

Sir Derek Jones KCB
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff
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Dear Nick,

17th October 2016

Please pass on my thanks to the Committee for their scrutiny of the Welsh Government's Annual Accounts 2015-16. As I said briefly as I left the Committee Room, these are challenging sessions, but I do want to reemphasise my respect for the scrutiny process and how valuable and important it is to the business of Government in Wales.

The Committee has asked me some follow-up questions. In the attached annex, I have tried to answer these as clearly as possible.

I noted that the Committee focused strongly on procurement and transparency. So in addition to the responses to the questions posed, I have also described some of the work we are doing to improve procurement practices and the transparency of Government spend. I hope that the Committee will find this additional material reassuring and of use.

During the session I committed to keeping the Committee updated on possible further action related to the Fruitless Payment recorded in the 2015-16 Accounts. As the analysis work is not yet concluded, an update is not included here. I will write to the Committee on this as soon as I am able.



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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

I am now looking ahead to my valedictory session with the Committee in a few weeks time. I am already aware that the Committee would like to discuss implications of the European referendum result on the Welsh Government and work that has commenced to date; as I write, I have just returned from a visit to Brussels, and will be able to update the Committee on this topic. Any other insights you could provide on areas the Committee would like to cover would be very helpful.

Yours,
Nick



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Response to questions from the Public Accounts Committee following its scrutiny of the Welsh Government's Annual Accounts 2015-16, on 03 October 2016

Procurement

1. The extent to which local authorities are recruiting people externally with appropriate procurement expertise.

During the scrutiny session the Committee asked about capacity within the civil service and local government to procure smartly, rather than just cheaply, and asked the above follow up question.

Procurement capacity and capability in Welsh public sector organisations, including local authorities, is assessed through the *Procurement Fitness Check Programme*, a commitment of the Wales Procurement Policy Statement. The assessment involves the application of a 'maturity model' which includes seven measures associated with the 'people' aspects of each organisation. The results of Fitness Checks made in 2014 are published on the Welsh Government's Procurement Route Planner website: <http://prp.gov.wales/toolkit/?lang=en>. The Fitness Check reports include recommended action plans.

Currently, the Welsh Government does not have access to data on local authority recruitment of external procurement expertise. However, the Fitness Check model for 2016 has been revised to include details of procurement qualifications held. The next round of the Fitness Checks will follow a self assessment approach, with organisations providing details of how many qualified (CIPS and other relevant qualifications) staff are in each organisation against the organisation's structure and spend.

2. Figures capturing Welsh Government and public sector spend in Wales.

As of 06 October 2016, the National Procurement Service (NPS), which is hosted by the Welsh Government, has 38 live Contracts/Frameworks awarded to 544 suppliers. Of the suppliers, 53% (287) are Wales based and 40% (218) are Welsh SMEs.

The Sell2Wales website is a procurement portal and information resource set up by the Welsh Government. Each year, billions of pounds of worth of contracts for public sector goods and services are advertised through this site; these contracts are offered by a wide range of public sector organisations in Wales, including the Welsh Government, Local Authorities and NHS bodies. 60% of the contracts awarded through the Sell2Wales website are awarded to Welsh suppliers.

Spend data for the financial year 2015-16 submitted to the NPS by Welsh public sector organisations involved in their collaborative spend analysis project suggests approximately 50% of spend by public sector organisations in Wales goes to Welsh suppliers. So we have made progress in this area, but with plenty more to do.

3. Summary of procurement practice improvement work

In October 2015 the Welsh Government's internal audit team undertook a review of corporate contract management processes within the organisation. The review examined the controls in place to ensure that frameworks and contracts were being managed effectively and aligned with corporate requirements to deliver goods and services of the right quality, at the right time and provide value for money. Alongside identifying some areas of good practice, four key recommendations were made by the review team to strengthen existing controls: provision of a contract register for Welsh Government colleagues; an overhaul of all commercial guidance; identification of, and development for, commercial colleagues; and strengthening the lessons learned processes.

In addition to the above recommendations, lessons learned from a procurement exercise which resulted in the Fruitless Payment included in the 2015-16 Annual Accounts have also fed into the work undertaken by the Commercial Governance workstream under Preparing for the Future. This work will continue up to March 2017. The improvement work to date is summarised below:

Governance

- A Commercial Governance Delivery Group was established in October 2015. The Group reviews Welsh Government procurement spend monthly looking for trends and evidence of non-compliance with required processes.
- A corporate contract database is now in place for Welsh Government wide frameworks.
- A new delegation framework is due to be introduced in November 2016. The framework defines who can purchase and to what level.
- To accompany the framework, a new procurement assurance policy is to be introduced in November 2016.
- All major procurements are carried out through an e-tendering system which is transparent - with a fully auditable view of all evaluators scoring.
- All legal challenges during standstill period are to be referred to the Director, Procurement and Director, Legal Services.

Standard processes

- A staff engagement campaign focusing on the prompt payment of suppliers took place in summer 2016, this included:

- Internal communications
- New guidance
- New training courses
- Simplification of the purchasing process
- A new contract management toolkit is now available for staff on the intranet.

Standard roles

- A questionnaire to identify all contract and framework managers in the Welsh Government was completed in January 2016.
- A procurement skills framework is now being developed.
- Standard commercial and procurement roles and job descriptions, linked to skills framework, are now being developed.

Learning and Development

- Negotiation workshops were delivered in Spring 2016.
- Commercial colleagues from the Executive Band and above have participated in the UK Government Cabinet Office procurement Assessment and Development Centre – with good results.
- A Welsh Government training programme has been developed for introduction autumn 2016 including e-learning and face to face courses at various different levels.

4. Preparing for the Future procurement savings

Overall procurement savings of £7m were identified for financial year 15/16. These were achieved by reducing the costs of goods or services either at point of contract award or through robust contract management. Each individual saving is supported by an audit trail providing evidence for how it was achieved. Savings are delivered against multiple Ministerial Expenditure Groups (EMGS) and not attributable to one central budget – as such they do not appear as a single item within the Annual Accounts. The savings are used, at the individual budget holder's discretion, to deliver more for the same amount of money or to fund additional priorities.

Transparency

5. Clarification on the variances for the Health and Social Services Group underspend of £153m as detailed in the Summary of Outturn table and the impact on the HSS Ambit underspend had two of the health bodies not overspent.

The reason for the variation in the HSS Ambit was due to a £90m underspend in Annually Managed Expenditure (AME); arising from fewer provisions and a lower

level of impairments to assets, plus £50m of cash not needed by the health bodies. As said during the session, the underspend is not taxpayer money 'lost' to Wales. Any underspends that occurred in 2015-16 were carried forward to the following financial year.

The PAC noted that the relationship between the budget received from HM Treasury and the Ambit and, therefore, the explanation for the variances reported in the annual accounts is complicated. HM Treasury control budgets throughout the public sector on a resource basis. Budgets comprise Departmental Expenditure Limits (DELs) and Annually Managed Expenditure (AME). The Ambit represents the resources (DEL and AME) consumed by the core Welsh Government, **plus** the cash paid to other organisations such as the health bodies.

This difference immediately creates anomalies when comparing variances reported by the Welsh Government - against the Ambit, and the variances reported by organisations within the wider group - whose accounts do not report Ambit, but reflect the resource position only.

The cash portion of the HSS underspend in 2015-16 is completely independent of the resource overspend reported by some health bodies. The overspend reported by health bodies would not have been altered had the AME underspend been different.

The future budgeting project is seeking to align the budgeting and accounting processes in order to remove these anomalies.

6. Direct the Committee to links for further information (previous correspondence) on the Welsh risk pool.

NHS Wales operates a risk pooling scheme which allows Health Boards and Trusts to seek reimbursement for amounts paid out in respect of negligence claims. A £25,000 excess is applied to each claim. The scheme is operated by the Welsh Risk Pool Service (WRPS) which is part of NHS Wales Shared Service Partnership, hosted by Velindre NHS Trust. Further to scrutiny of the 2014/15 Welsh Government Consolidated Resource Accounts, the Provisions disclosure (note 12 on page 68 of the accounts for 2015-16) has been enhanced to provide specific disclosure in respect of the Welsh Risk Pool. Further details of the NHS risk pool are included in the Annual Accounts of individual health boards for their individual liabilities, and in the accounts of the WRPS host entity Velindre NHS Trust.

The Welsh Risk Pool Provision as at 31 March 2016 was £682m. This is an increase of £8m from 31 March 2015 when the balance was £674m. This relatively small increase of 1.2% reflects a stabilisation in the growth of this provision compared to previous years, for example growth of £80m in 2014/15. It is considered that this slowing of growth is due to a slight 'levelling off' in the volume of claims being dealt

with from the start to the end of the financial year as the volumes remain high but largely stable, combined with an increase in the churn of cases settled in volume terms to more or less equate to cases opened. However due to the nature of the claims which can vary year to year, the provision for future liabilities remains a volatile financial balance, which is reflected in its budgetary treatment as Annually Managed Expenditure for which budget is secured annually from HM Treasury.

The Welsh Risk Pool fully utilised its Revenue budget allocation for claims settlements made in year of £75m in 2015/16. Details of the WRP provisions are shown in note 24.3 of the Velindre NHS Trust accounts.

Please find attached previous correspondence with the Committee on the Welsh Risk Pool.

7. How restricted and unquantified potential liabilities are accounted for in terms of clarity.

Unquantified or contingent liabilities represent potential future liabilities where there is uncertainty over the nature, timing and value. As such they are not accounted for against the budget but simply noted in the accounts in the same way as an organisation discloses details of guarantees. These potential liabilities are actively managed:

- New projects are appraised and any financial implications, including future contingent liabilities, are considered and advice provided as appropriate.
- Where liabilities are identified through the initial approval process, these will be monitored within individual business areas.
- Business areas also monitor for any additional unanticipated liabilities arising after the approval process, although the frequency with which these occur is low.
- Any changes to liabilities and new liabilities, and their impacts, are communicated to finance support teams who will maintain these records for future reporting, including year-end account.
- Potentially, any significant liabilities may be identified as risks and reported as part of the Risk Register reporting to the Welsh Government's Audit and Risk Committees (ARCs).

For the financial year 2015-16, no significant issues related to potential liabilities were reported to the Central Finance Team.

We propose that, in future years, the Welsh Government writes to the Committee in confidence with details of any potential liabilities when we are preparing the Annual Accounts.

8. Confirm plans for the online presentation of the Accounts.

The online version of the 2015-16 annual accounts will be published on the Welsh Government website later this month. The online version will include an appendix with links to other relevant sites such as the accounts for local health bodies and local government. This is in response to a suggestion arising from discussion with the previous PAC concerning the ability of the reader to 'follow the money'. The appendix will also provide a link to a document that provides further details on staff numbers and salary costs within the Welsh Government, following consideration of the question of senior pay transparency in the public sector in Wales. This information goes beyond the disclosure requirements of the Financial Reporting Manual.

9. Publication of expenditure details for Welsh Procurement Card (WPC) transactions and invoice spend over £25k.

Details of all invoiced costs in excess of £25,000 are published monthly on the Welsh Government web site. In addition, the Welsh Government has released details of all Welsh Procurement Card transactions (WPC) for the last 5 years - also available on the web site. We are in discussion with Ministers over the proactive, regular release of WPC data in the future.

10. Adding a further table to the Accounts on outturn in section one.

The Permanent Secretary will recommend to his successor that the introduction to the Annual Accounts provides more information on the outturn position and variances.

Sir Derek Jones KCB
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Darren Millar AM
Chair of the Public Accounts Committee
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Dear Darren,

06 October 2014

**ACTION POINTS FROM THE PUBLIC ACCOUNTS COMMITTEE ON
22 SEPTEMBER 2014
WELSH GOVERNMENT ACCOUNTS 2013-14**

I hope that you and Committee members found the session on the 2013-14 Annual Accounts to be helpful. I promised to write on a number of points, covered below.

A. Severance Packages and Increase in Staff Numbers

Severance Packages. During 2013-14 there were 4 members of staff that received severance packages in excess of £100,000. The table below provides details of the total severance, annual pay and payback period for each individual.

	Severance £	Salary £	Payback Period
FY13-14	129,000	88,176	17 months
	138,000	94,606	17 months
	119,000	81,780	17 months
	162,000	111,615	17 months

I am satisfied that, with payback periods of this kind, the departures represent good value for money.



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Staff Numbers. The table below details those areas of the business that have seen the main increase in staff numbers over the period 2012-13 and 2013-14 (286 additional staff).

Reason for increase in staff numbers	Total
Transfers into the Welsh Government following the creation of the Welsh Language Commission and Natural Resources Wales.	75
Rural development; introduction of Glas Tir scheme	32
Increase in overall number of secondees within Departments	31
Legal services; including the Office of the Legislative Counsel and the Counsel General	29
Creation of the National Procurement Service	29
European Funding area (WEFO); including staff for the new Energy Team (Horizon 2020)	24
Planning Division; legislation and casework	17
Cabinet Division including staff to support additional Ministers	13
Care Standards Inspectorate for Wales	11

The increase in overall staff numbers also reflects the ongoing commitment to our Apprenticeship Programme. Over the past two years, some 158 young people have completed, or are still engaged in, the programme although this commitment to young people has impacted total staff numbers within the Welsh Government. As many as 72 of the apprentices have successfully gained employment with the Welsh Government.

B. The Welsh Risk Pool

NHS Wales operates a risk pooling scheme which allows Health Boards and Trusts to seek reimbursement for amounts paid out in respect of negligence claims. A £25,000 excess is applied to each claim. The scheme is operated by the Welsh Risk Pool Service (WRPS) which is part of NHS Wales Shared Service Partnership. In order to better align the governance and financial management arrangements, the budget for the Welsh Risk Pool reimbursement of claims transferred as of 1 April 2014 from the Welsh

Government to NHS Wales Shared Services Partnership (hosted by Velindre NHS Trust).

In recent years, and in common with other nations, NHS Wales has experienced a growth in the number of legal claims. For example in 2012/13 the NHS Litigation Authority in England reported a 10.8% increase in clinical negligence claims from 2011/12. The reasons for the increase in claims are multifactorial and it is not possible to say with any certainty what the primary driver for the increase is. It is known that there has been a general upward trend in claims over recent years both in terms of number and value.

Recent changes to funding rules for legal claims which came into effect on 1st April 2013 are considered to have had an impact on the registration of claims before this date and, therefore, upon the subsequent submitted case volumes being experienced in 2013/14. It is also considered that increased public awareness of clinical redress options is contributing to claim volumes.

The cost of claims has also increased, especially for settlements involving long term care packages. The reason for this increase is that care needs are becoming more complex and it is necessary to ensure that any care packages are fully compliant with applicable legislation such as Health and Safety and Working Time Directives.

NHS Wales takes a pro-active approach to learning from claims to reduce the risk of recurrence. Before reimbursement is made by the WRPS, Health Boards and Trusts are required to outline the key weaknesses which gave rise to the claim and outline the steps taken to reduce the risk of recurrence. Claims are reviewed internally within the WRPS for efficacy of action and then considered by an All Wales Executive Level multidisciplinary group with representation from Medical Directors, Directors of Nursing, Chief Executives, Directors of Finance, Chairman of a Health Board, Directors of Governance and the Welsh Government. Where there is evidence of risks which may be relevant to other NHS bodies, or evidence of good practice, a more detailed claim review can be requested.

Where all Wales issues are evident from claims, the WRPS undertakes themed work. This involves the clinical assessment of high risk areas including those of maternity, emergency departments and the surgical pathway. The findings of the reviews are



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shared with the individual Health Boards with a composite report being shared with the Welsh Government and Chief Executives. In addition, specific themed work has been undertaken to further consider specific risks associated with claims.

C. Renewable/Non Renewable Energy

The Annual Accounts report a reduction in the amount of renewable energy consumed by the Welsh Government since 2012-13. Information on the proportion of electricity derived from renewable sources is provided by our electricity supply companies. For 2013-14 they advised consumers, including the Welsh Government, that the basis for calculating the renewable proportion had changed in line with DEFRA guidelines. This means that the proportion for 2013-14 can not be compared to previous years.

Nevertheless, the Welsh Government is implementing a carbon reduction programme across the whole of our administrative estate and, as a result, a 27% reduction in carbon emissions has been achieved since 2010-11. This puts us well on course to meet the Government's overarching target of a 30% reduction by 2020.

D. Business Travel and CRC and Energy Expenditure

Business travel. The Welsh Government is unable to provide a total cost for business travel without a significant amount of manual investigation by departments. Although the financial systems record hire car charges and accommodation separately, the majority of the travel costs continue to be booked to a single travel and subsistence cost code. It is also possible to charge travel costs to a Welsh Procurement Card (WPC). As a result, we would have to scrutinise many hundreds of individual claims and Welsh Procurement Card (WPC) transactions as well as the invoices paid to travel related suppliers such as Eurocar and Arriva Wales in order to extract the correct total cost for business travel only. We will consult with the Financial Reporting advisory board (FRab) to determine whether other departments are able to comply.

CRC allowance. The CRC allowances total for 2013-14 was 0.191.

Energy expenditure. Total energy expenditure for the Welsh Government administrative estate for 2013-14 was £2.17m.



Unfortunately the 2013-14 information for CRC allowances and energy expenditure (detailed above) was not available in time for the preparation of the accounts. The online Accounts for 2013-14 will be amended.

E. Breakdown of Expenditure for Travel, Subsistence and Hospitality

The table detailed below provides a breakdown by cost category (used within the Welsh Government financial systems) for travel, subsistence and hospitality for 2013-14. Due to the reasons outlined in D above, it has not been possible to compile a total for travel and a separate total for subsistence.

	2013-14 £K
Travel & Subsistence	3,439
Travel	892
Accommodation	359
Car Hire	295
Hospitality	16
Total as detailed in the accounts	5,001

F. Non cash overspend in DfES

The supplementary budget process enables departments to submit and agree adjustments to in-year budgets with HM Treasury. Any requests; typically for non cash and AME, must be submitted at the end of November each year. During 2013-14, the Welsh Government successfully negotiated an increase in non cash (£326m) to reflect the impact of changing the student loans model used by DfES. The change in model followed a similar decision by BIS for student loans in England. However, unfortunately the subsequent error in the new model (£26m) was not identified until after the supplementary budget deadline and, therefore, we were unable to request further changes. Nevertheless, on this occasion, the Welsh Government was able to absorb the increase within the overall Ambit and given that the error impacted non cash, it had no bearing on the cash resources available to be spent on policy delivery.

A lessons learned exercise was conducted and a copy of the report presented to the DfES Corporate Governance Committee is attached.

Yours,
Derek



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