

## Agenda – Public Accounts Committee

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Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 11 November 2019

Meeting time: 12.45

For further information contact:

Fay Bowen

Committee Clerk

0300 200 6565

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### (Private Pre-meeting)

(12.45 – 13.00)

#### 1 Introductions, apologies, substitutions and declarations of interest

(13.00)

#### 2 Paper(s) to note

(13.00)

##### 2.1 Welsh Government Financial Support for Business: Letter from the Welsh Government (31 October 2019)

(Pages 1 – 8)

#### 3 M4 Relief Road: Consideration of correspondence from the Welsh Government

(13.00 – 13.30)

(Pages 9 – 22)

PAC(5)–28–19 Paper 1 – Letter from the Welsh Government (8 October 2019)

#### 4 Scrutiny of Accounts 2018–19: Welsh Government

(13.30 – 15.00)

(Pages 23 – 76)

Research Briefing

PAC(5)–28–19 Paper 2 – [Welsh Government Consolidated Accounts 2018–19](#)

PAC(5)–28–19 Paper 3 – Letter from the Permanent Secretary on Loans and Investments

PAC(5)–28–19 Paper 4 – Letter from the Permanent Secretary on Non-Executive Directors



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Wales

PAC(5)–28–19 Paper 5 – Letter from the Permanent Secretary on the Gypsy and Traveller Capital

PAC(5)–28–19 Paper 6 – Letter from the Auditor General for Wales on New Zealand Budgetary Practices

Shan Morgan – Permanent Secretary, Welsh Government

Peter Kennedy – HR Director, Welsh Government

David Richards – Director of Governance and Ethics, Welsh Government

Natalie Pearson – Head of Organisational Development and Engagement, Welsh Government

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

(15.00)

Items 6 & 7 and Item 1 of the meeting on 18 November 2019

**6 Scrutiny of Accounts 2018–19: Welsh Government**

(15.00 – 15.45)

David Richards – Director of Governance and Ethics, Welsh Government

Jeff Farrar – Non-Executive Director

Ann Keane – Non-Executive Director

**7 Scrutiny of Accounts 2018–19: Consideration of evidence received**

(15.45 – 16.00)

**Grwp yr Economi, Sgiliau a Chyfoeth Naturiol**  
**Economy, Skills and Natural Resources Group**

**Cyfarwyddwr Cyffredinol - Director General**



**Llywodraeth Cymru**  
**Welsh Government**

Nick Ramsay AM  
Chair  
Public Accounts Committee

31 October 2019

Dear Chair,

I am responding to your letter of 1 October in which you requested further information following my letter of 2 September.

I will address each subject in turn.

**Dawnus**

The Dawnus turnaround plan included a number of elements aimed at placing the business on a secure footing. Officials monitored progress with the business against these core turnaround objectives.

Officials and the firm's bank, HSBC, provided oversight and, along with independent consultants Grant Thornton and Prompt Interim, monitored progress on the Dawnus turnaround plan to evidence key activities in the plan had been achieved. This included:

- 1) a reduction in management and operational overhead costs;
- 2) restructuring and re-alignment of underperforming regional directorates (notably the South West England region, coming under control of the South Wales team);
- 3) appointment of a new managing director and regional managers;
- 4) tighter oversight on tendering processes;
- 5) significant reduction in overhead costs;
- 6) time-to-pay arrangements agreed with HMRC to support the business cash-flow; and
- 7) sales of disposable business assets.

Officials were confident that significant progress was being made in other aspects of the turnaround plan including: realignment of the Dawnus customer base in the UK market; moving toward a significantly higher proportion of public sector work as opposed to private sector work; realignment of the business delivery to focus on its core operation of delivering infrastructure projects; and moving away from further residential / building development activity.



It is important to recognise that these aspects of the turnaround plan would take time to work through the business and could not be achieved with immediate effect.

One of the key elements of the turnaround plan was the urgency with which revenue generated from historic / aged / disputed Work In Progress (WIP) was being collected from third parties. Dawnus were experiencing difficulties in this area which was having a detrimental impact on the business' performance. Independent consultants, Naismith (specialist advisors in asset recovery), were utilised to provide advice on settlements of this WIP and whether these payments could be brought in more quickly. The settlement strategies were discussed and agreed with Naismith.

There were unforeseen impediments, outside of the business' control, which contributed to the eventual business failure, including the removal of credit insurance from the supply chain (leading to pro-forma payments, purchasing up-front of materials, and tightening of supply chain exposure after being stretched for an extended period of time). This coupled with significant difficulties in commencing a secured substantial overseas contract and the difficulties in the protracted realisation of historic / aged / disputed WIP, made the continuation of trading for the business extremely difficult.

With regard to dialogue between Welsh Government (WG) departments in relation to Dawnus' viability in the context of the 21st Century Schools project, this project is funded through WG but is administered, procured and delivered by the Welsh local authorities.

No communication in relation to the provision of the commercial loan was made between WG and local government bodies. This is standard practice for the following reasons:

- 1) any release of information to client based (public sector procuring) organisations may negatively influence their decision-making process when the company is tendering for potential new work, or impact timeliness of payments for existing work. This runs the risk of detrimentally impacting the business' cash-flow;
- 2) should WG be identified as providing information that impacted on the company (as per point 1), this could leave WG exposed to legal proceeding for inadvertently negatively impacting the company's performance / tendering process;
- 3) support provided to the organisation was made on a commercial / in confidence basis. Release of information by officials may have been considered a breach of data protection rules or public sector codes of conduct;
- 4) tender responses and Client / Public Sector due diligence on bidders should be undertaken on a like for like basis and should be subject to the requirements of the tender submitted, rather than wider factors.

In short, WG officials should not be in a position of providing information to tendering organisations (regardless of whether they are public sector or private sector), outside the scope of the tender exercise, that could prejudice the chances of the bidding organisation in any way.

All procuring bodies should have their own due diligence and risk processes in place, and judge each tender bid on its own strengths and weaknesses and in accordance with its own due diligence and risk appetite conclusions. Disclosure of additional information from a third source, in this instance WG, could leave processes open to legal challenge from the bidding organisation.

Public sector bodies / local authorities have their own compliance and due diligence scrutiny procedures for assessing risk when procuring services. These should not be dependent on other bodies providing additional information over and above that which has been requested to assess the tender requirements.

As of May 2019, £2m of public sector funds had been recovered from Dawnus, with £1.4m outstanding. The Committee may wish to note that further recovery of £860,325 of public sector funds has now been made by officials. There is now an outstanding balance of £539,675 on the loan. Officials will continue to work with the administrator to seek to recover the outstanding public sector funding.

### **GRH Food Company**

Under Rural Development Programme rules, the Paying Agency (i.e. WG) has to complete its assessment of the project and undertake the necessary due diligence before awarding a grant offer contract to beneficiaries. In the case of GRH, the due diligence and detailed financial appraisal was undertaken in May 2017. The financial position of GRH at this time was sound, and the associated grant was awarded in August 2017.

Following the award of a contract, beneficiaries submit claims in arrears for eligible expenditure they have defrayed. It is a contractual requirement that such claims are paid, following European Commission administrative controls to ensure costs are eligible. GRH payments made in 2018/2019 were for expenditure incurred against the 2017 contract. Details of the payments claimed and date paid in that period are shown below:

	<b>Value</b>	<b>Date received</b>	<b>Date Paid</b>
<b>Claim 1 –</b>	£ 496,507.41	16/05/18	04/07/18
<b>Claim 2 –</b>	£1,062,166.82	16/01/19	04/02/19

### **Jistcourt**

The Development Bank of Wales (DBW) - and Finance Wales before that - had worked with Jistcourt since 2016. Its original loan of £1.1m was advanced in January 2016 to fund a partial management buyout. That loan was fully repaid.

A further loan of £250,000 to provide working capital was drawn in September 2018. The DBW was aware that a number of Jistcourt's contracts were with public sector customers; however, the loan was for general working capital rather than funding to support a particular project. As the business was already well known to DBW there was limited contact with WG during the investment appraisal process and the investment would have been reported as part of DBW's usual quarterly fund reporting.

Following the company going into administration, DBW's risk team was in contact with the WG construction sector team who was briefed on the situation. DBW remain in discussions with the administrators regarding repayment of the loan.

### **Outstanding debt**

I refer you to Annex 1 for clarification on the basis on which each debt is claimed.

## **Conflict of Interest (Life Science Investment Fund)**

Officials requested clarification from DBW as to what actions were taken to ascertain if any conflict of interest occurred regarding Woodford and the Wales Life Science Investment Fund (WLSIF) Fund Manager – Arix Capital Management. DBW has provided the response as below, concluding that conflicts did not exist.

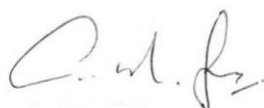
*“In relation to potential conflicts regarding Woodford Investment Management (WIM), DBW did not rely purely on a short confirmation that no conflicts existed. A detailed process took place to try to identify what potential existed for conflicts to arise and explore how these were being handled. This concluded that the main potential conflict would be if WIM, as a major shareholder in Arix Biosciences plc, put pressure on ARIX Capital Management, as manager of the fund, to do something that was not in the best interest of the fund. After careful consideration it was concluded that conflict did not exist because:*

- *The full £50m was already invested before ARIX acquired the WLSIF Fund Manager and General Partner.*
- *The only instance of Arix investing in a WLSIF holding was Verona Pharma which was not owned by WIM. The decision to invest was taken independently by the Arix investment committee.*
- *Arix later supported Simbec Orion which was not a WIM investment.*
- *Arix did invest £5m into the WLSIF and subsequently invested in three companies only one of which (£1m) had WIM co-investment. ARIX did not further invest in that company.*
- *WIM did not influence the Fund Manager to inflate valuations. It is arguable whether doing so would have benefitted WIM as they produce their own valuations. This would also not benefit the Fund Manager as their fees are paid on the value of the investment. Fees are reduced for investments which are written down in value but not increased for an upward valuation above the original investment value. For the year ended 31 March 2019 the fund manager wrote down one WIM investment to well below the value used by WIM, thereby reducing its own fee, as a prudent response to the unfolding issues at WIM.*

*From the analysis undertaken it is difficult to see how WIM's then 20% stake in Arix could have prejudiced the interests of the limited partner in WLSIF and the actions of the fund manager appear to be in line with the LPA and its fiduciary responsibilities.”*

Please do not hesitate to contact me should you require any further information.

Yours sincerely



**Andrew Slade**  
Director General  
Economy, Skills and Natural Resources

The amount, type and purpose of Welsh Government financial support (whether direct or via Finance Wales or the Development Bank), that any of the companies named during the session (at RoP 289-291) had received prior to going into administration and confirmation of any outstanding debts (G M Jones, Cuddy group, Jistcourt, GRH Food Company).

Company Name	Welsh Government FW/DBW	Year	Type of support	Purpose of support	Amount of Support Paid	Amount of Debt Outstanding	Outstanding Debt originally provided as a) Loan, B) Repayable business finance or c) Grant
GM Jones	Welsh Government	2015-16 2016-17 2017-18	Wales Economic Growth Fund	To relocate the business to larger premises.	£130,000 £213,300 <u>£56,700</u> £400,000	£400,000	Grant terms and conditions ( non Repayable)
	DBW		Working capital whilst grant monies received	Bridge of Welsh Government grant monies to enable new premises for the client to be built	£270,000	Nil	
Cuddy Group (Cuddy Re-cycling Ltd)	Welsh Government	2015-16 2016-17	Wales Economic Growth Fund	To establish a new re-cycling Plant.	£12,775 <u>£122,032</u> £134,807	£134,807	Grant terms and conditions ( non Repayable)

Cuddy Group (Cuddy Demolition & Dismantling)							
		2008-09	Discretionary Funding Scheme	Workforce Development Programme	£750	-	
		2010-11 2011-12	ReAct	Employability & Skills	£520 <u>£1,040</u> £1,560	-	
		2013-14	Young Recruits programme	Employability & Skills	£2,550	-	
Jistcourt South Wales Limited	DBW		Wales Business Fund	Working capital to support existing work and future contracts	£250,000	£232,000	Loan – see main letter
GRH Food Company	Welsh Government	2015-16	Wales Economic Growth Fund	Installation of intelligent cheese cutting system.	£139,309	£139,309	Grant terms and conditions ( non Repayable)



		2015-16	Business Growth Support Grant	Business Development	£10,738	-	
		2010-11	Agri Food Development Fund (Scheme closed)	Agri-Food SME Business Development	£4,025	-	
		2014-15	Discretionary Funding Scheme	Workforce Development Programme	£950	-	
		2018-19	Overseas Business Development Fund	Export Development	£400	-	
		2010-11 2011-12 2013-14 2014-15	Processing & Marketing Grants Scheme (Scheme closed)	To improve competitiveness of the agricultural sector by adding value to agricultural products.	£62,751 £134,638 £54,000 <u>£49,400</u> £300,789	£238,038	Grant terms and conditions ( non Repayable)
		2018-19	Food Business Investment	Relocation of manufacturing premises.	£1,558,674	£1,558,674	Grant terms and conditions. Repayable as project was not complete.

*\*The Welsh Government actively seeks recovery of all debts owing and the amounts disclosed in the table are at different stages of the insolvency and recovery process.*

**Grwp yr Economi, Sgiliau a Chyfoeth Naturiol**  
**Economy, Skills and Natural Resources Group**

**Cyfarwyddwr Cyffredinol - Director General**



**Llywodraeth Cymru**  
**Welsh Government**

Nick Ramsay AM  
Chair  
Public Accounts Committee

8 October 2019

Dear Chair

**M4 PROJECT COSTS**

I am responding to your email of 22 July and further letter of 25 July, in which you requested additional information following the Committee session on 15 July. I am sorry for the delay in so doing, but it has taken a little time to pull all the relevant detail together in the form requested.

**Use of data and presentation**

Cost estimates were produced at each stage of the M4 Project development using the cost price base and VAT treatment that was appropriate to each development phase.

The price base year was kept at 2015 throughout the Inquiry process to aid comparison and assessment of scope changes during the Inquiry, such as the additional off-slip proposed near Magor services and the accommodation works developed in Newport Docks during the course of the Inquiry.

In accordance with Treasury 'Green Book' guidance, VAT was excluded from assessments during development the stages of the project.

To enable a comparison with other Welsh Government capital programmes, the M4 Project cost estimate was updated to 2019 prices and VAT included, with certain sunk costs excluded, for the relevant Cabinet discussions in April of this year.

A cost comparison table at Annex A summarises this information providing estimates in both the price base the estimate was originally produced and adjusted to 2019 prices.

The WelTAG Stage 1/2 'Scheme level' appraisal estimate of £998m has been used as the 'base cost' for the M4 Project as it is considered most appropriate for comparison with the later project level estimates. Both this and an accompanying

Business Case were published in 2014 to accompany the strategic decision to proceed with a project, and as such this figure included in the table in Annex A. Those reports are available on the internet at the following links.

WelTAG Report:

<http://bailey.persona-pi.com/Public-Inquiries/M4-Newport/C%20-%20Core%20Documents/4.%20Scheme%20Development%20and%20Alternatives/4.5.5%20-%20Welsh%20Government%20M4%20Corridor%20around%20Newport%20-%20Motorway%20South%20of%20Newport.%20WelTAG%20Stage%201%20%26%202%20%28Scheme%29%20Appraisal..pdf>

Business Case:

<http://bailey.persona-pi.com/Public-Inquiries/M4-Newport/C%20-%20Core%20Documents/4.%20Scheme%20Development%20and%20Alternatives/4.5.17%20-%20M4%20Corridor%20around%20Newport%20-%20Motorway%20to%20the%20South%20of%20Newport%20Business%20Case.pdf>

This scheme level estimate was subsequently revised to reflect scope changes during the project development, such as; enhancements to junctions, additional environmental mitigation measures arising from liaison with Natural Resources Wales, and the significant accommodation works within Newport docks.

### **Net development costs**

Expenditure on the M4 Project from 2013, to the point of the decision not to proceed with making the statutory Orders, was £114.109m, as stated in the evidence paper, with additional budget to 'wind up' the project of up to £9.2m. Whilst any winding up costs will be minimised within that budget, assuming the full amount is used, the development plus winding up expenditure would total around £123m.

The total purchase value of the land and property still in Welsh Government's ownership (that was purchased since 2013 and held for the scheme) is £3.728m. Rental income is excluded from this assessment as it is largely used to offset estate management costs. Properties acquired in this area in relation to previous iterations of a project prior to 2013, and still in Welsh Government ownership, are listed in Annex A but excluded from this summation to provide consideration in parallel with the post 2013 M4 Project development costs.

Should a decision be taken to dispose of all these assets, the actual realisable value will be determined by market conditions at the time of sale. However, deducting the acquisition value for these assets from the total development plus winding-up expenditure to provide a rough guide, gives a figure of around £119m of what could reasonably be defined as the net development and winding-up expenditure for the M4 Project, as at this point in time. We will in due course update the Committee with a more definitive figure, but this is necessarily some way away.

## Land acquisition and disposal

Welsh Government will await the outcome and decision of the Commission before deciding on how best to proceed with route protection and with the properties that are in Welsh Government ownership.

In the event that any of the properties held in Welsh Government are declared surplus then they will be disposed of in accordance with our normal procedures, which includes consideration of the Crichel Down rules, where, among other considerations, the previous owner has the opportunity to buy it back.

Please find attached (Annex B) a revised table clarifying the position with the properties in lines 31-35 of the original table in the evidence paper. We can confirm that these properties have not been sold, and remain in the ownership of the Welsh Government.

On 2 August 2019 we received a further query from you on the dates and values of acquisition of 10 properties in connection with the M4 Project. Of those 10, five were acquired direct by the Welsh Government Transport Department and the other five were inherited from predecessor bodies such as the Welsh Development Agency, which then transferred into Welsh Government and subsequently assigned the land and properties to the Transport Department.

Any discrepancies between the July 2019 Public Accounts Committee evidence paper and data you may be referencing (such as Land Registry) may be due to records of different stages in the acquisition process. A 6 – 12 months' difference in timescale is not unusual for the period from which Welsh Government buy and or complete on a property with vacant possession to the details being updated on the Land Registry. Officials shall endeavour to provide additional clarity in reporting the 'date of sale' in future as the contractual completion date.

Further details on the 5 directly acquired properties are provided as follows, using the line numbering of the July 2019 Public Accounts Committee Evidence paper Annex A:

Line 4 – Woodland House – Review of the deeds documents confirms August 2007 (as stated in the letter to the Committee dated 26 March 2015 from WAO) as the date of contractual completion. Oct 2006, as stated in the July 2019 PAC Evidence paper and in a 2014 FOI will have been the date of agreement to acquire.

Line 6 – Horseshoe Cottage – The Welsh Office contractually completed acquisition of the property in August 1997, as stated in the July 2019 Evidence paper and in a 2014 FOI. The date of 16 Jan 1998 provided in the WAO letter to the Committee dated 26 March 2015 could relate to the date it was registered at the Land registry, however our review of land registry shows the registration date as February 1998.

Line 26 – Ysgubor Newydd, Coedkernew – 31 March 2004, as stated in the July 2019 Evidence paper and in a 2014 FOI, recorded the date of registration of the sale with Land Registry. The Jan 2004 date provided in the WAO letter to the Committee dated 26 March 2015 likely relates to the date of contractual completion.

Line 28 – The Maerdy, Coedkernew – We have re-checked and the sale of this property was completed on 4 November 2003. We previously stated in the July 2019 Evidence paper and in

a 2014 FOI the date of November 2011 which is incorrect and appears to be a typographical error.

Line 30 – The Stud Farm, Coedkernew – the date of March 2003 as stated in the July 2019 Evidence paper and in a 2014 FOI is understood to be the date of contractual completion. 26 March 2004, as stated in the WAO letter to the Committee dated 26 March 2015 is understood to be the date of registration of the sale with Land Registry

The other properties you queried were: Berry Hill Farm, Queensway Meadows, Land at Tatton Farm, Site of Marshfield and Former LG Hynix site. All were acquired historically, some 40 years ago, before coming into the Welsh Government Transport portfolio. Access to records are therefore more limited, however further explanation is provided as follows.

Line 18 – Berry Hill Farm – I can confirm November 1996, as stated in the WAO letter to the Committee dated 26 March 2015, is when a predecessor organisation inherited the land. January 1980, as stated in the July 2019 Evidence paper and in a 2014 FOI will relate to the original acquisition by a predecessor body.

Line 20 – Queensway Meadows – The range of dates (Oct 1980 – Jan 1982) stated in the July 2019 Evidence paper and in a 2014 FOI covering Queensway Meadows are consistent with the WAO letter to the Committee dated 26 March 2015. The WAO also includes dates for Tatton Farm which is linked to this property. By the time they were transferred to the Transport Department these plots had been combined into one and so just the first purchase date was reported. We can confirm WAO's letter is correct that components of Tatton Farm were purchased in March 1994 and March 2000 for a total of £2.17m.

Line 22 – Site at Marshfield – We have re-checked and can clarify exactly that the purchase of this property was completed in March 1997, rather than April as stated in the July 2019 Evidence paper. We are unable to find evidence to confirm the figure of £6,250 contained in the WAO's letter to PAC dated 26 March 2015, but the value appears commensurate for the plot.

Line 23 – Former LG Hynix site – The July 2019 Evidence paper reports the Hynix site acquisition value as £7m which I can confirm is correct. The WAO letter to the Committee dated 26 March 2015 reported both the Hynix and P&T plots with a combined value of £13m, which is consistent with our records for that plot also. The difference in reporting is therefore due to the land associated with Imperial House and whether it is deemed linked to the M4 Project or not. The 2014 FOI data, referenced by WAO, considered it linked, whereas at the time of the 2019 PAC Evidence paper it was considered not due to the additional information available in relation to the project at that time. Importantly, all records are consistent in terms of combined purchase dates and values.

### **Cost estimates for suggested alternative 20**

Annex C to this letter provides a detailed breakdown of the cost estimate of the objectors' alternative No.20 suggested during the Public Inquiry.

The cost estimate at the time of Public Inquiry was benchmarked to the A303 Stonehenge project. The tunnelling works were around 50% of the total alternative No.20 cost estimate.

Annex C also provides a comparison to the more recently published '*Infrastructure and Project Authority tunnel benchmarking Case Study: Benchmarking tunnelling costs and production rates in the UK*' (*"the IPA report"*) as referred to in the Committee session on 15 July 2019.

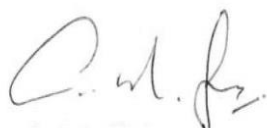
A comparison of the Alt. 20 Cost Estimate with the 3 benchmarking methods of the '*Infrastructure and Project Authority*'. By diameter the IPA report figures give a higher cost. By volume the Alternative No.20 rates are the higher cost. By unit volume they are similar.

I understand from your letter of 25 July that the Objectors Suggested Alternatives Report has now been circulated to Committee members.

Please do not hesitate to contact me should you require any further information.

With best wishes.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'A. Slade', with a stylized flourish at the end.

**Andrew Slade**  
Director General  
Economy, Skills and Natural Resources

M4 Corridor around Newport Project – Construction Cost and VAT Estimate Tracker						
Component	(1)	(1a)	(2)	(3)	(4)	(4a)
	WelTAG Stage 1 & 2 Scheme Level Appraisal Estimate / 2014 Business Case Estimate*		Estimate at start of Inquiry	Updated Estimate during Inquiry due to adding project scope i.e. sliproads.	Updated Estimate during Inquiry due to adding Newport Docks Works	(4) updated to inform statutory decision making
Price Base	2010	2019	2015	2015	2015	2019
Date Published	2014	Not previously calculated	Dec 2016	Mar 2017	Dec 2017	Not published
Preliminaries including Traffic Management	Not broken down to these categories		£212.0m	£213.1m	£213.1m	Not broken down to these categories
Roadworks			£268.0m	£269.2m	£269.2m	
Structures			£296.9m	£297.0m	£314.5m	
Landscaping and environmental works			£44.8m	£44.9m	£44.9m	
Works by other authorities			£38.3m	£38.8m	£38.8m	
Land and Compensation Costs			£92.0m	£92.3m	£92.3m	
Risk and Optimism Bias			£141.3m	£138.0m	£120.4m	
Project Estimate excluding VAT			£1,093.2m	£1,093.2m	£1,093.2m	
Reclassification and reconfiguration of Caerleon Junction (including Optimism Bias			£16.2m	£16.2m	£16.2m	
Newport Docks Works			-	-	£167.5m	
Newport Docks Works – Risk and Contingencies			-	-		
Project Estimate excluding VAT	£998m	£1,161m	£1,071.2m	£1,109.3m	£1,276.8m	£1,382m
VAT [calculated for (4a) and ratio applied to others]	£132.8m	£154m	£142.5m	£147.5m	£170m	£184m
Project Estimate including irrecoverable VAT	£1,131m	£1,315m	£1,214m	£1,257m	£1,447m	£1,566m

Notes:

- \* PAC letter of 25/7/19 referred to the WelTAG Stage 1 2013 report estimate of £936m. The more appropriate cost for comparison is the 2014 WelTAG Stage 1/2 Scheme Level estimate and 2014 Business Case estimate of £998m.
- Vat was not applied at the time of the estimate of (1), (2) and (3). Irrecoverable VAT applied now to them and (1a) for comparison purposes. Quantum is the 13.3% percentage calculated for (4a). Exact measure of VAT remained to be agreed with HMRC.
- All estimates exclude statutory process development costs for ease of comparison with (4a) £1,566m investment decision cost estimate which was concerned with the forward costs rather than 'sunk' costs.
- Final totals rounded to 0dp.



Table of all property acquisition and sale transactions (matter of public record):

No.	Description of Land	Basis of Purchase / Sale	Date of Purchase	Value Paid (Land and Buildings)	*Date of Sale	Sale Price
<b>Properties Acquired</b>						
1	Longhouse Farm, Coedkernew	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Nov-06	£720,000	In WG ownership	NA
2	Land at the Stud Farm, Coedkernew	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Jan-00	£315,000 (incl. no. 23)	NA – <i>Farm sold (see 23)</i>	NA (see 23)
3	Undy House, Undy, Magor	<b>Statutory Blight Notice</b> served by representatives of deceased owner requesting purchase.	Aug-07	£660,000	In WG ownership	NA
4	Woodland House, Magor	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Aug-07	£1,107,000	In WG ownership	NA
5	Old Cottage, Knollbury, Magor	<b>s.248 Discretionary Application</b> submitted by owner requesting purchase.	Mar-95	£130,000	In WG ownership	NA
6	Horseshoe Cottage, Knollbury, Magor	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Aug-97	£132,500	In WG ownership	NA
7	Barecroft House, Barecroft Common, Magor	<b>Statutory Blight Notice</b> served by owner requesting purchase.	May-96	£158,500	In WG ownership	NA
8	Cae-Glas, Nash Road, Newport	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Dec-06	£300,000 (incl. below)	In WG ownership	NA
8	Annex at Cae Glas, Nash Road, Newport	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Dec-06	Part of above	In WG ownership	NA
9	Greenfield House, Nash Road, Newport	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Mar-07	£300,000	In WG ownership	NA
10	The Conifers, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Apr-15	£725,000	In WG ownership	NA
11	White Cottage, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Dec-15	£555,000	In WG ownership	N/A

12	San Remo, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Apr-16	£350,000	In WG ownership	N/A
13	The Glen, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Oct-15	£430,000	In WG ownership	N/A
14	Spring Cottage, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Jun-16	£355,000	In WG ownership	N/A
15	Quarry Cottage, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Jun-17	£453,000	In WG ownership	N/A
16	Danygraig, Coedkernew	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Aug-19	£495,000	In WG ownership	N/A
17	Dunline, Knollbury	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Mar-17	£365,000	In WG ownership	N/A
18	Coedkernew House, Coedkernew	<b>s.246 (2A) Off Line Discretionary application</b> submitted by owner requesting purchase.	Apr-19	£575,000	In WG ownership	N/A
19	The Croft, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Apr-19	£400,000	In WG ownership	N/A
20	Little Orchard, Coedkernew	<b>s.246 (2A) Off Line Discretionary application submitted by owner requesting purchase.</b>	Dec-18	£400,000	In WG ownership	N/A
21	Old Court Farm, Rogiet	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Mar-18	£2,354,617	In WG ownership	N/A
22	Court Farm, Rogiet	<b>Statutory Blight Notice</b> served by owner requesting purchase.	May-18	£1,714,085	In WG ownership	N/A

#### Properties Inherited from a Predecessor Body

23	Berry Hill Farm	Land inherited by Welsh Government from a predecessor body.	Jan-80	£1,350,000	In WG ownership	NA
24	Wentloog, Newport	Land inherited by Welsh Government from a predecessor body.	Mar-97	£235,000	In WG ownership	NA
25	Queensway Meadows, Newport	Land inherited by Welsh Government from a predecessor body.	Oct 1980 – Jan 1982		In WG ownership	NA
26	Land at Tatton Farm	Land inherited by Welsh Government from a predecessor body.	May-00	£630,000	In WG ownership	NA

27	Land at Marshfield	Land inherited by Welsh Government from a predecessor body.	Apr-97		In WG ownership	NA
28	Former LG Hynix Site	Land inherited by Welsh Government from a predecessor body.	Sep-04	£7,000,000	In WG ownership	NA

**\*Properties Acquired and Subsequently Sold**

29	Lower Lakes Farm, Newport	<b>s.248 Discretionary Application</b> submitted by owner requesting purchase.	Jan-95	£170,000	Jan-97	£135,000
30	Pye Corner House, Nash	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Apr-96	£120,000	Jan-02	£178,000
31	Ysgubor Newydd, Coedkernew	<b>Statutory Blight Notice</b> served by owner requesting purchase.	Sep-96	£220,000	Mar-04	£361,000
32	Moorbarn, Nash	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Dec-96	£192,500	Jul-97	£167,000
33	The Maerdy, Coedkernew	<b>s.246 (2A) Off Line Discretionary Application</b> submitted by owner requesting purchase.	Apr-03	£680,000	Nov-11	£605,000
34	Rose Cottage, Knollbury	<b>s. 246(2A) Discretionary Purchase</b> application submitted by owner requesting purchase.	May-10	£360,000	Jul-11	£244,735

35	The Stud Farm, Coedkernew	<b>s.246 (2A) Off Line Discretionary</b> application submitted by owner requesting purchase.	Jan-00	£315,000  (formed part of no. 2)	Mar 2003 – <i>With some land being retained for M4 proposals (no. 2).</i>	£450,000
			<b>Total</b>	<b>£24.2m</b>	<b>Total</b>	<b>£2.1m</b>

## Annex C

### Tunnel Alternative - Supplementary Information

- 1 The table below shows the isolated cost estimate of tunnelling is £4,947m, therefore around 50%. This is for three tunnels; two 15m diameter bores at 16,358m long and a further 8m diameter pilot tunnel. There would also need to be a further 851m of tunnel portals making a total tunnelling and portal length of 17,209m of the 24,000m total route. In addition to the direct cost of tunnelling would be the staff and preliminaries costs plus allowances risks associated with the works. As this is a high level budget estimate with no defined design the project risk and optimum bias were set accordingly.

**Table 1 – Breakdown of Alternative 20 Cost Estimate**

	<b>Tunnel costs £m</b>	<b>Infrastructure outside of the tunnel costs £m</b>	<b>Total Estimate £m</b>
Prelims staff and accommodation etc. these costs are excluded from the IPA benchmarking	1,176	119	1,295
Construction costs	4,957	219	5,176
Contractor risk	794	39	833
<b>Total Construction Cost</b>	<b>6,928</b>	<b>377</b>	<b>7,304</b>
Client supervision and other development costs	323	48	371
Land & Compensation costs	15	50	65
Project Risk & Optimism bias	2,053	27	2,080
<b>Project Estimate excl. VAT &amp; Inflation</b>	<b>9,319</b>	<b>501</b>	<b>9,820</b>

- 2 The 'Infrastructure and Project Authority tunnel benchmarking Case Study: Benchmarking tunnelling costs and production rates in the UK' was first published in December 2018 and revised in March 2019 and was therefore not available for the budget assessment for the tunnel alternative which was undertaken in early 2017. The base cost used in the assessment of the tunnelling costs was from the contractor's tender pricing of the proposed A303 stonehenge 12m tunnel. The cost per meter of which was adjusted for the tunnel sizes required for this alternative.
- 3 The 'Infrastructure and Project Authority tunnel benchmarking Case Study: Benchmarking tunnelling costs and production rates in the UK' benchmarks the cost of transport tunnels in three ways
- Cost per diameter of tunnel
  - Cost per Volume of tunnel
  - Cost per unit volume (£m/KM/M2 of face)
  -

The benchmarking analysed 8 transport tunnels ranging from 5.5m diameter to 11.5m diameter therefore the data in the benchmarking does not cover the diameter of the two main tunnels or

the volume of material excavated for the M4. Below is a table comparing the M4 tunnels against the three Benchmarking cost bases.

The benchmarking only covers direct tunnelling costs not prelims and risk etc.

**Table 2 – Comparison of Alternative 20 Cost Estimate with IPA Rates**

<b>Description</b>	<b>M4 Project Alternative 20 estimate £m</b>	<b>IPA Benchmarking Equivalent £m</b>	<b>Notes</b>
<b>Cost £m per km by tunnel diameter</b>			
Alternative 20 15m diameter tunnels	110	191	No 15m dia tunnel in IPA benchmarking max where tunnel dia 11.5m. Pro rata IPA 11.5m (£112m) to 15m dia.
Alternative 20 8m diameter tunnel	31	15-33	Alt 20 cost is pro-rata from the above 15m dia rate. IPA equivalent is 8.1m dia.
<b>Project cost plotted against the volume of tunnelling</b>			
8m diameter tunnel as alternative 20 pro rata from 15m dia tunnel 16.4km long, 823,000m <sup>3</sup>	512	350	
15m diameter tunnel as alternative 20, 16.4km long volume 2,891,000m <sup>3</sup>	1,799	1,337	IPA Graph only shows trend line for volumes up to 800,000m <sup>3</sup> with a cost of approximately £370m at this point if pro rata trend line for extra volume up to 2,891,000m <sup>3</sup>
<b>Cost per unit volume (£m/km/m<sup>2</sup> of face area) plotted against tunnel length for 16km tunnel</b>			
8m diameter tunnel as alternative 20 pro rata from 15m dia tunnel	0.62	0.58	
15m diameter tunnel as alternative 20	0.62	0.58	

Document is Restricted

Shan Morgan  
Ysgrifennydd Parhaol  
Permanent Secretary



Llywodraeth Cymru  
Welsh Government

Mr N Ramsay  
Chair, Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

24 October 2019

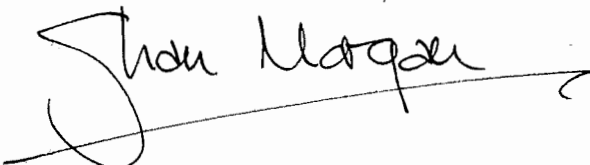
Dear Mr Ramsay,

**PAC SCRUTINY OF THE ANNUAL ACCOUNTS 2018-19  
WELSH GOVERNMENT – GENERAL SCRUTINY OF ACCOUNTS**

I write further to the Public Accounts Committee meeting, held on 7<sup>th</sup> October 2019 at which I agreed to provide more information on loans and investments awarded during the 2018-19 financial year.

The Consolidated Statement of Cash Flows on page 86 of the Consolidated Accounts notes the issue of Welsh Government Core loans and investments in 2018-19 amounting to £934m.

The table attached at Annex 1 provides an analysis of this figure.

Yours,  


**Shan Morgan**  
Ysgrifennydd Parhaol/ Permanent Secretary  
Llywodraeth Cymru/ Welsh Government



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## Annex 1

	£ million	
Student Loans issued	596.7	
Loan & investment funds issued to Development Bank of Wales	238.8	
Land for Housing Scheme Loans	32.9	Recipients are Registered Social Landlords (RSLs)
Green Growth Wales ( FTR and Salix)	20.3	Salix administer the funds for public sector energy efficiency projects
Public Dividend Capital issued to NHS Trusts	16.6	
Individual Business Loans & Investments > £0.5m	14.8	Loans and investments to 6 private sector businesses ranging from £0.5m to £5.6m
Town Centre Improvement Loans	6.0	The loan is made to and administered by participating local authorities but eligible applicants can include social housing associations, property developers, private landlords and businesses
Targeted Regeneration Investment (TRI) Programme	4.8	Loans to local authorities who can work with partner organisations to develop regeneration projects
Invest to Save Loans	1.7	Provides short-term funding to public service organisations to help them become more efficient and effective
Individual Business Loans & Investments < £0.5m	0.8	Repayable finance to 10 private sector businesses principally SMEs, ranging from £35,000 to £163,000
Swansea Central Scheme	0.7	Recipient Swansea City Council
Credit Unions	0.5	
<b>Total</b>	<b>934.6</b>	
<i>Rounding adjustments in accounts preparation</i>	<i>-0.6</i>	
<i>WG Consolidated Account Cashflow- Issue of loans and investments</i>	<i>934.0</i>	

**Shan Morgan**  
Ysgrifennydd Parhaol  
Permanent Secretary



**Llywodraeth Cymru**  
**Welsh Government**

Mr N Ramsay  
Chair, Public Accounts Committee  
National Assembly for Wales  
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24 October 2019

Dear Mr Ramsay,

## **PAC SCRUTINY OF THE ANNUAL ACCOUNTS 2018-19**

At the PAC session on the 7 October, I agreed to provide further information about the Welsh Government's Non-Executive Directors additional roles beyond the scope of their Board roles and to set out the additional payments made to Non-Executive Directors in the 2018-19 financial year.

### **ADDITIONAL ROLES**

Non-Executive Directors will not be commissioned to undertake new work beyond the scope of their Non-Executive roles on the Board. Any Board related work will be commissioned by myself or the Board and only where I am clear that there is no conflict of interest or where a conflict of interest can be managed. The Board secretariat maintains a detailed register of board members' private interests, which is updated annually.

All Non-Executive Directors have agreed to the conditions set out in the Board Terms of Reference including the Code of Conduct, which requires them to adhere to the Nolan Principles.

I am therefore confident that the system we have in place will ensure that there is no conflict of interest and ensure that the Non-Executive Directors are able to provide independent oversight and challenge to the Board.



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## ADDITIONAL PAYMENTS

Ellen Donovan received an additional £694 in May 2018 for commissioned work for Economy, Skills and Natural Resources Audit and Risk committee meetings as part of closing the old Audit and Risk Committee before the new one started.

Ann Keane received £3,675 between November 2016 and June 2018 for commissioned work on the National Academy of Education and Leadership which concluded in June 2018; and £987 for sitting on the Independent Advisory Group for the Curriculum Reform Division in Education and Public Services, Ann was appointed to this group in August 2015.

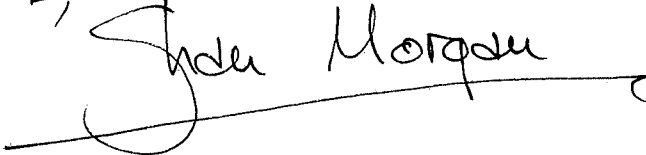
Ellan Closs Stephens, who finished her Board role on the 30 April 2019, is Chair of the Public Leaders Forum and was paid £694 for two days work on 5 March 2018 and 31 January 2019.

## OVER PAYMENTS

A duplicate payment of £1,041 (gross) for the monthly Non-Executive Director fees for James Turner and Ellan Closs Stephens was identified in the year.

Both Non-Executive Directors were notified of the overpayment and we have apologised to them for the error. The overpayment has been recovered from one Non-Executive Director and the other payment is in the process of recovery.

Controls over the monthly arrangements for Non-Executive Director payments are being reviewed to mitigate future occurrences and improvements identified will be implemented by end of October 2019.

Yours,  


**Shan Morgan**

Ysgrifennydd Parhaol/ Permanent Secretary  
Llywodraeth Cymru/ Welsh Government



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Shan Morgan  
Ysgrifennydd Parhaol  
Permanent Secretary



Llywodraeth Cymru  
Welsh Government

Nick Ramsay, AM  
Chair – Public Accounts Committee  
National Assembly for Wales  
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24 October 2019

Dear Mr Ramsay,

**SCRUTINY OF ACCOUNTS 2018-19**  
**WELSH GOVERNMENT – GENERAL SCRUTINY OF ACCOUNTS**

I write further to the Public Accounts Committee meeting, held on 7<sup>th</sup> October 2019 at which Jenny Rathbone AM raised a query regarding the underspend associated with the Gypsy & Traveller Site Capital Grant. I promised to respond in writing to guarantee the correct figures and details.

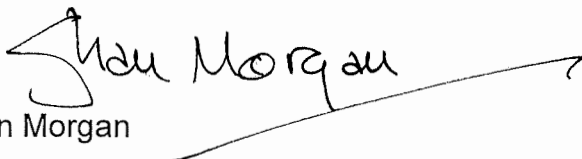
The Gypsy and Traveller Sites Capital Grant provides up to 100% grant funding and can be utilised by all 22 local authorities to develop new Gypsy and Traveller sites, extend existing sites and also refurbish existing sites as identified within their Gypsy Traveller Accommodation Assessments (GTAA's).

There are various reasons why the budget has not been fulfilled as expected. The key reasons are due to planning applications either being delayed or rejected and the identification of suitable locations for new sites.

In April 2019 Welsh Government Officials made the Deputy Minister and Chief Whip aware that some Local Authorities were yet to apply for the Site Capital Grant as forecast following the GTAA's submitted in 2016. The Deputy Minister and Chief Whip consequently wrote to Leaders of those Local Authorities to remind them that the site grant is there to be used before 2021 and encouraging them to draw down on it. The letter also reminded Leaders of the Local Authorities' duties to provide sustainable sites for Gypsies & Travellers.

Officials continue to work closely with all Local Authorities across Wales to ensure they are meeting their targets within their individual GTAA's and to encourage the take up of the Gypsy & Traveller Sites Capital Grant.

Yours sincerely

  
Shan Morgan

Nick Ramsay AM  
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**Reference:** AC/164/caf  
**Date issued:** 24 October 2019

Dear Nick

### Public Sector reporting – the position in New Zealand

During the Committee's consideration of evidence taken so far in its inquiry on the Welsh Government's 2018-19 annual report and accounts, I offered to provide members with some information about the approach taken by the New Zealand Government to its external reporting. Given our obvious parallels with Scotland, I also touch on recent developments there in respect of financial reporting.

The principle of open and transparent reporting on the plans and activities of the government is very well established in New Zealand, which 30 years ago became the first country in the world to move from cash to accruals-based accounting for its public sector operations, under its ground-breaking [Public Finance Act 1989](#).

The UK Government, together with the devolved administrations, commenced down the same route ten years later under the [Government Resources and Accounts Act 2000](#), but it is fair to say that current public sector reporting practice in New Zealand remains ahead of both the UK and other developed nations around the world.

As just one example of this: the New Zealand Government produced its first set of whole of government accounts back in 1991; the UK Government has done so every year since 2011; the Scottish Government committed in 2016 to do so (in anticipation of taking on its new fiscal and borrowing powers) and reconfirmed that intention to the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee in November 2018.

The New Zealand Government also publishes [monthly accounts](#), providing close to real-time information for its Parliament and the public on its in-year spending.

The New Zealand Government's closest equivalents to the Welsh Government's annual report and accounts are the [Annual Report](#) of the Treasury and the [Financial Statements of the Government of New Zealand](#). Their latest reports, for the year ended 30 June 2019, were published in early October. The Annual Report of the Treasury in particular sets out a wide range of information for the

reader, presented in a clear and engaging style, and contains extensive information on targets, performance and outcomes.

Other departments of the New Zealand Government produce their own annual reports, such as for the [Ministry of Social Development](#) and the [Ministry for Education](#). Taken with the annual accounts, these departmental reports together provide a comprehensive picture of progress, delivery and achievements

Most recently, the New Zealand Government has pioneered the development of well-being budgeting, and in May 2019 it placed this at the heart of its public finance planning in the world's first [Wellbeing Budget](#). Wales is, of course, at the forefront of thinking in this area given the ground-breaking *Well-being of Future Generations (Wales) Act 2015*. Whereas our approach in Wales has been legislative, in New Zealand greater reliance is being placed on budgetary decisions and accountability to drive change. The New Zealand wellbeing budget document provides a clear explanation of the annual spending devoted to each of the government's stated priorities and the indicators to be used to assess progress against them. Importantly, it also includes a Fiscal Strategy, setting out medium-term taxation, borrowing and spending projections within the context of the government's long-term fiscal objectives.

In May this year the Scottish Government published the second edition of its own five-year medium term financial strategy: [Scotland's Fiscal Outlook](#). That annual strategy stems from a 2017 recommendation by the Scottish Parliament's Budget Process Review Group. As yet, there is no equivalent publication covering the Welsh public finances. Though this is one example where Scotland are ahead of us, they too have a way to go in terms of comprehensive financial transparency. The most recent critique of the Scottish Government's Consolidated Accounts, from the Auditor General for Scotland, draws attention to this:

*The Scottish Government needs to improve the quality of financial reporting to better support Parliament. In May 2019, the Scottish Government published its second medium-term financial strategy, but it does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes... In addition, the government has still not fulfilled its commitment to publish a consolidated account covering the whole devolved public sector in Scotland. This would fill an important gap and improve strategic public financial management, support Parliamentary scrutiny and enable better decision-making<sup>1</sup>.*

This neatly summarises some of the key steps we need to take in Wales if we are to demonstrate best practice in terms of financial budgeting and reporting. And these, in turn, reflect many of the recommendations made by the National

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<sup>1</sup> [The 2018/19 audit of the Scottish Government Consolidated Accounts](#)

Assembly's Finance Committee in the previous Assembly in its two reports on *Best Practice Budget Process*<sup>2</sup>. The Committee's reports focused on steps to strengthen financial arrangements in the light of the transfer of fiscal responsibilities to the Assembly. It made recommendations, for instance, in respect of the need to align budgets with indicators and delivery measures, the desirability of a Whole of Government of Wales Account and the importance of publishing forward looking public finance plans and forecasts. These are just as relevant today as they were then.

I hope that this material is of assistance to the Committee in its ongoing inquiry.

Yours sincerely



**ADRIAN CROMPTON**  
**Auditor General for Wales**

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<sup>2</sup> [Finance Committee - Completed Reports - Fourth Assembly](#)