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17 April 2014
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WLGA • CLILC

Darren Miller AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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Dear Darren,

WAO Report: Meeting the financial challenges facing local government in Wales.

Thank you for letter of 19 February and I am grateful to the Clerk's team for allowing us a generous amount of time to respond. It was important that local government had time to consider how it could respond constructively to this important study. In terms of meeting the financial challenges of the future, the WLGA has thought of little else since the onset of the financial crisis in 2008.

In setting out how the WLGA is itself responding I think that it is important to highlight a number of steps we have taken in recent years. The May 2012 local elections coincided with a period when we became concerned that there was little economic growth to support the UK Government's target to complete the fiscal repair job by 2014-15. As it became apparent that we were heading for a longer period of austerity than originally envisaged, one of the first reports commissioned by the WLGA was a study by the Institute of Fiscal Studies into the future prospects for local government expenditure in Wales¹.

The aims of the study broadly align to first two summary findings of the WAO Report: to give councils sound and clear funding projections upon which to plan and give them clear and appropriate financial information. The report was launched at the WLGA's Finance Seminar in October 2012 which also heard from a number of influential speakers on how to secure better outcomes in tougher times though collaboration and greater efficiency.

As the national economic situation did not improve between the period of the Autumn Statement in December 2012 and Budget Announcement of March 2013, the WLGA became increasingly concerned about the stability of the 2014-15 funding allocations. These had been announced as part of the 2010 Spending Review and the frustrations of my fellow Leaders and senior finance practitioners

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¹ [Local Government Expenditure in Wales: recent trends and future pressures](#), IFS, 2012

is matter of public record and set out in evidence to the Finance Committee last autumn². In essence, local government was highlighting that effective planning could not be achieved in isolation without reference to the Welsh Government's own budget setting framework.

Around that time we were focussing our 2013 Finance Seminar on the experiences of local authorities in England and from Wales. Key note speakers focussed on public engagement, political leadership and various approaches to budget setting. Later breakout sessions focussed on economic development, demand management and medium-term financial planning.

Along with other work on improvement, especially sector-led improvement and peer reviews, I believe the WLGA was beginning to address the third summary finding of the WAO report and some, but not all, of the last summary finding.

Responding to the WAO Report

However we are aware that we must engage and respond to the report in question with our future work and we must do that in tandem with senior finance practitioners. Since the end of 2013 WLGA officials have been working closely with the Society of Welsh Treasurers (SWT). With their help we have set up a working party to consider in some detail the conclusions of the report.

SWT discussed the focus of the group at their meeting 28 February and it was considered that the Medium Term Financial Planning (MTFP) Working Group should identify the key pieces of work that can be delivered in a timely fashion and provide the greatest benefit to members.

The group have considered this steer and whilst recognising that medium term financial planning is an ongoing process, have concluded that work should be finalised ready for the start of the next formal budget setting cycle.

Proposed Work Programme for the Group

The future activity of the group is set below:

1. Evaluate the English LGA budget modelling tool and its suitability for use by Welsh councils. This will be done by testing at the site of the three SWT members on the group – Flintshire, RCT and Swansea. Testing would need to be preceded by the Data Unit amending the tool to suite the Welsh local government environment e.g removing rates retention and adding in schools protection features.
2. Forecasting WG grants medium – long term. Whilst the product is likely to be caveated the aim is to produce a range of funding assumptions that may apply to future years. The work of the Institute of Fiscal Studies cited earlier will form a useful base for this.
3. Demand management and other savings initiatives. The aim of this work stream is to highlight the approaches that have found the greatest traction in England and any emerging novel approaches from Wales that may prove of interest to members. It is intended to identify suggested best practice sites from sources such as WAO, LGA, NAO. Initial research reveals a lot of information on theoretical approaches but we

² [FIN\(4\)-WG15-12 Welsh Local Government Association](#) 

intend to focus on a small number of actual case studies that seem most likely to add value.

4. Template/Checklist. Whilst it is likely that all councils will have considered this, it would seem remiss of the workgroup not to identify a relevant publication that lays out the main steps and principles that councils should check their internal arrangements against.

Engagement with the Wales Audit Office

The WLGA's Director of Resources and the SWT's Policy Officer have met with the principal author of the report and he is supportive of group's terms of reference and approach. He advised us that WAO are currently undertaking work at councils, testing for example - how budget plans are put together, gearing, reserves and links to strategic plans. This work is expected to conclude by end of June. We will maintain an ongoing dialogue with the Auditor General's team as both the WAO work and SWT work will conclude at the same time.

A common aim for the WAO, WLGA and SWT is to share good practice. This will be achieved through an event that brings together all senior practitioners. We will aim to organise a shared learning event on 4 July which potentially could include some of the experience of English local authorities and speakers on topics of particular interest.

The group hopes that these activities (along with those implemented individually at councils) help demonstrate a robust response to issues raised in the WAO report. I have asked WLGA officers to feedback further information to the Public Accounts Committee.

A whole system approach

For effective medium- to long-term planning to take place at local level, there needs to be a similar approach at national level and a move away from the annual incremental budget setting by Welsh Government. The English LGA are lobbying for similar arrangements England. Under their *Rewiring Public Services* campaign³ one of their key propositions is a five-year funding agreement tied to the life of the Parliament for any services that remain funded by central government. They argue that this allows greater innovation and pursuit of longer term objectives and the WLGA support this.

Indeed the problems caused by short-term annual budget setting are recognised to cascade down through local government to delegated budgets such as schools. The recent OECD Report into improving schools in Wales⁴ recognises that "a wide range of grant programmes can create confusion, be unsustainable in the long term and burden schools." The OECD goes on to say that "yearly grants importantly also don't provide the schools with the financial stability that would allow them to build up their internal capacity by recruiting quality support staff on a long-term basis".

In short this is a whole system problem and needs to be addressed at a strategic national level as well as the local level.

³ [Rewiring Public Services: Financial Sustainability, LGA, 2013.](#)

⁴ [Improving Schools in Wales: an OECD Perspective, OECD, 2014.](#) Pages 52 and 53.

Yours sincerely,

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

Councillor Aaron Shotton

WLGA Spokesperson for Finance and Resources