ground-breaking. This technology served successive Assemblies well. However, ten years on, we began to experience significant reliability and support issues and Members began to query its continuing suitability.

In response, the Commission undertook a complex project to select, procure and install new systems within the Siambr. We took the opportunity to improve the ergonomics of the desk-working space for Members and to improve accessibility. As a result, Members now have a new flat desk. We have installed a new voting/translation panel within the desks, as well as facilities to charge mobile devices. We have also upgraded the speaker system and microphones for each desk to provide clearer audio across the Siambr.

Members and staff now have high definition wide screens. The screens on the front desk, where the Presiding Officer and officials sit, can be retracted to provide an unrestricted view for special events such as the Royal Opening.

We have also installed a new conferencing software system to manage the business of Plenary. This includes the agenda, the speakers list, procedural information, voting and messaging.

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## Reaping the benefits of in-house ICT

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We delivered a number of important upgrades to our information and communications technology capabilities this year. We introduced a new telephone system in July 2015, which is fully integrated into the IT network and runs on Skype for Business messaging and communication software. The project delivered brand new infrastructure, new handsets for all users on the Assembly estate, and new call centres in Colwyn Bay and Tŷ Hywel. This system is more advanced and resilient than the previous one. It is also significantly cheaper to run, saving the Assembly approximately £180,000 per year.

We improved the ICT provision in Members' constituency offices over the summer. On an office-by-office basis, we replaced current broadband circuits with new lines to get the best possible speeds available in each area. We installed new routers to allow full Wi-Fi access for users, upgraded the memory of every PC and laptop and introduced Microsoft Office 2013. As well as providing users with greater flexibility and responsiveness, we expect this work to save the Assembly approximately £40,000 per year.

Following a competitive tender exercise, the Assembly's host broadcasting contract was awarded to Bow Tie Television on a five-year contract from 1 September 2015. The new contract will enable us to deliver new projects, such as developing the audio visual systems across the estate, as well as continuing to provide a high quality broadcasting service covering Assembly proceedings.

## Enhancing our iconic estate

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In addition to celebrating the tenth birthday of our parliament building and modernising its chamber (see page 52 left), we completed major equipment replacements in the Pierhead, our historic visitor attraction and events space and Tŷ Hywel, our main office space. These projects were part of our long-term (rolling) prioritised investment programme for the estate.

In the Pierhead the air conditioning units had reached the end of their life cycle and repairs were becoming more frequent. New units were installed throughout the Pierhead building to provide better and more efficient heating and cooling. We anticipate a minimum reduction of 25 per cent in energy use.

In Tŷ Hywel the 22-year-old building management system, which controlled the major plant and equipment, had exceeded its expected lifespan. We installed a new system to allow for better reliability and performance of heating, cooling and ventilation, as well as improved energy management in line with our carbon reduction objectives. We also replaced the fire alarm system, which had come to the end of its life cycle. Other improvements included additional automatic fire detection and flashing beacons installed in areas identified through risk assessment.

## Improving power resilience

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To ensure business continuity and to minimise disruption to Assembly business, we invested in enhancing our power resilience. A generator synchronisation project ensured that we have the facility to switch to the on-site generator and synchronise with mains power during periods of power interruptions and spikes. In addition, we completed a project with Western Power Distribution to provide automatic switching to an alternative power line in Cardiff Bay in case of any disruption with the normal power lines to our buildings. Both of these projects have significantly enhanced our power resilience.

## Sustainability

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The Assembly has a legal duty to pursue sustainable development in all of its work under Section 212 of the *Government of Wales Act 2006*. We are fully committed to the key role we play in promoting sustainable development and minimising the environmental impacts of our operations.

Last year we concluded our previous carbon reduction strategy, achieving a significant 35 per cent energy emissions reduction. We also set new targets up to 2020-21, focusing on four main areas: energy emissions, waste, business travel, and water.

Despite the pressures of preparing for an Assembly election, we made many physical improvements (detailed in the continuous improvement section below) which are already helping us realise savings in our energy use. Our energy emissions are 11 per cent below our target for the year and are well on the way to our 30 per cent target.

The Commission is committed to being open and transparent. We have been publicly reporting sustainability performance data since 2007–08. We measure and report our emissions of greenhouse gases through an Annual Environmental Report.

### Summary of performance

We achieved significant improvements in 2015–16, including actually reducing our electricity use. We also made improvements to the methodology used for calculating our emissions, including gases from the air conditioning systems and from wood chips.

We have seen our investments in the infrastructure of the estate pay off in reduced utilities demand. We operate in accordance with a formal environmental system which is audited each year.

### Environmental management certification

Following a successful audit in early 2016, we retained our Level 5 certification to the Green Dragon Environmental Standard, the highest level and above the requirements of international schemes such as ISO14001. The auditor was satisfied we are managing our legal obligations, setting and acting on continual improvement targets and ensuring all our staff are aware of their role in the sustainability of the estate. The auditor commended our work to update the environmental management system (EMS) to improve its clarity and auditability. We overhauled all procedures and the way we assess our impacts on the environment so that they are easier for staff and other stakeholders to follow.

### Energy

Energy use remains by far the largest contributor to our carbon footprint. We are looking to build on our previous reduction in energy emissions (a good indicator of how efficiently we use electricity and gas) and set a reduction target of a further 30 per cent by 2020–21. The efficiency improvements we made this year meant that, despite a slight increase in the numbers of personnel using our buildings and a busy final year of the Fourth Assembly, we reduced our use of utilities. Electricity use decreased by 7 per cent and gas by over 6 per cent. Our energy emissions decreased by 7.6 per cent. For heating the Senedd, we used our biomass boiler whenever possible. This meant that, although heating use increased this year, the environmental impact was less than if we had used our back-up gas boilers.

## Travel

Business travel was estimated to be slightly higher than last year (subject to final figures for March 2016, which are not included in the table below), but rail use increased to over a quarter of total travel claims, and there was a reduction in private car use. Use of the cycle-to-work scheme increased, as did use of our upgraded bike storage.

Our longer-term target for business travel is to minimise the impact of the travel involved, without undermining Members' ability to engage with their constituents, undertake committee work and promote Wales internationally.

## Waste

Our figures for waste management in 2015–16 were very similar to the previous year's. Some costs increased as a result of higher operating costs for our contractors and changes to the storage and collection mechanism in the previous year. We now use larger storage vessels for the bulkier wastes sent for recycling. We have extensive recycling facilities across our estate and encourage staff and visitors to make use of them. We worked with catering teams to increase composting this year and also provided composting bins in newly-refurbished kitchens. As a result, we maintained a very high level of landfill diversion, which now stands at 96 per cent. We aim to build on this success next year.

## Water

This year, we realised savings in water usage of 15 per cent from the physical improvements made to the Tŷ Hywel washrooms in the previous year. A plentiful supply of rain water and no maintenance issues meant we could maximise our use of grey water in the Senedd and reduce our use of mains water by 50 per cent. In the Pierhead, water use has fallen slightly. Although use in this building, with its low staff occupancy, depends almost entirely on visitor numbers, we intend to make further savings over the next year.

## Continuous improvement

Alongside behavioural awareness initiatives, we made physical improvements to our estate. We:

- replaced the older condensing water heaters with more efficient Ecoflow units;
- refurbished kitchen facilities in Tŷ Hywel, including PiR light sensors and timers on water boilers;
- improved our cycle storage facility to encourage staff out of their cars and on to their bikes for commuting to work;
- replaced the combined air-conditioning and heating units in the Pierhead building to provide more efficient heating as part of a drive to only heat rooms when needed;
- continued a rolling replacement programme for the air-conditioning and fan coil systems in Tŷ Hywel for more efficient units;
- completed our rolling refurbishment of washrooms in Tŷ Hywel, incorporating automatic taps for reduced water use and PiR-activated LED lights for energy efficiency;
- replaced the high-level lighting in the Senedd with LED units to reduce electricity use as well as maintenance costs;
- installed LED lighting in our staff restaurant, stairwells and server rooms, as part of a rolling programme;

- overhauled the biomass boiler system to provide a more efficient and reliable heating supply to the Senedd building; and
- installed a new building management system for a more accessible system, which more efficiently controls heating and cooling within our offices.

## About our data

The emissions figures contained in this report are calculated based on the Department for Environment, Food and Rural Affairs (Defra) 2015 Conversion Factors, which are specific to the UK. In accordance with Defra guidance, reported greenhouse gas emissions are not weather corrected. Our monitoring and reporting techniques for related sustainability data are assessed as part of our annual external environmental audit.

The information contained in the tables below has been developed in accordance with HM Treasury's Sustainability Reporting Guidance for the 2015–16 financial year. We also use the Defra conversion factors for 2015–16 for carbon dioxide equivalent (CO<sub>2</sub>e) figures. CO<sub>2</sub>e is a universal unit of measurement that allows the global warming potential of different greenhouse gases to be compared. Emissions are reported based on a financial control approach for the core administrative estate only.

A full summary of our environmental performance can be found in our Annual Environmental Report.

Greenhouse gas emissions		2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tCO <sub>2</sub> e)	Total gross emissions scope 1	292	329	273	561	248
	Total gross emissions scope 2	1,501	1,470	1,366	1,480	1,367
	Total gross emissions scope 3	439	432	427	465	375
	Total outside of scope emissions	313	298	167	130	7
	Total gross emissions	2,548	2,588	2,287	2,636	1,997
	<b>Total net emissions</b>	<b>2,235</b>	<b>2,290</b>	<b>2,120</b>	<b>2,506</b>	<b>1,990</b>
	Expenditure on accredited offsets (eg Government Offsetting Fund)	£0	£0	£0	£0	£0
Financial indicators (£)	CRC gross expenditure	N/A	N/A	N/A	N/A	N/A

Energy consumption <sup>1 2</sup>		2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (kwh)	Electricity (non-renewable)	3,320,599	3,194,890	3,067,778	2,995,138	2,791,282
	Gas	1,203,866	1,741,299	1,431,017	1,295,506	1,214,901
	Biomass (renewable)	885,500	840,438	470,750	372,225	535,050

<sup>1</sup> Includes costs for electricity and air conditioning in offsite server farm from 2010 onwards.

<sup>2</sup> All energy data now contains current and retrospective transmission and distribution emissions and well-to-tank emissions where applicable.



Energy consumption <sup>1 2</sup>		2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tCO2e)	Total energy emissions	1,885	1,956	1,786	1,881	1,736
Financial indicators (£)	Total energy expenditure	445,005	458,168	459,093	448,586	407,442

Official travel <sup>3 4</sup>		2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (miles)	Business travel	811,842	858,809	884,176	1,061,374	875,999
	Owned and leased vehicles	36,434	25,707	31,949	26,440	27,368
Financial indicators (£)	Expenditure on official business travel	265,217	266,576	349,775	393,509	292,142

Waste		2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tonnes)	Total waste arising	156	121	118	125	123
	Recycled/reused	116	103	111	119	118
	Landfill	39	17	6.4	4.7	3.7
	Waste composted	14.2	11.3	5.5	5.5	12.5
	Hazardous waste	0.05	0.29	0.5	1	0.4
	Paper purchased (A4 and A5) (per million sheets)	2.17	2.77	2.7	2.6	13.8
Financial indicators (£)	Expenditure on all waste disposal	28,271	21,312	26,561	26,930	33,266

Water consumption		2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (m3)	Water consumption:					
	Supplied (direct)	7,669	9,449	7,315	6,117	5,174
	Collected (indirect)	747	2,407	1,301	1,554	2,551
	Abstracted (indirect)	0	0	0	0	
Financial indicators (£)	Expenditure on supply and sewerage	22,777	31,773	23,681	22,245	18,954

## Claire Clancy

Chief Executive and Clerk of the Assembly

Date: 11 July 2016

<sup>3</sup> Includes AMSS travel from 2011-12 onwards and travel purchased through the corporate credit card.

<sup>4</sup> All travel data now contains current and retrospective well-to-tank emissions for fuel use.



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# Our accountability: corporate governance

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# Directors' report

This report, which has been signed by the Chief Executive and Clerk as Principal Accounting Officer in line with Treasury rules, provides information about senior remuneration and audit.

## Commissioners and other office holders

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Information on the Presiding Officer, Deputy Presiding Officer, Commissioners and Chief Executive and Clerk is included in **Our performance: overview**.

## Independent advisers

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Information on the Independent Advisers and Independent Committee members is included in **Our performance: overview**.

## Remuneration Committee

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Information on the Remuneration Committee is included within the **Remuneration and staff report**.

## Senior management

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Information on senior management having responsibility for directing the major activities of the Commission during the year is included within the **Remuneration and staff report**.

## Significant interests held by Members

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A Register of Financial and Other Interests of Assembly Members is available at [www.assembly.wales](http://www.assembly.wales) and [www.cynulliad.cymru](http://www.cynulliad.cymru).

## Personal data related incidents

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There were no incidents or personal data losses requiring reporting to the Information Commissioner's Office between 1 April 2015 and 31 March 2016. There were two minor incidents of personal data breach or potential breach internally which were investigated and managed internally. Given that the likelihood of damage or distress to the data subject in each case was considered to be low, no further escalation was required.

## Auditor

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The Accounts of the National Assembly for Wales Commission are audited by the Auditor General for Wales. The Audit Report can be found at page 96.

The estimated external audit cost for the audit of these financial statements is £66,250 (£66,250 2014-15). This includes £2,650 (£3,636 2014-15) for additional non-statutory audit work incurred in 2015-16.

## Disclosure of information to Auditor General for Wales

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So far as I am aware:

- there is no relevant audit information of which our auditor is unaware; and
- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information, and to establish that our auditor is aware of that information.

## Accounts direction

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The accounts set out in pages 100 to 127 have been prepared in accordance with the Treasury Direction issued under Section 137 of the *Government of Wales Act 2006*. The financial statements comply with the requirements specified in HM Treasury's Financial Reporting Manual and are supported by explanatory notes. These accounts set out the financial impact of decisions made by the Commission both within the financial year and arising from previous financial years.

Information about the Assembly and Commission is also available on the Assembly website at [www.assembly.wales](http://www.assembly.wales) and [www.cynulliad.cymru](http://www.cynulliad.cymru).

### Claire Clancy

Chief Executive and Clerk of the Assembly

Date: 11 July 2016



**10 years of the Senedd: 2006-2016**

South Wales Gay Men's Chorus performing at the 'Building for Democracy' event to mark ten years since the opening of the Senedd.

# Statement of Commission and Principal Accounting Officer responsibilities

The Chief Executive and Clerk of the Assembly is, by virtue of Section 138 of the *Government of Wales Act 2006*, the Principal Accounting Officer for the Commission.

The Chief Executive and Clerk of the Assembly has prepared the statement of accounts in accordance with the Direction issued by HM Treasury and with the accounting principles and disclosure requirements set out in the Government Financial Reporting Manual. The Resource Accounts are prepared on an accruals accounting basis and give a true and fair view of the Commission's state of affairs at the year-end and of its net resource outturn; resources applied to objectives; statement of comprehensive net expenditure; statement of financial position; cash flows, and statement of changes in taxpayers' equity for the financial year.

In preparing the accounts the Chief Executive and Clerk of the Assembly has:

- complied with the accounts direction issued by HM Treasury;
- complied with the relevant accounting and disclosure requirements and applied suitable accounting policies on a consistent basis;
- made judgements and estimates which are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepared the accounts on a going concern basis.

The relevant responsibilities of the Principal Accounting Officer, including the responsibility for the propriety and regularity of the finances of the Commission and for the keeping of proper records, are set out in a memorandum issued by HM Treasury.

**Claire Clancy**

Chief Executive and Clerk of the Assembly

Date: 11 July 2016

# Governance Statement

This Statement, which is signed by the Chief Executive and Clerk as Principal Accounting Officer, sets out the basis on which the National Assembly for Wales Commission has been established, the way in which it is governed and managed and how it is accountable for what it does.

## Role of the Commission

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The National Assembly for Wales Commission (the Commission) was established as a corporate body under Section 27 of the *Government of Wales Act 2006*. Its primary role is to provide to the Assembly, or to ensure that the Assembly is provided with, the property, staff and services required for the Assembly's purposes. In discharging this overall responsibility, the Commission is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

## Governance framework

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The governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled and the activity through which it accounts to and engages with the Assembly and the people of Wales. It includes frameworks for: strategic and operational planning; management of risks and performance; information governance; procurement; and financial management. Corporate policies and codes of conduct ensure everyone working at, or with, the Commission is aware of the need to operate to the highest governance standards. There are also clear policies on fraud, corruption and bribery and whistleblowing. The governance framework enables the Commission to plan for, and monitor, the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

## Governance structure

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The Commission comprises the Llywydd (Presiding Officer) who is its Chair, together with four other Assembly Members appointed by the Assembly. The Commissioners are charged with the governance of the organisation and are accountable to the Assembly. They set the organisation's strategic aims, provide the leadership to put them into effect and oversee and report on their delivery.

The Commission's Principal Accounting Officer is the Chief Executive and Clerk of the Assembly. She is accountable to the Commissioners for the delivery of their strategic goals. As Principal Accounting Officer, she is personally accountable to the Assembly for the organisation and quality of management in the Commission, including its use of public money and the stewardship of its assets. Assembly staff are employees of the Commission.

As part of the organisation's governance framework, the Commission has an Audit and Risk Assurance Committee and a Remuneration Committee, further details of which can be found on pages 68 and 78 respectively. An independent Remuneration Board determines the salaries and other financial support available for Assembly Members.



## Decision taking and business management

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The Commission meets on a regular basis to provide direction and to oversee delivery of the Commission's strategy and objectives. The Commission has delegated its day-to-day management functions to the Chief Executive and Clerk. The formal delegation outlines exceptions to this and details of areas on which the Chief Executive and Clerk must consult with the Commission.

The Commission administration is divided into five Directorates, reporting to the Chief Executive. The Directorates are further sub-divided into service areas, led by Heads of Service. The Chief Executive, Directors and senior Heads of Service make up the Management Board, which regularly meets formally and informally to review and coordinate policy and operational matters. Management Board members are required to act corporately in the interest of the Assembly as a whole. The Board's Terms of Reference state that it needs to ensure performance, improvements and actions are in line with the Commission's vision and values.

The Chief Executive has established a governance system of delegated authorities to control resource management which covers finance, staffing and other resource responsibilities, such as procurement.

An Investment and Resourcing Board, consisting of the Chief Executive and Directors, provides direction to, and governance oversight of, significant change initiatives and projects across the Commission. The Board makes decisions on priorities for funding, capacity to deliver and allocation of resources and the approval of business cases for recruitment.

Formal processes exist for providing information to the Commission, the Management Board, and the Investment and Resourcing Board, to ensure that they are provided in a timely manner and to an agreed standard. Established review and reporting mechanisms are also in place, co-ordinated and supported by central support teams.

## Planning and performance measurement

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An updated strategic plan, based on a review by the Commission of its strategic goals and priorities, has been reflected in revised service plans and individual performance objectives.

The Resource and Planning Board, consisting of Management Board members, undertakes biannual scrutiny of service plans, alongside capacity plans. This helps ensure effective planning for current and future demands across the Commission.

The Commission has continued to publish Corporate Performance Reports, incorporating Key Performance Indicators, which have demonstrated sustained high performance across many services and improvement where efforts have been targeted. The Commissioners and the Assembly's Finance Committee continued to find the reports useful. We will consider the strategy that will be established by the new Commission, as part of a comprehensive review of performance measures for the Fifth Assembly.

## Progress and performance

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We identified the following areas for focus and development in the 2014-15 Governance Statement:

### **a. Business Continuity (BC)**

We ran a major incident exercise which tested the Commission's ability to respond to a range of complex issues, and are building the learning from this into all BC documentation. We made preparations to carry out another exercise early in the new Assembly involving Members.

### **b. Information Governance**

The Commission's Information Governance Framework is now live and, following an awareness campaign, we are applying it across the organisation. We have also shared it with other legislatures as an example of good practice. The framework covers information security, data protection and information management.

We continue to monitor compliance through biannual compliance reports completed by Information Asset Owners (Heads of Service). There were no incidents of personal data loss requiring reporting to the Information Commissioners Office during 2015-16. We investigated and managed a number of minor incidents of personal data breaches or potential breaches internally in line with the Commission's policy.

The Commission's developing programme towards its vision of the Assembly becoming a digital parliament brings new opportunities to improve governance through a more strategic approach to information management.

### **c. Project and Programme Management, and Benefits Realisation**

We have used external recruitment exercises to bring in new staff to strengthen the Commission's capacity in this area. We have used these new skills and experience to establish appropriate arrangements for the governance and management of strategic projects and change programmes.

We have extended the role of the Investment and Resourcing Board to cover the governance of significant change initiatives and projects. This has strengthened the strategic approach to resourcing of programmes and projects.

Our Business Analysts have also worked with project managers to help them carry out analysis of project benefits, along with key stakeholders. This has helped inform scoping of projects and strengthened business cases. They will continue to work with project managers following implementation, through to benefits realisation exercises.

### **d. Capacity Planning**

The introduction of the formal capacity planning process linked to service planning has been a positive addition to the Commission's management and planning techniques and tools. The Audit and Risk Assurance Committee concluded that the capacity and workforce planning initiative had helped ensure that the Commission optimises its resources, taking proper account of future demands and changes.

## Delivery of strategic goals

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Our strong governance arrangements have contributed directly to a number of the achievements against our strategic goals set out in the **Our performance: analysis** section at pages 23 to 57 of this report. For example:

- robust capacity planning which enabled effective scrutiny of Assembly legislation as well as the draft Wales Bill;
- an Internal Audit review of bilingual services which identified areas for further strengthening; and
- the substantial due diligence applied to the planning for the Fifth Assembly.

## Financial management and performance

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Our financial management and performance reflects the Commission's continuous improvement ethos. We have made further improvements in financial reporting and forecasting to provide the flexibility to make best use of our available budget.

We have further strengthened financial management, reporting and control during the year. We have:

- increased the finance team's capacity, skills and resilience;
- reduced time taken in issuing reports;
- improved reconciliation processes; and
- met key performance indicators.

Both the Financial Accounts and Policy and Planning and Performance teams have been subject to Internal Audit reviews during the year. Both reviews resulted in a strong assurance rating, evidencing the comprehensive work carried out to maintain the Commission's internal control environment.

Through 2015-16 we have worked constructively with the Wales Audit Office to address areas which have been highlighted as requiring attention for improvement in previous years. We have liaised positively with the audit team to reach agreement on the appropriate accounting treatment in a number of technical areas.

We have also produced interim financial statements within a week of the November period end. This is good practice and was welcomed by the Wales Audit Office and the Audit and Risk Assurance Committee.

We set the key financial performance indicator at the same challenging target as for previous years: delivering an underspend to within 1 per cent of the budget. The Commission's focus on delivering Value for Money continued and for the fifth consecutive year we exceeded our target savings and we also increased the contribution from operating expenditure other than staff.

During 2015-16, the Commission was scrutinised on its budget and performance by the Finance Committee and the Public Accounts Committee. Both Committees welcomed the Commission's open and transparent approach.

## Compliance with governance principles

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The Commission has adopted a set of governance principles and supporting provisions, which are consistent with the UK Corporate Governance Code and the International Framework: Good Governance in the Public Sector and are used to guide the work of the Commission and its staff. The Commission has complied with these principles. The Assurance section describes how evidence of this has been gathered through assurance statements and use of the Assurance Framework.

## Risk identification and management

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The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of the Assembly's goals and priorities, and compliance with policies and procedures. This involves evaluating the likelihood of those risks being realised and the impact should they be realised, and managing them efficiently, effectively and economically.

During the year, the Commission's Management Board carried out a thorough risk identification exercise which resulted in several new risks being added to the Corporate Risk Register. Some of these risks were more static in nature, such as physical security and compliance risks which, although managed effectively by service areas, did not previously have sufficient visibility. Risk owners report regularly on the adequacy of the current controls, the status of the residual risks and any further actions that are required to improve the controls.

In-depth assessments of both physical and cyber security risks, using external expertise, have provided strong assurance on the controls the Commission has in place. We have identified actions to further strengthen these controls, and we will assess these further through Internal Audit reviews in year.

The careful management of risks has been instrumental in helping the Commission plan for political, legislative and constitutional change, and for transition to the Fifth Assembly. The risk management approach has also resulted in the development of robust capacity planning to ensure the Commission has sufficient resources to deliver on its strategic goals and corporate priorities and that its resources are used to the best effect.

The Audit and Risk Assurance Committee maintained an overview of the effectiveness of risk management arrangements and has considered selected corporate risks in more detail throughout the year. The Committee welcomed the continual assessment of risks and the increased visibility of the more static risks the Commission faces.

The Commission's goals have evolved over the course of the Third and Fourth Assembly and are likely to continue to be relevant in providing a focus for the new Commission's ambitions for the Fifth Assembly. The early stages of the Fifth Assembly will present a range of challenges and risks, including greater uncertainty about future budgets now that the long-term budget strategy set in 2011 has come to an end. The Commission will continue to influence the further constitutional change, including ensuring that the Commission's priorities for institutional reform are delivered. At the same time, the Commission will need to ensure the Assembly is well placed for the start of the new financial powers coming into effect with the implementation of the *Wales Act 2014*. Internally there will be important projects such as developing a digital parliament. All of this will require effective risk management.

## Assurance

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The Commission has an Audit and Risk Assurance Committee consisting of two independent advisers, one of whom is the Chair, a further independent committee member and the Assembly Commissioner with responsibility for finance and governance. The Committee, which acts in an advisory capacity and has no executive powers, met five times during the year. Its activity during the year focused on Internal and External Audit reports, including updates on the implementation of recommendations, the Commission's Annual Report and Accounts, reports on risk management, and the governance and internal control arrangements. The Committee has extended its meeting times to enable it to cover business in sufficient detail.

The formalised documentation of the Commission's Assurance Framework has added clarity and further understanding on how the Commission obtains assurance that its internal controls are robust and effective. It is now being actively used to help gather evidence on levels of assurance to inform service-level assurance statements, which in turn inform Directorate-level assurance statements. Scrutiny and challenge of the process for gathering evidence of assurance, as well as the resulting assurance statements, by one of our independent advisers added a further layer of assurance.

The Audit and Risk Assurance Committee has concluded that the framework illustrates the overall strength of the Commission's sources of assurance.

The Committee has been satisfied with the approach to internal audit, particularly: the assurances from the Head of Internal Audit; the joint working protocol between the Wales Audit Office and Internal Audit, which underpins their strong working relationship; the engagement with Internal Audit throughout the Commission; and the commitment by management to implementing Internal Audit recommendations. Overall, there is a focused and co-ordinated audit and assurance service.

The Internal Audit plan for 2015–16 sought to strike the balance of giving assurance over key systems and processes such as procurement and key financial controls, while also providing the Commission with assurance over areas of strategic importance such as public engagement and enhanced bilingual services.

The Internal Audit reports have identified a number of areas where the Commission demonstrates how it follows good practice in terms of the systems and controls it has established. However, where weaknesses or issues are identified management continue to take positive action to address audit recommendations.

Based on the audit programme, the Internal Audit's 2015-16 Annual Report and Opinion stated that 'the Assembly Commission has adequate and effective risk management, control and governance processes to manage the achievement of its objectives'.

During 2015–16 the Head of Internal Audit has reviewed the Commission's policies in relation to fraud and whistleblowing to ensure that they are up to date and relevant. He has also attended events at Public Concern at Work and the Wales Audit Office on the subject of whistleblowing. The Commission's policy was benchmarked against those from private and public sector organisations and the Commission's policy was found to compare favourably. Further fraud awareness training has also been given to finance staff across the organisation during 2015–16.

There have been no fraudulent or whistleblowing incidents during the year.

The Commission carries out formal compliance monitoring against legal and regulatory obligations, reports on which are published on the Commission's website. Examples of this are the Annual

Equalities Report, the Official Languages Scheme Annual Compliance Report and the Annual Environmental Report.

The Commission uses a variety of external sources of assurance. In a year of considerable change, the Commission has engaged with its independent advisers and a number of other individuals to provide external challenge to processes and to provide assurance on forward planning.

The results of independent external recognition are also important to the Commission as they reflect the culture and environment in which Commission staff work. The Commission:

- continues to hold gold accreditation from Investors in People (IIP);
- is ranked third in Stonewall’s Workplace Equality Index of top employers in the UK for 2016 and was named Stonewall Cymru’s Top Public Sector Employer in Wales for the third year running;
- retained Action on Hearing Loss’s Louder than Words charter mark and won the Excellence Wales silver award;
- retained the National Autistic Society’s Access Award;
- was a finalist for the first time at the Top Employers Special Awards 2015 for embedding flexible working and featured in the Equal Opportunities Review journal; and
- was named a Top 30 employer by Working Families.

The Commission has also retained Level 5 of the Green Dragon Environmental Standard, after a successful audit in early 2016, in recognition of its environmental policies and continual environmental improvements.

We also use external benchmarking to measure the effectiveness of our internal processes. We relaunched the annual staff survey this year in support of our key principles of transparency, benchmarking and engagement. The engagement score from the survey was the highest across Civil Service comparators in Wales.

## **Review of effectiveness of internal control and governance arrangements**

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Core to the review of the effectiveness of the governance arrangements was a self-review process completed by the Management Board in February 2016. This review considered the outcome of a detailed assurance mapping exercise as well as the assurance statements from Directors and Heads of Service. It covered assurances on:

- progress against key achievements;
- awareness of and compliance with governance principles, rules and procedures and the effectiveness of the governance arrangements;
- management of risks;
- progress against areas identified for improvement; and
- how the delivery of service plan objectives has been monitored.

The outcome of the review was used to inform this statement and was considered by the Audit and Risk Assurance Committee after the end of the financial year, before the financial statements were signed.

A review of the Commission's approach to organisational efficiency, effectiveness and value for money has been carried out and presented a range of evidence to show that the Commission is an organisation that is tightly managed and efficient in its use of resources and that efficiency and effectiveness are integral to delivering excellent services. The Commission is committed to ensuring that all new change initiatives are delivered on the basis of a cost/benefit assessment, that service and capacity planning reviews proceed on the basis of maximising the use of resources to deliver the Commission's strategy and goals and that there is constant challenge to demonstrate value for money.

In terms of the Commission's effectiveness in its role as the governing board, a report produced by the Commission's Head of Internal Audit in January 2016 consolidated the conclusions of the three effectiveness reviews carried out during the course of the Fourth Assembly. The report highlights the effective ways in which the current Commission has been able to discharge its functions. It included a number of suggestions for the incoming Commission, which are aimed at supporting the Commission in its ongoing development as a high performing and effective governing board in the Fifth Assembly.

## Areas of focus and development for 2016-17

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Drawing on the outcomes of audit and assurance work, and building on progress over the last year, areas of focus and development for 2016-17 will include:

- continued focus on capacity and service planning to enable us to react flexibly to emerging demands given the amount of change we will face;
- continued focus on capacity and capability for bilingual services; and
- responding to the different ways the public are engaging with the Assembly.

We will prepare a plan setting out the actions needed to address these areas, and we will report on progress to the Audit and Risk Assurance Committee.

## Concluding statement

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In summary, I am confident that we have developed a very high standard of governance, with elements that are an exemplar for others. I am satisfied that we have addressed, or are in the process of addressing, the weaknesses identified through our assurance processes. I am also satisfied that over the course of the year we have operated and developed effectively the systems and processes within our governance framework.

**Claire Clancy**

Chief Executive and Clerk of the Assembly

Date: 11 July 2016



**10 years of the Senedd: 2006-2016**

The audience at 'An evening in conversation with Lord Richard Rogers', an event to mark 10 years since the opening of the Senedd.



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# Our accountability: remuneration and staff

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# Remuneration and staff report

This section of the report sets out financial information and commentary about Commission office-holders, staff and others paid by the Commission.

## Remuneration Policy

The Remuneration Board (the Board) established by the National Assembly for Wales Remuneration Measure 2010 has responsibility for setting Members' Pay and Allowances. The Board became operational in September 2010. Four members of the Board (Mary Carter, Stuart Castledine, Professor Monojit Chatterji and Professor Laura McAllister) received a day rate of £185. The Chair of the Board, Sandy Blair CBE DL, received a day rate of £243. Appointments to the Board are normally for a five-year term. However, Professor McAllister was appointed for one year only in July 2014 so that all contracts ended during 2015.

New appointments were made during the period, with a handover taking place in September 2015. Four members of the Board (Dame Jane Roberts, Roger Williams, Trevor Reaney and Michael Redhouse) receive a day rate of £267. The Chair of the Board, Dame Dawn Primarolo, receives a day rate of £333. All contracts are due to end in 2020.

The Board's report, *Fit for Purpose*, published in March 2011, concluded that the 2010–11 Assembly Members' salary of £53,852 should be fixed for four years from the start of the Fourth Assembly. This level of salary has been confirmed in its subsequent Determinations on Members' Pay and Allowances. A subsequent Determination, published in April 2015, set Members' base salary for the 2015–16 financial year at £54,391. The following positions were entitled to additional salaries as follows:

	From 1 April 2015	From 1 April 2011
Presiding Officer	£41,949	£41,949
Deputy Presiding Officer	£26,385	£26,385
Assembly Commissioners	£12,420	£12,420
Chairs of committees <sup>5</sup>	£12,420	£12,420
Chairs of other committees <sup>6</sup>	£8,280	£8,280

This table is subject to audit

From May 2011, a leader of a political group without an executive role received an additional office holders' allowance calculated using a base level of £12,420 plus an additional £1,000 for every member of the group to a maximum salary of £41,949. The resulting range of the office holders' allowance was £17,420 - £26,420.

<sup>5</sup> Committees were Children, Young People and Education; Environment and Sustainability; Health and Social Care; Communities, Equality and Local Government; Enterprise and Business; Constitutional and Legislative Affairs; Finance; and Public Accounts.

<sup>6</sup> Other committees were Petitions and Standards of Conduct.

From April 2011, the start of the Fourth Assembly, political groups appointed Business Managers. Business Managers received an additional office holders' salary calculated using a base level of £6,210 plus an additional £250 for every member of the group to a maximum salary of £12,420. The resulting range of the office holders' allowance was £7,460 – £12,420.

Of the Members entitled to additional salaries in 2015–16, one did not draw her full entitlement for the full year (in 2014–15 three Members did not draw their full entitlement for the year).

The Commission does not provide any benefits-in-kind. Assembly Members are members of the National Assembly for Wales Members' Pension Scheme for which separate annual accounts are published via the Assembly website [www.assembly.wales](http://www.assembly.wales).

The Commission pays the salaries and related costs of Welsh Ministers and the Counsel General and they are charged to the Commission's resource accounts for administrative efficiency. The Welsh Government Consolidated Resource Accounts contain the disclosure information.

In its review of the remuneration package available to Assembly Members for the Fifth Assembly, the Board reviewed the base salary and noted that the significant increase in ordinary Members' responsibilities was not reflected in the previous Determination. In its Determination for the Fifth Assembly, which was published in May 2015, the Board concluded that base salary should be set at £64,000 from May 2016. It has set salaries to reflect the changing weight of the additional responsibilities Members will carry and has increased the salaries paid to office holders in the legislature relative to those in the Government. The changes the Board is making to the Members' Pension Scheme will reduce the range and size of benefits provided by the scheme and the cost to the taxpayer, while requiring Members to pay more. Overall, the total cost of additional salaries for office holders will reduce.

## Commission office holders

The Commission was established in May 2007 under Section 27 of the *Government of Wales Act 2006* (the 2006 Act). The Commission is made up of five Commissioners: the Llywydd (Presiding Officer), who chairs the Commission, and four other Assembly Members appointed by the Assembly.

### The following were elected or appointed in May and June 2016:

**Elin Jones AM**

Elected 11 May 2016

**Suzy Davies AM**

Appointed 8 June 2016

**Joyce Watson AM**

Appointed 8 June 2016

**Dai Lloyd AM**

Appointed 8 June 2016

**Caroline Jones AM**

Appointed 8 June 2016

## The Commissioners during 2015–16 were:

### **Dame Rosemary Butler AM**

Elected 11 May 2011

Term of office ended on 11 May 2016

Rosemary Butler attended ten out of ten Commission meetings

### **Angela Burns AM**

Appointed 25 May 2011

Term of office ended on 8 June 2016

Angela Burns attended eight out of ten Commission meetings

### **Peter Black AM**

Reappointed 25 May 2011

Term of office ended on 8 June 2016

Peter Black attended ten out of ten Commission meetings

### **Sandy Mewies AM**

Appointed 25 May 2011

Term of office ended on 8 June 2016

Sandy Mewies attended nine out of ten Commission meetings

### **Rhodri Glyn Thomas AM**

Appointed 25 May 2011

Term of office ended on 8 June 2016

Rhodri Glyn Thomas attended ten out of ten Commission meetings

Commissioners have other Assembly responsibilities which prevent them from attending Commission meetings from time to time. A Register of Financial and Other Interests of Assembly Members is available at [www.assembly.wales](http://www.assembly.wales) and [www.cynulliad.cymru](http://www.cynulliad.cymru).

The Commission had portfolio arrangements with Commissioners taking a lead interest in specific issues (see pages 4 to 5).

The Assembly Commissioners, other than the Presiding Officer, were entitled to an annual salary of £12,420 in addition to their Assembly Member pay. Their pension details are not included in the details below because only part of their remuneration related to their roles as Commissioners. Their accrued pension and Cash Equivalent Transfer Values (CETV) as Commissioners cannot be disaggregated from the total amounts accrued.

The salary costs for the Presiding Officer and Deputy Presiding Officer are a direct charge on the Welsh Consolidated Fund.

Name and title	Salary 2015–16	Salary 2014–15	Real increase in pension <sup>7</sup>	Total accrued pension <sup>8</sup>	CETV at 31/3/16	CETV at 31/3/15 <sup>9</sup>	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rosemary Butler AM –Presiding Officer)	95-100	95-100	2.5-5	30-35	480	456	29
David Melding AM –Deputy Presiding Officer (service started 12/5/2011)	80-85	80-85	2-2.5	25-30	321	284	20

This table is subject to audit.

The CETV and the real increase in CETV figures were reported incorrectly last year. The '*CETV at 31 March 2014*' was previously shown as £428,000 for Dame Rosemary Butler. This is restated as £441,000. Her '*Real increase in CETV*' was shown as £36,000 and this is restated as £23,000. The '*CETV at 31 March 2014*' was previously shown as £278,000 for David Melding and this is restated as £280,000. His '*Real increase in CETV*' was shown as £18,000 and this is restated as £15,000. The CETV figures at 31 March 2014 have increased because they now reflect the revaluation of the deferred Office Holder element of the Member's pension which was previously omitted from the 2014 CETV figures. The Real increase in the CETV figures shown in the 2014/2015 Accounts are lower than previously stated because the starting figures i.e. the CETV figures at 31 March 2014, have increased which results in a smaller increase in the CETV figures between 2014 and 2015.

The Clerk of the Assembly (appointed under Section 26 of the 2006 Act) is the Chief Executive of the Commission and its Principal Accounting Officer. In practice the Commission has delegated its operational responsibilities to the Chief Executive and Clerk, with some exceptions. Its staff are appointed under paragraph 3 of Schedule 2 to the 2006 Act. The Commission is independent of Ministers of the Welsh Government.

The Commission has a duty to ensure that the Assembly is provided with the property, staff and services it requires to undertake its statutory obligations. This ensures the Assembly and its committees can convene, encourages public awareness of and engagement with the democratic process and supports the aspiration to make the Assembly an accessible and effective parliamentary body that inspires the confidence of the people of Wales.

<sup>7</sup> Real increase in pension and related lump sum at pension age

<sup>8</sup> Total accrued pension at pension age and related lump sum at 31 March 2016

<sup>9</sup> The actuarial factors used to calculate the CETV were revised during 2015–16. The CETV at 31 March 2016 and 31 March 2015 have both been calculated using the new factors; for consistency the CETV as at 31 March 2015 therefore differs from the corresponding figure in last year's report, which was calculated using the previous factors.

## Independent Advisers and Committee members

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The Commission has appointed advisers to provide independent, constructive challenge to the Assembly Commission. They do this through attending Audit and Risk Assurance Committee, Remuneration Committee and relevant Commission meetings, as well as providing input to other areas of the Commission's work. There are four independent advisers and one independent committee member. The advisers receive non-pensionable emoluments of £5,000 per annum with £7,000 per annum for the Chair of the Audit and Risk Assurance Committee, and £6,250 per annum for the Chair of the Remuneration Committee.

### Independent Advisers

- **Mair Barnes** (November 2007 – November 2016)
- **Eric Gregory** (November 2012 – October 2018) Eric Gregory attended five out of five Audit and Risk Assurance Committee meetings and one out of one Remuneration Committee meetings
- **Helena Feltham** (November 2012 – October 2018) Helena Feltham attended one out of one Remuneration Committee meetings
- **Keith Baldwin** (November 2012 – October 2018) Keith Baldwin attended four out of five Audit and Risk Assurance Committee meetings and one out of one Remuneration Committee meetings

The Independent advisers do not attend all Commission meetings. They attend relevant meetings that correspond to their individual responsibilities.

### Committee member

- **Hugh Widdis** (November 2013 – October 2016) Hugh Widdis attended five out of five Audit and Risk Assurance Committee meetings

## Remuneration Committee

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The Commission has a Remuneration Committee consisting of at least three members who are independent of the Assembly Commission and its staff and do not have personal or business interests in the functions of the Committee. One or two members must be drawn from the Assembly Commission's Audit and Risk Assurance Committee. The Remuneration Committee ensures that the Commission meets the highest standards of probity and accountability for the use of public funds and, specifically, for appraisal and remuneration policies and systems.

The Committee's members during the period ended 31 March 2016 were:

- **Helena Feltham**, Chair of the Remuneration Committee (from April 2014) and Independent Adviser
- **Keith Baldwin**, Independent Adviser
- **Eric Gregory**, Independent Adviser

During the period the Committee met once on 20 April 2015.

## Commission senior staff

Appointments of Commission staff, on terms and conditions set by the Commission, are made on merit on the basis of fair and open competition. These principles are in line with civil service arrangements. Staff are not members of the Civil Service but are entitled to membership of the Principal Civil Service Pension Scheme (PCSPS).

The Commission's senior staff are shown in the table below. These director-level posts were agreed in accordance with the Commission's Instrument of Delegation. Directors have declared that they hold no significant third party interests that may conflict with their duties.

The senior managers covered by this report hold appointments which are open-ended. Early termination, other than for misconduct or resignation, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Name	Title
<b>Claire Clancy</b>	<b>Chief Executive and Clerk of the Assembly</b> <i>Claire Clancy attended five out of five Audit and Risk Assurance Committee meetings, ten out of ten Commission meetings and one out of one Remuneration Committee meetings</i>
<b>Adrian Crompton</b>	<b>Director of Assembly Business</b>
<b>Dave Tosh</b>	<b>Director of Resources</b> <i>Dave Tosh attended five out of five Audit and Risk Assurance Committee meetings</i>
<b>Elisabeth Jones</b>	<b>Director of Legal Services</b>
<b>Craig Stephenson</b>	<b>Director of Commission Services</b>
<b>Nicola Callow</b>	<b>Director of Finance</b> <i>Nicola Callow attended five out of five Audit and Risk Assurance Committee meetings</i>

Aside from the Chief Executive and Clerk of the Assembly, the directors do not attend all Commission and Committee meetings. The directors attend relevant meetings that correspond to their individual responsibilities. Unless otherwise stated the directors hold appointments which are open-ended.

## Single total figure of remuneration

Name	Salary (£'000)		Pension benefits (to the nearest £1,000) <sup>10</sup>		Total (£'000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Claire Clancy	145-150	145-150	59	37	205-210	180-185
Adrian Crompton	120-125	120-125	56	35	175-180	155-160
Dave Tosh <sup>11</sup>	105-110	105-110	49	100	150-155	205-210
Elisabeth Jones	95-100	95-100	36	34	130-135	125-130
Steven O'Donoghue	-	5-10	-	16	-	20-25
Craig Stephenson <sup>12</sup>	80-85	70-75	61	85	145-150	155-160
Nicola Callow	65-70	60-65	43	43	110-115	100-105

Salary includes gross salary, overtime, recruitment and retention allowances.

Steven O'Donoghue left on 25 April 2014. Nicola Callow was appointed from 26 April 2014 and Craig Stephenson was appointed from 6 May 2014.

The Chief Executive and Clerk of the Assembly and the directors do not receive any bonus payments or benefits-in-kind.

Nicola Callow left the Assembly Commission on 21 April 2016 under agreed terms and the cost of £70,000 is provided for within the 2015-16 accounts and has been paid in 2016-17.

This table is subject to audit.

<sup>10</sup> The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

<sup>11</sup> The 2014-15 pension benefits have been restated as they had previously been based on earnings that included a duplicated allowance

<sup>12</sup> The 2014-15 pension benefit value and total single figure of remuneration have been restated due to a retrospective salary award.



## Commission staff salaries

The relationship between the mid-point of the banded remuneration of the highest-paid director during the year ended 31 March 2016 and the median remuneration of the Commission staff is disclosed in the following table. Salaries are the annualised, full time equivalent remuneration of all staff (including agency and temporary staff) as at 31 March 2016. They do not include Employer's National Insurance or Superannuation contributions. There were no benefits-in-kind or performance related bonuses payable in 2015–16 or in 2014–15.

	2015–16 Salary £	2014–15 Salary £
Band of highest paid director	145,000-150,000	145,000-150,000
Median total remuneration	31,031	29,475
Ratio	4.75	5.0

This table is subject to audit.

The banded remuneration of the highest-paid director in the National Assembly for Wales Commission at 31 March 2016 was £145,000 to £150,000 (2014–15 £145,000 – £150,000). This was 4.75 times (2014–15 5.0) the median remuneration of the workforce, which was £31,031 (2014–15 £29,475).

In 2015–16, and 2014–15 there was no remuneration paid in excess of the highest-paid director. Remuneration ranged from £17,000, which ensured that employees received a Living Wage, to £150,000 (2014-15 £15,000 to £150,000).

Total remuneration includes salary. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## Pensions

### Senior management – pension benefits

Name and title	Real increase in pension <sup>13</sup>	Total accrued pension <sup>14</sup>	CETV at 31 March 2016 <sup>15</sup>	CETV at 31 March 2015	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
<b>Chief Executive and Clerk of the Assembly</b>					
<b>Claire Clancy</b>	2.5-5 plus lump sum of 7.5-10	70-75 plus lump sum of 210-215	1,564	1,403	57
<b>Director of Assembly Business</b>					
<b>Adrian Crompton</b>	2.5-5 plus lump sum of 0-2.5	40-45 plus lump sum of 115-120	751	657	29
<b>Director of Resources</b>					
<b>Dave Tosh</b>	2.5-5.0	30-35	441	376	24
<b>Director of Legal Services</b>					
<b>Elisabeth Jones</b>	2.5-5.0	30-35	624	538	32
<b>Director of Commission Services</b>					
<b>Craig Stephenson</b>	2.5-5 plus lump sum of 7.5-10	35-40 plus lump sum of 105-110	690	587	50
<b>Director of Finance</b>					
<b>Nicola Callow</b>	0-2.5 plus lump sum of 0-2.5	15-20 plus lump sum of 40-45	260	213	24

This table is subject to audit.

<sup>13</sup> Real increase in pension and related lump sum at pension age

<sup>14</sup> Total accrued pension at age 60 and related lump sum at 31 March 2016

<sup>15</sup> The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.

## Civil Service pensions

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

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

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

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent up to 30 September 2015 and 8 per cent and 14.75 per cent from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also

contribute a further 0.8 per cent of pensionable salary up to 30 September 2015 and 0.5 per cent of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

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## The Cash Equivalent Transfer Value (CETV)

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

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

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## Real increase in CETV

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

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## Pension liabilities

The treatment of pension liabilities and details of the relevant pension schemes are set out in the Statement of Accounting Policies within these accounts.

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## Voluntary Exit Scheme

Details of obligations arising as a result of the VES can be found in Note 2 D.

## Staff numbers

### Staff numbers by category

All senior managers and staff are employees of the Commission. The average number of full time equivalent persons employed by the Commission across the year (including senior management) was as follows:

	2015-16	2014-15
Employed staff	402.27	383.17
Seconded staff	4.00	3.5
Temporary/casual staff	22.05	21.48
Total	428.32	408.15

At the end of the financial year, the Commission employed the following numbers of full time equivalent staff:

	31 March 2016	31 March 2015
Employed staff	413.29	391.24
Seconded staff	2.00	6.0
Agency	18.98	25.12
Total	434.27	422.36

### Staff composition by gender and band

	31 March 2016	31 March 2015
<b>Female</b>		
Directors	3	3
Staff	231	233
Total	234	236
<b>Male</b>		
Directors	3	3
Staff	213	207
Total	216	210

*\*In the tables above staff employed are reported as full time equivalent numbers. However, the gender breakdown is reported as actual numbers.*

*Independent advisers are not included in the FTE figures above.*

## Travel and subsistence

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Details of claims made by and on behalf of the Chief Executive and directors for travel and subsistence and other business expenses over the last two years can be found in Note 15 on page 125.

## Equality and diversity

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Information on equality and diversity can be found in the **Using resources wisely section** of **Our performance: analysis**.

## Health, safety and well-being

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Information on health, safety and well-being can be found in the **Using resources wisely section** of **Our performance: analysis**.

### **Claire Clancy**

Chief Executive and Clerk of the Assembly

Date: 11 July 2016





**10 years of the Senedd: 2006-2016**

Ivan Harbour addressing delegates from the Royal Society of Architects in Wales at the Pierhead in an event to mark 10 years since the opening of the Senedd.



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# Our accountability: accountability and audit

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# Statement of National Assembly for Wales supply and supporting notes

## a) Summary of outturn 2015–16

Pack Page 240

		2015–16			£'000			Outturn 2014–15 £'000	
Note	Budget			Outturn			Net total outturn compared with budget: under spend/(excess)		
	Expend	Income	Total	Expend	Income	Total			
Resources for use by the National Assembly for Wales Commission	SOS 01	36,900	(300)	36,600	37,472	(190)	37,282	(682)	37,211
Resources in respect of Remuneration Board decisions	SOS 01	14,500	-	14,500	13,453	-	13,453	1,047	13,325
Annually Managed Expenditure	SOS 01	1,200	-	1,200	1,495	-	1,495	(295)	932
		52,600	(300)	52,300	52,420	(190)	52,230	70	51,468

This table is subject to audit

## b) Net cash requirement 2015–16

			2015–16	2014–15
			£'000	£'000
	Note	Budget	Outturn	Outturn
			Net total outturn compared with budget: under spend /(excess)	
Net cash requirement	SOS 03	46,500	46,255	45,804
			245	

This table is subject to audit

Explanations of variances between the approved budget and outturn are given in SOS 01 and in the Performance Report.

## c) Income payable to the Welsh Consolidated Fund

The income payable to the Welsh Consolidated Fund comprises bank interest receivable and income in excess of the authorised amount.

In 2015–16 there was no excess income or bank interest receivable. (£0 2014–15).

# Notes to the Resource Accounts (Statement of National Assembly for Wales' supply)

## SOS 01. Analysis of net resource outturn 2015–16

	Outturn £'000	Analysis of approved budget £'000	Outturn compared with budget £'000	Outturn 2014–15 £'000
<i>Revenue expenditure</i>				
Staff salaries and related costs	18,653	18,550	(103)	17,664
Accommodation and facilities costs	8,833	7,509	(1,324)	9,356
ICT costs	2,559	2,758	199	3,343
Other costs	1,652	1,198	(454)	1,568
Training and development costs	273	380	107	370
Promoting awareness and understanding	296	368	72	286
Staff travel and subsistence costs	163	134	(29)	159
Other HR costs	740	103	(637)	119
Election costs	427	500	73	-
Depreciation and amortisation charges	3,340	4,700	1,360	4,009
Adjustment*	0	(300)	(300)	-
<b>Gross revenue expenditure</b>	<b>36,936</b>	<b>35,900</b>	<b>(1,036)</b>	<b>36,874</b>
<i>Revenue income</i>				
Sales - the Assembly shop	(15)	-	15	(13)
Accommodation rental income	(79)	-	79	(80)
Miscellaneous income	(96)	(300)	(204)	(130)
<b>Gross revenue income applied</b>	<b>(190)</b>	<b>(300)</b>	<b>(110)</b>	<b>(223)</b>
<b>NET REVENUE EXPENDITURE</b>	<b>36,746</b>	<b>35,600</b>	<b>(1,146)</b>	<b>36,651</b>
<b>CAPITAL EXPENDITURE</b> <b>(Creation of fixed assets)</b>	<b>536</b>	<b>1,000</b>	<b>464</b>	<b>560</b>
<b>NET RESOURCE OUTTURN</b> <b>(Commission expenditure)</b>	<b>37,282</b>	<b>36,600</b>	<b>(682)</b>	<b>37,211</b>
Members' salaries allowances and related costs	13,453	14,500	1,047	13,325
Members' Pension finance costs	1,495	1,200	(295)	932
<b>TOTAL NET RESOURCE OUTTURN</b>	<b>52,230</b>	<b>52,300</b>	<b>70</b>	<b>51,468</b>

This table is subject to audit

\*An explanation of this adjustment can be found on the following page.

## Analysis of net resource outturn – notes

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The net resource outturn for 2015–16 was £52.23 million against a budget of £52.30 million resulting in an underspend of £0.07 million (0.1 per cent).

Our aim was to deliver the year-end outturn underspend within 1.0 per cent of the total budget and deliver £500,000 Value for Money savings as part of a proactive and efficient approach to budget management.

One of the primary contributing factors to enable such close control of the finances is the utilisation of forward work plans of services with large budget allocations - primarily Estates and Facilities Management and ICT. Both services have large remits and extensive ongoing budget commitments. Working with these services to prioritise their plans has enabled flexible management of expenditure such that resources have been used in the most appropriate way.

The capacity planning exercise, which was undertaken to assess the current staff resource against current and future work pressures, identified a need to further invest in the Commission workforce. A mixture of permanent and temporary new posts were approved during the year to support the Commission going forward. The financial impact of these will be felt more in the next financial year as the Fifth Assembly brings an increase in the roles and responsibilities of the Commission.

The underspend on the Members' Salaries and Allowances budget is £1.047 million (7.2 per cent). This underspend has been used to accelerate expenditure, particularly in the maintenance and upkeep of the estate for which there is a comprehensive and extensive rolling programme of works.

The move from an external ICT provider to an in-house team has reduced the baseline operational costs of ICT services during 2015–16. This reduction enabled £840,000 to be reinvested back into the service to improve the service delivery. The result is that the Commission has an in-house ICT service which is robust, fit for purpose and able to respond to changing needs in a timely and efficient manner whilst delivering real value for money for the organisation.

Depreciation for the year was lower than anticipated, primarily due to a reclassification of ICT expenditure from capital to revenue. This was due to the significant business change in the ICT service with the successful transition to a complete in-house service provision.

## Budget Adjustment

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The 2015-16 Assembly Commission budget document contained a transposition error. The total net outturn figure in that document was £300,000 higher than the figure included in the 2015-16 formal budget motion. The difference of £300,000 has been included as an adjustment above to ensure that the total in the budget column equates to the resources that were formally authorised by the Assembly. The net cash requirement is not affected.

## SOS 02. Reconciliation of outturn to net operating expenditure

	Note	2015-16 £000	2014-15 £'000
Net resource outturn	SOS 01	52,230	51,468
Capital expenditure	4 and 5	(536)	(560)
Direct charges on the Welsh Consolidated Fund		682	645
Income payable to the Welsh Consolidated Fund	SOS 05	-	-
<b>Net operating expenditure</b>		<b>52,376</b>	<b>51,553</b>

This table is subject to audit

The direct charges on the Welsh Consolidated Fund £682,045 (£645,340 for 2014–15) are in respect of the salary costs of the Presiding Officer, Deputy Presiding Officer, Auditor General for Wales, Standards Commissioner, Public Services Ombudsman for Wales and the Wales Audit Office Chair. These salaries are paid by the Commission but, as a direct charge on the Fund, are excluded from the net resource outturn.



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

I certify that I have audited the financial statements of the National Assembly for Wales Commission (the Commission) for the year ended 31 March 2016, under the *Government of Wales Act 2006*.

These comprise the Statement of National Assembly for Wales Supply, Statement of Comprehensive Net Expenditure, Statement of the Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity, and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Principal Accounting Officer and the Auditor General for Wales

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As explained more fully in the Statement of Principal Accounting Officer Responsibilities, the Principal Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report and the financial statements, in accordance with the *Government of Wales Act 2006* and HM Treasury directions made there under and for ensuring the regularity of financial transactions. My responsibility is to audit, certify and report on the financial statements and the part of the remuneration report to be audited in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

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

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



## Opinion on financial statements

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In my opinion the financial statements:

- give a true and fair view of the state of the Commission’s affairs as at 31 March 2016 and of its net cash requirement, net resource outturn and net operating cost, for the year then ended; and
- have been properly prepared in accordance with HM Treasury directions issued under the *Government of Wales Act 2006*.

## Opinion on regularity

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

## Opinion on other matters

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In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the *Government of Wales Act 2006*; and
- the information which comprises the Annual Report is consistent with the financial statements.

## Matters on which I report by exception

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

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

## Report

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I have no observations to make on these financial statements.

**Huw Vaughan Thomas**  
Auditor General for Wales

Date: 12 July 2016



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# Our financial statements

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# Statement of Comprehensive Net Expenditure

For the year ended 31 March 2016

	Note	2015–16 £'000	2014–15 £'000
<b>Income from operations</b>			
Income from sale of goods and services	SOS 05	190	223
<b>Total operating income</b>		<b>190</b>	<b>223</b>
Members, office holders and staff salary costs	2a	24,716	23,604
Members' other costs	2b	8,149	8,030
Members' Pension finance cost	2a and 9	1,495	932
Depreciation and impairment charges	3	3,340	3,974
Other administration costs	3	14,866	15,236
<b>Total operating expenditure</b>		<b>52,566</b>	<b>51,776</b>
<b>Net operating expenditure</b>		<b>52,376</b>	<b>51,553</b>
<b>Comprehensive net expenditure for the year ended 31 March</b>		<b>52,376</b>	<b>51,553</b>

All activities are continuing.

There are no significant gains or losses other than those included within the Statement of Comprehensive Net Expenditure.

# Statement of Financial Position

As at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
<b>Non-current assets:</b>			
Property, plant and equipment	4	63,210	65,646
Intangible assets	5	263	631
<b>Total non-current assets</b>		<b>63,473</b>	<b>66,277</b>
<b>Current assets</b>			
Inventories		27	23
Trade and other receivables	6	1,590	1,608
Cash and cash equivalents	7	236	119
<b>Total current assets</b>		<b>1,853</b>	<b>1,750</b>
<b>Total assets</b>		<b>65,326</b>	<b>68,027</b>
<b>Current liabilities</b>			
Trade and other payables	8	(5,338)	(4,012)
Provisions	9	(23)	(37)
<b>Total current liabilities</b>		<b>(5,361)</b>	<b>(4,049)</b>
<b>Non-current assets plus net current liabilities</b>		<b>59,965</b>	<b>63,978</b>
<b>Non-current liabilities</b>			
Provisions	9	(8,683)	(9,216)
<b>Total non-current liabilities</b>		<b>(8,683)</b>	<b>(9,216)</b>
<b>Assets less liabilities</b>		<b>51,282</b>	<b>54,762</b>
<b>Taxpayers' equity and other reserves</b>			
General Fund		47,490	51,434
Pension Fund Reserve		(8,683)	(9,147)
Revaluation Reserve		12,475	12,475
<b>Total equity</b>		<b>51,282</b>	<b>54,762</b>

**Claire Clancy**

Chief Executive and Clerk of the Assembly

Date: 11 July 2016

# Statement of Cash Flows

For the year ended 31 March 2016

	Note	2015-16 £'000	2014-15 £'000
<b>Cash flows from operating activities</b>			
Net operating cost	SOS 02	(52,376)	(51,553)
<b>Adjustments for non-cash transactions:</b>			
Depreciation, amortisation and impairment	4 and 5	3,340	4,009
Disposal	4	-	316
(Increase) in inventories		(4)	(4)
Decrease in trade and other receivables	6	18	818
<i>(Decrease)/Increase in provision</i>	9	(39)	3
Increase/(decrease) in trade and other payables	8	1,326	(194)
<i>(Decrease)/Increase in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		(117)	135
Utilisation of provision	9	(44)	(37)
Pension finance costs	9	1,495	932
<b>Net cash outflow from operating activities</b>		<b>(46,401)</b>	<b>(45,575)</b>
<b>Cash flows from investing activities</b>			
Purchase of property plant and equipment	4	(536)	(874)
<b>Net cash outflow from investing activities</b>		<b>(536)</b>	<b>(874)</b>
<b>Cash flows from financing activities</b>			
From the Welsh Consolidated Fund (supply)		46,491	45,923
From the Welsh Consolidated Fund (direct charges)		682	645
Payments to the Welsh Consolidated Fund		(119)	(223)
<b>Net cash inflow from financing activities</b>		<b>47,054</b>	<b>46,345</b>
Net increase/(decrease) in cash and cash equivalents	SOS 03	117	(104)
Cash and cash equivalents at beginning of year	7	119	223
<b>Cash and cash equivalents at end of year</b>	7	<b>236</b>	<b>119</b>

# Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2016

	Note	General Fund	Revaluation Reserve	Pension Reserve	Taxpayers' equity
		£'000	£'000	£'000	£'000
<b>Balance at 31 March 2014</b>		55,575	12,475	(4,772)	63,278
Adjustment for prior year WCF supply		31	-	-	31
<b>Pension fund cost</b>	9	-	-	(3,443)	(3,443)
<b>Total recognised income and expense for 2014–15</b>		(51,553)	-	-	(51,553)
<b>Transfer between reserves</b>	9	932	-	(932)	-
<b>Welsh Consolidated fund</b>					
– Supply	SOS 03	46,448	-	-	46,448
– Direct charges		645	-	-	645
<b>Amount payable to the Welsh Consolidated Fund</b>					
– Supply		(644)	-	-	(644)
<b>Balance at 31 March 2015</b>		51,434	12,475	(9,147)	54,762
<b>Pension fund cost</b>	9	-	-	1,959	1,959
<b>Total recognised income and expense for 2015–16</b>		(52,376)	-	-	(52,376)
<b>Transfer between reserves</b>	9	1,495	-	(1,495)	-
<b>Welsh Consolidated Fund</b>					
– Supply (authorised)	SOS 3	46,500	-	-	46,500
– Supply (not drawn)	SOS 3	(9)	-	-	(9)
– Direct charges		682	-	-	682
<b>Amount payable to the Welsh Consolidated Fund</b>					
– Supply		(236)	-	-	(236)
<b>Balance at 31 March 2016</b>		47,490	12,475	(8,683)	51,282





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# Notes to the Accounts

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# 01. Statement of accounting policies

These financial statements have been prepared on an accruals basis in accordance with the 2015-16 Financial Reporting Manual (FReM) suitably adapted for the constitution of the National Assembly for Wales and the Commission as specified by the *Government of Wales Act 2006*. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. In addition to the primary statements prepared under IFRS, the FReM also requires the National Assembly to prepare two additional statements of supply.

A review of all new standards and interpretations issued and effective in 2015–16 by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) during the year has been completed and proven to not have an impact on the National Assembly for Wales Commission Financial Statements.

## Accounting convention

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These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets in accordance with International Financial Reporting Standards (IFRS).

## Property, plant and equipment

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The minimum level for capitalisation of a tangible asset is £5,000 inclusive of irrecoverable VAT.

The IT threshold (previously £5,000 for the grouped value of assets) is £5,000 for a single item, inclusive of irrecoverable VAT.

This policy change, introduced in 2014–15, is due to ICT services coming in-house, resulting in a change in working practices. The service now operates by delivering continual business improvements rather than the large-scale changes seen previously under the fully outsourced contract. Grouped items purchased in prior years were fully depreciated during 2014–15, the year the Commission exited the contract. These items were derecognised.

Professional valuations are obtained for land and buildings every three years as a minimum. Other tangible assets are not revalued but held at fair value as, in the opinion of the Commission, the amounts involved would not be material.

## Asset impairment

Property, plant and equipment are reviewed annually to ensure that assets are not carried above their recoverable amounts. Where these values are less than the carrying amount of the assets, an impairment loss is charged to the Statement of Net Expenditure.

## Assets under construction

Assets under construction are carried at historic cost as this is considered to be a satisfactory proxy for fair value. Once brought into use, the asset is transferred to the appropriate asset category and included in subsequent revaluations and impairment reviews.

## Intangible assets

Software licences are capitalised as intangible fixed assets and amortised on a straight line basis over the expected life of the asset (three or five years).

## Donated assets

Donated assets are capitalised at current value on receipt and are normally revalued in the same way as purchased assets. The value of donated assets is credited with the value of the original donation and subsequent revaluations. The value of Donated Assets is included within the General Reserve in accordance with HM Treasury's guidance under the Clear Line of Sight Programme.

## Depreciation

Freehold land, assets under construction, historic documents and records and works of art are not depreciated. Depreciation is provided at a rate calculated to write off the valuation of buildings and other tangible assets by equal instalments over their estimated useful lives. Assets are analysed into relevant component parts to reflect the differing economic lives. Assets are not depreciated in the year of acquisition. Asset lives are normally as follows:

Asset	Asset life
Buildings:	50 years or an alternative period provided by a qualified (RICS) valuer
Fixed plant:	10 years, or an alternative period provided by the supplier at the time of purchase or valuation
ICT, audio visual and broadcasting equipment:	four – six years
ICT infrastructure:	10 years
Intangible assets (software):	three or five years
Motor vehicles:	four years
Donated assets:	Assessed on receipt of asset

## Realised element of depreciation from revaluation reserve

Depreciation is charged on the revalued amount of assets. An element of the depreciation, therefore, may arise due to an increase in valuation and would be in excess of the depreciation that would be charged on the historical cost of assets. The amount relating to such an excess would be a realised gain on valuation and is transferred from the Revaluation Reserve to the General Fund, if material.

## Asset components

Property assets are reviewed through the triennial professional valuations to confirm whether any part of the asset has a significantly different useful life. Where this is the case the asset will be split into components and the different parts will be depreciated over their respective useful lives.

Assets purchased in the interim period are reviewed by the Finance team and Asset Managers. ICT assets are "grouped" into ICT; audio visual and broadcasting equipment; ICT infrastructure, and intangible assets. The different parts will be depreciated over their respective useful lives.

## Statement of comprehensive expenditure

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Operating income and costs relate directly to the operating activities of the Commission. Income includes charges for goods and services provided on a full cost basis to external customers. Income and costs are shown net of Value Added Tax where it is recoverable.

The Commission reimburses Members in respect of expenses or costs incurred in each financial year in accordance with the Determination on Members' Pay and Allowances, subject to the various limits on expenses or costs set out in the Determination.

## Inventories

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Inventories, including goods held for resale in the Commission's shop, are stated at the lower of cost and net realisable value.

## Foreign exchange

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Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction. Foreign currency imprests are translated into sterling at the exchange rate ruling at the time of funding.

## Pensions

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### The Civil Service Pension Scheme

Staff employed directly by the Commission and staff seconded to the Commission are eligible for membership of the Scheme. It is an unfunded multi-employer defined benefit scheme and the Commission is unable to identify its share of the underlying assets and liabilities. The valuation of the Scheme was completed as at March 2012 on 17 July 2014. Amounts payable to the Scheme are charged to the Statement of Comprehensive Net Expenditure when due.

Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation Accounts (<http://www.civilservice.org.uk/about-us/resource-accounts/>).

### The Assembly Members' Pension Scheme (AMPS)

A pension scheme for the Members of the Assembly was originally established under the *Government of Wales Act 1998* and continues in force under the *Government of Wales Act 2006*. The scheme is a defined benefit scheme, and applies to the salary of Members and to any office holder salary. The cost of pensions provided for the Members is by payment of charges calculated on an accruing basis, with liability for payment of future benefits charged to the accounts of the AMPS. Any liabilities of the fund arising from a deficit on assets would currently be met through increased funding by the Commission. In reporting on the assets and liabilities of the Scheme, the Commission has followed International Accounting Standard 19. In accordance with IAS 19, the Scheme Trustees are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption at that date.

The AMPS prepares its own annual accounts, separate from the Commission's accounts, and these are available on the Assembly website.

## Operating lease charge

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Rentals payable under operating leases are charged to the statement of comprehensive expenditure in the period to which they relate.

## Value Added Tax

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The Commission is treated as a Crown Body for the purposes of the *Value Added Tax Act 1994* and accordingly for the purposes of Section 41 of that Act (application to the Crown) it is treated as a government department, and VAT on goods and services supplied to the Assembly may be recoverable. The Commission is standard rated for VAT on its trading activities, such as the Assembly shop.

## Cash and cash equivalents

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Cash and cash equivalents comprise cash in hand and current balances with bank and Citibank, which are readily convertible to a known amount of cash and which are subject to insignificant risk to changes in value.

## Employee benefits

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Salaries, wages and the cost of all employment related benefits, including the liability associated with untaken annual leave, are recognised in the period in which the service is received from employees.

## Segmental reporting

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We have reviewed our management reports and are satisfied that under the requirements of IFRS 8 we have no additional disclosure to make.

## Provisions

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The preparation of the financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. The Commission recognises a provision in full in the year that the obligating event occurred. All such estimates and judgments are reviewed on an ongoing basis and any revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The most significant areas of estimation and critical judgments are:

- Assembly Member Pension Scheme. Details of the actuarial assumptions can be found in note 02. A and the annual report and accounts for the Pension Scheme.
- Provisions for compensatory payments to staff are based on projections of expected future pension payments. We use the relevant discount rate as set by HM Treasury.
- Dilapidation provision is the assessment of the likely cost of rectifying dilapidation under lease terms of Tŷ Hywel. The Commission considers that the standard of its leased building is kept to such a standard that with the minimal backlog of maintenance and the annual review and agreement to the 10-year forward work programme there is no current need to make a provision for dilapidation.

## 02. A – Member and staff related costs

Information on Members and staff numbers (and other relevant disclosures) can be found in the Accountability Section – Remuneration and Staff Report.

### Member and staff related costs

Staff costs comprise:

	Staff	Members and office holders	Total 2015–16	Total 2014–15
	£'000	£'000	£'000	£'000
Salaries				
Staff, Members and office holders	14,518	4,465	18,983	18,183
Seconded staff	203	-	203	278
Social security costs				
Staff, Members and office holders	1,158	488	1,646	1,588
Other pension costs				
Staff, Members and office holders	3,007	1,033	4,040	3,677
Subtotal Members, office holders and staff salary costs	<b>18,886</b>	<b>5,986</b>	<b>24,872</b>	<b>23,726</b>
Less recoveries in respect of outward secondments	(156)	-	(156)	(122)
Total Members, office holders and staff salary costs	<b>18,730</b>	<b>5,986</b>	<b>24,716</b>	<b>23,604</b>

All staff costs are charged to administration costs

The Commission pays the salary and related costs of the Welsh Ministers, as explained in the Remuneration Report within these accounts. Amounts paid to the Welsh Ministers are disclosed within the Welsh Government's consolidated resource accounts. As at 31 March 2016 there were 60 serving Assembly Members. At the year-end there were 25 office holders (other than Ministers), one First Minister, seven Welsh Ministers, four Deputy Ministers and one Counsel General.

### Civil Service Pension Scheme

For 2015–16, employer's contributions of £2.996 million (£2.697million 2014–15) were payable at one of four rates in the range 20 per cent to 24.5 per cent of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

New employees since 1 April 2015 are eligible to join either alpha or partnership. Alpha is a career average defined benefit pension scheme; partnership is a defined contribution pension scheme.

The partnership pension account is a stakeholder pension arrangement. Contributions due to the partnership pension providers at the Statement of Financial Position date were £3,147 (£3,020 2014–15). There were no contributions prepaid at that date.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

### **Assembly Members' Pension Scheme**

The pension scheme for Assembly Members provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Assembly Commission and are managed by an appointed Investment Manager. A full actuarial valuation was carried out at 1 April 2014 by the Government Actuaries Department. The scheme is funded and the employer contribution rate is unchanged at 23.8 per cent following the valuation.

The Remuneration Board of the National Assembly for Wales is the independent body responsible for setting the pay, allowances and pensions for Assembly Members and their staff. Details of pay and allowances are contained in the Board's Determination published in April 2015.

During 2015-16 the Board has finalised its work on the new Assembly Members' Career Average Revalued Earnings Pension Scheme and, in March 2015, the Board published its Determination of the Fifth Assembly. A new Career Average Pension Scheme was approved by HM Treasury in accordance with the *Public Service Pensions Act 2013* and was introduced on 6 May 2016. The Scheme has an accrual rate of 1/50th and pension age linked to State Pension Age. The member contribution rate is 10.5 per cent for new members and for those moving to the CARE scheme on 6 May 2016. Members aged 55 or over on 1 April 2012 will be subject to 'Transitional Protection' and continue to have their benefits calculated on a final salary basis for an additional five years until 5 May 2021. These members will continue to contribute at their current rate of either 10 per cent or 6 per cent for 40th or 50th accrual respectively. The employer contribution rate will be 15.6 per cent and will be subject to a cap.

The principal funding objective is to maintain a fund of assets which is expected to be sufficient to provide the benefits promised to members and their beneficiaries. This objective is as advised by the Trustees of the Scheme, taking into account advice from the Actuary. The aim is to ensure that accruing benefits are paid for during members' participation in the NAFW AMPS and that the charges borne by the Assembly for accruing benefits are reasonably stable over time. These objectives are addressed by determining a contribution rate expressed as a level percentage of pensionable salary called the Standard Contribution Rate. This standard rate is such that it would be just sufficient to finance the benefits under the Scheme, provided that experience is in accordance with the actuarial assumptions made. Depending on the size of the accumulated fund and the actual experience of the Scheme as disclosed at each three-yearly actuarial valuation, larger or smaller contributions may have to be paid for a period to allow, in particular, for amortising surpluses and deficits.

The pension scheme was set up in 1999 and is immature, with contribution income still significantly exceeding regular benefit outgo. The weighted average duration of the scheme's liabilities is around 20 years.

**The amounts recognised in the Statement of Financial Position are as follows:**

	Note	31 March 2016 £'000	31 March 2015 £'000
Present value of scheme liabilities		(38,352)	(38,175)
Fair value of scheme assets		29,669	29,028
Net liability		(8,683)	(9,147)
Amount in the Statement of Financial Position			
Liabilities		(8,683)	(9,147)
Assets		-	-
Net liability	9	(8,683)	(9,147)

**Analysis of amount charged to the Statement of Comprehensive Net Expenditure**

	2015–16 £'000	2014–15 £'000
Current service cost	2,146	1,710
Interest on pension liability	1,290	1,343
Interest on scheme assets	(970)	(1,142)
	2,466	1,911
Allocated in the account as:		
Other pension costs	971	979
Pension finance costs	1,495	932
	2,466	1,911

**Analysis of the amount recognised in Statement of Change in Taxpayer's Equity (SCITE)**

	2015–16 £'000	2014–15 £'000
Actual return less interest on scheme assets	(1,041)	1,478
Experience gains and losses arising on pension liabilities	338	1,306
Changes in assumptions	2,662	(6,227)
Net actuarial (losses) / gains recognised in SCITE	<b>1,959</b>	<b>(3,443)</b>



## Movement in liabilities during the year

	31 March 2016	31 March 2015
	£'000	£'000
Liabilities at 1 April	38,175	30,258
Current service cost (net of member contributions)	2,146	1,710
Member contributions (including net transfers-in)	429	431
Benefits paid during the year	(688)	(488)
Interest on pension liability	1,290	1,343
Actuarial gains/(losses)	(3,000)	4,921
<b>Liabilities at 31 March</b>	<b>38,352</b>	<b>38,175</b>

## Movements in assets during the year

	31 March 2016	31 March 2015
	£'000	£'000
Assets at 1 April	29,028	25,486
Interest on scheme assets	970	1,142
Actual return less interest on scheme assets	(1,041)	1,478
Contributions by NAFW	971	979
Contributions by Members (including net transfers-in)	429	431
Benefits paid and expenses	(688)	(488)
<b>Closing fair value of scheme assets 31 March</b>	<b>29,669</b>	<b>29,028</b>

The Commission expects to contribute £732,474 to the Members' Pension Scheme in 2016-17.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2015-16	2014-15
Equities	44.52 %	46.33 %
Alternative investments	21.25 %	22.44 %
Fixed interest and cash	34.23 %	31.23 %

As at 31 March 2016 the Diversified Growth Pension Fund had 6.2 per cent of the portfolio invested in property. The scheme assets include, indirectly through investment in unitised funds, gilts issued by the UK government with a fair value of £2,827,137 in 2015-16 (£2,817,702 in 2014-15).

The actual return on scheme assets in 2015-16 was a loss of £0.068 million (£2.619 million gain in 2014-15).

## Principal actuarial assumptions at the Statement of Financial Position date:

	31 March 2016	31 March 2015
Discount rate	3.55 %	3.3 %
Future salary increases	-0.6 %	-0.9 %
Future pension increases	1.3 %	1.1 %
Expectation of life at age 65 (years)		
Men	25.2	25.5
Women	26.8	27.5

### Sensitivity to main assumptions

If the assumed rate of return in excess of earnings changes by 0.5 per cent a year, the total actuarial liability would change by about 2 per cent and the change in total liabilities by circa £0.8million.

If the real rate of return in excess of pension changes by 0.5 per cent the total actuarial liability would change by about 10 per cent and the change in total liabilities by circa £3.8million

If longevity at retirement were assumed to be 2 years greater, this would increase the total actuarial liability by about 6 per cent and would increase total liability by circa £2.3million

### Amounts for the current and previous four periods are as follows:

	31 March 2016 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2012 £'000
Defined benefit obligation	38,352	38,175	30,258	29,011	23,984
Scheme assets	29,669	29,028	25,486	23,960	20,298
Actual return less interest on scheme assets	(8,683)	(9,147)	(4,772)	(5,051)	(3,686)
Experience gains and losses arising on pension liabilities	338	1,306	720	1,125	(436)
Actual return less interest on scheme assets	(1,041)	1,477	(282)	1,524	(497)

Further information on the **Assembly Members' Pension Scheme** can be found in the annual report and accounts for the scheme for the year ending 31 March 2016.

## 02. B – Members’ other costs

Members’ other costs of £8.149 million (£8.030million 2014-15) in the Statement of Comprehensive Net Expenditure consist of:

	2015–16 £’000	2014–15 £’000
Office Costs	817	791
Additional Costs	219	218
Members’ Staff Costs	6,862	6,768
Travel costs	251	253
<b>Total Members’ other costs</b>	<b>8,149</b>	<b>8,030</b>

Members’ staff costs include no severance payments. (three totalling £22,000 2014–15).

The National Assembly for Wales has a group stakeholder (defined contribution) scheme with AVIVA and to which the Commission makes a monthly contribution of 10 per cent of gross salary for Assembly Member support staff. In addition, there is an option for the employee to make a regular monthly contribution. The Scheme is compliant with automatic enrolment legislation and the Scheme’s re-enrolment staging date will be 1 January 2017. The employer pension contributions paid in 2015–16 were £584,077.

## 02. C – Commissioner for Standards

Under the terms of the National Assembly for Wales (Commissioner for Standards) Measure 2009, the Commission pays the salary of and any related costs incurred by the Commissioner. The Commission is responsible for ensuring that the salary and allowances agreed in the terms and conditions of the appointment of the Commissioner and any reasonable liabilities incurred in the course of his duties, are charged to the Welsh Consolidated Fund.

On 9 November 2010, Gerard Elias QC was appointed as the Commissioner for Standards. More information about Gerard Elias QC and his work is available from <http://standardscommissionerwales.org/>

During 2015–16, a total of £23,600 (£21,985 2014–15) was incurred in relation to the Commissioner’s work.

251.5 hours at a cost of £19,858 (241 hours at a cost of £18,984 2014–15) for the Commissioner’s cost for 2015–16 was charged to the Welsh Consolidated Fund.

111 hours at a cost of £3,742 (91.5 hours at a cost of £3,001 2014–15) for staff costs was incurred in supporting the Commissioner.

## 02. D – Voluntary Exit Scheme (VES)

The Assembly Commission launched a Voluntary Exit Scheme (VES) across all service areas on 19 November 2015. The closing date for applications was 8 January 2016. In total 26 people were given approval to leave, of which six subsequently decided not to accept the offer. At 31 March 2016, two of the staff who were granted approval had left and there was an obligation on the Commission to make payments to 17 members of staff. The total cost of this obligation at 31 March 2016 was £557,000. The remaining settlement was agreed after 31 March 2016 and will be paid during the 2016-17 financial year.

Exit package cost band	Total number of exit packages by cost band
£0 - £20,000	8
£20,001 - £40,000	7
£40,001 - £60,000	-
£60,001 - £80,000	4
£80,001 - £100,000	-
£100,000 and above	1
<b>Total number of exit packages</b>	<b>20</b>
<b>Total resource cost (£000s)</b>	<b>661</b>

In addition to the Voluntary Exit Scheme, special severance payments enhancing the standard VES terms, totalling £93,000 were made to two members of staff as part of negotiated settlement packages. One of these, for £70,000, related to a Director and is therefore disclosed within the Remuneration and staff report. Two severance payments totalling £19,000 were made in 2014–15.

### 03. Other administration costs

Other administration costs of £18.207 million (£19.210 million 2014–15) in the Statement of Comprehensive Expenditure consist of:

	2015–16 £'000	2014–15 £'000
Leases – buildings	2,828	2,830
Leases – other	108	132
Accommodation and facilities costs	6,351	6,394
ICT costs	2,561	3,343
Administrative expenses	1,842	1,854
Staff related costs	1,176	648
<b>Other administration costs</b>	<b>14,866</b>	<b>15,201</b>
Depreciation, amortisation and impairment charges	3,340	4,009
	<b>18,206</b>	<b>19,210</b>

The estimated external audit cost for the audit of these financial statements is £66,250 (£66,250 2014-15). This includes £2,650 (£3,636 2014-15) for additional non-statutory audit work incurred in 2015-16.

Further explanation of the movement between 2015–16 and 2014–15 is included in SOS 01 Analysis of net resource outturn on pages 92 to 93.

## 04. Property, plant and equipment

	Land and buildings	Information technology	Furniture and fittings*	Vehicles	Assets under construction	2015–16 £'000 Total
<b>Cost or valuation</b>						
<b>At 1 April 2015</b>	<b>63,464</b>	<b>13,685</b>	<b>1,674</b>	<b>80</b>	<b>267</b>	<b>79,170</b>
Additions	-	164	6	-	366	536
Disposal	-	(17)	-	-	-	(17)
Reclassification	-	246	21	-	(267)	-
<b>At 31 March 2016</b>	<b>63,464</b>	<b>14,078</b>	<b>1,701</b>	<b>80</b>	<b>366</b>	<b>79,689</b>
<b>Depreciation</b>						
<b>At 1 April 2015</b>	<b>(1,657)</b>	<b>(10,847)</b>	<b>(940)</b>	<b>(80)</b>	<b>-</b>	<b>(13,524)</b>
Charged in year	(1,657)	(1,216)	(99)	-	-	(2,972)
Disposals	-	17	-	-	-	17
<b>At 31 March 2016</b>	<b>(3,314)</b>	<b>(12,046)</b>	<b>(1,039)</b>	<b>(80)</b>	<b>-</b>	<b>(16,479)</b>
<b>Carrying amount at</b>						
<b>31 March 2016</b>	<b>60,150</b>	<b>2,032</b>	<b>662</b>	<b>-</b>	<b>366</b>	<b>63,210</b>
Carrying amount at 1 April 2015	61,807	2,838	734	-	267	65,646

\* Furniture and fittings includes 'donated assets', consisting of the Mace donated by the Parliament of New South Wales for the opening of the Senedd.

The latest revaluation of land and buildings was undertaken by DS Gibbon FRICS of GVA Grimley International Property Advisers, as at 31 March 2014, in accordance with the Royal Institution of Chartered Surveyors Valuation Standards. The Senedd and the Pierhead were re-valued at depreciated replacement cost (DRC) as a proxy for current value. The valuer's approach included calculating the cost of constructing modern equivalent buildings and depreciating the cost to account for the age and future economic life of the buildings.

Impairment reviews did not identify any indications of impairment at 31 March 2016 and hence no impairments have been recognised.

	Land and buildings	Information technology	Furniture and fittings*	Vehicles	Assets under construction	2014–15 £'000 Total
<b>Cost or valuation</b>						
<b>At 1 April 2014</b>	<b>63,140</b>	<b>13,636</b>	<b>1,876</b>	<b>80</b>	<b>798</b>	<b>79,530</b>
Additions	116	106	71	-	267	560
Reclassification	208	370	185	-	(763)	-
De-recognition	-	(427)	(458)	-	(35)	(920)
<b>At 31 March 2015</b>	<b>63,464</b>	<b>13,685</b>	<b>1,674</b>	<b>80</b>	<b>267</b>	<b>79,170</b>
<b>Depreciation</b>						
<b>At 1 April 2014</b>	<b>-</b>	<b>(9,490)</b>	<b>(991)</b>	<b>(80)</b>	<b>-</b>	<b>(10,561)</b>
Charged in year	(1,657)	(1,784)	(126)	-	-	(3,567)
Impairment	-	-	-	-	-	-
De-recognition	-	427	177	-	-	604
<b>At 31 March 2015</b>	<b>(1,657)</b>	<b>(10,847)</b>	<b>(940)</b>	<b>(80)</b>	<b>-</b>	<b>(13,524)</b>
<b>Carrying amount at 31 March 2015</b>	<b>61,807</b>	<b>2,838</b>	<b>734</b>	<b>-</b>	<b>267</b>	<b>65,646</b>
Carrying amount at 1 April 2014	63,140	4,146	885	-	798	68,969

The 2014–15 derecognition charge of £427k arises from ICT services completing its transition from being out-sourced to an in-house service and a classification error in furniture and fittings where correcting the position has required £281k Net Book Value to be charged to other administrative expenses.

## 05. Intangible assets

Intangible assets comprise software and software licences for major systems used by the Commission:

	Software	2016 Total £'000
<b>Cost or valuation</b>		
At 1 April 2015	2,367	2,367
Additions	-	-
Disposal	(50)	(50)
<b>At 31 March 2016</b>	<b>2,317</b>	<b>2,317</b>
<b>Amortisation</b>		
At 1 April 2015	(1,736)	(1,736)
Charged in year	(368)	(368)
Disposals	50	50
<b>At 31 March 2016</b>	<b>(2,054)</b>	<b>(2,054)</b>
<b>Carrying amount at 31 March 2016</b>	<b>263</b>	<b>263</b>
Carrying amount at 1 April 2015	631	631

	Software	2015 Total £'000
<b>Cost or valuation</b>		
At 1 April 2014	2,367	2,367
Additions	-	-
Reclassification	-	-
<b>At 31 March 2015</b>	<b>2,367</b>	<b>2,367</b>
<b>Amortisation</b>		
At 1 April 2014	(1,294)	(1,294)
Charged in year	(442)	(442)
<b>At 31 March 2015</b>	<b>(1,736)</b>	<b>(1,736)</b>
<b>Carrying amount at 31 March 2015</b>	<b>631</b>	<b>631</b>
Carrying amount at 1 April 2014	1,073	1,073



## 06. Trade and other receivables

	31 March 2016	31 March 2015
	£'000	£'000
<b>Amounts falling due within one year:</b>		
Trade receivables	89	40
Other receivables	13	10
Prepayments	1,241	1,246
Recoverable VAT	247	312
	<b>1,590</b>	<b>1,608</b>

There were no receivable amounts falling due after more than one year.

## 07. Cash and cash equivalents

	31 March 2016 £'000	31 March 2015 £'000
Balance at 1 April	119	223
Net change in cash and cash equivalent balances	117	(104)
<b>Balance at 31 March</b>	<b>236</b>	<b>119</b>
The following balances at 31 March were held at:		
Citibank	110	95
Commercial banks and cash in hand	126	24
<b>Balance at 31 March</b>	<b>236</b>	<b>119</b>

## 08. Trade payables and other current liabilities

	31 March 2016 £'000	31 March 2015 £'000
<b>Amounts falling due within one year</b>		
VAT	9	20
Other taxation and social security	679	622
Trade payables	588	590
Accruals	3,826	2,661
Amounts due to the Welsh Consolidated Fund	236	119
	<b>5,338</b>	<b>4,012</b>

There were no payable amounts falling due after more than one year.

## 09. Provisions for liabilities and charges

Under International Accounting Standard 19, a liability of £8.68 million is recognised for the Assembly Members' Pension Scheme. Further information on this is provided under Note 2.

	AM Pension Scheme £'000	Provision for compensatory payment to staff £'000	2015–16 Total £'000	2014–15 Total £'000
Balance at 1 April	<b>9,147</b>	<b>106</b>	<b>9,253</b>	<b>4,912</b>
(Decrease)/increase	(464)	(39)	(503)	4,378
Utilised in-year	-	(44)	(44)	(37)
<b>Balance at 31 March</b>	<b>8,683</b>	<b>23</b>	<b>8,706</b>	<b>9,253</b>

\*This includes the pension finance cost £1.495 million (£.932 million 2014–15) and the net actuarial gain £1.959 million (£3,443 million loss – 2014–15).

From the total £8.706 million (£9.253 million in 2014–15) provision, £0.023 million for compensatory payment is expected to crystallise within one year.

## 10. Capital commitments

There were no contracted capital commitments at 31 March 2016 (nil at 31 March 2015).

## 11. Commitments under leases

### (a) Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which payments are incurred.

	31 March 2016	31 March 2015
	£'000	£'000
Obligations under operating leases comprise:		
Not later than one year	2,795	2,794
Later than one year but not more than five years	11,092	11,127
Later than 5 years	30,428	33,188
	<u>44,314</u>	<u>47,109</u>
Other – car, printers and copiers:		
Not later than one year	84	89
Later than one year but not more than five years	81	158
	<u>165</u>	<u>247</u>

The Commission receives income in connection with the land and building operating leases. This income is disclosed as Accommodation Rental Income within SOS 2.

### (b) Finance leases

There are no obligations under finance leases.

## 12. Other financial commitments

The Commission has contracts that make reference to early termination but do not quantify charges for such an event. Early termination would be a breach of contract and the contractor would be entitled to damages representing the loss of profit on the work which would have been done under the contract if it had run its full course. As this figure is variable for each contract, such contracts have not been included in this note.

## 13. Financial instruments

The Commission does not issue or trade in financial instruments such as loans and has no borrowings. It relies primarily on funding from the Welsh Consolidated Fund for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

## 14. Contingent liabilities

### a) Pension contributions

Assembly Member support staff have contractual rights to have the equivalent of 10 per cent of gross annual salary contributed towards a pension, but not all have exercised this right. Liability continues until six years after cessation of employment, and is estimated as follows:

Pension contributions for AM support staff who:	Amount outstanding 31 March 2016 £'000	Amount outstanding 31 March 2015 £'000	Amount paid out 2015-16 £'000	Comments
Are currently employed but not contributing to a pension scheme	2	2	-	Remote
Have left employment without ever joining a pension scheme	46	49	-	Remote

The Commission has not entered into any quantifiable or unquantifiable contingent liabilities through giving guarantees, indemnities or letters of comfort.

## 15. Travel and Subsistence by directors

Claims made by and on behalf of the Chief Executive and directors for travel and subsistence and other business expenses over the last two years were as follows:

	Claire Clancy <i>Chief Executive and Clerk of the Assembly</i>		Adrian Crompton <i>Director of Assembly Business</i>		Dave Tosh <i>Director of Resources</i>		Elisabeth Jones <i>Director of Legal Services</i>		Craig Stephenson <i>Director of Commission Services (from 6 May 2014)</i>		Nicola Callow <i>Director of Finance (from 26 April 2014)</i>	
	2015–16	2014–15	2015–16	2014–15	2015–16	2014–15	2015–16	2014–15	2015–16	2014–15	2015–16	2014–15
	£	£	£	£	£	£	£	£	£	£	£	£
Car mileage	303	-	-	-	-	-	81	29	-	-	110	-
Taxi / car hire / associated costs	154	95	-	-	-	45	119	108	49	167	-	-
Air travel / associated costs	139	265	-	-	-	5,943	265	243	3,848	418	-	-
Public transport	471	-	959	179	107	409	836	305	510	201	-	-
Accommodation	291	212	-	-	60	826	452	191	2,885	524	-	-
Subsistence / expenses	5	-	-	-	-	211	171	59	419	189	-	211
<b>Total</b>	<b>1,363</b>	<b>572</b>	<b>959</b>	<b>179</b>	<b>167</b>	<b>7,434<sup>16</sup></b>	<b>1,924</b>	<b>935</b>	<b>7,711<sup>17</sup></b>	<b>1,499</b>	<b>110</b>	<b>211</b>

<sup>16</sup> The travel costs in 2014–15 are due to the shared cost of air travel relating to advisory IT services provided to parliamentary bodies overseas.

<sup>17</sup> The travel costs in 2015–16 include the cost of air travel and accommodation incurred while supporting the Presiding Officer with an overseas visit.

## 16. Related-party transactions

The Commission has a number of transactions with the Welsh Government and with other government departments and public bodies, including HM Revenue and Customs. Additionally, regular transactions take place with the Assembly Members' Pension Scheme (see **Remuneration and staff report**). Standing Orders of the National Assembly for Wales require the Assembly, on a motion proposed by the Commission, to elect Trustees to the Members' Pension Scheme.

The Assembly may give special or general directions to the Commission for the purpose of, or in connection with, the exercise of the Assembly Commission's functions.

The Commission has not undertaken any material transactions directly with Commissioners, senior managers or their close family members nor with any organisations where Commissioners, senior managers or members of their close family hold positions of control or influence.

The former Deputy Presiding Officer, David Melding, and Peter Black, one of the Commissioners for the Fourth Assembly, were trustees of the Assembly Members' Pension Scheme until 6 May 2016. Subsequently Suzy Davies, one of the Commissioners for the Fifth Assembly, was appointed as one of the Commission representatives to the new Pension Board on 16 June 2016.

For transparency the following minor transactions are reported:

- Payments of £5,295.41 (£4,368.42 2014–15) were made to the City and County Swansea for services rendered e.g. waste collection and rates. Peter Black is a councillor for City and County of Swansea.
- Payments of £11,728.90 (£6,000.00 2014–15) were made to Swansea University for WVN support licences. Peter Black is a member of the Court of Governors of Swansea University.

An independent Remuneration Board was established by the National Assembly for Wales Remuneration Measure 2010. The Remuneration Board determines the salaries and allowances of all Assembly Members and office holders. The Members may employ family members as their support staff. However, this is only permitted where the Assembly Member plays no part in the fair and open selection process, which is conducted by Commission staff on their behalf.

The Commission decides the policies on salary and conditions for Commission staff. There are no restrictions in place relating to the employment by the Commission of family members of Commissioners or senior management.

Directors have declared that they hold no significant third party interests that may conflict with their duties. A Register of Financial and Other Interests of Assembly Members is available at [www.assembly.wales](http://www.assembly.wales) and [www.cynulliad.cymru](http://www.cynulliad.cymru).

## 17. Events after the reporting period

### Assembly election

As a result of the Assembly election on 5 May 2016, it will be necessary to pay the costs relating to AM resettlement claims, defeated Assembly Members' support staff redundancies and other related costs. This is estimated at £2.5m.

The amounts paid as resettlement claims are calculated as set out in the Remuneration Board of the National Assembly for Wales' Determination. The Remuneration Board is the independent body responsible for setting the pay, pensions and allowances of Assembly Members and their staff.





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# Annexe – regularity reporting

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# Regularity Reporting

The National Assembly for Wales Commission's budget is authorised by the Assembly via formal budget motions. These motions authorise the Commission's capital and revenue expenditure, as well as retainable income and the amount that may be drawn from the Welsh Consolidated Fund.

The Statement and supporting notes have been prepared in accordance with the 2015–2016 Government Financial Reporting Manual (FReM) suitably adapted for the constitution of the National Assembly for Wales and the Commission as specified by the *Government of Wales Act 2006*.

## SOS 3 Reconciliation of Net Cash Requirement to (decrease)/ increase in cash

	31 March 2016 £'000	31 March 2015 £'000
Net cash requirement	(46,255)	(45,804)
From the Consolidated Fund (supply) – current year	46,500	46,450
Amounts due from the Consolidated Fund not drawn	(9)	(527)
Amounts paid to the Consolidated Fund	(119)	(223)
<b>Increase/(decrease) in cash</b>	<b>117</b>	<b>(104)</b>

## SOS 4 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Budget £'000	Outturn £'000	Net total outturn compared with budget: under spend/(excess) £'000	Outturn 2014–15 £'000
Net Resource Outturn	SOS 01	52,300	52,230	70	51,468
<u>Accruals adjustments</u>					
Non-cash items	See below	(5,900)	(4,835)	(1,065)	(5,257)
Changes in working capital other than cash		100	(1,140)	1,240	(407)
<b>Net cash requirement</b>		<b>46,500</b>	<b>46,255</b>	<b>245</b>	<b>45,804</b>

<i>Non-cash items</i>	Note	Budget £'000	Outturn £'000	Outturn compared with budget 2015–16 £'000	Outturn 2014–15 £'000
Depreciation and amortisation and de-recognition	4 and 5	(4,700)	(3,340)	(1,360)	(4,325)
IAS 19 Pension finance cost and other provision movements		(1,200)	(1,495)	295	(932)
		<b>(5,900)</b>	<b>(4,835)</b>	<b>(1,065)</b>	<b>(5,257)</b>

## SOS 5 Analysis of income payable to the Welsh Consolidated Fund

	Budget 2015–16 £'000	Outturn 2015–16 £'000	Outturn 2014–15 £'000
Retainable operating income	<b>300</b>	<b>190</b>	<b>223</b>
Subtotal	300	190	223
Amount retained	300	190	223
Amount payable to the WCF	-	-	-

There has been no other operating income in 2015–16 (nil 2014–15).