

WELSH DEVELOPMENT AGENCY

ANNUAL PUBLISHED ACCOUNTS

2004/2005

Index of Accounts

	Page
<i>Foreword</i>	1
<i>Statement of the Agency's and Chief Executive's Responsibilities</i>	3
<i>Statement on the System of Internal Control</i>	4
<i>Certificate and Report of the Auditor General for Wales</i>	6
<i>Consolidated Income and Expenditure Account</i>	7
<i>Agency and Consolidated Balance Sheets</i>	8
<i>Consolidated Cash Flow Statement</i>	9
<i>Notes to the Accounts</i>	10
<i>Five Year Summary</i>	33

Statutory Background

The Welsh Development Agency (the Agency) is a public body, established in 1976 under the Welsh Development Agency Act 1975 (as amended in particular by the Government of Wales Act 1998). Under this legislation the Agency may exercise a range of activities and initiatives to fulfil its purposes.

These purposes are:

- to further the economic and social development of Wales or any part of Wales and in that connection to provide, maintain or safeguard employment;
- to promote efficiency in business and international competitiveness in Wales; and
- to further the improvement of the environment in Wales, having regard to existing amenity.

The accounts have been prepared by the Agency pursuant to Schedule 3 paragraph 8 of the Welsh Development Agency Act 1975 and cover the period 1 April 2004 to 31 March 2005 in the form determined by the National Assembly for Wales (the Assembly), with the approval of the Treasury.

A copy of the accounts direction is available for inspection at the Agency's registered office.

The Agency's activities are partially financed by payments made by the Assembly, grants provided from the European Commission and also by borrowings from the National Loans Fund.

Subsidiary and Associated Undertakings

These accounts incorporate the results of the Agency's wholly owned subsidiary company Finance Wales plc and of its subsidiaries, Finance Wales Investments Ltd, Finance Wales Investments (2) Ltd, Finance Wales Investments (3) Ltd and Xenos - The Wales Business Angel Network Ltd. These accounts also include the Agency's share of the loss of Wales Innovation Fund Ltd an incorporated joint venture.

These accounts also incorporate the results of Welsh Development Management Limited, a further wholly owned subsidiary of the Agency, whose principal activity during the period was the provision of management and administration services to Welsh Industrial Partnership, a partnership between the Agency and the Royal Bank of Scotland to undertake industrial property developments in the objective one area of Wales over 5 years.

All subsidiaries prepare their accounts for the same accounting period as the Agency and uniform accounting policies are adopted.

Furthermore, included within these accounts are transactions entered into by the Agency in its capacity as one of three stakeholders in the Newport Urban Regeneration Company, trading as Newport Unlimited

The Agency's contributions included within these accounts are summarised at note 37.

Auditor

The accounts of the Agency are audited by the Auditor General for Wales as required under the Government of Wales Act 1998. External audit fees are shown at note 9 to these accounts.

Review of Activities and Future Developments

A review of the Agency's activities and future development plans together with its performance against key strategic targets are contained in the Annual Report.

On the 14th July 2004 the First Minister announced the decision to incorporate the work of the Agency directly into the Welsh Assembly Government from 1 April 2006. Consequently, from this date the Agency will cease to operate as a separate organisation and accountability for will fall directly to the Minister for Economic Development and its work Transport.

Work is currently underway and will continue during the coming year on developing and implementing the arrangements for how the new Economic Development and Transport Department will work. Continuity of business will be maintained throughout the transitional period. Further detail is provided in note 38 to these accounts.

The announcement made on the 14 July 2004 by the First Minister also included the merger of the Wales Tourist Board and the National Council for Education and Training for Wales into the Welsh Assembly Government.

The Welsh Assembly Government gave an initial assessment of the costs and benefits of the first phase of mergers in the consultation document issued on 19 January 2005. This suggested that mergers could produce ongoing savings of some £10 million per annum from 2009, and that an additional budgetary requirement of some £10 to 12 million would be needed over the next five to six years. These provisional estimates excluded any staff related investment which might be necessary. Furthermore, the Welsh Assembly Government agreed during a debate on 14 June 2005 to announce further information on merger costs in December 2005.

The Consolidated Income and Expenditure account shows an excess of expenditure over income for 'the year of £239.8m, compared to £259.5m (restated) for the previous year. After transferring this sum to reserves the carried forward balance on reserves' amounts to £264.0m, compared to £251.5m (restated) for the previous year.

The Agency's accounts for the prior year have been restated following the introduction of Financial Reporting Standard No 17. Further information is provided within note 2 to these accounts.

Prompt Payers' Code

The Agency is committed to prompt settlement of invoices and other claims for payment and fully endorses the principles of the Better Payment Practice Code issued by the Department of Trade & Industry. Systems are in place to monitor the payment cycle with statistics being maintained to record payment performance and to identify areas where improvements can be made.

In the case of works and construction contracts, where work has been completed satisfactorily in accordance with the terms of the main contract, the Agency's objective is to pay within 30 days of the issue of a valid certificate. This was achieved for 98% of all such payments made in 2004-2005.

In the case of goods, services and other claims, where the supply has been completed satisfactorily, the Agency's objective is to pay within 30 days of the receipt of an invoice or other valid claim for payment. This was achieved for 96% of all such payments made in 2004-2005.

Employee Involvement

The Agency recognises the importance of keeping its employees fully up to date with developments and changes, both within the organisation and those with which the Agency is involved externally.

Improving its internal communication network is an ongoing objective, both through the involvement of all the staff and employee representatives.

The Agency will continue to consult with its staff representatives on all issues affecting terms and conditions.

Equality and Diversity

The Agency is committed to the active promotion of equality and diversity. It seeks to ensure a diverse workforce and encourage a culture where all employees are valued and contribute to our mission of increasing the economic prosperity of the people of Wales.

The Agency will mainstream equal opportunities and diversity into all its business and functions. Its recruitment and selection procedures aim at promoting equality of opportunity and fostering a diverse workforce. The Agency actively seeks to encourage job applications from people from minority groups.

Board Members

The following persons served as Board members of the Agency during the year:

Sir Roger Jones OBE, *Chairman*
Trefor Jones CBE, LL *Deputy Chairman*
Margaret Llewellyn OBE *Vice Chair* (from 1 January 2005)
Graham Hawker CBE, DL *Chief Executive* (to 19 July 2004)
Gareth Hall *Chief Executive* (from 23 July 2004)
Noel Crowley CBE, DL
Gareth Evans
Simon Gibson OBE
Jim Hancock OBE
Dr Drew Nelson OBE
Tyrone O'Sullivan OBE
Janet Reed OBE
Professor Mohamed Wahab OBE
David Williams (to 31 December 2004)
Dr Ruth Williams

Board Members' Interests

A register of all declared interests of the members is available for inspection from the Agency's registered office: Plas Glyndwr, Kingsway, Cardiff CF10 3AH.

Financial transactions with organisations, in which Board members declared an interest are shown at note 39 to these accounts.

Audit Committee

The following Board members served on the Agency's Audit Committee during the year

David Williams *Chair* (to 31 December 2004)
Margaret Llewellyn OBE *Chair* (from 1 January 2005)
Gareth Evans
Trefor Jones CBE, LL
Janet Reed

The Audit Committee is appointed by the Board of the Agency.

Its main duties are to consider the effectiveness of the Agency's overall internal control and risk management systems and to ensure adequate processes and mechanisms are in place for the assessment and management of risk. It considers the scope of audit coverage and the adequacy of management responses to the findings of internal audit reports and advises the Chief Executive on audit and compliance matters. It reports regularly to the Board on the discharge of its functions

Remuneration and Appointments Committee

The following Board members served on the Agency's Remuneration and Appointments Committee.

Sir Roger Jones OBE (Chair)
Jim Hancock OBE
Trefor Jones CBE, LL
Dr Ruth Williams

The Committee meets at least once annually. Its role includes: undertaking the recruitment and selection process for the post of the Chief Executive; recommending a preferred candidate to the Agency's Board; determining the Chief Executive's performance targets and remuneration, within limits set by the Assembly and contractually; and advising the Chief Executive on senior staff appointments and remuneration. The Chief Executive is not a member of the Committee.

The Remuneration and Appointments Committee does not set the remuneration or other terms of the Agency's non-executive directors, this being a matter for the National Assembly.

The Chief Executive and officers appointed by him determine the remuneration of the Agency's employees, within limits set by the National Assembly.

The remuneration of the Agency's Chairman, Deputy Chairman, and Chief Executive are disclosed in the notes to these accounts, as are summary details of the remuneration and related details of other Board members and senior staff.

Other Board Committees

In addition to the above, there is a structure of Board Committees which deal with subject matters determined by the Board.

Gareth Hall

Chief Executive on behalf of the Board 8 July 2005

Statement of the Agency's and Chief Executive's Responsibilities

Under Schedule 3 paragraph 8 of the Welsh Development Agency Act 1975 (as amended), the Welsh Development Agency is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the National Assembly for Wales, with the approval of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe all relevant accounting and disclosure requirements as set out in the accounts direction issued by the Assembly and within that select suitable accounting policies and apply them on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Principal Accounting Officer for the Assembly has designated the Chief Executive of the Welsh Development Agency as the Accounting Officer for the Agency. As Accounting Officer he is responsible for the proper control of the public finances for which he is answerable, including their regularity and propriety. He must ensure that proper financial procedures are followed, that accounting records are maintained in the form prescribed for published accounts and that the public funds and other assets for which he is responsible are safeguarded. His relevant responsibilities as Accounting Officer are set out in the Accounting Officer's Memorandum issued by the National Assembly for Wales.

Statement on the System of Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and in the Agency's Management Statement and Financial Memorandum issued by the Welsh Assembly Government.

The Agency is an Assembly Sponsored Public Body, established under the 1975 Welsh Development Agency Act (as amended). As Accounting Officer, I am accountable to the Board of the Agency, which is appointed by the Assembly, for the overall organisation, management and staffing of the Agency. The Agency's Risk Management arrangements have been approved by the Agency's Board. The key strategic and operational risks faced by the Agency are regularly brought to the Board's attention.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Responsibility for the management of risk at the strategic level lies with the Agency's Board. The individual risks contained in the Agency's risk register have been consolidated into the strategic risk register which is reviewed regularly by Board and the Executive Management Team. An appropriate member of the Executive Management Team has responsibility for each individual area included in the strategic risk register.

Awareness of risk management is included in staff induction training and in the on-going programme of Code of Practice training for staff held across the Agency. Risk assessment forms an integral part of the project appraisal process.

A control solution exists for each of the risks included in the Agency's risk register. The risk register is accessible by all staff, together with the procedure on how new risks identified are dealt with and prioritised by their impact or likelihood.

At an operational level the risks faced by the Agency are grouped into seven areas, these are People, Safety and Security, Performance, Reputation, Commercial, Information Technology and Legal. Each group contains a number of individual risks which are scored according to their potential impact and likelihood. The higher impact scores are given to those risks which would result in permanent damage to the Agency's entire operation or to people, including the interests of the service user and the general public.

Individual members of the Executive Management Team have responsibility for the groups of risks which appear on the risk register.

During the year the Agency has developed its approach to understanding its risk profile by using frameworks which make the linkages between strategy, operations and the resource capability of the organisation. This work has involved staff from different business areas of the Agency. The Agency has also been refining methods for assessing and managing risks for projects of differing complexity.

It is recognised that partners should share the Agency's strategic goals and that subsidiaries must have appropriate compliance and risk management processes which fit with those of the Agency.

The Agency's consolidated accounts include those of Finance Wales plc, a wholly owned subsidiary. The Board and Chief Executive of Finance Wales plc are responsible for the risk management strategy in that organisation, and a separate Statement on Internal Control appears in the Finance Wales plc Annual Accounts. The risk management arrangements in that company are integrated into those of the Agency, the Finance Wales risk register including those risks which are Agency-wide as well as those unique to the operation of that company. Two Agency Board members are on the Board of Finance Wales plc and its Chief Executive reports to me as a member of the Agency's Executive Management Team, as well as to the Finance Wales plc Board. The Agency's Group Finance Director and Head of Compliance and Audit attend meetings of the Finance Wales Audit Committee. The Accounts of Finance Wales plc and the minutes of its Audit Committee are reviewed by the Agency's Audit Committee.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to ensure continuous improvement of the system is in place.

The Board and Audit Committee have endorsed the risk management strategy of the Agency. Regular reports are made to the Board through the Audit Committee on the status of the risk management arrangements in the Agency, and significant developments require Board approval.

In my view there are no significant internal control problems in the Agency.

Gareth Hall

Chief Executive and Accounting Officer

8 July 2005

Certificate and Report of the Auditor General for Wales to the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 7 to 32 under paragraph 8 of Schedule 3 to the Welsh Development Agency Act 1975. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets and certain properties held for resale and the accounting policies set out on page 10 and 11.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 3 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Welsh Development Agency Act 1975 and National Assembly for Wales directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Welsh Development Agency Act 1975 and directions made thereunder by the National Assembly for Wales and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent mis-statements or material inconsistencies with the financial statements.

I review whether the statement on page 4 and 5 reflects the Agency's compliance with Treasury's guidance on 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Welsh Development Agency and the Group at 31 March 2005 and of the excess of expenditure over income, total recognised gains and losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Welsh Development Agency Act 1975 and directions made thereunder by the National Assembly for Wales; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2005

	Note	2005 £'000	2004 £'000 (Restated)
Income			
Property rents and related income	3	8,662	8,194
Surplus on sale of properties held for resale		20,592	22,054
Interest receivable and other income from fixed asset investments	4	7,256	4,603
Other operating income including grant recoveries	5	9,917	7,862
Total Income		46,427	42,713
Expenditure			
Property services	6	3,970	17,382
Deficit on sale of properties held for resale		657	2,051
Interest payable and similar charges	7	4,640	3,537
Other investment management costs	8	5,124	5,241
Administration expenses	9	62,840	56,654
Other operating activities	10	74,081	76,021
Grants administered & related costs	11	110,476	112,581
Deficit on revaluation of properties held for resale	19	24,197	28,540
Share of operating loss of Wales Innovation Fund Ltd	23	214	211
Notional cost of capital charge		9,021	8,319
Total Expenditure		295,220	310,537
Excess of expenditure over income on ordinary activities before taxation		(248,793)	(267,824)
Taxation	26	-	-
Excess of expenditure over income on ordinary activities after taxation		(248,793)	(267,824)
Adjustment for the notional cost of capital		9,021	8,319
Excess of expenditure over income transferred to reserves		(239,772)	(259,505)
The excess of expenditure over income attributable to the Agency's own activities was £235,841,000 (2004 - £254,399,000 - restated)			
All results relate to continuing activities			
Statement of reserves and total recognised gains and losses			
Excess of expenditure over income for the year		(239,772)	(259,505)
Grant in Aid		217,573	233,707
European grants	36	38,844	38,969
Surrender of surplus by Land Development and Legal Services (Provided in year)/unused amounts reversed	30 23	(530)	(1,100)
Unrealised surplus on revaluation of own use properties		1,644	2,367
Actuarial gain relating to the pension scheme	14	1,800	6,100
Total recognised gains & losses for the year		12,559	27,538
Prior year adjustment in relation to the pension scheme deficit	2 & 14	38,930	
Prior year adjustment in relation to provisions for liabilities and charges	2	(5,502)	
		33,428	
Total recognised gains and losses since last annual accounts		45,987	
Reserves at 1 April (restated)		251,468	223,930
Total recognised gains & losses for the year		12,559	27,538
Reserves at 31 March (restated)		264,027	251,468

The notes on pages 10 to 32 form part of these Accounts

AGENCY AND CONSOLIDATED BALANCE SHEETS

At 31 March 2005

	Note	Agency 2005 £'000	Agency 2004 £'000 (Restated)	Consolidated 2005 £'000	Consolidated 2004 £'000 (Restated)
Fixed assets					
Tangible assets	15	14,683	13,562	14,877	13,917
Investments	16	22,214	21,822	29,252	22,244
Interests in joint ventures	17	10,719	9,023	10,719	9,023
Mortgages and other loans	18	2,706	3,063	2,706	3,063
		50,322	47,470	57,554	48,247
Current assets					
Properties held for resale	19	248,984	246,519	248,984	246,519
Debtors	20	32,774	51,074	33,048	50,627
Short term investments	21	-	-	57,421	36,350
Cash at bank and in hand		38,145	38,163	44,801	75,449
		319,903	335,756	384,254	408,945
Current liabilities					
Creditors: amounts falling due within one year	22	(36,199)	(37,540)	(49,733)	(45,351)
Net current assets		283,704	298,216	334,521	363,594
Total assets less current liabilities		334,026	345,686	392,075	411,841
Creditors:					
amounts falling due after more than one year	22	(1,517)	(1,570)	(61,904)	(71,449)
Provisions for liabilities and charges	23	(1,017)	(23,360)	(2,988)	(25,117)
Net assets excluding pension fund deficit		331,492	320,756	327,183	315,275
Pension fund deficit	14	(37,920)	(38,930)	(37,920)	(38,930)
Net assets including pension fund deficit		293,572	281,826	289,263	276,345
Financed by					
Public Dividend Capital	24	13,321	12,922	13,321	12,922
Loan capital	25	11,915	11,955	11,915	11,955
Revaluation reserve	27	9,077	7,433	9,077	7,433
Pension Fund	27	(37,920)	(38,930)	(37,920)	(38,930)
General reserve	27	297,179	288,446	292,870	282,965
		293,572	281,826	289,263	276,345

The Notes on pages 10 to 32 form part of these Accounts

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Operating activities			
Net cash outflow from operating activities	28	(254,941)	(246,953)
Capital expenditure and financial investments			
Receipts from the sale of tangible assets and interests in joint ventures		1,761	1,464
Mortgage and loan repayments received		2,840	2,168
Payments to acquire tangible assets and interests in joint ventures		(2,291)	(3,132)
Payments to acquire equity investments and to make loans		(11,983)	(6,319)
Net cash outflow from capital expenditure and financial investments		(9,673)	(5,819)
Financing and management of liquid resources			
National Assembly Grant in Aid received		219,573	231,707
European funds received		36,358	44,990
Surrender of surplus by Land Development and Legal Services to the Assembly		(530)	(1,100)
Public Dividend Capital received		399	264
Loan funds received		-	20,046
Loan capital repayments made		(764)	(43)
(Deposit)/withdrawal of short term deposits		(21,070)	4,606
Net cash inflow from financing and management of liquid resources		233,966	300,470
(Decrease)/Increase in cash		(30,648)	47,698
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash during the period		(30,648)	47,698
Loan capital repaid during year		40	43
Change in net debt		(30,608)	47,741
Net debt at 1 April		63,494	15,753
Net debt at 31 March	29	32,886	63,494

The notes on pages 10 to 32 form part of these Accounts

WELSH DEVELOPMENT AGENCY

1. Statement of Accounting Policies

Basis of Accounting

These accounts are required, without limiting the information given, to meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate to the Agency. The accounts have been prepared under the historical cost convention as modified by the open market valuation of own use land and buildings and certain properties held for resale. The Agency is exempted from the requirements under Financial Reporting Standard No 3 to produce a note of historical cost profits and losses.

Consolidation

The consolidated accounts incorporate the results of the Agency's subsidiary and associated undertakings as referred to in the Foreword and note 35.

As permitted by Section 230(4) of the Companies Act 1985, the Agency's income and expenditure account is not presented separately in the financial statements.

Funding

Under the terms of the Welsh Development Agency Act 1975 (as amended), the Agency is partly financed by Grant-in-Aid from the Assembly and also by borrowings from the National Loans Fund. The whole of the Grant-in-Aid is credited to reserves. Grant funding is also provided by the European Commission for certain qualifying capital and revenue projects. All such grants are also credited to reserves.

It is the Agency's policy, as recognised in its Financial Memorandum issued by the Assembly, to operate the Land Development and Legal Services Unit on a ring-fenced basis. The financial results of the Land Development and Legal Services Unit are disclosed separately in note 30 to the accounts.

Tangible Assets

Properties occupied in whole or in part for the Agency's own use are shown in the balance sheet at open market value. They are revalued annually by independent professional valuers. Adjustments arising on revaluation are taken to a revaluation reserve with any permanent diminutions being charged directly to the income and expenditure account. Surpluses or deficits arising on the disposal of land and buildings are derived by reference to the valuation as at the end of the previous financial year.

Other tangible assets are not revalued as, in the opinion of the Agency, the difference between net current replacement cost and historic cost less depreciation is not material.

Depreciation

Depreciation on properties occupied by the Agency is based on the revalued amount having regard to the remaining life of the asset at the time of the valuation.

Other tangible fixed assets are depreciated on a straight line basis having regard to their expected useful lives.

Asset lives are adopted as follows:

Computer equipment	3 years
Other equipment, vehicles and furniture	4 years

A full year's depreciation charge is made in the year of acquisition. There is no charge in the year of disposal. The capitalisation threshold for equipment and furniture is £5,000. Computer equipment below this value is grouped and capitalised.

Properties held for resale

The value of land held for resale by the Land Development and Legal Services Unit at the year end is stated at the lower of cost of purchase and improvements or net realisable value.

Other land and buildings held by the Agency, which are not required for own use and which are held with the ultimate intention for resale are stated at open market value.

Investments and Interests in Joint Ventures

Investments are shown at cost, less provisions for diminution in value. Interests in unincorporated joint ventures are shown at the lower of cost and recoverable amounts, any shortfall being charged to the income and expenditure account. Subsequent rises in anticipated future receipts are brought to account only when realised.

Short Term Investments

Short term investments shown as current assets are valued at the lower of cost and net realisable value.

Financial Instruments

The Group is precluded from the use of short term methods of funding such as bank overdrafts. Where projects are financed through long term borrowings, these are scheduled appropriately in accordance with the expected life of the project

The Agency's subsidiary company Finance Wales plc is exposed to interest rate risk arising from borrowing at a margin over variable LIBOR (London inter bank offered rate) and lending to SME's at fixed rates. As tranches of lending accumulate, this risk will be hedged using fixed interest rate contracts, known as interest rate swaps.

Note 1 (continued)

In the Agency's opinion there is no material exposure to currency risk

Grant Expenditure

Grant expenditure is accrued and charged to the income and expenditure account on the basis of grant claims which have been received and approved, in relation to work undertaken up to the balance sheet date.

The account includes grant payments to local authorities which may be subject to adjustment when final audited claims have been received.

Taxation and Deferred Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to sell. Deferred tax assets and liabilities are not discounted.

Foreign Currency

Transactions denominated in foreign currency are translated at the rate of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date.

Transaction and translation gains and losses are credited or charged to the income and expenditure account.

Notional Cost of Capital

A notional capital charge reflecting the cost of capital employed, except to the extent that Loans and Public Dividend Capital are remunerated separately, is included in operating costs. In accordance with Treasury guidance the charge has been calculated at 3.5%.

Pension Costs

The Agency contributes to the Local Government Pension Scheme administered by Rhondda Cynon Taff County Borough Council, which is a multi-employer funded scheme.

Further information regarding the Agency's pension scheme is provided at note 14 to these accounts

Note 2. Prior Year Adjustment

For 2004-05, the pension funds actuary has for the first time been able to identify the Agency's share of the funds' assets and liabilities and therefore the Agency has been able to account for its pension costs as a defined benefit scheme in accordance with Financial Reporting Standard No 17 (FRS 17).

In accordance with FRS 17, the Agency has restated the prior year accounts as shown on page 12. The Agency's share of the pension fund deficit as reported by the actuary resulted in the restatement of the general reserve brought forward at 1 April 2003.

The 2003-04 income and expenditure account and statement of total recognised gains and losses have been restated to take account of the actuarial calculations as provided for under FRS 17.

The restated income and expenditure account also includes a further prior year adjustment for a charge previously reported through provisions for liabilities and charges as explained below.

Prior to 2004-05, the Agency had made a provision in the accounts for the future pension costs of former employees who had been provided with added years pension entitlements. This provision was previously shown within provisions for liabilities and charges at note 23. The implementation by the Agency of the FRS 17 accounting treatment described above, means that the pension costs for former employees have now been incorporated within the overall pension deficit and as a consequence the provision for liabilities and charges has also been restated.

The pension fund deficit reported within these accounts does not include the pension arrangements for Finance Wales Investments Ltd, as these are not considered material in the context of the overall group accounts.

Notes to the Accounts

Note 2 (continued)

2003-04 Income and Expenditure Account

£'000

Excess of expenditure over income previously reported	258,852
Adjustment for net charge previously provided through provisions for liabilities & charges	283
Actuarial charge - FRS17 adjustment	370
Excess of expenditure over income (restated)	<u>259,505</u>

2003-04 Statement of Total Recognised Gains & Losses

£'000

Statement of total recognised gains & losses previously reported as at 31 March 2004	22,091
2003-04 Income & expenditure adjustment (see above)	(283)
2003-04 Income & expenditure adjustment (see above)	(370)
2003-04 Actuarial gain	6,100
Statement of total recognised gains & losses as at 31 March 2004 (restated)	<u>27,538</u>

General Reserve

£'000

General reserve as at 31 March 2003 previously reported	262,805
Pension fund deficit as at 31 March 2003	(44,660)
Adjustment for pension provision previously provided through provision for liabilities & charges	5,785
General reserve as at 31 March 2003 (restated)	<u>223,930</u>
Adjustment for 2003-04 restated total recognised gains & losses (see above)	27,538
General reserve as at 31 March 2004 (restated)	<u>251,468</u>

Provision for Liabilities & Charges

£'000

Provision as at 31 March 2004 previously reported	30,619
Adjustment for provisions transferred to pension fund deficit	(5,785)
Adjustment for transfer in 2003-04 to income and expenditure	283
Provision at 31 March 2004 (restated)	<u>25,117</u>

NOTES TO THE ACCOUNTS

	2005	2004
	£'000	£'000
<hr/>		
3. Property rents and related income		
Gross rents	7,403	7,484
Miscellaneous income	1,259	710
	<hr/> 8,662	<hr/> 8,194
<hr/>		
4. Interest receivable and other income from fixed asset investments		
Interest receivable	6,824	4,582
Dividend income	-	8
Surplus on equity disposals	432	13
	<hr/> 7,256	<hr/> 4,603
<hr/>		
5. Other operating income and grant recoveries		
Other operating income	4,949	4,584
Clawback and reclaimed grants	4,968	3,278
	<hr/> 9,917	<hr/> 7,862
<hr/>		
6. Expenditure on property services		
Estate maintenance	3,928	3,988
Rent guarantees	-	159
Rents payable	2,393	2,130
Movement in provision for bad and doubtful debts	(7,278)	7,596
Consultancy services and professional fees	2,989	1,710
Other operating costs	1,938	1,799
	<hr/> 3,970	<hr/> 17,382
<hr/>		

Movement in provision for bad and doubtful debts includes the write back of a £7m bad debt provision in relation to the repayment of grant to the Agency, which arose following the failure of a company to discharge its obligations under the terms of the grant provision. This debt was fully repaid in 04/05.

In addition, during the year the Agency identified 18 cases of irrecoverable debts in relation to its property services activity amounting to a total of £321,782, which have been put forward for write off.

All debts to be written off have been fully provided for within these accounts. National Assembly approval for write off is being sought where this is necessary.

	2005 £'000	2004 £'000
7. Interest payable and similar charges		
Interest payable	4,640	3,537
Interest payable and similar charges are analysed as follows:		
On loans repayable within 5 years	5	6
On loans repayable after more than 5 years	4,635	3,531
8. Other investment management costs		
Movement in provision for bad and doubtful debts/ diminution in value of investments	2,452	1,848
Consultancy services and professional fees	1,487	2,013
Other operating costs	1,185	1,380
	5,124	5,241
9. Administration expenses		
Salaries, members emoluments and related costs	41,496	37,150
Pension finance costs (net)	790	370
Travel, subsistence and hospitality	4,256	4,122
Consultancy services and professional fees	3,233	2,133
Auditor General for Wales - annual audit fee	82	80
- other fees	7	6
Other external audit fees	46	58
Office and establishment costs	10,833	10,602
Depreciation	2,097	2,133
	62,840	56,654
10. Other operating activities		
International	1,440	2,532
Marketing	21,776	27,068
Strategy development	872	845
Business support	49,993	45,576
	74,081	76,021
11. Grants administered & related costs		
Land reclamation	25,538	14,278
Urban & Rural development (Including Investment Grants)	18,446	22,763
Property development	22,158	24,258
Support to other organisations	44,334	51,282
	110,476	112,581

	2005 £	2004 £
12. Board members' emoluments		
Chairman - Sir Roger Jones OBE	57,243	61,059
Deputy Chairman - Trefor Jones CBE, LL	19,439	18,987
Chief Executive - Graham Hawker CBE, DL (to 19 July 2004)	46,519	120,016
Chief Executive - Gareth Hall (from 23 July 2004)	90,735	-
Eleven members between £5,001 and £10,000	91,607	92,305
Total emoluments	305,543	292,367

Graham Hawker's remuneration of £46,519 incorporates a base salary of £37,079 and bonus payments of £7,254 in relation to the 2003/04 financial year (2002/03 £6,670) and £2,186 in relation to the 2004/05 financial year. Graham Hawker resigned on the 19 July 2004 and in addition to the above remuneration, received a termination payment of £56,920, in accordance with the terms and conditions of his employment contract.

Gareth Hall's remuneration of £90,735 includes a base salary of £76,554, taxable benefits of £3,322 in relation to the provision of a leased car and pension contributions of £10,859.

The Chairman is contracted to work 2.5 days per week, with the other Board members being contracted to work between 2 and 5 days per month. All Board members are contracted to serve a three year term.

	£'000	£'000
Expenses:		
Travel and subsistence	26	33
Hospitality extended	3	3

13. Staff costs	£'000	£'000
Salaries and wages	33,274	29,891
Social security costs	2,599	2,296
Other pension costs	4,739	4,391
Total staff costs	40,612	36,578

	No.	No. (Restated)
Average number of employees during the year	1,020	945

Breakdown of staff numbers by category of employment at 31 March 2005

Capital programmes	135	136
Business support	500	485
International/Marketing	161	155
Strategy development	37	29
Regional support services	84	90
Corporate services	119	117
Total	1,036	1,012

13. Staff Costs (continued)

Senior staff

The Agency's senior staff are not Company Directors within the meaning of the Companies Acts, to which the "Greenbury Code" on disclosure of remuneration, etc, is addressed. The Agency's senior staff have signed standard Agency employment contracts which do not provide for publication of private information on their remuneration, etc. Furthermore, all Agency employees have statutory rights to privacy under the Data Protection Acts and Human Rights legislation. Consequently, the senior staff have withheld their consent to publication of their private details, as allowed by HM Treasury's instruction DAO (GEN) 12/00.

The Agency believes that the following information gives a thorough understanding of senior staff details.

Executive Management Team

Other than the Chief Executive the following employees filled Executive, i.e. the most senior management posts in the Executive Management team during 2004-2005.

Burke T	Executive Director Strategy Development	from 29/3/05
Childs D A	Group Finance Director	
Davies G	Executive Director Mid Wales / South West Wales	
Farrow C J	Executive Director North Wales	
Hall G J	Executive Director Strategy Development	to 22/7/04
Harcombe Z	Executive Director Human Resources	
Hendy H	Executive Director International	to 30/1/05
John G	Executive Director Marketing	
King M	Executive Director South West Wales	to 30/1/05
King M	Executive Director International	from 31/1/05
Leeb G	Acting Executive Director Business Support	
Lloyd-Jones S	Acting Chief Executive Finance Wales plc	
Neal N G	Executive Director Land Development & Legal Services	
Thomas K J	Executive Director South East Wales	

The remuneration (including, in certain cases, part costs for the provision of leased cars) of Executive Management post holders, excluding the Chief Executive, was as follows (where relevant, the allocation between ranges reflects part year costs):

Remuneration Range	Number
£0,000 - £9,999	1
£30,000 - £39,999	1
£60,000 - £69,999	1
£70,000 - £79,999	1
£80,000 - £89,999	6
£90,000 - £99,999	3

The pension arrangements for the above persons were the same as for other Agency employees, who participated in the Agency's occupational pension scheme, as described in note 14 to the accounts.

All employees who are over the age of 60 at 31 March 2005 are entitled to draw their accrued pension on completion of their term of appointment or employment in the Agency.

14. Pensions

The Agency participates in the Local Government Pension Scheme, which is a multi-employer funded scheme providing pension and related benefits on a final salary basis. The assets of the scheme are held separately from the assets of the Agency and are administered by Rhondda Cynon Taff County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay as you go basis.

A full actuarial valuation of the fund was carried out at 31 March 2004 and the principal assumptions used by the independent qualified actuaries in updating the latest valuations of the fund for FRS 17 purposes, together with the funding position in respect of the Agency are shown below.

A deferred tax asset of £11.4m has not been recognised in respect of deferred pension costs as there is insufficient evidence that the asset will be recovered.

The agreed employers contribution rate was 17.9% of pensionable earnings.

Main financial assumptions used for the actuarial valuation were:

	2005 (% p.a.)	2004 (% p.a.)
Inflation	3.1	2.8
Rate of general long-term increase in salaries	4.6	4.3
Rate of increase to pensions in payment	3.1	2.8
Discount rate	6.6	6.3

The fair value of the assets in the scheme and the expected rate of return at the balance sheet date for the whole of the Rhondda Cynon Taff County Borough Council Pension Fund were as follows.

	Long-term rate of return expected at 31 March 2005 (% p.a.)	Estimated value at 31 March 2005 (£M)	Long-term rate of return expected at 31 March 2004 (% p.a.)	Value at 31 March 2004 (£M)
Equities	7.7	720.00	7.7	640.98
Property	6.7	0.23	6.7	0.23
Government Bonds	4.7	149.63	4.7	124.96
Corporate bonds	5.3	12.82	5.5	6.21
Other	4.8	54.83	4.2	68.32
Total		937.51		840.70

The Funding Position in respect of the Agency is as follows:

	2005 (£M)	2004 (£M)
Share of assets	59.31	49.68
Estimated funded liabilities	88.68	80.37
Estimated unfunded liabilities	8.55	8.24
Deficit	(37.92)	(38.93)

14. Pensions (continued)

Analysis of amount charged to the income and expenditure account

	2005 (£M)	2004 (£M)
Current service cost	3.32	2.91
Past service cost	0.52	0.44
Total charged to income and expenditure	3.84	3.35

Analysis of amount credited to the income and expenditure account

	2005 (£M)	2004 (£M)
Expected return on pension scheme assets	3.62	2.87
Interest on pension scheme liabilities	(5.67)	(4.32)
Net return	(2.05)	(1.45)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses

	2005 (£M)	2004 (£M)
Actual return less expected return on pension scheme assets	1.84	5.78
Experience gains and losses arising on the scheme liabilities	(0.09)	0.31
Changes in assumptions underlying the present value of the scheme liabilities	(0.05)	0.01
Total actuarial gain	1.80	6.10

Analysis of movement in deficit during the year

	2005 (£M)	2004 (£M)
Deficit in scheme at beginning of the year	(38.93)	(44.66)
Current service cost	(3.32)	(2.91)
Contributions	5.10	4.43
Past service costs	(0.52)	(0.44)
Other finance income	(2.05)	(1.45)
Actuarial gain	1.80	6.10
Deficit in scheme at the end of year	(37.92)	(38.93)

14. Pensions (continued)

History of experience gains and losses

	2005	2004
Difference between expected and actual return on scheme assets:		
* Amount (£M)	1.84	5.78
* Percentage of scheme assets	3.1%	11.6%
Experience gains (losses) on scheme liabilities:		
* Amount (£M)	(0.09)	0.31
* Percentage of the present value of the scheme liabilities	-0.1%	0.3%
Change in assumptions:		
* Amount (£M)	0.05	0.01
* Percentage of the present value of the scheme liabilities	0.1%	0.0%
Total amount recognised in STRGL:		
* Amount (£M)	1.80	6.10
* Percentage of the present value of the scheme liabilities	1.8%	6.9%

WELSH DEVELOPMENT AGENCY

15. Tangible assets

The Assembly has directed that land and buildings wholly or partly occupied by the Agency should be included in the balance sheet at their open market value. Accordingly, at 31 March 2005 the Agency's land and buildings were valued on that basis by independent valuers, suitably qualified for the purpose and in accordance with the Guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors.

The valuation was carried out by King Sturge Chartered Surveyors (RICS).

	Land and buildings £'000	Office equipment and vehicles £'000	Total £'000
Cost and valuation			
At 1 April 2004	11,932	7,784	19,716
Additions	-	1,414	1,414
Disposals	-	(425)	(425)
Revaluation adjustment	1,233	-	1,233
At 31 March 2005	13,165	8,773	21,938
Depreciation			
At 1 April 2004	-	5,799	5,799
Charge for the year	411	1,686	2,097
Disposals	-	(424)	(424)
Revaluation adjustment	(411)	-	(411)
At 31 March 2005	0	7,061	7,061
Net book amounts			
At 31 March 2005	13,165	1,712	14,877
At 1 April 2004	11,932	1,985	13,917

A summary of the valuation of land and buildings is as follows:

	£'000
Freehold	4,725
Long Leasehold	8,440
At 31 March 2005	13,165

	Agency £'000	Consolidated £'000
16. Investments		
Cost		
At 1 April 2004	23,137	29,874
Additions	454	11,959
Repayments	(134)	(2,486)
Written off	(713)	(1,953)
At 31 March 2005	22,744	37,394
Diminution in value		
At 1 April 2004	1,315	7,630
Movement in Provisions	(72)	2,465
Written off	(713)	(1,953)
At 31 March 2005	530	8,142
Net book values		
At 31 March 2005	22,214	29,252
At 1 April 2004	21,822	22,244

Loans due for repayment within one year total £2,822,834 (2004 - £1,753,528)

The above includes the Agency's investment in Welsh Industrial Partnership, an associated undertaking. The net book value of the Agency's interest in the Partnership included above, amounts to £10,565,000

During the year the Agency identified 15 cases of irrecoverable investments in relation to its investment activity amounting to a total of £712,429. Included within these irrecoverable investments are three individual cases of £179,541, £150,000 and £158,595.

	£'000
17. Interests in Joint Ventures	
At 1 April 2004	9,023
Additions	3,465
Disposals	(1,176)
Diminutions in value - Included within note 11	(593)
At 31 March 2005	10,719

The above interests in joint venture projects have been independently assessed by King Sturge Chartered Surveyors. The value represents the lower of cost or recoverable amounts, any shortfall being charged to the income and expenditure account. The joint venture projects included in the above valuation have been undertaken at the following locations:

Llanelli Gate, Dafen	Parc Amanwy, Ammanford
Hawtin Park, Blackwood	Swansea Vale
Land at Duffryn, Newport	Land at Pillgwenlly, Newport
Land at Cleppa Park, Newport	Land at Rhyd-y-Car, Merthyr
Heath Hospital, Cardiff	Penrhyndeudraeth, Gwynedd
Ocean Park, Cardiff	Cross Hands, Carmarthenshire
Science Park, Bridgend	Junction 33 M4
Oakdale, Blackwood	

	2005 £'000	2004 £'000
18. Mortgages and other loans		
Agency and Consolidated		
At 1 April	3,063	3,392
Repayments	(357)	(329)
At 31 March	2,706	3,063
Amount falling due within one year	386	356

	Land	Other	2005	2004
	Development	Agency	Total	Total
	Unit		£'000	£'000
	£'000	£'000	£'000	£'000
At 1 April	67,615	178,904	246,519	219,587
Transfer to Joint Ventures (note 17)	-	-	-	(2,501)
Additions	18,938	37,616	56,554	87,113
Disposals	(17,904)	(11,988)	(29,892)	(29,140)
Intra Agency transfer	8,163	(8,163)	-	-
Movement in provision for diminution in value	479	(24,676)	(24,197)	(28,540)
At 31 March	77,291	171,693	248,984	246,519

Intra Agency transfers represents purchases and sales of Land by the Land Development Unit from other Agency regions of £11,454,000 and £3,291,000 respectively.

Properties held for resale includes certain land and buildings where tenants have been provided with options to purchase within certain limited time periods at a value of not less than £128,527.

	Agency		Consolidated	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
20. Debtors				
Amounts falling due within one year				
Trade debtors	9,169	8,445	9,201	8,487
Other debtors	9,216	27,668	10,815	27,105
Prepayments and accrued income	13,615	13,601	12,258	13,673
	32,000	49,714	32,274	49,265
Amounts falling due after more than one year				
Other debtors	3	10	3	12
Prepayments and accrued income	771	1,350	771	1,350
Total debtors	32,774	51,074	33,048	50,627
Included within the above debtor balances are balances with other public bodies as follows:				
Other Central Government Bodies.	20,216	13,584	21,797	13,670
Local Authorities.	2,043	1,605	2,043	1,608
Other Public Corporations	3	-	3	-
Total	22,262	15,189	23,843	15,278

	Agency		Consolidated	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
21. Short term investments held as current assets				
Investment Funds	-	-	57,421	36,350
	-	-	57,421	36,350

	Agency		Consolidated	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
22. Creditors				
Amounts falling due within one year				
Payments received on account	1,644	1,525	1,644	1,525
Trade creditors	8,840	12,287	8,919	12,591
Taxation and social security	18	40	18	40
Other creditors	1,185	1,589	1,282	1,732
Accruals	24,512	22,099	37,870	29,463
	36,199	37,540	49,733	45,351
Amounts falling due after more than one year				
Other creditors	-	-	44,200	44,924
Accruals	1,517	1,570	17,704	26,525
Total creditors	37,716	39,110	111,637	116,800
Included within the above creditor balances are balances with other public bodies as follows:				
Other Central Government Bodies.	304	1,371	390	1,455
Local Authorities.	4,845	5,652	4,847	5,698
Other Public Corporations	1,439	173	1,510	314
Total	6,588	7,196	6,747	7,467

23. Provisions for liabilities and charges

	Pensions Chairmen	Merger with the Assembly (see note 38)	Repayment of Grant	Wales Innovation Fund Ltd	Total 2005	Total 2004 (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
Provision at 1 April (restated)	360	-	23,000	1,757	25,117	31,906
Applied in the year	(19)	-	(30,000)	-	(30,019)	-
Provided in the year / (unused amounts reversed)	11	665	7,000	214	7,890	(6,789)
Provision at 31 March	352	665	0	1,971	2,988	25,117

The provision for pensions shown above has been restated following the introduction of Financial Reporting No 17. Further information is provided within note 2 to these accounts.

The provision for the repayment of grant shown above relates to an obligation to repay to the National Assembly for Wales an amount equal to the repayment of grant to the Agency from a company who failed to discharge their obligations under the terms of the grant offer. This grant was fully repaid in the year and therefore no further provision is required. The note includes a £7m bad debt provision write back in respect of this transaction with the corresponding entry shown as a movement within the statement of reserves and total recognised gains and losses on page 7.

24. Public Dividend Capital

Balance at 1 April 2004	12,922
Receipts during the year	399
Balance at 31 March 2005	13,321

25. Loan capital

	National Loans Fund £'000
Balance at 1 April 2004	11,955
Repayments during year	(40)
Balance at 31 March 2005	11,915
Amounts falling due within 1 year	40
Amounts falling due between 1 and 5 years	126
Amounts falling due after 5 years	11,749
Total	11,915

The National Loans Fund loans are repayable over periods of up to 60 years. They bear interest rates between 4.75% and 17.25%.

26. Taxation and deferred taxation

1. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in period

	2005 £'000	2004 £'000
<i>Current Tax</i>		
UK corporation tax on profits of the period @ 30%	-	-
	<u>0</u>	<u>0</u>

(b) Factors affecting the tax charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

Excess of expenditure over income on ordinary activities before tax	(248,793)	(267,824)
Excess of expenditure over income on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004:30%)	74,639	80,347
<i>Effects of:</i>		
Non taxable (expenses)/income	(3,189)	(3,854)
Timing differences not recognised	2,387	1,980
Utilisation of tax losses	1,448	1,929
Property expenses not allowable for tax purposes	(6,908)	(9,640)
Grant in aid offset against expenses	(62,939)	(65,802)
Tax losses not recognised in deferred tax	(5,438)	(4,960)
Payment in respect of sale of fixed assets in prior year	-	-
<i>Current tax credit for period (note 1(a))</i>	<u>0</u>	<u>0</u>

(c) Factors that may affect future tax charges

Deferred tax has not been recognised in respect of timing differences relating to fixed assets of £6m on the basis that any liability arising would be offset by losses. Deferred tax assets have also not been recognised in respect of losses arising on property rentals of £38m, £2.1m in respect of excess management expenses, £647k in respect of non-trade financial losses, £1.2m in respect of timing differences on provisions and £11.4m in respect of accrued pension costs as there is insufficient evidence that the assets will be recovered. These assets would be recovered if taxable income were received in excess of expenses in future years in respect of each activity sufficient to absorb these losses.

27. Movement in funds

	Public Dividend Capital £'000	Loan Capital £'000	Revaluation Reserve £'000	Pension Fund £'000	General Reserve £'000	Total 2005 £'000	Total 2004 (Restated) £'000
Recognised gains & losses for the year	-	-	1,644	1,010	9,905	12,559	27,538
Movement in capital	399	(40)	-	-	-	359	221
Movement of funds in the year	399	(40)	1,644	1,010	9,905	12,918	27,759
Funds at 1 April (restated)	12,922	11,955	7,433	(38,930)	282,965	276,345	248,586
Funds at 31 March	13,321	11,915	9,077	(37,920)	292,870	289,263	276,345

2005
£'000
(Restated)
2004
£'000

28. Reconciliation of excess of expenditure over income to net cash outflow on operating activities

Excess of expenditure over income on ordinary activities before tax	(248,793)	(267,824)
Movement in provisions for liabilities and charges	871	212
Pension finance costs (net)	790	370
Depreciation	2,097	2,133
Release of deferred grant income	(5,103)	(2,350)
Diminution in value of joint ventures	593	2,235
Movement in provision for bad and doubtful debts	(4,826)	9,444
Notional cost of capital	9,021	8,319
Increase in properties held for resale	(2,465)	(26,932)
Decrease in debtors	13,865	16,804
(Decrease)/increase in creditors	(20,991)	10,636
Net cash outflow on operating activities	(254,941)	(246,953)

WELSH DEVELOPMENT AGENCY

		Total 2005 £'000	Total 2004 £'000
29. Analysis of changes in net debt			
	Change in year		
Cash at bank and in hand	(30,648)	44,801	75,449
Debt due within one year	-	(40)	(40)
Debt due after more than one year	40	(11,875)	(11,915)
Total	(30,608)	32,886	63,494

30. Land Development Unit

The Land Development Unit seeks to support and encourage the creation of development opportunities in situations of market difficulty throughout Wales. It conducts its activities by supporting both the public and private sectors and acting for the Agency's regional teams, as required, on land related activities, including urban regeneration schemes. It is the Agency's policy to operate the unit on a ring fenced basis, generating income mainly from disposal of sites for development.

As required by the Accounts Direction a memorandum summary of the Land Development Unit's financial performance for the year is set out below:

	2005 £'000	2004 £'000
Turnover	34,555	25,717
Cost of Sales	(21,968)	(9,651)
Movement in provision for diminution in value of stock	479	1,557
Gross Profit	13,066	17,623
Administration expenses (includes Corporate Recharges)	(5,363)	(5,144)
Operating Profit	7,703	12,479
Interest Receivable	745	461
Interest Payable	(50)	(48)
Net profit for the period	8,398	12,892

During the year Land Development Unit made a payment to the Assembly of £530k in respect of the sale of assets inherited from the former Cardiff Bay Development Corporation. This repayment is shown as a movement within the statement of reserves and total recognised gains and losses on page 7.

The above excludes a notional cost of capital charge, as no separate balance sheet is prepared.

	2005	2004
	£'000	£'000

31. Contingent liabilities

Guarantees and conditional undertakings	2,590	3,050
Other contingent liabilities	10,995	7,478
At 31 March	13,585	10,528

'Other contingent liabilities' primarily encompass potential costs associated with the removal of ground contamination and also legal proceedings being pursued against the Agency. The Agency does not consider that there is any basis for such legal claims.

32. Capital commitments

	£'000	£'000
Contracted but not yet provided for	120,825	149,369

In addition to the above, since 2000/01 the Agency has been contractually committed to pay £5.1 million annually, index linked, to the primary contractor associated with the Bute Avenue (PFI) project, until November 2025. The amount payable in 2004/05 was £6,004,520. This scheme was transferred from the Cardiff Bay Development Corporation (CBDC) to the Agency in April 2000 as part of the wind up of CBDC. The private sector partner is required to design, construct and maintain for 25 years a road network to be known as Bute Avenue, the completion of associated works and to secure and or undertake the provision of specified residential and commercial developments. It is not possible to assign a capital value of the scheme at this time.

33. Operating leases

Total operating lease rentals charged to the income & expenditure account are analysed as follows:

	£'000	£'000
Hire of Equipment.	4	6
Other operating leases.	5082	4670

Operating lease commitments falling due within 12 months are analysed as follows:

Land & Buildings

Commitments that expire:

Within 1 year	405	297
Between 1 and 5 years	1,123	1,269
After 5 years	2,931	2,322
Total	4,459	3,888

Other Assets

Commitments that expire:

Within 1 year	28	43
Between 1 and 5 years	293	252
Total	321	295

34. Financial limit

Under Section 18 of the Welsh Development Agency Act 1975, as amended by the Welsh Development Agency Act 1997 and subsequent Statutory Instruments the aggregate amount of finance outstanding by the Agency otherwise than by way of interest should not exceed the limit of £3,000 million.

The amount outstanding as at 31 March 2005 was
£2,078,933,000 (2004 - £1,908,153,000)

35. Results of related companies

In accordance with the accounts direction, where the Agency's interest exceeds 30% of the issued ordinary shares and convertible preference shares of a company and £100,000, the following information taken from the latest audited annual accounts is given.

Agency holdings at 31 March 2005

Name of company	Description of investment	Proportion held	Year to	Share capital and reserves	Profit/ (Loss) for the year
		%		£	£
Welsh Development Management Ltd	1 ordinary £1 share	100	31.3.05	(254)	(200)
Finance Wales plc	12,500 ordinary £1 shares	100	31.3.05	(4,296,951)	1,171,632

Finance Wales plc is a wholly owned subsidiary company of the Agency. The profit for the year of £1,172k (2004 - loss of £2,756k) and its share capital and reserves of (£4,297k) (2004 - (£5,468k)), incorporates the results of its own wholly owned subsidiary companies, Finance Wales Investments Ltd, Finance Wales Investments (2) Ltd, Finance Wales Investments (3) Ltd, Xenos - The Business Angel Network Ltd and also its share of the loss of Wales Innovation Fund Ltd, an incorporated joint venture.

The Agency also has a 49% interest in an associated undertaking known as Welsh Industrial Partnership Ltd. The value of the Agency's interest, shown at cost is £10,565,000 and is included within investments at note 16.

	2005 £'000	2004 £'000
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36. European grants

European Union grants were provided under the following programmes

European Regional Development Fund	Industrial South Wales programme	(881)	(180)
	Rural Wales programme	(70)	(98)
	Objective 1	23,427	30,108
	Objective 2	3,962	3,021
	Interreg	236	(28)
	Other Community Initiatives	-	(9)
Sub Total	26,674	32,814	
European Agricultural Guidance & Guarantee Fund	Objective 1	8,861	3,603
European Social Fund		3,001	2,184
Other European Initiatives		308	368
Total	38,844	38,969	

These receipts were applied to the following activities;

Property development	6,286	11,640
Land reclamation	(398)	(305)
Rural development	340	285
Business support	32,616	27,349
	38,844	38,969

37. Newport Unlimited

Newport Unlimited is a private company limited by guarantee with financial backing and Board member support from the National Assembly for Wales, Newport City Council and the Agency (the stakeholders).

The objectives of the company are to develop and secure the regeneration in the physical environment and to strengthen the economy of specific areas of the city and other locations in Newport. The company sets a strategic policy for the regeneration of Newport but does not enter into transactions on its own behalf. Instead contributions to both revenue and capital programmes will be expended by the relevant stakeholders

As referred to in the Foreword, included within these accounts are transactions entered into by the Agency in its capacity as one of three stakeholders in the Newport Urban Regeneration Company, trading as Newport Unlimited.

The Agency's financial support, including the contribution made by the National Assembly for Wales, included within these accounts are summarised below.

	2005	2004
	£'000	£'000
Sundry operating income	20	155
Capital costs		
Acquisition of land	2,970	810
Capital Works	1	483
IT Equipment	25	21
	<u>2,996</u>	<u>1,314</u>
Revenue costs		
Salaries	410	323
Travel & Subsistence	9	9
Office & Establishment	129	116
Consultancy/professional fees	989	1,116
Sundry	<u>1,026</u>	<u>315</u>
	<u>2,563</u>	<u>1,879</u>

The acquisition of land above relates to 'University Land' at Newport and is included within note 17, interests in Joint Ventures.

Nic Neal and Karen Thomas, members of the Agency's Executive Management Team, are Non-Executive Directors of Newport Unlimited.

38. Merger with the Welsh Assembly Government

As referred to in the Foreword, on the 14th July 2004 the First Minister announced the decision to incorporate the work of the Agency directly into the Economic Development and Transport Department of the Welsh Assembly Government from 1 April 2006. During 2004/05 preliminary work has been underway to ensure the necessary arrangements are in place to effect a smooth transfer of operations from this date. This work will continue throughout 2005/06, whilst maintaining business as usual to our customers.

At the time of signing these accounts, a number of uncertainties exist, particularly surrounding staffing arrangements and accommodation issues. Consequently at this time, the Agency is unable to establish a complete reliable estimate of future merger related costs. Where a reasonable estimate of future costs can be made a provision has been provided for within these accounts.

No material merger-related expenditure has occurred in 2004/05

Provisions made within these accounts are:

	Provision at 31 March 2005 £'000
Costs associated with an employee assistance programme.	350
Merger related training costs	100
IT Costs	215
Total	<u>665</u>

39. Related party transactions

The Welsh Development Agency is a Public Body sponsored by the National Assembly for Wales. The Assembly is regarded as a related party. During the year the Agency received funding from the Assembly in the form of Grant in Aid and Public Dividend Capital.

During the year the Agency has had various material transactions with other entities for which the Assembly is the sponsor, namely;

Arts Council of Wales
Higher Education Funding Council for Wales
National Council for Education and Training Wales
Wales Tourist Board

In addition the Agency completed the following financial transactions with bodies in which the following Board members and senior staff declared an interest and which are considered material.

Transactions with other public sector bodies or not-for-profit organisations where senior staff or a member of the Agency's Board have an interest.

During the year the Agency provided £17,920 of core funding to the Mid Wales Partnership. Dr Geraint Davies is a member of the Steering & Chief Executive's Group and the Strategy & Policy Group of the Partnership. Sir Roger Jones is vice-chair of the Partnership.

During the year the Agency paid £10,362 to the National Botanic Garden of Wales. Sir Roger Jones is a Board Member of the National Botanic Garden of Wales.

39. Related party transactions (cont'd)

During the year the Agency provided core funding of £6,644,893 to Finance Wales plc, a wholly owned subsidiary of the Agency. Trefor Jones was a director of Finance Wales plc until 31 March 2005. Sian Lloyd Jones is Acting Chief Executive of Finance Wales plc and became a director of Finance Wales plc in February 2005. David Williams was a director of Finance Wales plc until 31 December 2004.

During the year the Agency provided £699,935 in grant funding to Wales Co-Operative Centre Ltd. Jim Hancock is Vice-Chair of the Wales Co-Operative Centre Ltd. Tyrone O'Sullivan is a management board member of the Wales Co-Operative Centre Ltd.

During the year the Agency made contributions of £37,162 to Business in the Community. Janet Reed is a member of the Advisory Board of Business in the Community.

During the year the Agency provided £78,284 of funding to Wales European Centre Ltd. Gareth Hall is Chair of Wales European Centre Ltd.

During the year the Agency paid a total of £826,672 to the University College of Wales, Aberystwyth. Dr Geraint Davies is a member of the Council and Court of Governors for the University of Wales Aberystwyth and a Member of the Gregynog Advisory Panel.

During the year the Agency paid to the University of Wales Bangor a total of £927,297. Chris Farrow is a member of the Court of the University and a member of the School of Business Regional Advisory Board. Gareth Evans is also a member of the School of Business Regional Advisory Board.

During the year the Agency provided £2,853,914 in support of Ryder Cup Wales (2010) Ltd. Gareth John is a Board Member of Ryder Cup Wales (2010) Ltd. David Williams was a Board Member of Ryder Cup Wales (2010) Ltd until 22nd December 2004. Gareth Evans was a Board Member of Ryder Cup Wales (2010) Ltd from 22nd February 2005.

Transactions with the private sector, where a member of the Agency's Board has an interest.

During the year the Agency paid a total of £96,938 to S4C. Sir Roger Jones is a board member of the S4C Authority

During the year the Agency incurred £474,649 of expenditure in rents and service charges to the Principality Building Society. David Williams is a board member of the Principality Building Society.

During the year the Agency provided £58,078 of grants to Enfis Ltd. Simon Gibson is a non-executive director of Enfis Ltd.

Five Year Summary

	2005	2004	2003	2002	2001
	£'000	£'000	£'000	£'000	£'000
		(Restated)			
Income & Expenditure					
Income	46,427	42,713	79,438	33,752	30,286
Expenditure	295,220	310,537	278,093	208,374	146,587
Fixed Assets (at year end)					
Tangible assets	14,877	13,917	12,252	10,873	9,422
Investments	29,252	22,244	19,570	14,902	4,104
Interests in joint ventures	10,719	9,023	6,424	9,151	10,374
Properties Held for Resale					
	248,984	246,519	219,587	181,144	175,209
Funding					
National Assembly Grant-in-Aid	217,573	233,707	245,316	171,282	109,975
European sources	38,844	38,969	20,030	14,838	12,362