



Llywodraeth Leol a Chymunedau  
Local Government and Communities

Cyfarwyddwr Cyffredinol • Director General

Llywodraeth Cymru  
Welsh Government

Darren Millar AM  
Chair - Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
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Dear Chair

## Financial Challenges Facing Local Government

Thank you for your letter of 21 May regarding the financial challenges facing Local Government.

Your letter set out a number of questions from the Committee. I will respond to each in turn.

The estimate of funding pressures cited in the Auditor General's report *The Financial Resilience of Councils in Wales* reflects an assumption that Local Authorities continue to provide essentially the same services, in the same ways. Authorities need to take many considerations into account in planning their budgets for future years. One of the key messages in the White Paper *Reforming Local Government: Power to Local People* is that continuing in the same way is not an option and that Local Government needs to transform if it is to manage future funding pressures successfully.

The Welsh Government is supporting work to identify opportunities for savings, for example the independent review commissioned from KPMG to examine the costs of Local Authority administrative activities. The report indicates there is scope for Welsh Authorities to deliver up to £150 million of savings through identifying and adopting the practices of well-performing Authorities. These are savings which Authorities could start to make now.



The review was conducted with considerable input from Local Government and the findings are due to be discussed at the next meeting of the Finance Sub Group in July. The meeting will also provide an opportunity for Local Government to set out how it is approaching financial planning to respond to the financial challenges and address future priorities and pressures.

Other areas where the Welsh Government is working with Local Government to develop innovative responses to the pressures include taking forward provisions in the Social Services and Well-being (Wales) Act, allowing for more collaborative working between health and social services to support improvements in the management of delayed transfers of care, and driving forward service integration across Wales.

Where more specific targeted support is needed, the Local Government Support and Intervention Protocol provides the basis for establishing such support (either informally or formally) at an early stage. This can help to prevent problems from becoming critical, maintains local autonomy and avoids the need for costly and disruptive interventions. Local Authorities can request support in any circumstances. However, they are encouraged to do so as soon as they become aware of problems in complying with relevant duties and when they are unlikely to be able to resolve these promptly and effectively on their own.

Welsh Government Ministers have exercised their powers under section 28 of the Local Government (Wales) Measure 2009 to provide Blaenau Gwent County Borough Council (2013-14) and Merthyr Tydfil County Borough Council (2014-15) with formal packages of support. These support the delivery of their corporate functions and followed recommendations from the Auditor General for Wales in his Improvement Assessment Letters to both Authorities in 2013. In response to the concerns and following discussion with the Welsh Government, the Leaders of both Authorities wrote to Ministers asking for formal support under the Local Government (Wales) Measure 2009.

For Blaenau Gwent, the Minister responded by appointing a team of external advisers to provide targeted support and challenge to the Authority's corporate centre and finance function. This was designed to enable the Authority to address its immediate short-term financial difficulties for 2013-14; to set a balanced budget for 2014-15; and to develop a single Transformational Change Plan setting out priorities for delivery for the medium term (up to three years). The advisers provided regular progress updates in terms of their deliberations, findings and conclusions and a view as to the Authority's capability, capacity and sustainability. The Wales Audit Office also provided challenge at specified points during the process to ensure the weaknesses identified in the Auditor General's Improvement Assessment Letter were being rectified as part of the support package.

In Merthyr Tydfil, the support package was again provided through a team of external advisers. Its specific purpose was to provide an independent perspective on and an external validation of the robustness of the Authority's financial plans and processes. It also assessed the Authority's Transformation Work Programme to ensure it was fit for purpose. The support package also identified whether the Authority had the

capacity and capability to drive the necessary improvement without external support. The Auditor General recently advised that the Welsh Government should continue to support Merthyr Tydfil in order for the Authority to improve. He added that the Authority is making progress thanks to the external support it is receiving.

In relation to spending flexibility, the 2015-16 settlement announcement indicates that Welsh Government specific grants account for less than 10 per cent of Authorities' budgeted expenditure. Suggestions that a high proportion of Local Government funding is ring-fenced need to be considered in this context.

The Welsh Government recognises the importance of maintaining the focus on reducing the administration associated with specific grants. With this in mind, a number of grants continue to be reviewed. For 2015-16 this includes 11 education grants, worth a total of over £140 million, being consolidated into a single education improvement grant. This has been accompanied by an increased emphasis on outcomes as a basis for monitoring the use of the funding. Furthermore, all the Environment and Sustainable Development revenue grants, worth over £70 million, have been consolidated into a single allocation.

On the subject of scrutiny, the three-year programme of work supported by the Scrutiny Development Fund (SDF) and delivered by the Centre for Public Scrutiny (CfPS) is now completed. During its lifetime, the Welsh Government held regular monitoring meetings with CfPS to receive progress reports on its work with individual Authorities as well as the work it was doing on a national scale to develop the skills and knowledge of the scrutiny community.

All the projects funded through the SDF had a Welsh Government representative on the steering group and the products have been disseminated to scrutineers in Local Government. During the final year of the programme, *Step by Step to Joint Scrutiny - A Handbook for Scrutineers* was produced. This was issued to every scrutiny officer at the *Many Hands* scrutiny conference and workshop in March 2015.

Welsh Government officials continue to engage with Local Authorities and other interested parties through the Public Service Scrutiny Reference Panel which meets regularly.

Between October 2012 and January 2015, the scrutiny support programme successfully supported improvements in the capacity and capability of Elected Members in Wales to discharge their scrutiny functions. A structured and targeted programme of regional learning, outcome-focused seminars provided all convergence area scrutiny members and officers with the latest thinking and good practice in governance, engagement and accountability. During the programme, bespoke developmental work took place with nine individual Authorities, strengthening their approaches to internal and external forms of scrutiny.

## **Reserves**

Information provided by the Local Authorities to the Welsh Government on reserves in October 2014 illustrated varying levels of disclosure and clarity about the purpose and use of reserves. Whilst some Authorities provide detailed and informative descriptions which support the requirement for a specific reserve, others provide ambiguous descriptions which are considered to be of limited benefit to the readers of the accounts. Some Authorities provide no detail, meaning it is not possible to assess the nature and purpose of their reserves. It is the role of the Auditor General for Wales to consider the appropriateness of the reserves of individual Authorities' during the audit process. Complementing this, the Welsh Government now routinely publishes information of the levels of reserves held by each Local Authority to ensure there is greater transparency, consistency and understanding on reserves.

This allows the information to be easily accessed and compared across Authorities. We are sharing the results of our evidence gathering on the approaches taken to holding reserves to encourage greater consistency and transparency of approach across Authorities. This incorporates an expectation that each Authority should have a clear protocol which sets out its approach to the holding, reviewing and discharging of reserves.

It is also important that within each Authority, those tasked with holding the executive to account are suitably supported. The Welsh Government takes the view that the guidance for Elected Members on the scrutiny of decisions regarding reserves does not go far enough and we will be developing further guidance to support the effective scrutiny of reserves.

## **Public engagement**

A key theme from the White Paper *Reforming Local Government: Power to Local People* is the need for Authorities to become more closely connected with their communities and better able to respond to their needs. A fundamental aspect of this is the way in which Authorities engage with their stakeholders, including local people, when determining spending priorities for the year ahead.

Most Authorities undertake thorough public consultations on their budget proposals, using innovative methods to involve their local electorate. These exercises are invaluable when determining spending priorities and shaping proposals for the services that matter most to people.

The Welsh Government gathered information from Authorities following the 2014-15 budget-setting round and published a prospectus of good practice examples. This included some strong examples of public engagement, innovation and thinking about the future. All 22 Authorities responded to the exercise and a selection, in many cases representing wider good practice, were highlighted in the prospectus.

This prospectus was shared with the WLGA and published on the Welsh Government's website. It was also published on the Good Practice Wales Portal where other examples of good practice across Welsh public services are promoted.

Local Authorities have recently provided information following the setting of budgets for 2015-16. Once we have collated and analysed the responses, the Welsh Government will use them to inform and promulgate good practice further.

### **Financial pressures**

As set out in previous correspondence with the Committee, there is a comprehensive and long-established consultative framework to support engagement between the Welsh Government and Local Government on financial matters. This includes an ongoing dialogue about the potential pressures at the Finance Sub Group of the Partnership Council for Wales. The meeting of the Finance Sub Group in July provides the next opportunity for discussion.

### **Funding formula**

The consultative processes referred to above include arrangements for considering and agreeing the formula for distributing revenue support to Local Authorities. Local Government is well represented on the Distribution Sub Group (DSG), an official working group which reports to the Finance Sub Group. The role of DSG is to maintain and develop a fair and accurate funding formula for distributing the Local Government Revenue Settlement in Wales. The Local Government representatives include officers from a range of Authorities across Wales and officials from the Welsh Local Government Association (WLGA). The Group's membership also includes independent experts. Information about the work of the Group is published on the Welsh Government's website.

DSG prepares a work programme each year. It includes producing an annual report for consideration by Finance Sub Group on the proposals for the distribution for the following year. This in turn informs the production of the Provisional Settlement which is consulted upon before the Final Settlement is produced. This leads to the annual Local Government Finance Report (Wales) No 1 which is laid for debate in the Assembly. The DSG report includes an assessment of the work of the Group written by its independent members. The independent members conclude that there is no evidence of the formula being designed to favour any particular interest or group and that DSG properly represents the interests of all Welsh Local Authorities.

The annual work programmes of the DSG are prepared with reference to the principles agreed with the Society of Welsh Treasurers, a group which comprises the chief finance officers of the Welsh county and county borough councils.

### **Early Departure Schemes**

The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 require each Local Authority employer to formulate, publish and keep under review its policies on compensation as appropriate so that value for money and transparency principles are clearly demonstrated to taxpayers and auditors.

Work is currently in hand to establish a Public Services Staff Commission for Wales. It will consider and advise on a range of employment matters, including early departure schemes and common principles to support the proposed merger processes. The recruitment exercise for the Chair and Members of the Staff Commission is in progress, with appointments to be announced in September. The Welsh Government is also working with the Workforce Partnership Council on developing the work programme for the Staff Commission and this will be discussed at the Council's next meeting in July.

In addition, work is continuing to develop the Welsh Public Sector Pay Policy. As part of this work, the Welsh Government will look to create good practice guidelines for early departures for all Welsh public sector organisations, working with the Staff Commission, public sector bodies in Wales and their recognised trade unions.

With regards to the monitoring of sickness absence, this has been discussed with the Public Services Leadership Group and more recently in the Workforce Partnership Council. The Welsh Government shares good practice and discusses common issues through HR Cymru. However, it is important to recognise that the management of sickness is a matter for individual employers to consider, in line with business requirements and employment law considerations.

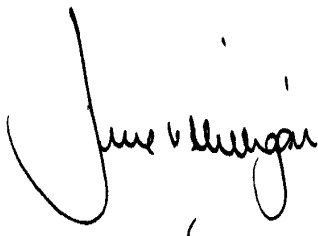
### **Local Government Reform**

The Minister for Public Services made a further announcement on the proposals for the reform of Local Government in Wales on 17 June.

The Welsh Government will continue to work with Local Government through the established partnership arrangements to consider how best to respond to the financial challenges we all face, and how the different aspects of the reform agenda contribute to managing these challenges and support the development of strong, sustainable and effective Local Government in Wales.

I hope this information is of assistance to the Committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'June Milligan', written in a cursive style.

**June Milligan**  
Cyfarwyddwr Cyffredinol / Director General