

# Scrutiny of Accounts 2016-17

February 2018



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

An electronic copy of this document can be found on the National Assembly website: [www.assembly.wales/SeneddPAC](http://www.assembly.wales/SeneddPAC)

Copies of this document can also be obtained in accessible formats including Braille, large print, audio or hard copy from:

**Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA**

Tel: **0300 200 6565**

Email: **[SeneddPAC@assembly.wales](mailto:SeneddPAC@assembly.wales)**

**© National Assembly for Wales Commission Copyright 2018**

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading or derogatory context. The material must be acknowledged as copyright of the National Assembly for Wales Commission and the title of the document specified.

# Scrutiny of Accounts 2016-17

February 2018



# About the Committee

The Committee was established on 22 June 2016 to carry out the functions set out in Standing Orders 18.2 and 18.3 and consider any other matter that relates to the economy, efficiency and effectiveness with which resources are employed in the discharge of public functions in Wales.

---

## Committee Chair:



**Nick Ramsay AM**  
Welsh Conservative  
Monmouth

## Current Committee membership:



**Mohammad Asghar AM**  
Welsh Conservative  
South Wales East



**Neil Hamilton AM**  
UKIP Wales  
Mid and West Wales



**Vikki Howells AM**  
Welsh Labour  
Cynon Valley



**Rhianon Passmore AM**  
Welsh Labour  
Islwyn



**Adam Price AM \***  
Plaid Cymru  
Carmarthen East and Dinefwr



**Lee Waters AM**  
Welsh Labour  
Llanelli

---

\* Adam Price was elected to the Committee on 18 October 2017

# Contents

<b>Chair’s foreword .....</b>	<b>5</b>
<b>1. Introduction.....</b>	<b>9</b>
<b>2. Cross Cutting Issues.....</b>	<b>11</b>
Evaluating schemes and measuring impact.....	15
Use of resources by publicly funded organisations.....	16
Reliance on public funding.....	16
Reserves policy/Cash carry forward.....	18
<b>3. Future Generations Commissioner for Wales .....</b>	<b>19</b>
Annual Report (Performance report).....	19
Accountability .....	20
Remuneration.....	23
<b>4. Welsh Government .....</b>	<b>25</b>
Performance Management.....	27
Accountability .....	28
Budgeting Mechanisms.....	29
<b>5. Sport Wales.....</b>	<b>31</b>
Background.....	31
Measuring Performance and Evaluation.....	31
Risks.....	34
Governance and Transparency.....	36
Procurement.....	37
<b>6. Assembly Commission .....</b>	<b>39</b>
Assembly Website.....	39
Governance .....	40
Staff Absence .....	43
<b>7. Arts Council of Wales .....</b>	<b>46</b>
Performance Targets.....	46
Organisational Review .....	47

Reserves..... 48

**8. National Library of Wales .....50**

Progress against recommendations of the Public Accounts Committee of the  
Fourth Assembly and the Governance Review by the Auditor General for Wales  
.....50

Risks..... 54

Workforce Development Strategy .....57

**Annex A - Witnesses .....60**

## Chair's foreword

Since 2014 the Public Accounts Committee has undertaken annual scrutiny of the accounts and annual reports of various publicly funded organisations alongside its annual scrutiny (of the accounts) of the Assembly Commission and Welsh Government.

This scrutiny has seen a year on year improvement to the presentation and accessibility of annual reports and accounts by the public bodies that have appeared before us.

We have seen that robust and independent scrutiny is an important driver of transparent financial reporting and accountability. The Public Accounts Committee has a crucial role in uncovering problems and mismanagement early on in order to make financial savings in the longer term. We have a proactive role in not only challenging waste and inefficiency but also providing the checks and balances on how well organisations deliver services for the citizens they serve.

Through our accounts scrutiny work we also have an opportunity to explore issues of governance and financial management highlighting any issues in the public domain offering transparency and openness.

This report contains a number of recommendations which aim to improve financial reporting and governance. I would like to thank all those who gave evidence to the Committee as part of this year's accounts scrutiny work.

Nick Ramsay AM  
Chair, Public Accounts Committee

## Recommendations

**Recommendation 1.** We recommend that Welsh Government consider how to include information about its performance and adopt this practice for the preparation of next year's annual report and accounts before issuing further guidance to WGSB..... Page 15

**Recommendation 2.** The Committee recommends that the Welsh Government make clear the requirements with which it aims to comply when preparing its annual report and accounts and be clear about the Welsh requirements for Annual Reports, and ensure that all bodies comply with this guidance, including themselves. This will help to provide sufficient and appropriate information is disclosed enabling effective scrutiny..... Page 15

**Recommendation 3.** We recommend that the National Library of Wales financial planning does not assume current levels of public funding and addresses a range of scenarios including reductions in the resources available to it..... Page 18

**Recommendation 4.** We recommend that the Welsh Government give consideration to the different approaches to reserves policies for its sponsored bodies particularly given the greater flexibility afforded to it by the new Wales Reserve from 2018-19..... Page 18

**Recommendation 5.** The Committee recommends that the Future Generations Commissioner for Wales includes in future annual reports and accounts information about the performance of their office against their objectives.  
.....Page 20

**Recommendation 6.** The Committee recommends that the Future Generations Commissioner for Wales provides the Committee with an update on the implementation of her recommendations to other organisations in future annual reports to enable monitoring implementation.....Page 20

**Recommendation 7.** The Committee recommends that the Future Generations Commissioner for Wales' office evaluates the high proportion of secondments within her workforce within two years (January 2020) to consider whether it is impacting on the organisations outputs and efficiency..... Page 22

**Recommendation 8.** The Committee recommends that the Future Generations Commissioner for Wales illustrates to the Committee the impact of her agile working environment and promotes any good practice she identifies. .... Page 23

- 
- Recommendation 9.** The Committee recommends the Future Generations Commissioner for Wales revisit the disclosure of remuneration for senior staff, ensuring that it sets out information to enable the direct comparison of the level of remuneration paid to the directors within the Office of the Future Generations Commission for Wales and employed by other bodies..... Page 24
- Recommendation 10.** The Committee recommends that the Welsh Government provides the Committee with an update on its Internal Audit work before the Committee's scrutiny of the Welsh Government's 2017-18 accounts enabling us to give due consideration to progress prior to our detailed consideration of the accounts in September 2018..... Page 26
- Recommendation 11.** The Committee recommends that the Welsh Government clearly demonstrates how its performance management systems are robust and produce tangible outputs. .... Page 28
- Recommendation 12.** The Committee recommends that information relating to the number of all Welsh Government staff earning over £100,000 within a year should be included in the Welsh Government's consolidated accounts as well as included in the separately published pay policy. We recommend this information is published at the same time as the audited accounts..... Page 29
- Recommendation 13.** The Committee recommends that disclosures in the financial statements on the Welsh Government's budget and outturn are clear and transparent..... Page 30
- Recommendation 14.** The Committee recommends that Sport Wales share the outcome of the evaluation of their Young Peoples Programmes with the Public Accounts Committee for consideration..... Page 33
- Recommendation 15.** We recommend that Sport Wales monitor the impact the promotion of 3G pitches has on access to local authority owned pitches, sharing the outcomes of this monitoring with this Committee, and work to ensure that facilities remain as accessible to all as possible. .... Page 34
- Recommendation 16.** We recommend that Sport Wales undertake to promote and protect access to all local authority owned sport facilities for all. .... Page 34
- Recommendation 17.** We recommend that the Assembly Commission provide us with details of how its capacity review has tested staffing levels and provide details of how staff are deployed to deliver the Assembly Commission's priorities. .... Page 43
-

**Recommendation 18.** The Committee recognises the importance of effectively managing staff absences while ensuring the wellbeing of staff. We recommend that Assembly Commission continues to carefully monitor staff absence levels including analysis of the causes of sickness absence to ensure these are managed appropriately. ....Page 45

**Recommendation 19.** We are not content with the level of support the Arts Council of Wales is providing to support engagement with NEETs and recommend that the Arts Council review this support with a view to increasing it. ....Page 47

**Recommendation 20.** We are concerned that the role of Director of Finance at the Arts Council of Wales is now a part time post and we recommend that the Board of the Arts Council confirm that it is satisfied that responsibility for strategic financial oversight of the Council is being satisfactorily fulfilled within the organisation.....Page 48

**Recommendation 21.** We recommend that the National Library for Wales reviews its pension scheme as a matter of urgency and provide assurances to the Committee that it can operate a scheme that is sustainable in the longer term given the continued austerity and pressures on public funding.....Page 54

**Recommendation 22.** We are concerned that the National Library for Wales has not fully recognised the challenges and implications of declining future funding and we recommend that the National Library clearly set out in its scenario planning for the future how it intends to respond to this decrease in funding. ....Page 57

**Recommendation 23.** We are concerned that the pace of change and timescales for delivery of the National Library for Wales' Work force plan are insufficient. We recommend that the National Library set out explicitly its plan of action for delivering its plan as a matter of urgency and share this with the Committee at the earliest opportunity.....Page 59

---

# 1. Introduction

1. The Public Accounts Committee undertakes annual scrutiny of a number of publically funded bodies in the autumn of each year following the publication of organisations Annual Reports and Accounts over the summer period. This work reflects the Committees role and remit in ensuring there is sufficient scrutiny of the expenditure of public funds.
2. Alongside its annual scrutiny of the Welsh Government's and Assembly Commission's Annual Report and Accounts the Committee considers the accounts of a selection of organisations from across the public sector. We believe this oversight role has driven up the quality of financial reporting as organisations take greater responsibility for meeting accounting requirements in the knowledge they could be called before the Public Accounts Committee to explain their performance.
3. For the period 2016-17, the Committee considered the accounts of the Future Generations Commissioner for Wales, Arts Council of Wales, The National Library of Wales (the National Library) and Sport Wales. We had also been due to consider Natural Resources Wales's (NRW) Annual Report and Accounts 2015-16 in autumn 2016. However, our consideration of the accounts was delayed until the Auditor General was in a position to provide an opinion on the accounts which he provided on 9 March 2017. This matter was dealt with separately in our report "Natural Resources Wales: Scrutiny of Annual Report and Accounts 2015-16"<sup>1</sup>, published in June 2017.
4. Throughout this year's accounts scrutiny, there were a number of cross cutting issues emerging from the organisations accounts we considered including:
  - The implementation of Treasury requirements for the format and presentation of annual reports and accounts and the extent to which these apply to the devolved administration in Wales;
  - Evaluating schemes and measuring impact;
  - The impact of budget cuts and the impact on financial planning;
  - The use of resources by publicly funded organisations and in particular how organisations are responding to the challenge of continuing to

---

<sup>1</sup>**Natural Resources Wales: Scrutiny of Annual Report and Accounts 2015-16**

operate within their budget, including issues relating to the growing pension deficit;

- Reliance on public funding; and
- Reserves policy/cash carry forward.

**5.** The following chapters discuss these issues and how they relate specifically to each organisation. The first chapter focusses on cross cutting issues arising from our broader examination of the accounts and annual reporting documents.

## 2. Cross Cutting Issues

**6.** Her Majesty's Treasury's (HMT's) Financial Reporting Manual<sup>2</sup> (commonly known as the "FReM") is the technical accounting guide for the preparation of the annual report and accounts of public sector bodies in the central government sector, which includes the Welsh Government and its Sponsored Bodies (WGSBs). WGSBs that are registered charities are required to prepare an annual report and accounts in accordance with the Statement of Recommended Practice issued by the Charity Commission (the Charities SoRP). In setting the requirements for the annual report and accounts for its WGSBs, Welsh Ministers also require that those with charity status give regard to the requirements of the FReM to the extent that it clarifies or builds on the requirements of the SoRP.

**7.** Following the reforms arising from HMT's "Clear Line of Sight" project,<sup>3</sup> HMT in 2014 published a paper called, Simplifying and Streamlining the Statutory Annual Report and Accounts'.<sup>4</sup> Its aim was that the accounts produced by central government bodies better met the needs of users.

**8.** On 18 May 2016 the Auditor General for Wales (AGW) published his first annual report on his audits of the financial statements of central government bodies<sup>5</sup>, which report summarises the results of his audit work. The report found that all central government bodies had submitted their accounts to audit on time and all audit opinions were issued by the required deadline. The report also found that the standard of draft accounts remains good but there is scope to improve the quality assurance arrangements adopted by bodies and raise standards further.

**9.** Since 2015-16, central government bodies have been required to prepare a single document combining the "accounts" and "annual report" elements. The FReM requires that the document, known as the "Annual Report and Accounts", is presented in three parts. The first two are collectively referred to as the "annual report":

Part 1: The Performance Report – The aim of this report is to present a clear picture of the organisation's aims, objectives, functions and performance. The Performance Report should also include narrative

<sup>2</sup> [HM Treasury's \(HMT's\) Financial Reporting Manual](#)

<sup>3</sup> [HM Treasury's "Clear Line of Sight" project](#)

<sup>4</sup> [Simplifying and Streamlining the Statutory Annual Report and Accounts](#)

<sup>5</sup> Auditor General for Wales, 2015-16 Central Government Accounts, 18 May 2017

about an organisation's performance over the last year that links to the income and expenditure for the same period.

Part 2: The Accountability Report – This includes three reports: the corporate governance report; remuneration and staff report; and accountability and audit report.

Part 3: The Financial Statements (or the “accounts”) – The primary financial statements and the related notes.

**10.** The Committee, and its predecessor Committee of the Fourth Assembly, have monitored organisation's compliance with these requirements recognising the importance of making these documents transparent and accessible to all. Following our Scrutiny of the Accounts 2015-16, we recommended:

“...that organisations across the public sector work to present the information within their annual report and accounts as simply as possible. In doing this, consideration should be given to utilising diagrams and infographics to make key information as readable as possible.”<sup>6</sup>

**11.** We examined the approach taken by each of the organisations appearing before us to making accounting documentation more transparent and accessible to the public. We also considered how public bodies report on their performance and how clearly they outline how public funding has been used to achieve objectives, including the extent to which they explain the alignment of funds and outcomes. Our scrutiny has identified a range of practices.

**12.** Sarah Powell, Chief Executive of Sport Wales explained that they had acted on some of the feedback received from our predecessor Committee which had deemed Sport Wales to have had “too many financial documents”, meaning that information relevant to Sport Wales finances, i.e. their annual accounts and annual report, had been spread across a number of financial documents. This had made it difficult for readers to understand the information and for it to be scrutinised.

**13.** Ms Powell explained that for the first time this year they had combined their annual report and accounts. They also gave a commitment to seeking further improvement in terms of openness and transparency to ensure the requirements of their statutory duty are met. This included consideration of the increased use of infographics and diagrammatic ways of presenting data.<sup>7</sup>

---

<sup>6</sup> Recommendation 1, Public Accounts Committee – Scrutiny of Accounts 2015-16, December 2016

<sup>7</sup> Record of Proceedings (RoP), 9 October 2017, paragraph 35

---

- 14.** Similarly, the Assembly Commissioner with responsibility for Budget and Governance, including Audit and Risk Assurance Committee membership, Suzy Davies AM outlined the Assembly Commission's approach in ensuring that its annual report and accounts had been compiled in accordance with HMT's own simplifying and streamlining report.<sup>8</sup> The Commission's inclusion of infographics was commended by the Wales Audit Office as helping to make statistics more eye catching and accessible.
- 15.** The Committee further found that the format of the Annual Report and Financial statements of the Arts Council of Wales were laid out in a systemic order, allowing the reader to easily follow the sections of the accounts and understand how the Arts Council has responded to the priorities set out in the remit letter for 2016-17.
- 16.** The Arts Council of Wales also told the Committee that it had used a mixture of different types of information within its annual accounts explaining:
- “...as well as the prescribed text over which we have little discretion—it has to be presented in a particular way—nevertheless, we've tried to increase the number of charts, diagrams, we've tried to make the non-required text as readable as we can, and to try and provide everything within the report that a reader might reasonably require as a first point of contact in terms of understanding what we do.”<sup>9</sup>
- 17.** However, Nick Capaldi, Chief Executive of the Arts Council of Wales added that more would be done to improve accessibility of financial reporting documentation recognising the importance as a public body to present clear and informative information. Mr Capaldi added that more information could be shown in the form of diagrams and tables, which he believes people find easier to engage with and gave a commitment that continued efforts would be made to ensure information was easily readable to all.
- 18.** The Committee also questioned Sophie Howe, the Future Generations Commissioner for Wales on her experience of bringing together her first annual report and accounts in accordance with the FReM requirements. The Commissioner said that the producing of the annual report and accounts had not been “particularly difficult”. She acknowledged that more could be done in terms of increasing the accessibility of the document, and ensuring it was more engaging. This is something which the Committee has made recommendations

---

<sup>8</sup> RoP, 9 October 2017, paragraph 231

<sup>9</sup> RoP, 6 November 2017, paragraph 15,

on previously to other bodies, as we believe that this is an important part of transparency.

**19.** The Welsh Government's Permanent Secretary Shan Morgan set out that it was required to comply with parts 2 and 3 of the FReM and the Committee questioned Ms Morgan about the process of completing her first set of annual report and accounts in line with the FReM requirements. We were told:

“We comply, in relation to parts 2 and 3 of the report, with the financial reporting manual and the annual employer pension notice, which give a lot of detail about what we have to do. I know there is HMT guidance available on how we handle part 1 of the report, but, in fact, we don't have to follow it specifically as a devolved government. What we've tried to do, and I've been very struck by that in the process, is to try and make that part 1 bit as open and readable as possible.”<sup>10</sup>

**20.** In setting requirements for its sponsored bodies, we note that the Welsh Government requires compliance with all parts of the FReM. As such, it could be argued that the requirements on sponsored bodies are greater than those on the Welsh Government itself. Ms Morgan added that the Welsh Government has “flexibility” in what it reported:

“...as a devolved Government, we are not constrained by the guidance. We can take best practice and develop it in ways that we think are right to produce a transparent, accurate and readable document.”<sup>11</sup>

**21.** The Committee is pleased with the Welsh Government's continued commitment to improving the readability and accessibility of its annual report and accounts. We were also pleased to note that the accounts were produced in the medium of Welsh and English as well for this accounting period, given that the Committee previously highlighted the need for the Welsh Government to provide a lead in implementing the Welsh Language standards. However, we question why the Welsh Government have chosen not to comply with certain aspects of HMT guidance on Part 1 (reporting on performance). We also wish to seek clarity on what Treasury guidance the Welsh Government have opted to comply with and what they have decided not to.

**22.** Furthermore, in the interests of consistency and given that all public bodies in Wales are required to comply with all or part of the FReM, we believe the Welsh

---

<sup>10</sup> RoP, 2 October 2017, paragraph 131

<sup>11</sup> RoP, 2 October 2017, paragraph 160

Government should issue guidance to make clear the requirements for its own annual report and accounts and that of its sponsored bodies.

**23.** The Committee welcomes the progress being made by public organisations in Wales in presenting their financial information as clearly and simply as possible. We believe that making financial information more readable is a positive start but more needs to be done in this regard. There is a wider issue about the need to include in the annual report information to understand how public organisations have performed during the year. Information contained in financial documents should contain clear and sufficient detail to enable scrutiny and should set out how public bodies have performed against their objectives, including how they have measured their performance. It is important that the annual report sets out clearly how and why public funding has been allocated and what the spending – as reported in the accounts – has been designed to achieve.

**24.** We also note that while the external auditor is responsible for auditing the financial statements (or “accounts”) and other specified parts of the annual report and accounts, they are only responsible for reading all other parts and considering whether the information is consistent with the accounts and the knowledge obtained during the course of the audit. Therefore, it is not the external auditor's role to ensure that organisations include sufficient and appropriate information about their performance in the annual report.

**Recommendation 1.** We recommend that Welsh Government consider how to include information about its performance and adopt this practice for the preparation of next year's annual report and accounts before issuing further guidance to WGSB.

**Recommendation 2.** The Committee recommends that the Welsh Government make clear the requirements with which it aims to comply when preparing its annual report and accounts and be clear about the Welsh requirements for Annual Reports, and ensure that all bodies comply with this guidance, including themselves. This will help to provide sufficient and appropriate information is disclosed enabling effective scrutiny.

## Evaluating schemes and measuring impact

**25.** At a time of continued austerity, with pressures on public funding and the need to make cuts, it is increasingly important that public bodies use funds efficiently and effectively. The evaluation of publicly funded schemes and projects plays an important role in this regard.

**26.** The evaluation and monitoring of schemes was raised primarily as an issue with Sport Wales but there is a wider principle that all publicly funded bodies should apply value for money principles to projects they undertake.

### Use of resources by publicly funded organisations

**27.** An issue facing a number of publicly funded organisations is meeting the increased cost of pension deficit payments. We heard from Sport Wales about the approaches they are taking to meet these costs. However, we also found the National Library of Wales is operating a relatively generous pension scheme compared to other public sector organisations and the risk this poses to the future financing of the organisation. This was also a matter raised with by our predecessor Committee in the Fourth Assembly during their scrutiny of the National Library's accounts as part of their Scrutiny of Accounts 2014-15.<sup>12</sup> We examine this issue in further detail in the relevant section of this report.

### Reliance on public funding

**28.** The Committee discussed with the Arts Council of Wales its approach to encouraging organisations to become more self-sufficient, which is also a matter that has been discussed in the context of the Culture, Welsh Language and Communications Committee's inquiry<sup>13</sup> into how to diversify funding for the arts. We questioned whether given the restrictions on the ability of organisations to raise funds themselves through private sector sources, realistically, how much of an opportunity there is for them to leverage additional investment.<sup>14</sup>

**29.** We heard that some organisations are better placed to generate income and that the Arts Council was working with around 54 members of its portfolio to invest real time and energy in helping them to develop their income-generating potential.<sup>15</sup> However, we were also informed that the Arts Council was keeping a watch over this area given the danger that they would not see a significant shift in funding adding:

“I think the portfolio will be more resilient because it will use funding I think more effectively and better, but whether it will deliver large

---

<sup>12</sup> **National Assembly for Wales, Public Accounts Committee, Scrutiny of Accounts 2014-15, December 2015**

<sup>13</sup> **Culture, Welsh Language and Communications Committee Inquiry, Non-public funding of the arts**

<sup>14</sup> RoP, 6 November 2017, paragraph 123

<sup>15</sup> RoP, 6 November 2017, paragraph 125

---

---

amounts of new and additional funding, I think the jury's out on that one.”<sup>16</sup>

**30.** The issue of raising private funding was one we also raised with the National Library for Wales. We read from their accounts that the National Library had benefitted from some historic legacies but, in terms of the annual fundraising from private sources beyond that, there had been limited success in recent times.<sup>17</sup>

**31.** We were told that managing prospective donors is a long-term relationship and strategic planning issue,

“For example, the library were extremely fortunate of the generosity of one individual when it received £1.5 million. So, I think it's fair to say that our management of donors is through relationship, communication, talking about the library's priorities, talking about our requirements, and that over the years has borne fruit.”<sup>18</sup>

**32.** We also heard that over a long-term period the National Library has accumulated charitable reserves, which it uses for the benefit of the National Library's work, and the donor relationship is working in the National Library, but from year to year it will vary.

**33.** The Committee were keen to establish whether the National Library has targets for raising public funds and were told by Linda Tomos, the National Librarian,:

“Yes, our longer-term strategy—once it became apparent about five or six years ago that austerity was going to begin to bite, we had to look at where we could generate non-Government sources of income. We've got limited potential for trading income, but we have been historically successful in attracting legacies. So, what we've done is use that legacy income, and invested it. It generates an income of about £300,000 a year for us now, and also, the capital gains, we can use that to as match funding for the BBC Heritage Lottery Fund archive funding. So, it's got benefits in terms of our long-term revenue income, and also capital funding.”<sup>19</sup>

---

<sup>16</sup> RoP, 6 November 2017, paragraph 126

<sup>17</sup> RoP, 6 November 2017, paragraph 238

<sup>18</sup> RoP, 6 November 2017, paragraph 239

<sup>19</sup> RoP, 6 November 2017, paragraph 248

**34.** In conclusion, Ms Tomos told the Committee that the National Library would hope that it would have at least £1 million a year coming from all sources of income for the Library by 2021. That is the target in their strategic plan.<sup>20</sup> We are concerned with the National Library's seemingly complacent assumption that its public funding will be sustained.

**Recommendation 3.** We recommend that the National Library of Wales financial planning does not assume current levels of public funding and addresses a range of scenarios including reductions in the resources available to it.

### Reserves policy/Cash carry forward

**35.** The Committee raised a number of concerns with some organisations regarding their approach to holding reserves. We explored generally what is regarded as a “reasonable level of reserves”, and for those bodies with Summary of Resource Outturn (SORO's), the funding of one off expenditures.

**36.** A number of sponsored bodies also raised with the Committee the issue of the limit of 2% of cash balances which they are permitted to carry forward by the Welsh Government. We note that the new fiscal framework, specifically the new Wales Reserve from 2018-19, will allow the Welsh Government to carry forward up to £350 million of unspent budgets or surplus tax revenues above forecasts. This will afford flexibility to the Welsh Government and may inform considerations for its sponsored bodies.

**Recommendation 4.** We recommend that the Welsh Government give consideration to the different approaches to reserves policies for its sponsored bodies particularly given the greater flexibility afforded to it by the new Wales Reserve from 2018-19.

---

<sup>20</sup> RoP, 6 November 2017, paragraph 253

### 3. Future Generations Commissioner for Wales

**37.** The Committee considered the Future Generations Commissioner for Wales Annual Report and Accounts 2015-16 at its meeting on 2 October 2017. The Accounts are subject to audit by the Auditor General for Wales and the unqualified audit opinion was signed on 18 July 2017.

**38.** This is the first Annual Report and Accounts produced by the Commissioner. The Office of the Future Generations Commissioner was established on 1 February 2016 under Part 3 of the Well-being of Future Generations Act 2015 (“the Act”) and the Annual Report and Accounts therefore extends beyond the usual annual reporting period, covering 14 months, from 1 February 2016 to 31 March 2017. The Commissioner is independent of, but funded by the Welsh Government.

**39.** The Act places a well-being duty on public bodies that states that they must carry out sustainable development. In doing so, public bodies must set and publish objectives (“well-being objectives”) that are designed to maximise their contribution to achieving each of the well-being goals and take all reasonable steps (in exercising its functions) to meet those objectives.

**40.** Given that this was the Commissioner’s first Annual Report and Accounts, the Committee believed there was value in seeing whether there were any concerns or issues the Commissioner had in the preparation of these and to ensure that the Annual Report and Accounts were to the standard expected of a Public Body.

#### Annual Report (Performance report)

**41.** The Committee noted that the Commissioner used her annual report as an opportunity to make recommendations to other public bodies. She explained that:

“...it flows, given that,...., the impact of what we do as an office will be, to a large extent, determined by what public bodies out there do. What I’ve tried to demonstrate in the annual report is that we’re taking that to a certain point with those public bodies and now wanting to raise the need for those public bodies to take further action. ... So, I think it’s important to be setting those out alongside the work that we’re already doing in terms of what those public bodies—and the Government in that case—need to be doing to make sure that the Act is actually brought to life.”<sup>21</sup>

<sup>21</sup> RoP, 2 October 2017, paragraph 26

**42.** The Committee found this to be an interesting approach to publishing an annual report, given such documents are usually focused around the organisation. If the Commissioner intends to measure her performance by the implementation of her recommendations, then we can see the value in including them in Part 1 of her Annual Report.

**43.** However, we are concerned over the appropriateness of the Commissioner measuring her performance solely on the implementation of her recommendations and that her 2016-17 Annual Report did not set out a range of information that is required by the FREM, such as the performance of her office against its Key Performance Indicators (KPIs). We are also not clear of the status of these recommendations, whether the Commissioner will assess implementation in the course of her work and/or whether the Commissioner has discussed her approach with the organisations in respect of which she has made recommendations and whether her office will receive a response.

**Recommendation 5.** The Committee recommends that the Future Generations Commissioner for Wales includes in future annual reports and accounts information about the performance of their office against their objectives.

**Recommendation 6.** The Committee recommends that the Future Generations Commissioner for Wales provides the Committee with an update on the implementation of her recommendations to other organisations in future annual reports to enable monitoring implementation.

## Accountability

**44.** The Commissioner received £1.6 million of funding during the 14 month reporting period, which included £30,000 by way of initial set-up costs. The Commissioner notes that net expenditure for the period was £1.1 million. The general fund balance at 31 March 2017 was £454,000. The annual report details that the general fund will be allocated to cover continued set-up costs of the Commissioner's Office.

**45.** The report notes that the Commissioner has incurred lower than estimated staff costs due to staff recruitment timescales. The report goes on to state that the underspend will be allocated in 2017-18 to resource an 18 month piece of work relating to guidance for public bodies on implementing the well-being goals. The Commissioner also intends to maintain a "reasonable" level of reserves in order to undertake any "unplanned, urgent and important matters brought to the Commissioner's attention", such as legal proceedings and additional staff resources.

**46.** The Committee explored with the Commissioner what was meant by a “reasonable” level of reserves, she explained:

“I’ve got £30,000 in my budget this year, but I think it’s prudent to make that £130,000 in terms of contingency. And the reason for that contingency is around possible needs for reviews and interventions on issues that are coming up. Nobody knows exactly where those interventions may be needed but if, for example, I had to resource a significant review or intervention on, say, a major project that is coming forward, I would need to have that contingency in place.”<sup>22</sup>

**47.** With regards to whether this level of contingency would be compatible with the aim of having an open and hungry risk approach, as outlined in the governance statement, the Commissioner explained that she felt that this came down to “cutting our cloth accordingly” and recognising that there are “certain statutory things that we need to do”. She went on to say as to whether £130,000 would be sufficient:

“It’s difficult to say—because we’re a new entity and the legislation itself is new—what sort of level of resource we might be required to keep into contingency for potential reviews and bearing in mind, I think you make a valid point, that actually there are a whole range of policies, initiatives, decisions that could potentially be reviewed.”<sup>23</sup>

**48.** Given the pressures on public funding the Committee is concerned about the issue of “contingency”. The evidence we heard from the Future Generations Commissioner for Wales suggests that her office is holding a cash underspend that may or may not be used.

**49.** The Committee noted that the workforce statistics, show that 23% of staff are male and 77% are female, with the majority of employees aged 35-54. The accountability report also shows that of the 26 employees, the majority (15) are on temporary contracts.

**50.** The Committee questioned the Commissioner on whether she intended to rely on secondments over the long term and she explained that:

“...it’s going to be an ongoing feature of my staffing structure. Currently, we have people on secondment from Welsh Government, from the fire service, from the children’s commissioner’s office—I’m trying to think of—. The probation service—. Sorry, I’m trying to think of the whole list;

<sup>22</sup> RoP, 2 October 2017, paragraph 36

<sup>23</sup> RoP, 2 October 2017, paragraph 47

there are probably more, which I can update you on. I think that it's a sensible approach to resourcing, because you draw in expertise that I wouldn't necessarily be able to resource solely on my own. You tend to draw in expertise and resource from the seconding organisation."<sup>24</sup>

**51.** The Committee explored the potential risks associated with this policy, namely having a high turnover of staff. The Commissioner explained that there was a core body of staff overseeing the key pieces of work, but that the organisation is operating a "hungry risk" and that:

"...the benefits that are brought and what our experience has been so far is not just the short-term benefit of, you know, you have a secondment of a year, that person then goes back to organisation X and that's the end of it. What we are finding in terms of these secondments is that they are building an ongoing relationship, which is really important in terms of us being able to draw on expertise, resource and knowledge from those organisations once that secondment has come to an end."<sup>25</sup>

**52.** The Committee believes this approach could have many positive outcomes and would recommend that an evaluation of this approach is undertaken in two years' time to assess whether the impact on staffing and efficiency. The Committee would welcome further information on the success or otherwise of this approach.

**Recommendation 7.** The Committee recommends that the Future Generations Commissioner for Wales' office evaluates the high proportion of secondments within her workforce within two years (January 2020) to consider whether it is impacting on the organisations outputs and efficiency.

**53.** The Commissioner outlined in her report that regular consultation is undertaken with the team regarding organisational development and strategic priorities and that she has:

"...experimented with a range of consultation and engagement mechanisms including monthly whole team meetings, weekly ten minute briefings, and specific sessions on organisational culture as well as using an all staff online chat facilities."<sup>26</sup>

---

<sup>24</sup> RoP, 2 October 2017, paragraph 76

<sup>25</sup> RoP, 2 October 2017, paragraph 80

<sup>26</sup> **Future Generations Commissioner for Wales. Annual Report and Accounts for the period 1 February 2016 to 31 March 2017**

**54.** The Committee questioned the Commissioner about the results of these engagement activities, and she explained that she was “setting the right tone and culture and actually doing what I said I would do in my strategic plan, which is walking the talk”. The Committee welcomes the Commissioner’s commitment to achieving an agile and open working environment, and would expect the Commissioner to promote good practice in this area in the future.

**Recommendation 8.** The Committee recommends that the Future Generations Commissioner for Wales illustrates to the Committee the impact of her agile working environment and promotes any good practice she identifies.

## Remuneration

**55.** The Commissioner was appointed on 1 February 2016, with other senior members of staff appointed between June and September 2016. These appointments are outlined on page 32 of the Annual Report and Accounts. The remuneration and pension benefits for the senior team (Civil Service Pension scheme) are outlined on pages 32 and 33, show differences in the salary bands for Directors.

**56.** The Committee questioned why the Director for Policy and Implementation appeared to be on a significantly different pay band to the other members of the senior team. The Commissioner explained the Director of Policy Performance and Implementation was on the higher salary as he has greater responsibility in terms of her statutory functions, which is around providing advice and support and monitoring and assessing public bodies. The other directors were paid all at the same level.

**57.** The Director of Finance and Corporate Governance at the Future Generations Commissioner for Wales Office, Helen Verity, explained that the whole-time equivalent figures in the accounts reflect the salaries they would have been paid if in post over a full 12 month period for the purpose of comparability, but that the figures also reflect the part-time working patterns of two directors rather than the full-time equivalent salary. Ms Howe did undertake to explain this better in future years, as she acknowledged it was confusing.

**58.** Public bodies are required to set out the amount paid or payable to directors for an accounting period. To ensure transparency and permit comparison across staff within and across organisations, it is best practice to set out the full-time equivalent and where appropriate, full-year equivalents. The Committee did not find the explanation for the difference in these figures to be clear and we believe it to be important that the remuneration of senior staff and directors is transparent and easily understood.

**Recommendation 9.** The Committee recommends the Future Generations Commissioner for Wales revisit the disclosure of remuneration for senior staff, ensuring that it sets out information to enable the direct comparison of the level of remuneration paid to the directors within the Office of the Future Generations Commission for Wales and employed by other bodies.

## 4. Welsh Government

**59.** The Welsh Government is one of the two organisations invited annually (along with the Assembly Commission) for the Public Accounts Committee accounts scrutiny and this was the fourth year that the Welsh Government’s consolidated accounts have been scrutinised. The Accounts are subject to audit by the Auditor General for Wales and the unqualified audit opinion was signed on 3 August 2017.

**60.** The Committee scrutinised the Welsh Government’s Annual Report and Accounts at its meeting on 2 October 2017. These were the first to be presented and approved by the Permanent Secretary, Shan Morgan, who took up post at the Welsh Government in February 2017.

**61.** Following the scrutiny of the Welsh Government’s accounts 2015-16,<sup>27</sup> the Committee made seven recommendations that related directly to its own activities. As well as a recommendation made by the Committee to all organisations across the public sector (Recommendation 1), the Committee also made four recommendations to the Welsh Government in respect of its work with other organisations. All recommendations are contained in the report Scrutiny of Accounts 2015-16.<sup>28</sup> The Committee was particularly pleased to note that the recommendation on the percentage of Welsh Government procurement which has been awarded to Welsh companies had been actioned in the annual report, and we will be monitoring this level in future years.

**62.** Recommendation 11 in the 2015-16 accounts report called for the Welsh Government “to ensure that there are safeguards in place to prevent fraud by external organisations in receipt of Welsh Government funding”.

**63.** In responding to this recommendation, the Welsh Government indicated that the Internal Auditors plan to undertake a review of oversight arrangements as part of their work programme for 2017-18 stating:

“The Terms of Reference for this review are yet to be defined, but Internal Audit expects to look at oversight arrangements from a whole-Welsh Government procedural perspective first, followed by the selection of specific grant giving areas to study practice in greater depth. To ensure as broad a view as possible, assurance will also be

<sup>27</sup> [Welsh Government’s accounts 2015-16](#)

<sup>28</sup> National Assembly for Wales, Public Accounts Committee Report, [Scrutiny of Accounts 2015-16, June 2017](#)

taken from other existing audit arrangements covering grant giving, for example, the European Funding Audit Team audits of EC grants recipients and any relevant WAO studies such as the proposed study of grants to Welsh businesses.”<sup>29</sup>

**64.** The Committee questioned the Welsh Government on progress in relation to this internal audit work. The Permanent Secretary explained that this work was in the internal audit work programme for 2017-18, and was due to be undertaken in the fourth quarter explaining that:

“...in the meantime, all of our normal assurance processes continue. We have the external assurance panel, which meets regularly, to look at lessons from individual cases, and we have a grants centre of excellence now, which is designed to identify and spread good practice across the organisation. So, I’m just saying that that particular piece of work, by internal audit, will take place within the framework of a lot of work and structures, to try and drive continuous improvement of our work in that area.”<sup>30</sup>

**65.** The Committee has previously expressed concerns about the processes around grant allocation within the Welsh Government. We believe this is an area where there have been significant issues previously and as such welcome that this will be subject to greater scrutiny both internally and externally.

**Recommendation 10.** The Committee recommends that the Welsh Government provides the Committee with an update on its Internal Audit work before the Committee's scrutiny of the Welsh Government's 2017-18 accounts enabling us to give due consideration to progress prior to our detailed consideration of the accounts in September 2018.

**66.** The Committee noted that the Welsh Government had provided an update on the detail of arrangements put in place to strengthen the systems around the administration of concessionary travel payments, in line with recommendation 12 of the 2015-16 account scrutiny report. The response from the Welsh Government highlighted that in part the issues around the concessionary travel payments arose due to the appropriate systems not being in place at the outset.

**67.** The Committee explored whether this was indicative of a wider skills issue within the Welsh Government, particularly in the transport department. The Permanent Secretary reflected that she had “seen nothing to make me doubt the

---

<sup>29</sup> **Welsh Government response to the Report of the National Assembly for Wales Public Accounts Committee on Scrutiny of Accounts 2015-16, 1 February 2017**

<sup>30</sup> RoP, 2 October 2017, paragraph 135

skills that they [the transport department] have and the approach that they are taking”.<sup>31</sup>

**68.** The Committee notes that the Permanent Secretary has confidence in the staff of the transport department, but also welcomes that she recognises that “we all need to improve our skills” and that this will be addressed through the futureproofing exercise.<sup>32</sup>

## Performance Management

**69.** During the previous account scrutiny sessions, the Committee have been concerned by the effectiveness of performance management systems within the Welsh Government. To address this the Committee previously recommended that the Welsh Government monitor poor performance, and the actions taken to ensure performance is managed robustly.

**70.** The Welsh Government response to that recommendation noted that changes were made to its performance management procedures at the start of the 2016-17 reporting year, with the aim of these changes to ensure more meaningful discussions between employees and managers about performance and development. Such changes were consistent with developments across the wider Civil Service and would be reviewed after the first year of operation.

**71.** The Committee questioned the Permanent Secretary on progress against this recommendation and were told about her new initiative, called “futureproofing” which is:

“... an internal initiative to improve the skills and the systems for staff within the Welsh Government. And, as part of that, there is work under way on how we can tighten up our performance management system, our talent management and our promotion systems. Because, at the moment, I think the basics are there, but I think that, in the context of the new challenges that we’re facing for the future, with Brexit, resource constraints, we can actually do better. So, that’s a big part of the futureproofing initiative that I’m taking forward, but building very much on the work that Derek [Jones, former Permanent Secretary] had already done, and what was already in place.”<sup>33</sup>

**72.** The Committee were keen to explore this area further and gain assurances from the Permanent Secretary that poor performance was being effectively

<sup>31</sup> RoP, 2 October 2017, paragraph 249

<sup>32</sup> RoP, 2 October 2017, paragraph 249

<sup>33</sup> RoP, 2 October 2017, paragraph 140

managed within the Welsh Government. The Permanent Secretary set out she was looking at processes for performance management and had set up groups to consider different aspects of that need, who will report back to her, with the aim that by the beginning of the next performance management year start in April [2018], the Welsh Government will have a new system up and running.

**73.** The Permanent Secretary re-affirmed that:

“I can assure you that I am somebody who, during my career, has seen things through right to the bitter end. I agree it’s a long process, but I think it’s something that we need to do. We need to be robust and rigorous. And equally, with the bulk of people, we need to make sure that we are encouraging them to make the most of their skills. So, I do want a more rigorous performance management system that will give people some very clear messages about where they’re underperforming and what the next steps will be.”<sup>34</sup>

**74.** The Committee welcomes the actions taken to date by the Permanent Secretary to ensure that the performance management system is being utilised appropriately. However, we remain concerned that more needs to be done to manage poor performance and we would like further assurances from the Welsh Government that the performance management system it has in place identifies poor performance appropriately.

**Recommendation 11.** The Committee recommends that the Welsh Government clearly demonstrates how its performance management systems are robust and produce tangible outputs. .

## Accountability

**75.** The Accountability Report includes the Remuneration and Staff Report, which sets out the Welsh Government’s Pay Policy Statement which notes :

“In line with the ‘Transparency of senior remuneration in the devolved Welsh public sector’ principles published on 7 December 2015 the Welsh Government has published a pay policy statement on its website.<sup>35</sup> The pay policy disclosure is required to set out the number of senior posts within the Welsh Government with a remuneration package of more than £100,000.”

---

<sup>34</sup> RoP, 2 October 2017, paragraph 154

<sup>35</sup> Welsh Government, **Consolidated Accounts 2016-17**, page 40

**76.** The Committee questioned the Welsh Government on whether there had been any changes since 2015-16 to the number of staff earning in excess of £100,000. Peter Kennedy, Director of HR at the Welsh Government told the Committee:

“During the accounting period. There are likely to have been some additional staff appointed in excess of £100,000. I don’t have the figure to hand, but I’m more than happy to report back on that.”<sup>36</sup>

**77.** The Welsh Government subsequently provided the Committee with this information in correspondence.<sup>37</sup>

**78.** In the interest of transparency the Committee believes it would be useful for the Welsh Government to include the information about changes to the number of staff earning over £100,000 within a year in their consolidated accounts.

**Recommendation 12.** The Committee recommends that information relating to the number of all Welsh Government staff earning over £100,000 within a year should be included in the Welsh Government’s consolidated accounts as well as included in the separately published pay policy. We recommend this information is published at the same time as the audited accounts.

## Budgeting Mechanisms

**79.** The Summary of Resource Outturn and the related notes (pages 53 to 55) reports that the Welsh Government’s outturn for 2016-17 was within its approved budget for all of its Main Expenditure Groups (MEGs). The Welsh Government’s outturn showed underspends. The Committee questioned the Welsh Government about any specific action required to mitigate future occurrences of the significant underspends against budget. The Permanent Secretary said that she has found the information “rather puzzling” but:

“... the key point I need to make immediately is that what’s shown as a variance is not lost to Wales. It’s not an underspend that we then lose. It is carried forward. And, in fact, the overall variance is within 1.5 per cent of the total budget, which I think is very low, given the complexity and range of our business.”<sup>38</sup>

**80.** Adding:

<sup>36</sup> RoP, 20 October 2017, paragraph 217

<sup>37</sup> Written evidence, **PAC(5)-28-17 PTNI**, 6 November 2017

<sup>38</sup> RoP, 20 October 2017, paragraph 254

“The largest variance there is the health budget. That table showing the ambit reports an underspend or a variance of £84 million, whereas, in fact, the resource account budget shows an underspend of only £7 million. And it reflects the difference between resource accounting and cash accounting.”<sup>39</sup>

**81.** The Committee views this as a very complex budget mechanism, the presentation of this information does not aid transparency and to this end we welcome the reassurance provided by the Permanent Secretary during the meeting that the Welsh Government intends “to simplify and streamline it for next year’s accounts”.<sup>40</sup>

**Recommendation 13.** The Committee recommends that disclosures in the financial statements on the Welsh Government’s budget and outturn are clear and transparent.

---

<sup>39</sup> RoP, 9 October 2017, paragraph 258

<sup>40</sup> RoP, 9 October 2017, paragraph 260

## 5. Sport Wales

### Background

**82.** This is the second time that the Sport Wales Annual Report and Accounts<sup>41</sup> have been scrutinised by the Committee, having been previously examined in 2014-15.<sup>42</sup> The Accounts are subject to audit by the Auditor General for Wales and the unqualified audit opinion was signed on 18 July 2017.

**83.** Following a unanimous vote of no confidence by the Board in the previous Chair on 23 November 2016, the Welsh Government suspended the activities of the Board. Following an assurance review undertaken by Welsh Government, the Board activities were re-instated by the Minister on 14 February 2017.

### Measuring Performance and Evaluation

**84.** The Committee were interested in how Sport Wales measure the effectiveness of their funding of sport, and the overall value for money of Sport Wales. The Chief Executive of Sport Wales, Sarah Powell, explained that alongside looking at value for money, consideration is given to return on investment, which includes looking at quantitative numbers such as the number of coaches and participants. Ms Powell explained:

“We’d also look at equality breakdown, so gender, look at black and minority ethnic, and look at disability. So, that’s on a numbers return for the investment, but we’re also trying to look at a much wider piece of work around economic impact and social impact, and that’s quite difficult, I have to say. That’s something that I think we would like to work on with other parts of the public sector, to look at how we can have a consistent way of measuring impact. Sport is much more than just numbers. So, yes, of course the numbers that participate are important, but also mental health, how people feel when they take part in sport, and the economic impact.”

**85.** In their Annual Report<sup>43</sup> Sport Wales detailed the main sport related performance measures they use which include:

- The percentage of people in Wales who are “hooked on sport”;

<sup>41</sup> [Sport Wales Annual Report and Accounts 2016-2017](#)

<sup>42</sup> National Assembly for Wales, Public Accounts Committee, [Scrutiny of Accounts 2014-15](#), December 2015

<sup>43</sup> [Sport Wales Annual Report and Accounts 2016 2017](#)

- The percentage of people who are a member of a sports club;
- The percentage of people who volunteer in sport (15+years).

**86.** Statistics produced by Sport Wales show that the percentage of young people aged 7-16 “hooked on sport” increased from 27% in 2011 to 48% in 2015.

**87.** Specifically in terms of the work undertaken by Sport Wales with young people, the Committee queried the efficacy of the 5 x 60 project in local authorities and schools.<sup>44</sup> Ms Powell explained that no evaluation of the programme had taken place to date and that it was on their remit to evaluate the 5x60 and Dragon Sport Programmes together.<sup>45</sup>

**88.** The Committee raised concerns that the 5x60 project, which has been running for around 10 years, and the Dragon Sport Programme, which has been running for 15 years, had not been subject to evaluation. In correspondence with the Committee, Sport Wales explained:

“An implicit part of our way of working is to learn and evaluate, whether this is through formal evaluations or in more informal ways. We have continually looked to review and evolve our approaches. From the feedback and research undertaken we have now developed a more holistic approach and have developed a **‘Physical Literacy Journey’** as opposed to bespoke age-specific programmes. This reflects the changes we have made in approach following several independent and internal reviews and evaluations of the programmes which are highlighted in the attached document.”<sup>46</sup>

**89.** The Committee were also informed that Sport Wales were currently tendering for an organisation to undertake a review of their Young People Programmes. This review will sit alongside a complementary review of the Free Swimming Initiative (which includes an offer for under 17s).

**90.** The correspondence also set out that Sport Wales, as with other public sector organisations, has a diminishing resource and will need to ensure that future delivery has greater levels of sustainability. The evaluation will help Sport Wales understand whether their programmes have achieved their stated outcomes for children and young people when first introduced (or since they have been revised), and whether they can achieve a greater impact on sport and physical activity participation levels. The findings and recommendations from the review

---

<sup>44</sup> RoP, 9 October 2017, paragraph 51

<sup>45</sup> RoP, 9 October 2017, paragraph 52

<sup>46</sup> **Additional Information from Sport Wales, 1 November 2017**

---

will help shape and steer Sport Wales strategy and proposals for community sport in Wales.

**91.** The Committee is very concerned that projects have been able to run for a significant period of time without any evaluation particularly in a current economic climate with continued austerity and pressures on public funding. We believe it to be essential that public funded projects are fully evaluated to ensure intended outcomes are being achieved alongside value for money.

**Recommendation 14.** The Committee recommends that Sport Wales share the outcome of the evaluation of their Young Peoples Programmes with the Public Accounts Committee for consideration.

**92.** The Committee raised concerns about the impact of local authority austerity cuts on community sport. For example, questioning how many sports pitches have been put into asset transfers and the impact this has had on local league football teams who are anxious that facilities are being taken away from grass roots clubs. The Committee also queried the greater emphasis being placed on 3G pitches whose charges can prohibit users from accessing them.<sup>47</sup>

**93.** Ms Powell explained the need to ensure provision of the right facilities in the right places adding:

“You’ll be aware that we launched a ‘Facilities for Future Generations’ document, which was there to advise and guide local authorities on the facilities that they should be looking to maintain and keep, and any considerations for future build of facilities. The cost of facilities is not within our gift, as you’re aware, but it is something that we are always looking to make sure is appropriate if we are going to achieve what we’re trying to achieve and to get the nation more active.”<sup>48</sup>

**94.** The Committee pursued this matter given that many pitches are being disposed of or are not in use because local authorities are unable to maintain them. We were concerned that although the cost of facilities are not within Sport Wales remit, they are actively pushing the development of 3G pitches, which are expensive to maintain, and have high access charges to use them. We questioned Ms Powell on whether she felt there was any conflict between these two positions.

---

<sup>47</sup> RoP, 9 October 2017, paragraph 63

<sup>48</sup> RoP, 9 October 2017, paragraph 64

**95.** Ms Powell clarified that the position Sport Wales has taken on 3G pitches is to bring numerous sports together and consider strategically where those facilities should be built. She added:

“But alongside that, the criteria of any funding that we’ve provided to those 3G facilities are about tackling some of the inequalities and making sure there is an approach to gender balance using those facilities. But with regard to pricing policies, I think that’s a discussion that we need to continually have with local authorities.”<sup>49</sup>

**Recommendation 15.** We recommend that Sport Wales monitor the impact the promotion of 3G pitches has on access to local authority owned pitches, sharing the outcomes of this monitoring with this Committee, and work to ensure that facilities remain as accessible to all as possible.

**Recommendation 16.** We recommend that Sport Wales undertake to promote and protect access to all local authority owned sport facilities for all.

## Risks

**96.** The Sport Wales Annual Report notes a number of key risks facing the organisation with the most significant risk being that on the impact of on-going cuts to public expenditure. Other key risks identified on the corporate risk register include those relating to the delivery of community, elite and corporate services' strategies and objectives.

**97.** The Committee were surprised that the risks identified in the Annual Report did not include governance matters given the recent events at Sport Wales, with the organisations Chair and Vice Chair being removed from office by the Welsh Government.

**98.** Ms Powell explained that during the previous year Sport Wales had updated their risk register and for a period of time governance had been identified as a risk adding:

“As for myself, as the accounting officer, it was my imperative to make sure that governance was in place during that period. I work very closely with the Welsh Government. As soon as the vote of no confidence had been taken, I was in touch, within 24 hours, with the additional accounting officer to make sure we had in place the right governance during the period where the board was suspended. I think it’s an absolute testament, and I’ll put it on record, to the

---

<sup>49</sup> RoP, 9 October 2017, paragraph 66

professionalism and the commitment of the staff in Sport Wales for how they continued to focus on the job, and we've all continued to focus on delivering the job. For me, my focus has been on the executive and making sure that Sport Wales has continued to deliver what is required of it."<sup>50</sup>

**99.** The Committee sought assurance from Ms Powell that there was currently no risk arising from governance. She explained that she had received substantial assurance from both internal and external auditors of the governance arrangements Sport Wales has in place.<sup>51</sup> She confirmed that:

“I do not believe it is any more of a risk than it is to any other public sector organisation. I believe we have all the right processes.”<sup>52</sup>

**100.** However, the Committee notes that although Ms Powell stated that she had received substantial assurance from external auditors, we are aware that the role of the external auditor in respect of the audit of the accounts is restricted to commenting whether the Governance Statement complies with Welsh Ministers' guidance.

**101.** Another key risk identified in Sport Wales Annual Report is meeting the increased cost of pension deficit payments. The Committee explored what action was being taken by Sport Wales to manage the rising cost of the pension scheme given the increase in the pension fund deficit is around £2 million.

**102.** Ms Powell, explained that the pension deficit was not just an issue for Sport Wales but an issue across the public sector but Sport Wales had planned for the deficit, explaining:

“In terms of the share of the pension deficit, you'll have no doubt noticed that that £12 million pension deficit—we've split that 76 per cent Welsh Government and 24 per cent lottery, and that specific apportionment is based on a rolling average, right back to the inception of the lottery in 1994. So, we ask staff for their percentage every year, and we take a rolling and ongoing average over that period. That's specifically for the deficit and the lump-sum payment that you'll have noticed that we also pay into the pension fund in order to reduce that. So, we're quite comfortable that that's a fairly robust way. Clearly,

---

<sup>50</sup> RoP, 9 October 2017, paragraph 184

<sup>51</sup> RoP, 9 October 2017, paragraph 186

<sup>52</sup> RoP, 9 October 2017, paragraph 188

it's subject to audit, and our audit colleagues have more than accepted the methodology that we utilise in order to get to that percentage."<sup>53</sup>

**103.** In examining this matter further Peter Curran, Director of Finance & Corporate Services, explained:

"...following the triennial valuation in 2016, the actuary has given us three years employers' rate and lump-sum payments that we have to pay for this year, next year and the year after. The board are aware of that. We factored it in for the 2017 budget this year, and we will factor it in to the two future years."<sup>54</sup>

**104.** In terms of other mitigation, Mr Curran explained that Sport Wales was adopting two further approaches. Firstly, the offer of membership of a different scheme, which is a defined contribution scheme; and secondly a review of the defined benefit scheme of which most staff at Sport Wales are members.

## Governance and Transparency

**105.** Sport Wales is governed by a Board made up of a chair, a vice chair and up to twelve other members all of whom are appointed by the Welsh Government. The Board's composition includes representation from a wide cross section of different professions and members with expertise and experience relevant to both community and elite sport.

**106.** The Committee questioned Sport Wales on whether the existing description of Sport Wales' governing framework is easy to understand and transparent and whether there were any plans to change it.

**107.** Ms Powell explained to the Committee that Sport Wales governance framework works in three ways:

"The first looks at our board. So, the first element of our governance relates to our board and our audit and risk committee. The second pillar of this, with the board—the second pillar of this, I would say, looks at our management and directors' team; and then the final pillar of our governance would look at external assurance, which we would gain from WAO or our internal auditors. Those three pillars of our governance work together to provide me with the right assurances. Alongside that, we would also have documents that provide me with assurance through our risk register, our risk management and our policies and

---

<sup>53</sup> RoP, 9 October 2017, paragraph 136

<sup>54</sup> RoP, 9 October 2017, paragraph 140

procedures. So, in terms of the governance structure, I believe it provides me with the right assurances and it provides, therefore, the organisation with the right assurances.”<sup>55</sup>

**108.** The Committee's view is that it is important that the Annual Report and Accounts set out a clear description of the governance arrangements, including the governance framework, accountability arrangements and reporting lines for committees and sub-groups. In doing so, it should distinguish between the internal structures, systems and processes that direct and control the organisation and assurances provided by its internal audit service from any findings from its external auditors. A professional, independent and objective internal audit service is one of the key elements of good governance and its work is carried out primarily for the benefit of the Accounting Officer and the Board. This is not the case for the work of the external auditor and as such, it is not part of an organisation's governance arrangements.

## Procurement

**109.** Sport Wales Annual report notes that two reviews were undertaken into procurement activities in 2016-17. Deloitte, the internal auditors, undertook a review into the procurement of consultants. This review was reported to the Audit and Risk Committee in March 2017. As part of their year-end work, the Wales Audit Office also undertook a separate audit into procurement. The Annual Report states:

“Both reviews identified a number of recommendations for improvement, which have since been implemented and the financial procedures have been updated to reflect the findings/recommendations. The updated financial procedures have also been circulated to all staff.”<sup>56</sup>

**110.** The Committee was keen to examine the issues highlighted by the internal audit work undertaken by Deloitte and in particular the findings that Sport Wales had given a consultant specification for a tender two days prior to competitors. A matter that in Deloitte's view had risked damaging the reputation of Sport Wales. We questioned Sport Wales on their reflections on this matter and were assured by Ms Powell:

“This is a matter for myself and that I took an action that I shouldn't have taken, and I have made sure that that doesn't happen again. The

<sup>55</sup> RoP, 9 October 2017, Paragraph 86

<sup>56</sup> **Sport Wales Annual Report and Accounts 2016-2017**

scale and size of it is not the issue here; it's about following procedures. The procedures have been updated and I need to follow procedures."<sup>57</sup>

---

<sup>57</sup> RoP, 9 October 2017, paragraph 111

## 6. Assembly Commission

**111.** This was the fourth year that the Assembly Commission's annual report and accounts have been scrutinised by the Committee. The accounts are subject to audit by the Auditor General for Wales and the unqualified audit opinion was signed on 20 July 2016. The Accounts for 2016-17 cover the immediate lead up to the Assembly elections in May 2016, the induction of new and returning Assembly Members, the setting up of a new Assembly Commission and the introduction of a new strategy and priorities. This is also the first year Elin Jones AM and Manon Antoniazzi took up their respective roles as Llywydd in May 2017 and Chief Executive and Clerk in April 2017.

### Assembly Website

**112.** One of the stated priorities for the Fifth Assembly is to ensure that the ICT infrastructure becomes more resistant to failure and offers greater flexibility through use of “cloud services”. This is to enable services to be accessed regardless of location or device used.

**113.** The Committee has previously raised concerns regarding the accessibility and how user friendly the Assembly's website is, particularly given the importance of online information for engaging with the public. The Committee noted that in February 2016 the Commission acknowledged that “Whilst there are pockets of good practice, the Assembly's current approach to digital is fragmented and insufficient”.<sup>58</sup>

**114.** The Assembly Commission's draft budget 2018-19 highlighted “exploiting technology to transform service delivery” as a key challenge. The budget describes a programme of projects under the name “MySenedd”, which is looking to improve the way information is created, shared, managed and exploited to deliver improved services to Members and the public.

**115.** The Committee investigated the progress made in making the Assembly website more user friendly and accessible to the public and stakeholders. Suzy Davies AM, explained that there had been a redesign of the Assembly's homepage and the inclusion of a “mega menu” which makes it easier for users to navigate their way through the website. Ms Davies highlighted that AM biography pages had been made more accessible and new templates were being used to make information more visually appealing. However, the main change has been

---

<sup>58</sup> **Assembly Commissions response to the Public Accounts Committee Report on the Scrutiny of Accounts 2014-15**

made to the Record of Proceedings, as part of the wider MySenedd programme which Ms Davies explained meant that:

“The ability to search the Record of Proceedings is already better than it was a year ago, and quite a lot of attention in 2016-17 has gone into that.”<sup>59</sup>

## Governance

**116.** The Annual Report states that “we have worked to establish a planning “thread” that runs from the strategy and goals, through our corporate priorities and into our service and capacity planning”. As part of the organisations governance framework, the Commission has an Audit and Risk Assurance Committee<sup>60</sup> and a Remuneration Committee. At its first meeting following the May 2016 election, the new Commission adopted a **set of governance principles and supporting provisions**.

**117.** The Committee explored the changes to the Commission's governance arrangements and the risks it is managing. Given the Assembly Commission's Chief Executive and Clerk took up post after the end of the financial year to which the Annual Report and Accounts relate, we questioned what assurances relating to governance arrangements she obtained from her predecessor.<sup>61</sup>

**118.** Ms Antoniazzi set out a number of handover arrangements that were put in place between herself and her predecessor explaining:

“My predecessor played a key role in the drafting of the governance statement, and in fact submitted that to ACARAC, the Commission's audit committee, before she departed so that, when I arrived, I could have an element of assurance that she was content. However, I assume personal responsibility for signing the accounts, and therefore what I have done is drawn on those same sources of assurance that she drew upon: assurance at operational level from directors, from ACARAC, the audit committee and the Commission itself, and, indeed that management letter that was provided by the Wales Audit Office.”<sup>62</sup>

**119.** The Committee queried the challenges going forward with regard to the Assembly Commission's governance arrangements and Ms Antoniazzi explained

---

<sup>59</sup> RoP, 9 October 2017, paragraph 242

<sup>60</sup> **Audit and Risk Assurance Committee**

<sup>61</sup> RoP, 9 October 2017, paragraph 270

<sup>62</sup> RoP, 9 October 2017, paragraph 271

that the Assembly Commission faced a number of forthcoming changes the extent of which could not currently be foreseen, adding:

“We have changes constitutionally, we have legislative changes coming through, we have an increasing focus on engaging with the people of Wales and with advocating the Assembly. So, there are a lot of wonderful initiatives under way. They absorb resources. I think the main challenge this year, recognising the constraints that there are on public spending, is to make sure that the resources are maximised and best placed to respond to all of those needs. We are facing a very tight year this year.”<sup>63</sup>

**120.** Ms Antoniazzi told the Committee that overseeing tight financial management whilst responding to the needs of Assembly Members and the wider public is the core challenge and risk.

**121.** The Committee noted that the Assembly Commission’s Governance Statement highlights considerable risk and pressure to managing on-going, emerging work and the Commission’s ambitious plans for public engagement, digital change, a Youth Parliament and electoral reform. We questioned how the Commission plans to prioritise resource between these projects and priorities.

**122.** Ms Antoniazzi explained that the Annual Report and Accounts set out the framework of the priorities that have been set for the year in the context of the priorities that have been set out for the five years of the Assembly. Furthermore, it was clarified that the Assembly Commission’s Investment Resources Board, which is chaired by the Chief Executive and has representation of Directors on it, has been looking at ways in which a more systematic approach can be taken to prioritisation of resources. She added:

“We are piloting a system at the moment, where various values are weighted to enable us to make fine discriminations between the various priorities that exist. Obviously, we have given absolute priority to statutory duties, to health and safety, to business continuity, and then beyond that, it is a matter of ongoing dialogue between the investment and resources board and the Commission on one hand, which is the body charged with giving us the steer, and on the other hand with our heads of service, who keep us informed of the ongoing pressures on business and the constraints on their ability to deliver.”<sup>64</sup>

---

<sup>63</sup> RoP, 9 October 2017, paragraph 273

<sup>64</sup> RoP, 9 October 2017, paragraph 275

**123.** Ms Antoniazzi also made reference to the Assembly Commission’s ongoing capacity review setting which is focussing on the staff budget, which is the largest element of the Commission’s budget. She explained that the review had been particularly useful to her in terms of being able to take a step back and look at how resources are deployed across the organisation, how that has come to be historically and, harnessing all the expertise and knowledge that the Commission staff have, make an assessment of whether the services being provided still fit the needs of the users of those services”.<sup>65</sup>

**124.** The Committee sought further detail on the Assembly Commission’s focus on staffing resource as part of the ongoing capacity review and questioned Ms Antoniazzi on whether she had any concerns that the level of staffing in the Assembly Commission was overly generous.

**125.** Ms Antoniazzi expressed that she felt it was appropriate for her to gain an understanding, as new Chief Executive, as to why staffing levels are as they are and why staff are distributed as they are adding:

“I think that drawing conclusions is for the next step in the process. We’re due to report back to the Commission by the end of this calendar year, and so we’re going to be speaking to the Commission in December and possibly in January as well about recommendations emerging.”<sup>66</sup>

**126.** The Committee were keen to stress that given most Welsh public services are having to make continued financial cuts because of austerity measures the Committee needs to test and challenge both the overall number of staffing in the Assembly Commission, 448 full-time equivalent staff in post at 31 March 2017, costing £19.8million, and how these are deployed across services. We sought to establish what had been the impact of austerity on the Assembly Commission.

**127.** Ms Antoniazzi explained the findings of the capacity review would be shared with the Finance Committee as well as the Public Accounts Committee in order to provide the Committees with the “line of sight” as to the kind of choices the Assembly Commission has to make depending on what the Assembly grants the Commission as a budget for next year. She added:

“There is an extent to which my hands are tied by the fact that I have inherited a body of staff that are in post now, and we need to look at that. But the imperative is that we stay within the budget that is voted

---

<sup>65</sup> RoP, 9 October 2017, paragraph 280

<sup>66</sup> RoP, 9 October 2017, paragraph 286

to us by the Assembly. The Assembly has seen fit to vote to the Assembly the resources that it has done over the last 10 years, and we will aim to maintain the standards of excellent financial management to remain within that envelope in future years.”<sup>67</sup>

**128.** Suzy Davies AM also informed the Committee that the Assembly Commission's operation budget as a percentage of the overall Welsh consolidated fund has remained static.<sup>68</sup> This was confirmed by Nia Morgan who told us the Assembly Commission's budget, a percentage of the overall Welsh Consolidated Fund, would be 0.34% compared to 0.35% last year, a decrease resulting in the Assembly having to deliver the same for less.<sup>69</sup>

**129.** The Committee welcomes the work being undertaken by the Assembly Commission to review capacity but we do not feel that we received sufficient evidence in relation to how staffing numbers have changed over time and how numbers relate to delivering commission priorities. This is an area we will wish to explore further once the findings of the capacity review are shared with us.

**Recommendation 17.** We recommend that the Assembly Commission provide us with details of how its capacity review has tested staffing levels and provide details of how staff are deployed to deliver the Assembly Commission's priorities.

## Staff Absence

**130.** During last year's scrutiny of the Assembly Commission's Accounts, the Committee explored Staff Absence levels and although we welcomed the work undertaken to reduce staff absence rates, and the commitment to address the area of sickness, we wished to revisit the levels of sickness absence.

**131.** The Assembly Commission's overall sickness absence rate for the year was 7.78 average working days per person, which is above the Assembly Commission's target of 7 days, but below the public sector average of 7.9 days and lower than last year's figure of 8.09 working days.<sup>70</sup>

**132.** Our predecessor Committee had previously noted during its scrutiny of the 2014-15 accounts that sickness rates had risen since 2013-14 and in response to the Committee's recommendations in January 2016<sup>71</sup> the Assembly Commission had

<sup>67</sup> RoP, 9 October 2017, paragraph 295

<sup>68</sup> RoP, 9 October 2017, paragraph 302

<sup>69</sup> RoP, 9 October 2017, paragraph 303

<sup>70</sup> Assembly Commission Annual reports and accounts

<sup>71</sup> **Assembly Commission response to the Public Accounts Committee Report on the Scrutiny of Accounts 2014-15**

suggested that there had been various reasons for the increase in sickness absence rates since January 2015 including:

- Increase in absence due to stress and anxiety: partly attributable to proactive management of underperformance, together with related grievance and disciplinary cases.
- Challenging caring responsibilities for some staff, particularly elderly relatives.

**133.** We followed up this previous scrutiny and asked how sickness absences have changed since March 2017 and what action was the Assembly Commission taking to further reduce sickness absence and support employees with mental health issues.

**134.** Ms Antoniazzi explained:

“There is a slightly worrying spike in people feeling concerned about their work-life balance, which connects to your original question about people’s mental health in the workplace. That is something that is a grave concern to us, obviously, and the Commission’s HR business partners do work closely with the heads of service to monitor this and support the well-being of employees, with timely referral to occupational health, support for line managers and, of course, in more serious and acute cases, exercising our full duty of care by providing access to specialist mental health provision.”<sup>72</sup>

**135.** Ms Antoniazzi also explained that the Assembly Commission had held a variety of events over the past year including mental health awareness week, the launching of a staff network for those who may wish to have some additional support in terms of mental health issues.<sup>73</sup>

**136.** The Committee raised concerns that compared to the figures for 5 years ago sickness absence rates had risen to an average of eight days taken per employee compared to six days. We questioned whether this rise was entirely due to legitimate health reasons or whether there were other factors contributing to sickness absence.<sup>74</sup>

**137.** Ms Antoniazzi suggested that in terms of mental health in particular having more issues reported was a positive outcome suggesting that staff feel more

---

<sup>72</sup> RoP, 6 November 2017, paragraph 351

<sup>73</sup> RoP, 6 November 2017, paragraph 352

<sup>74</sup> RoP, 6 November 2017, paragraph 355

confident in explaining their absence which makes it easier to assist employees with these issues. She also added:

“I think that there are a number of HR issues that we are going to need to confront in the next few years going forward. That doesn’t mean to say that these issues have not been prioritised in recent years. It’s simply that, like any organisation, we’re growing and changing, lots of pressures on us, and I think we need to keep an eye on the well-being of our staff, and Assembly Members, indeed, and respond to those pressures.”<sup>75</sup>

**Recommendation 18.** The Committee recognises the importance of effectively managing staff absences while ensuring the wellbeing of staff. We recommend that Assembly Commission continues to carefully monitor staff absence levels including analysis of the causes of sickness absence to ensure these are managed appropriately.

---

<sup>75</sup> RoP, 6 November 2017, paragraph 369

## 7. Arts Council of Wales

**138.** This is the second time that the Arts Council of Wales have been scrutinised by the Committee, having been previously examined in 2014-15.<sup>76</sup> Their accounts are subject to audit by the Auditor General for Wales and the unqualified audit opinion was signed on 11 July 2017.

### Performance Targets

**139.** The Arts Council of Wales had aimed to deliver an arts training programme focussed on Young People Not in Education, Employment or Training (NEETS). The project was dependent on identifying match funding for a European funding bid, however due to funding priorities elsewhere, this was not progressed. The Committee queried whether the Arts Council was currently running any other projects for NEETS.

**140.** Nick Capaldi, Chief Executive of the Arts Council of Wales confirmed that the Arts Council has an extensive programme of activities working with young people and disadvantaged areas. He explained that the Arts Council is in partnership with the Welsh Government on its Fusion Programme, which focuses on particular areas of disadvantage and that they work with a range of other bodies to provide activities and funds in those areas.<sup>77</sup>

**141.** The Committee sought clarification of how much funding is allocated to projects to support NEETs.<sup>78</sup> In additional correspondence with the Committee, the Arts Council set out details of its budget and projects specifically targeted for NEETS. The Arts Council continue to support engagement with NEETS in three main ways:

- Structured programmes of support through strategic partnerships (such as Creative Learning through the Arts, Night Out and Fusion);
- The work of our revenue-funded arts organisations, the Arts Portfolio Wales; and
- Projects supported through the Arts Council's open-to-application Lottery Funding Programmes.

---

<sup>76</sup> **National Assembly for Wales, Public Accounts Committee, Scrutiny of Accounts 2014-15, December 2015**

<sup>77</sup> RoP, 6 November 2017, paragraphs 26-27

<sup>78</sup> RoP, 6 November 2017, paragraph 34

---

**Recommendation 19.** We are not content with the level of support the Arts Council of Wales is providing to support engagement with NEETs and recommend that the Arts Council review this support with a view to increasing it.

## Organisational Review

**142.** In a statement, the Chief Executive of the Arts Council reported that during 2016-17 the Council undertook an organisational review, reducing both their staff and operating costs so more funds could be invested directly into arts. The Committee asked whether the organisational review reduced overall running costs as well as staff costs.<sup>79</sup>

**143.** Mr Capaldi confirmed that the review was across the Arts Council as a whole and there was a mixture of voluntary and compulsory redundancies. There were two compulsory and nine voluntary redundancies with many more requests for voluntary redundancy than were granted. Mr Capaldi explained that some voluntary redundancies were turned down either because there was an appropriate post in the new structure for that member of staff or because they had particular skills that were needed.<sup>80</sup>

**144.** The Committee was surprised to see that one of the posts that was subject to redundancy was the Director of Finance and Resources given that this included a substantial redundancy package and was replaced with a part time Director of Finance. We asked for an explanation of the rationale for this organisational change.

**145.** Mr Capaldi explained that the change was an important part of the Arts Council's overall cost reduction plan which aimed to achieve savings at all levels within the organisation, including the senior management team. He added:

“What we've opted to do is to make the post of director of finance and resources redundant and to replace that post, which was a full time post, with 0.6 of a post..., and for the functions that were in the resources bit to be allocated across the remaining members of the senior management team. As it happens, we have got members of that team who are expert in things like human resources and IT. So, although, because of the cost, it will take a while to recover that, it is part of that overall cost-cutting strategy which looked at that in some detail, and, as we were developing our organisational review proposals,

<sup>79</sup> RoP, 6 November 2017, paragraph 56

<sup>80</sup> RoP, 6 November 2017, paragraph 61

as well as council, our human resources and remuneration committee and our audit and risk assurance committee really did test the proposals in some detail.”<sup>81</sup>

**146.** Mr Capaldi further explained that one of the options that was put forward was to dispense with the post of the Director of Finance and to have finance covered at a slightly lower tier within the organisation. The Audit and Risk Committee were not convinced by that proposal.<sup>82</sup>

**147.** The Committee recognises the importance of the role of the Director of Finance as the senior finance professional in an organisation and welcomes the retention of the role at the Arts Council for Wales. Retention of the role at the level of director facilitates appropriate and balanced representation on the boards of organisations as set out in the “Corporate governance in central government departments: Code of good practice 2011”.<sup>83</sup>

**Recommendation 20.** We are concerned that the role of Director of Finance at the Arts Council of Wales is now a part time post and we recommend that the Board of the Arts Council confirm that it is satisfied that responsibility for strategic financial oversight of the Council is being satisfactorily fulfilled within the organisation.

## Reserves

**148.** The Committee noted that the Arts Council hold a significant amount of funds in reserves and questioned the reasoning behind this. Mr Capaldi explained the unrestricted reserves were around £1.4 million, which is broadly comparable to the previous year, but cash balances are higher. He added:

“One of the reasons why reserves are higher is because we have agreed with the Welsh Government that we will use some of those reserves to cover the cost of redundancies. We've not gone to the Welsh Government to ask for additional funding. We are managing the consequences of our own reorganisation within our own resources.”<sup>84</sup>

**149.** Mr Capaldi explained that there was also a significant amount of funding, in the region of £680,000, which relates to the Creative Learning through the Arts Programme. In further correspondence, the Committee were provided with

---

<sup>81</sup> RoP, 6 November 2017, paragraph 67

<sup>82</sup> RoP, 6 November 2017, paragraph 71

<sup>83</sup> “**Corporate governance in central government departments: Code of good practice 2011**”.

<sup>84</sup> RoP, 6 November 2017, paragraph 87

details setting out that at 31 March 2017 the Arts Council had restricted reserves of £1,210,000 and unrestricted reserves of £1,414,000.

**150.** The letter also notes that as a charity, the Arts Council, observe Charity Commission guidance by maintaining a prudent level of unrestricted reserves to meet unforeseen circumstances and year on year Council has considered their permitted 2% cash holding sufficient for this purpose. At 31 March 2017 that accounted for approximately £614,000 of the Arts Council's reserves. The remaining £800,000 was carried forward – following approval of a business case that the Arts Council had submitted to the Welsh Government – to meet a number of planned commitments which are set out in the letter.

## 8. National Library of Wales

**151.** The National Library was established by Royal Charter on 19 March 1907, and is a registered charity and Welsh Government Sponsored Body (WGSB). It receives most of its funding through grant-in-aid from the Welsh Government, the priorities for which are set out in an annual remit letter to the National Library's President from the Cabinet Secretary for Economy and Infrastructure. The accounts are subject to audit by the Auditor General for Wales and the unqualified audit opinion was signed on 1 August 2017.

### Progress against recommendations of the Public Accounts Committee of the Fourth Assembly and the Governance Review by the Auditor General for Wales

**152.** The National Library's 2014-15 accounts were scrutinised by the Public Accounts Committee of the Fourth Assembly and the Committee made five recommendations relating to the National Library.<sup>85</sup> The Committee assessed the progress made by the National Library in responding to these recommendations, which focussed on improving its governance arrangements.

**153.** The President of the National Library, Rhodri Glyn Thomas, explained that the National Library has tried to be an ambitious organisation within a very challenging position in terms of funding for public services generally. He said that over the last three to four years the National Library had tried to respond in a positive way to the recommendations of the Committee, as well as the recommendations in the PricewaterhouseCoopers report and Wales Audit Office report. Mr Thomas explained:

“You'll see, from the most recent report by the Wales Audit Office, and the letter from the Auditor General for Wales, that all the work of reforming our procedures is in place in the national library and we're moving forward with that.”<sup>86</sup>

**154.** The National Librarian, Linda Tomos, added:

“Perhaps an element of the work that needs to be moved forward to next year is workforce development. We accept that there is work to be done in terms of an audit of skills and to look at the needs of the library

---

<sup>85</sup> **National Assembly for Wales, Public Accounts Committee, Scrutiny of Accounts 2014-15, December 2015**

<sup>86</sup> RoP, 6 November 2017, paragraph 169

---

moving forward. We foresee that the workforce plan will be ready by the end of 2018.”<sup>87</sup>

**155.** The Committee highlighted that its predecessor Committee of the Fourth Assembly had noted in 2015 that the National Library appeared to operate a relatively generous pension scheme compared to other public sector organisations. Given that the National Library's accounts state that the costs of the pension scheme and future liabilities remain a key risk, we questioned what progress has been made in making changes to the scheme

**156.** Mr Thomas informed the Committee that the National Library's board of trustees had been keeping a detailed eye on the pension scheme and that there was a sub-committee that considers the pensions scheme under the chairmanship of the former treasurer. He added:

“...we are confident that our pension scheme is viable and that it is in a very healthy position in real terms.”<sup>88</sup>

**157.** The Director of Corporate Services, David Michael, provided the Committee with further detail of the National Library's pension scheme arrangements setting out that on the balance sheet the pension scheme is shown as having a deficit of £9 million. Mr Michael explained that this is because the National Library is required to use the discount rate specified by the Treasury, and, when the trustees of the pension scheme come to assess the pension scheme, they have more freedom to choose longer term discount rates. He told us:

“So, when the scheme was assessed, as at March 2016, it was 99.4 per cent funded, and there was a deficit of £370,000. At the time, the actuary said that, also, the cost of accruing service in the future would increase, so, in this financial year we've negotiated with the staff some changes to the scheme, and the staff were able either to opt for an increase in retirement age to 65, or pay 3 per cent extra. So, that choice was offered to the staff. So, we've addressed the cost of future service.”<sup>89</sup>

**158.** In terms of the historical deficit, Mr Michael explained that the problem with the pension scheme now is that it is quite large in relation to the employer. He told the Committee that the National Library has a balance sheet with £70 million of assets and liabilities on it, so a small fluctuation in the pension scheme can

---

<sup>87</sup> RoP, 6 November 2017, paragraph 171

<sup>88</sup> RoP, 6 November 2017, paragraph 174

<sup>89</sup> RoP, 6 November 2017, paragraph 175

create financial consequences for the National Library.<sup>90</sup> Although £370,000 is quite a small deficit in terms of the pension scheme, it means that the National Library then has to make deficit contributions to fund it. However, Mr Michael assured the Committee, that the pension scheme is monitored, and as the end of September this year [2017], it was assessed as having a small surplus in it and therefore historic liabilities are considered to be under control.<sup>91</sup>

**159.** Based on Mr Michael's evidence, the Committee raised concerns about how fluctuations in the pension scheme could cause serious problems in the future budget of the National Library.

**160.** Mr Michael explained that there were no concerns at the moment and that the National Library has done what the actuary had recommended in terms of the future service accrual adding:

“There’s nothing much we can do about the historical liabilities that have accrued. There are some further changes we could make, from moving to career average away from final salary, but that's a relatively small element of the cost. We'll have to see what comes out in the next valuation and then assess how much the library could afford to put into the scheme, or go back to the membership and say, 'We'd like to make changes in the future.’”<sup>92</sup>

**161.** Mr Michael also told the Committee that with the two changes that were offered, retirement age of 65 or paying more, at the time, it was made clear that there could be further changes required to the scheme, but the National Library has done everything the Actuary had asked it to do at that point.

**162.** The Committee challenged the witnesses on its approach of offering a final salary pension scheme given that these are becoming fairly unusual now particularly in the current financial climate. We asked how much longer did they think the National Library would be able to maintain its position of offering a final salary scheme and whether it was desirable to do so given the financial constraints it is currently under.

**163.** Mr Thomas set out that the National Library's Board of Trustees has been monitoring the situation and at present was confident that the National Library would be able to maintain the pension scheme given the changes that have been suggested to staff. However, he added:

---

<sup>90</sup> RoP, 6 November 2017, paragraph 175

<sup>91</sup> RoP, 6 November 2017, paragraph 177

<sup>92</sup> RoP, 6 November 2017, paragraph 181

“...the board is open to considering new ways of ensuring a pension for staff in the future, if they have to do that. But, at present, we're confident that it will be possible to maintain the pension scheme as it is, and it is a pension scheme that is very successful compared to other public institutions in Wales.”<sup>93</sup>

**164.** Mr Thomas also informed the Committee:

“We feel at present that it's possible to do that, and we're eager to do that, but we are open to changing that situation for new staff who will come to the library, if we have to do that. At present, we don't feel that that would be beneficial, and we do feel that maintaining the current scheme with some changes offers a better financial option for the library as well.”<sup>94</sup>

**165.** Mr Thomas concluded that the National Library was considering future developments so that if the National Library did arrive at a situation where we would not be able to fund the pension scheme, we would look to move to a defined contribution where the costs are lower and the risk of investment is passed on to members rather than the employer.<sup>95</sup>

**166.** The Committee are concerned about the risks posed to the National Library's financial stability by its existing pension scheme, which we regard to be generous compared to other public sector organisations. We also note the complexities of making changes to the pension scheme and the impact this could have on staff morale. However, we do not believe that existing arrangements are sustainable in the longer term and the National Library will need to make changes in line with the rest of the public sector.

**167.** We note that our predecessor Committee, in their report on Scrutiny of Accounts 2014-15, expressed concerns regarding the generous nature of the National Library's pension and voluntary severance arrangements and that they seemed to be “extraordinary” even by public sector standards.<sup>96</sup>

**168.** That Committee believed that the sustainability of the scheme needed examination, particularly in the current economic climate, and recommended that the National Library reviewed this. This is a view shared by this Committee.

---

<sup>93</sup> RoP, 6 November 2017, paragraph 184

<sup>94</sup> RoP, 6 November 2017, paragraph 192

<sup>95</sup> RoP, 6 November 2017, paragraph 193

<sup>96</sup> Public Accounts Committee, Scrutiny of Accounts 2014-15, page 23

**Recommendation 21.** We recommend that the National Library for Wales reviews its pension scheme as a matter of urgency and provide assurances to the Committee that it can operate a scheme that is sustainable in the longer term given the continued austerity and pressures on public funding.

## Risks

**169.** In addition to the risks around the pension scheme the National Library states that financial uncertainty is a key risk facing the organisation. While grant-in-aid revenue funding for the organisation has increased by 3.5% in 2017-18, the National Library reports that the board and management are concerned about the considerable funding reductions over previous years. It notes that, while the shortfall can be managed using the unrestricted private fund in the short-term, over the longer term further reorganisation may be needed to generate the savings required, and the National Library may not be able to meet its objectives if funding cuts persist.

**170.** Given the questions the Committee asked around the risks posed by the National Library's current pension arrangements, we pressed the National Library on why consideration was not being given to changing the National Library's pension arrangements and to ensure financial sustainability moving forward. Mr Thomas explained:

“No, we don't feel that that is the solution at present, although, as we said earlier, we are keeping that door open if we have to do it. The reality is that changing the pension scheme at present would mean more cost to the library than maintaining the scheme as it is. So, we are keeping an eye on that, but at present, that is under control. And we are seeing charitable contributions, particularly through wills, as a traditional way in which the library has obtained money, but as well the money that came from the heritage lottery, there's a range of smaller subsidies that have been obtained from the lottery and other bodies.”<sup>97</sup>

**171.** Mr Michael added:

“...the remit letter has asked us to look at ways we can align the working conditions of library staff and civil servants. So, a move away from the pension scheme would be a move away from similar conditions in the civil service. And also, I would say that salaries in the library tend to be low. The median salary is £23,000 a year. In the Government, it's £35,000. So, we're far away from the civil servants' conditions. If we were

---

<sup>97</sup> Rop, 6 November 2017, paragraph 257

to move away from the present pension scheme, that would be a blow to the staff and would move us away from aligning working conditions.”<sup>98</sup>

**172.** The Committee raised the question of whether greater financial security over a longer period of time would help organisations such as the National Library to better plan for the future. The Committee referred to a letter from the Auditor General for Wales to the Committee with regard the National Library which stated:

“The Library has not yet addressed explicitly in its strategic planning the difficult questions of what core services; it may need to reduce or cease providing in future if levels of Grant-in Aid reduce.”<sup>99</sup>

**173.** Members considered this to be indicative of there being a degree of denial about the declining level of public spending during the last couple of years. We highlighted that whilst it is comforting to keep saying, “If only we had more”, we felt that the National Library was not focusing on what action it needs to take.<sup>100</sup>

**174.** The Committee does however note that the National Library's four-year strategy and its operational plan are predicated explicitly on the continuation of existing levels of funding from the Welsh Government and the National Library's ability to increase its additional income to £1 million annually over the four-year period.

**175.** Whilst there is no reference in the plans to what services the National Library will change, if the financial assumptions are not met, the National Library's Operational Plan does set out a commitment to implementing “forward financial planning strategies, which enable it to face an uncertain financial context for public sector bodies in a more resilient way” by 2021.

**176.** The National Library's ability to assess the way it provides services is affected by the fact that, although the National Library is “committed to innovating and changing its approach to meet new demands and opportunities” (Strategic Plan 2017-2021, page 9), it is not yet clear how external factors, such as the digitisation programme, will affect how the National Library can, or will have to, deliver its services in the future. Also, the National Library needs to carry out the planned Skills Audit and produce its planned People Strategy and Workforce

<sup>98</sup> RoP, 6 November 2017, paragraph 258

<sup>99</sup> **PAC(5)-28-17 P6**, Correspondence from the AGW, 25 October 2017

<sup>100</sup> RoP, 6 November 2017, paragraph 232

Development Plan, before it can identify what services it can reduce or change, if needs be, and how this can be done.

**177.** Mr Thomas explained that he did not interpret the letter from the Auditor General in the same way as the Committee adding:

“I think it notes the concerns about the position that's facing us. As I said earlier, if we look ahead five to 10 years, there is a great financial challenge facing us and every other organisation in the public sector. I come back to the point that I made originally: it's a matter for politicians in this place—the Government specifically, but for politicians of all colours—to address the fundamental problem of the fact that expenditure on health is increasing year on year whereas the budget is shrinking. While that continues, the threat to every other organisation within the public sector is increasing.”<sup>101</sup>

**178.** Mr Thomas further told the Committee that the National Library was aware of the constraints on public funding and had taken a pragmatic approach to responding to this adding:

“We have said, of course, if we did have more money, we could do more. But we also didn't want to be in a situation where we were facing a situation where the library staff were going from year to year doing the same work day to day with fewer and fewer resources. So, we have gone on this digital pathway, which means that there are new challenges facing the staff and we are pleased to say that our staff have responded very positively to that. We have changed the management structure, which means that the senior management team has gone down from seven to three, and therefore there's much more responsibility that's gone down to heads of department and they've responded positively to that. Therefore, we're keeping an eagle eye on the situation.”<sup>102</sup>

**179.** The Committee considered Mr Thomas comments, noting his different interpretation of the letter from the Auditor General for Wales to that of the Committee. However, we maintain our view, that the National Library is not doing enough to look forward at what core services it may need to reduce or cease providing in future if the level of grant-in-aid reduces. Our view is that the National Library does not appear to accept this.

---

<sup>101</sup> RoP, 6 November 2017, paragraph 233

<sup>102</sup> RoP, 6 November 2017, paragraph 234

**180.** Mr Thomas responded by stating that he did not accept that the National Library had not faced the situation and acknowledged the challenges facing the National Library in the next five to ten years. However, he added:

“We have succeeded in responding to that by not cutting back on the core services that we offer and also extending the library's services to new directions and ensuring greater access by the public to the collections we have.

[...]

Certainly, we as a board will be considering what the Wales Audit Office have said and ensuring that there will be an eagle eye on our core services. We have to remember that there are statutory requirements upon us to deliver the core services, and that's why I was saying earlier that our role as trustees is not only a role of responding to the Government's requirements as our main funding source, but also we have a responsibility to ensure the interests of the charity in the long term. And I'm confident that we're doing that, but I'm grateful to the Wales Audit Office for reminding us of that as well.”<sup>103</sup>

**Recommendation 22.** We are concerned that the National Library for Wales has not fully recognised the challenges and implications of declining future funding and we recommend that the National Library clearly set out in its scenario planning for the future how it intends to respond to this decrease in funding.

## Workforce Development Strategy

**181.** In December 2016 the Auditor General for Wales published a Review of Governance of the National Library.<sup>104</sup> Recommendation 11 of the review concluded that in producing its Workforce Development Strategy, the National Library should implement a two-phased approach to managing workforce planning by:

- Assessing the current workforce arrangements in order to inform a strategic review of the National Library's functions and future delivery; and

<sup>103</sup> RoP, 6 November 2017, paragraph 237

<sup>104</sup> **Auditor General for Wales. National Library of Wales – A Review of Governance**

- Once the strategic direction is clear, develop a “People Strategy” that reflects the corporate plan and which includes the elements of workforce planning, succession planning, and talent management.

**182.** In his letter, of 25 October 2017,<sup>105</sup> to the Committee the Auditor General highlighted that the National Library has not yet fully addressed this recommendation and that most of the work required for this recommendation lies ahead. The Committee queried why progress against this recommendation had been slow.

**183.** Ms Tomos told the Committee that time was needed to ensure implementing the recommendation was undertaken properly and fully engaging with the National Library staff. She explained:

“So, the way that we’re proceeding is that, in the four-year strategic plan, we’ll be starting with a skills audit—that is; what skills will the library need, moving forward, particularly in thinking that we are transforming the library to be a digital library. And, from that, we will see what the gaps are, what we don’t have, and what we have to fill, in terms of training, and in terms of having staff with the flexibility to learn new skills. And we’ll be moving forward then to a people strategy, to help individuals in the library to cope with new work, and new working situations, particularly back to the question of adding to our digital provision.”<sup>106</sup>

**184.** Ms Tomos concluded by informing the Committee that by the end of 2018 the National Library will be delivering a draft workforce plan to the Board and to the Government, in order to resolve a very difficult situation for the staff. However, the Committee believes this approach supports our interpretation of the Auditor General’s letter as we question whether it is reasonable, even with staff consultation, that the review should take a year to complete.

**185.** Mr Thomas was also keen to stress to the Committee that in reports by PricewaterhouseCoopers and the Wales Audit Office, there was an emphasis on improving the National Library’s internal communication, and collaboration with staff and the trade unions. He added that the National Library was confident that this relationship had been strengthened

**186.** We welcome the work being undertaken by the Library to deliver a draft workforce plan by the end of 2018 and that the National Library’s internal

---

<sup>105</sup> **PAC(5)-28-17 P6**, Correspondence from the AGW, 25 October 2017

<sup>106</sup> Rop, 6 November 2017, paragraph 271

communications, and collaboration with staff and trade unions has improved. However, we have concerns about the pace with which this review is being undertaken, particularly given what the National Library themselves, have described as a “very challenging situation”. We question whether the proposed timescale for delivering the work force plan is appropriate given the circumstances.

**Recommendation 23.** We are concerned that the pace of change and timescales for delivery of the National Library for Wales' Work force plan are insufficient. We recommend that the National Library set out explicitly its plan of action for delivering its plan as a matter of urgency and share this with the Committee at the earliest opportunity.

## Annex A – Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at:

<http://senedd.assembly.wales/mgIssueHistoryHome.aspx?id=15048>

Name	Organisation
<b>2 October 2017</b>	
Sophie Howe	Future Generations Commissioner for Wales
Helen Verity	Office of Future Generations Commissioner for Wales
Shan Morgan	Welsh Government
David Richards	Welsh Government
Gawain Evans	Welsh Government
Peter Kennedy	Welsh Government
<b>9 October 2017</b>	
Sarah Powell	Sport Wales
Peter Curran	Sport Wales
Manon Antoniazzi	Assembly Commission
Suzy Davies AM	Assembly Commission
Nia Morgan	Assembly Commission
<b>6 November</b>	
Nick Capaldi	Arts Council for Wales
Gwyn Williams	Arts Council for Wales
Linda Tomos	National Library of Wales
Rhodri Glyn Thomas	National Library of Wales
David Michael	National Library of Wales