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Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Guide to Welsh Public Finances



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

I have prepared and published this report in accordance with the  
Public Audit (Wales) Act 2013.

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**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

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# Introduction

- 1 The language and presentation of public finances can be complex. However, it is vital to the functioning of a democratic society that the public and their representatives understand and are able to scrutinise decisions about public spending. This Guide provides a summary of how public finances in Wales work.
- 2 We have produced this Guide for those involved in scrutinising public services. That includes elected politicians who sit on scrutiny committees, independent members of public boards and committees as well as a wider community such as academics, civil society organisations and the media.
- 3 The Guide is split into three parts:
  - **Part 1** sets out the main sources of funding for public services in Wales. It explains the different types of public services in Wales; how the Barnett formula works; the impact of new tax-raising powers as well as long-standing local taxes; and other key sources of income such as charges and fees.
  - **Part 2** describes the processes for making budget decisions across the main devolved public bodies in Wales. It also looks at some of the key factors the public bodies take into account in setting their financial plans.
  - **Part 3** sets out the key frameworks for measuring and reporting the impacts of public spending – what outputs and outcomes public bodies intend to get for their investment.
- 4 There are already many guides to good practice in financial planning, budget setting, scrutiny and reporting<sup>1</sup>. We have drawn on those guides and our own work examining public finances across Wales to set out some key issues that those involved in scrutinising public finances should keep in mind when considering spending plans (box below). The Auditor General considers these to be some of the key areas to strengthen scrutiny, particularly in light of the need to take a wider and more long-term perspective as part of the Well-being of Future Generations Act.

1 For example: Welsh Local Leadership Academy, **Scrutiny of Finance Councillor Workbook**, 2011; Welsh Local Government Association and Centre for Public Scrutiny: **Raising the Stakes, Financial Scrutiny in Challenging Times – A Guide for Welsh Local Authorities, 2014**, Grant Thornton.

## Some key issues to take account of when scrutinising public finances



**Responsibility and accountability:** whether the policy area is devolved and the degree of discretion over the spending. This is particularly relevant for those who may be reporting on the context of differences in spending patterns between Wales and other parts of the UK and between areas within Wales.



**Risks and opportunities around income:** in particular the risks and opportunities around income assumptions such as tax receipts, fees, grants and other income and what contingency plans are in place should assumptions prove optimistic (or vice versa).



**Trends over time:** how budget lines have changed over several years, including in 'real terms' and any changes in the way the budget is reported that mean adjustments need to be made to compare over time. Comparisons of trends in other parts of the UK or other similar bodies in Wales can also be a helpful way of exploring and scrutinising funding priorities.



**Clarity on 'savings':** the term savings can be used to cover both efficiency savings (broadly getting more or the same for less) and cuts to services. It is important to be clear if savings mean reductions in service levels and to set out the consequences and impacts of those decisions for service users and for other public services that may need to fill in any gaps.



**Budgeting for the long-term:** whether there is a clear link between budget plans and projections for future demand and changes, such as demographic change, new technologies, climate change, social and economic trends and long-term assessments of the impact of funding decisions.



**Integrated plans:** whether there are clear links between spending plans and other key planning aspirations and requirements, such as national and local strategic priorities, legal responsibilities including under the Well-being of Future Generations Act and plans for transforming services.



**Enabling collaboration:** whether it is clear how the budget fits with the wider resources available to tackle a particular issue and how budgets can be aligned and pooled to maximise the public value from each.



**Involving the public:** whether the public has been involved in setting the budget priorities, how deep that level of engagement is, and whether the budgets explicitly take account of the intention to move towards 'co-production' of public service delivery.



**Links between spending plans and intended outcomes:** is it clear what benefits (outputs, outcomes or any other descriptor) are expected from the funding and whether spending proposals clearly link to trends in outcomes or performance data, for example, to target areas of concern.

# How Welsh public services are funded

- 1.1 This part of the guide looks at the key sources of funding for public services in Wales. In particular, it summarises the position on:
  - a The Welsh public service landscape
  - b Main sources of funding for devolved public services
    - The block grant and the Barnett formula
    - Welsh taxes
    - Borrowing
    - Income generation
    - Other, including EU funding and City Deals

## The Welsh public service landscape

- 1.2 The landscape of Welsh public services is diverse. Some areas of public service in Wales are devolved. That is, they fall within the policy areas that the Welsh Government is responsible for. The UK Government is also responsible for some key policy areas in Wales.<sup>2</sup> The range of devolved powers has continued to expand since the establishment of the National Assembly for Wales in 1999. This reflects trends elsewhere in the UK. However, there are still some significant differences in the relative extent of powers devolved to the three devolved administrations in the UK.
- 1.3 The nature of devolution in Wales means that it is difficult to provide a definitive list of all devolved and non-devolved service areas. **Figure 1** sets out broadly the key service areas that are, at present, primarily within the responsibility of the Welsh Government and UK Government. There are some key policy areas, notably economic development, where overall powers are devolved but important matters are reserved to the UK Government (for example on fiscal and monetary policy, financial services and regulation). In some areas, such as air travel, rail travel and shipping, the Welsh Government has the power to provide funding to support services but not to legislate. There are also many areas, for example, food labelling and medicines regulation, where the European Union currently sets the overall legal framework. There is ongoing discussion between the UK Government and devolved governments as to how responsibility for those areas will work after Brexit.

<sup>2</sup> Wales has a 'reserved powers' model. Under this model overall powers are devolved to Wales, with the exception of those set out as 'reserved' for the UK Government. The full list of reservations is in Schedule 7A to the **Government of Wales Act 2006**.

Figure 1: key areas of responsibility

Primarily Wales	Primarily UK	Areas of Significant Overlaps
<ul style="list-style-type: none"> <li>• NHS and social care</li> <li>• Agriculture (including horticulture, fishing, animal welfare)</li> <li>• Sports and culture</li> <li>• Education (schools, further education, universities)</li> <li>• Local Government</li> <li>• Tourism</li> <li>• Welsh language</li> <li>• Water and flood defences</li> <li>• Town and country planning</li> <li>• Housing (except housing benefits)</li> <li>• Natural environment of Wales</li> <li>• Food</li> <li>• Energy generation (up to 350 megawatts)</li> </ul>	<ul style="list-style-type: none"> <li>• Social Security, including unemployment benefits, disability benefits, housing benefits and pensions</li> <li>• Police services</li> <li>• Courts and justice</li> <li>• Defence</li> <li>• Energy generation (over 350 megawatts)</li> <li>• Foreign affairs</li> </ul>	<ul style="list-style-type: none"> <li>• Economic development</li> <li>• Transport and highways</li> </ul>

1.4 **Figure 2** lists the main devolved public bodies in Wales. However, public bodies are not the only providers of public services. Public bodies sometimes use voluntary sector/not-for-profit bodies and private companies to provide public services<sup>3</sup>. They generally fund these bodies through grants or contracts. The Auditor General’s [February 2017 discussion paper](#) on the governance of indirectly-provided publicly-funded services provides an overview of the diversity of public service delivery arrangements in Wales.

3 These include large institutions such as universities and further education colleges.

Figure 2: main devolved public bodies in Wales<sup>4</sup>

### Main Devolved Public Bodies In Wales

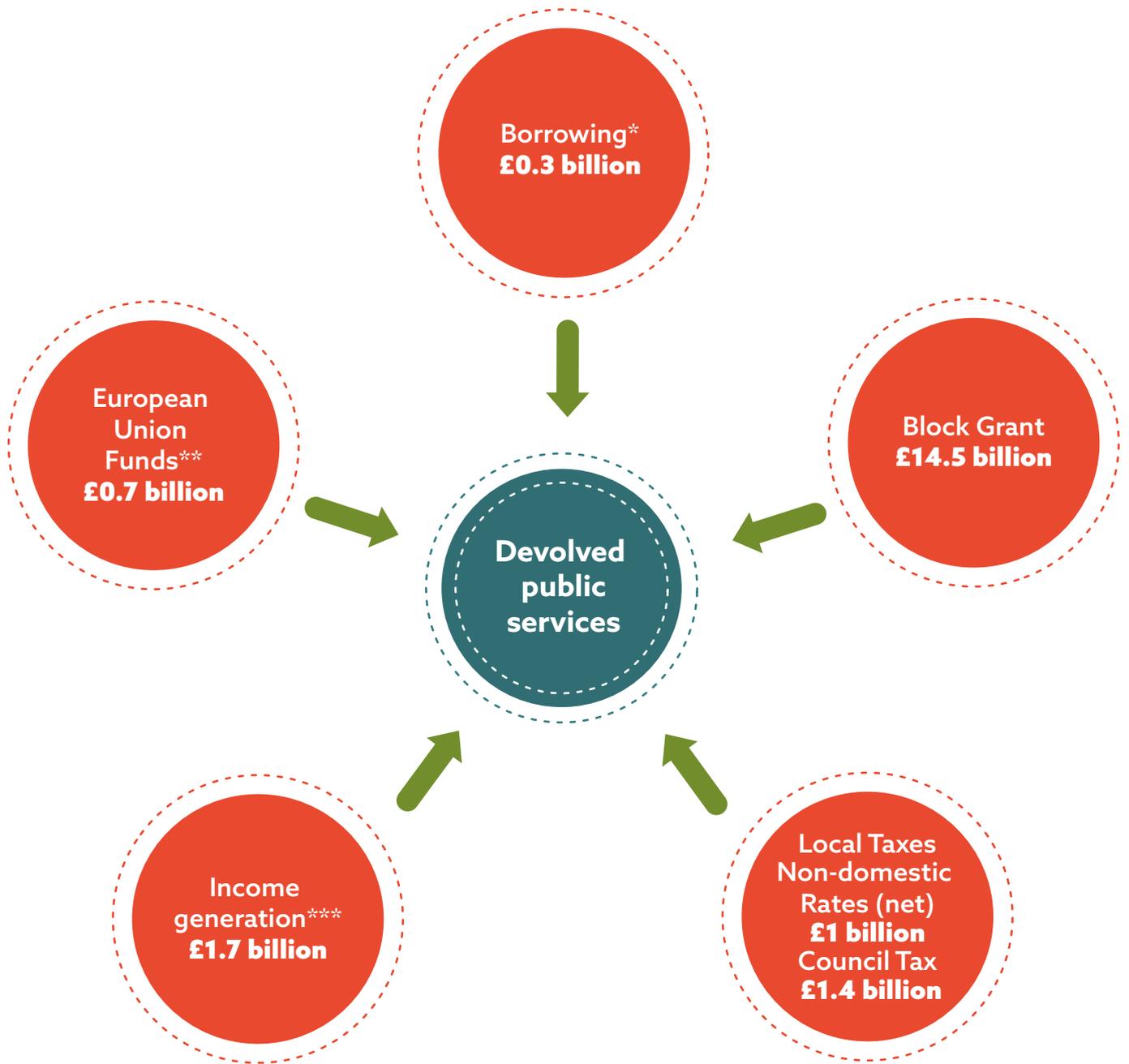
- Welsh Government
- Local Government
  - 22 principal local authorities (county and county borough councils)
  - 735 town and community councils
  - 3 fire and rescue authorities
  - 3 national park authorities
- 7 local health boards, 3 NHS trusts and 1 special health authority
- Welsh Government sponsored bodies
  - National Museum Wales
  - Arts Council of Wales
  - Social Care Wales
  - Natural Resources Wales
  - Higher Education Funding Council for Wales
  - National Library of Wales
  - Royal Commission on the Ancient and Historical Monuments of Wales
  - Sport Wales
  - Qualifications Wales
- Scrutiny bodies and commissioners
  - Wales Audit Office
  - Public Service Ombudsman for Wales
  - Future Generations Commissioner
  - Children's Commissioner
  - Older People's Commissioner
  - Welsh Language Commissioner
  - Estyn
  - Care Inspectorate Wales
  - Healthcare Inspectorate Wales
- Non-Ministerial Department
  - Welsh Revenue Authority

<sup>4</sup> A register of all devolved public bodies in Wales is available on the Welsh Government website.

## Where funding for Welsh public services comes from

- 1.5 All public services in Wales, devolved or otherwise, are funded from a combination of tax, borrowing and income generation (for example, fees for services and commercial activities). **Figure 3** shows that the bulk of funding for devolved services in 2016-17 came from the UK Government via the block grant. However, the funding landscape is becoming more sophisticated with Wales taking on increasing powers and responsibilities for raising its own tax revenues. Therefore, the picture for 2018-19 onwards will be significantly different (**paragraph 1.14**).

Figure 3: main sources of funding for devolved services in 2016-17



\*Borrowing in 2016-17 is based on figures for local government capital borrowing.

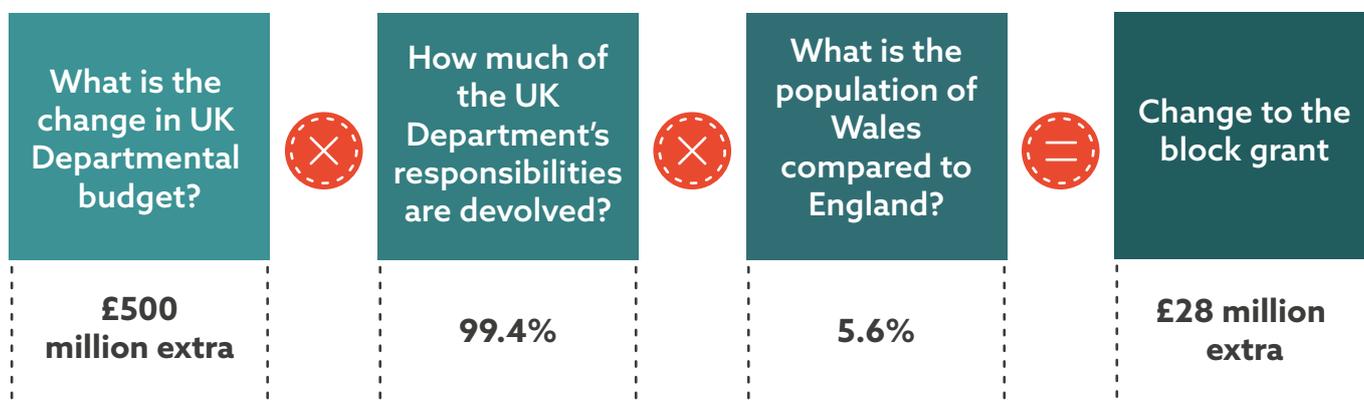
\*\* European Union Funds figure is based on an average figure for the current funding round 2014-2020.

\*\*\* Income generation figure is based on local government service income (excluding for police), NHS bodies' external income, and Welsh Government sponsored bodies. This is the gross figure.

## The block grant: the Barnett formula and the new needs factor

- 1.6 The UK Government makes no direct decisions about how much money to allocate to Wales for devolved services. The UK Government's decisions relate to its own departments, which cover spending in England and non-devolved spending elsewhere. Those decisions have an automatic impact on the block grant to Wales through the Barnett formula.
- 1.7 The formula is about annual changes. It determines how much more (or less) money Wales gets through the block grant each year of the spending review period. The 'baseline' for these changes derives from the block grant in the year preceding the spending review period. The Barnett formula then translates changes in UK Government departmental budgets into an amount that will be added to (or be taken from) the block grants for devolved bodies. The Barnett formula as it applies to Wales asks three simple questions:
- how much has the UK Department's budget changed by?
  - what percentage of the policy area the UK Department is responsible for has been devolved?
  - what is the population of Wales compared with England?
- 1.8 **Figure 4** shows how the formula would work in practice if the UK Government increased the budget of the UK Department for Health to spend £500 million more on the NHS in England.

Figure 4: worked example of the Barnett Formula (excluding 'needs factor')



- 1.9 The UK Government runs this calculation across all of its departments to produce an overall net figure. Prior to 2018-19, this is where the calculation would end. The net change would be added to (or taken away from) the previous year's block grant, to produce the block grant for that year.
- 1.10 However, the 2017 Fiscal Framework agreed between the UK Government and the Welsh Government, introduces a 'needs factor' to address two long-standing concerns:
- a that the Barnett formula failed to reflect the higher levels of need in Wales. Wales has an older, poorer, sicker and more dispersed population than England. As a result, Wales has a greater need for public services and funding. In 2010, the Holtham Commission identified that for every £1 spent on services in England, Wales needs between £1.14 and £1.17 for devolved services.
  - b 'convergence': one of the effects of the formula is that when budgets in England rise, spending in Wales, per head of population, gets squeezed towards the same level as England. Conversely, when the budgets in England fall, there is a tendency to diverge, with spending per head in Wales falling proportionately more slowly than in England.
- 1.11 The 'needs factor' aims to ensure that Wales always gets at least 115% funding per head of population for devolved services, compared to England. At present, Wales gets around 120% funding per head (**Figure 5**)<sup>5</sup>. In other words, for every £1 spent in England, Wales gets £1.20 for equivalent devolved services. Since devolution, Wales has been above the 115% level every year except 2008-09 and 2009-10.

5 The figures showing relative devolved spending around the UK are not routinely published. Figures in the Fiscal Framework enable comparison with England but not other parts of the UK.

Figure 5: funding per head to Wales via the Barnett formula compared to England



Source: Fiscal Framework

1.12 The needs factor involves multiplying the change in funding as a result of the Barnett formula by a set percentage. Because Wales currently gets above the 115% level, the introduction of the needs factor is phased. Initially, the figure will be 105%. This will apply until funding levels gradually converge at 115%. At that point, the needs factor will change to 115%. It is difficult to estimate how long it will take to reach the point of convergence. The additional needs factor is applied to increases in spending relative to the 2017-18 baseline. Until at least the end of the current Spending Review period (2019), spending cuts which reduce funding levels below the 2017-18 baseline are not multiplied by the needs factor. **Figure 6** shows how the needs formula combines with the Barnett formula to create the block grant for 2018-19.

**Figure 6: combining the Barnett formula and needs factor to make the block grant.**



\*the needs factor only applies if the Barnett formula results in a net increase to the block grant relative to the 2017-18 baseline.

1.13 The Barnett formula and needs factor also apply to UK Government decisions to introduce one-off spending increases (or cuts) outside spending review events. For example, if the UK Government decides to allocate extra funding to the NHS in England to meet in-year pressures, a sum – determined by the Barnett formula and needs factor – will be allocated to the Welsh Government. Where the change is specific to a particular programme, the department-level comparability factors are not applied. Comparability is either 100% or 0% depending on which UK Government programme is affected. There are Barnett formula ‘consequentials’ for Wales from most UK Government fiscal events.

## Taxation

### Welsh Taxation

- 1.14 The Wales Act 2014 amended the Government of Wales Act 2006 to provide the National Assembly for Wales with powers to legislate on tax on transactions involving interests in land (replacing the UK Government's stamp duty land tax) and tax on disposals to landfill (replacing the UK Government's landfill tax). Rates and bands for the Welsh taxes – which are named land transaction tax and the landfill disposals tax – are set by the Welsh Ministers and agreed by the National Assembly through a separate, independent process which then informs the Assembly's annual budget. The two devolved Welsh taxes were introduced on 1 April 2018, and are being administered and collected by the newly established Welsh Revenue Authority<sup>6</sup>.
- 1.15 The setting of Welsh rates of income tax has been partially devolved to the National Assembly under the Wales Act 2014, with implementation expected from April 2019.<sup>7</sup> This will involve the existing UK rates for each band of income tax being reduced by 10p in the pound for Welsh taxpayers.<sup>8</sup> Subject to the agreement of the National Assembly, Welsh Ministers will set Welsh Rates of Income Tax (WRIT) for each band, which will be added to the reduced UK rates.<sup>9</sup> The WRIT will be assessed and collected by HMRC, and the revenue will be paid by HM Treasury into the Welsh Consolidated Fund.

6 More detail on the preparations for new tax-raising powers can be found in our report, **Fiscal Devolution in Wales: An update on preparations for its implementation**.

7 Responsibility for taxing savings and dividend income will remain with the UK government, as will the setting of the personal allowance, higher rate band and additional rate band. Income tax, including the Welsh rate, will continue to be collected by Her Majesty's Revenue and Customs.

8 Part 4A of the **Government of Wales Act 2006**, as inserted by the **Wales Act 2014** defines a Welsh taxpayer.

9 **Welsh rates of income tax FAQs**

1.16 The UK Government will adjust the block grant of funding received by the National Assembly in order to reflect the direct Welsh tax revenues. For 2018-19 and subsequent years, this will reflect the revenues collected from stamp duty land tax and landfill tax in 2017-18 and growth in those taxes elsewhere in the UK thereafter. The agreed method to calculate the reduction will involve a separate calculation for each tax.<sup>10</sup> In March 2018, the Office for Budget Responsibility published devolved tax forecasts for Wales (Figure 7). These figures suggest that by 2019-20, approximately 14% of the Welsh Government's funding will be from devolved taxation. This figure rises to 21% when Non-Domestic rates are included (paragraph 1.20).

Figure 7: projected income through devolved taxes

	£ million						
	Outturn			Forecast			
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Partly devolved Income Tax	1,952	2,006	2,053	2,099	2,165	2,232	2,317
Land Transaction Tax	209	258	264	282	302	322	346
Landfill Disposal Tax	32	27	27	23	21	20	18
Aggregates Levy*	39	35	37	36	37	37	37
<b>Total</b>	<b>2,232</b>	<b>2,326</b>	<b>2,381</b>	<b>2,440</b>	<b>2,525</b>	<b>2,611</b>	<b>2,718</b>

\* The UK Government intends to devolve the Aggregates Levy, although the timing is uncertain and subject to the conclusion of ongoing legal challenges.

Source: Office for Budget Responsibility, **Devolved tax and spending forecasts March 2018**. Shaded cells relate to non-devolved taxes.

<sup>10</sup> For further information see Auditor General for Wales, **Fiscal Devolution in Wales: An update on preparations for its implementation**, December 2017.

1.17 Part 4A of the Government of Wales Act 2006 provides the Welsh Government with powers to put forward proposals to the UK Government for the development of new taxes in areas of devolved responsibility. These proposals must be agreed by the National Assembly, and both Houses of Parliament. In October 2017, the Welsh Government announced it was considering a shortlist of four new tax ideas: a vacant land tax; a social care levy; a disposable plastic tax; and a tourism tax. In February 2018, the Welsh Government announced it would propose a vacant land tax to the UK Government, while also continuing to explore the scope and options for the other three ideas.

## Local Taxation: Council Tax and Non-Domestic Rates

1.18 The two main 'local taxes' are Council Tax and Non-Domestic Rates (sometimes known as Business Rates). Council Tax is charged on domestic properties, and Non-Domestic Rates are charged on other properties, including property and infrastructure owned or occupied by businesses, public bodies and not-for profit organisations. Properties used partly for domestic purposes and partly for non-domestic purposes may be liable for both taxes.<sup>11</sup>

### Council Tax

1.19 Local authorities set, collect and enforce Council Tax. The tax is based on valuation bands. The Valuation Office Agency allocates each dwelling to a band based on property values dating from 2003. The total Council Tax collected in each area includes an amount set by the Police and Crime Commissioner for the area, and an amount set by the Town and Community Council, if one exists in the area. There are nine valuation bands (A to I), with the amount of Council Tax varying proportionately between the bands in relation to Band D properties, as shown in **Figure 8**. For example, if the Council Tax for a Band D property is £1,000, the Council Tax for a Band G property will be £1,667 ( $15/9 \times £1,000$ ). Certain types of dwellings are exempt, for example properties occupied exclusively by students. Some households are eligible for reductions and discounts, for example, households where there is only a single liable adult.

<sup>11</sup> For example, if a business owner lives in a flat above the business. More information is available on the [gov.uk website page on Council Tax and business rates: home-based businesses](#).

Figure 8: formula for calculating household rates based on Council Tax bands

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Band I
6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9

Source: Welsh Government

## Non-Domestic Rates

- 1.20 The Welsh Government governs the operation of Non-Domestic Rates but they are predominantly collected by local authorities. Non-Domestic Rates are based on the Rateable Value of the property. The Valuation Office Agency, which is independent of the Welsh Government, values non-domestic properties and assigns rateable values. The Welsh Government sets the multiplier which determines how rates increase from one year to the next.<sup>12</sup>
- 1.21 There are a number of reliefs and exemptions available to help certain ratepayers with their Non-Domestic Rates bill. These include reliefs for small businesses, charities and empty properties.<sup>13</sup> Some reliefs are mandatory and the Welsh Government funds the entirety of the relief. Local authorities can also top up mandatory reliefs or award discretionary reliefs. In these cases, the Welsh Government funds part of the relief and the local authority funds the rest. The Welsh Government has also established temporary relief schemes targeted at particular sectors which are fully funded by the Welsh Government.
- 1.22 Local authorities pay the collected rates, after deducting certain allowances and permitted costs, into a central Welsh Government Non-Domestic Rates Pool. While the pool forms part of the Welsh Government's budget, it is redistributed amongst unitary authorities and police and crime commissioners as part of the annual local government settlements ([paragraph 2.10](#)). In 2016-17, £941 million of Non-Domestic Rates were contributed to the pool by local authorities and a further £79 million of revenues were contributed from the central list, collected directly by the Welsh Government<sup>14</sup>

<sup>12</sup> More information is available on the [Welsh Government's website page on Non-Domestic \(business\) rates](#).

<sup>13</sup> More information on these reliefs, and others available, is on the [Business Wales website](#)

<sup>14</sup> [Non-domestic rates outturn data collection, Welsh Government](#).

1.23 The 2016-17 local government settlement allocated £928 million of Non-Domestic Rates to unitary authorities, and £49 million to police and crime commissioners.<sup>15</sup> The settlements represented around 6% of the total Welsh Government budget for 2016-17. The Welsh Government redistributes the funding based on local needs (see paragraph 2.12). Figure 9 shows that some local authorities are net contributors to the national pool, and some are net beneficiaries although this can vary from year to year.

Figure 9: Non-Domestic rates 2016-17

	Non-Domestic Rates Contributed to the Pool (£'000)	Redistributed Non- Domestic Rates Received (£'000)	Net Benefit/ (Contribution) (£'000)
Blaenau Gwent	12,444	21,003	8,559
Bridgend	41,412	42,283	871
Caerphilly	35,835	53,184	17,349
Cardiff	186,465	105,994	(80,471)
Carmarthenshire	47,160	55,720	8,560
Ceredigion	16,575	23,699	7,124
Conwy	27,812	35,644	7,832
Denbighshire	22,719	28,396	5,677
Flintshire	65,807	45,851	(19,956)
Gwynedd	37,077	37,158	81
Isle of Anglesey	13,224	21,309	8,085
Merthyr Tydfil	16,569	17,560	991
Monmouthshire	20,075	27,981	7,906

15 Welsh Local Government Settlement 2016-17.

	Non-Domestic Rates Contributed to the Pool (£'000)	Redistributed Non- Domestic Rates Received (£'000)	Net Benefit/ (Contribution) (£'000)
Neath Port Talbot	41,039	42,438	1,399
Newport	61,620	42,806	(18,814)
Pembrokeshire	50,107	37,316	(12,791)
Powys	25,669	40,525	14,856
Rhondda Cynon Taf	51,167	70,451	19,284
Swansea	72,215	73,224	1,009
The Vale of Glamorgan	34,285	37,942	3,657
Torfaen	21,233	27,232	5,999
Wrexham	40,373	40,435	62
North Wales Police	0	10,989	10,989
Dyfed Powys Police	0	8,277	8,277
South Wales Police	0	20,521	20,521
Gwent Police	0	9,063	9,063
<b>Total</b>	<b>940,882</b>	<b>977,001</b>	<b>36,119</b>

Note: the total Non-Domestic Rates redistributed of £977 million is greater than the £941 million contributed to the pool by local authorities because the Welsh Government collects some revenues directly. There are also timing differences between the settlements and collection – the settlements are made before the start of the financial year, whereas rates are collected during the financial year.

Source: Local Government Settlements and Non-domestic rates outturn data collection, Welsh Government.

## Borrowing

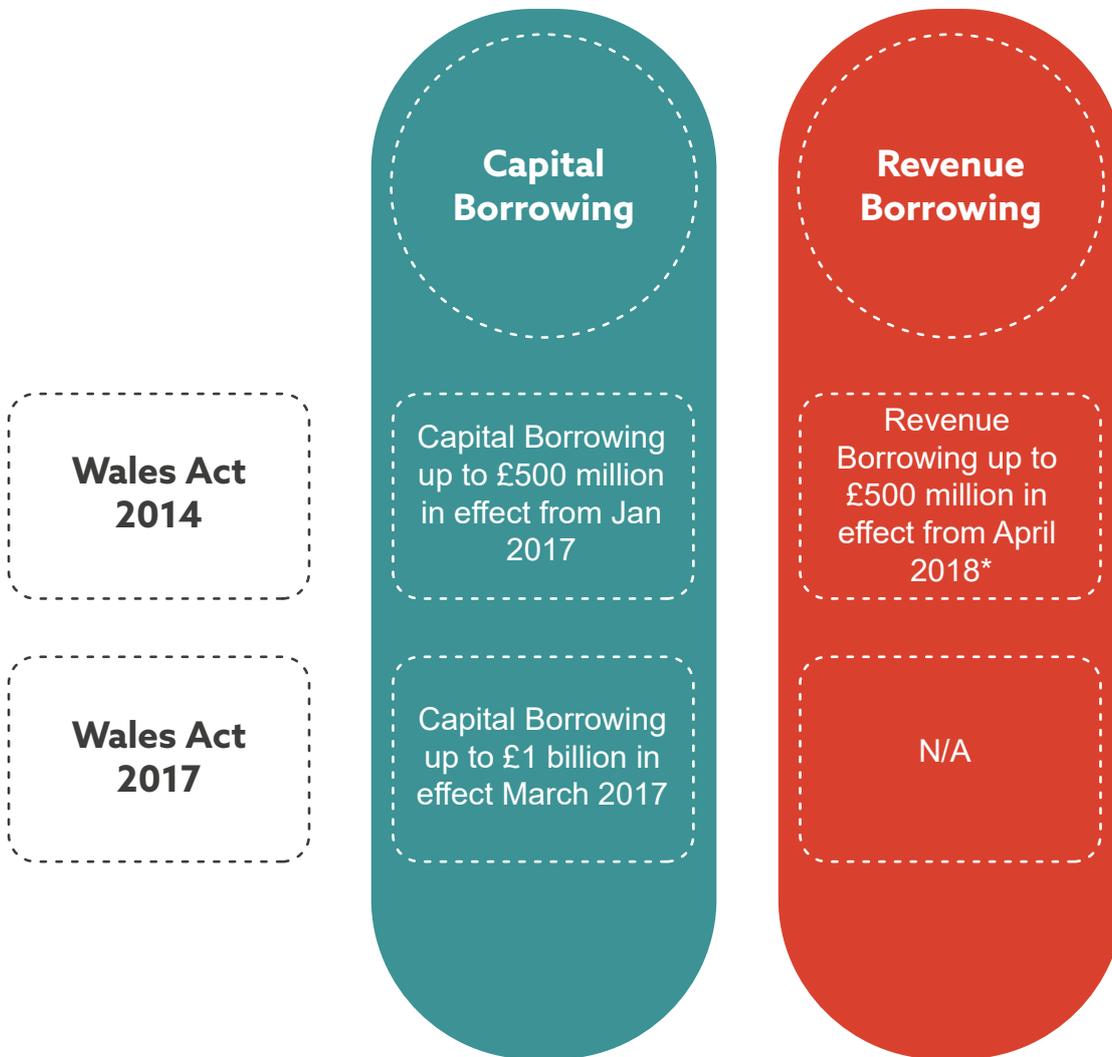
### Welsh Government Borrowing

1.24 The Welsh Government's borrowing powers have changed over time (Figure 10):

- Under section 121 of the Government of Wales Act 2006 the Welsh Government could borrow up to £500 million to manage temporary shortfalls in its budget.
- Following the merger with the Welsh Development Agency in 2006, the Welsh Government also inherited limited borrowing powers under the Welsh Development Agency Act 1975 to undertake its economic and social functions in Wales. If the Welsh Government had used its powers under the Welsh Development Agency Act 1975, the money would have been treated as a receipt, passing directly to the Consolidated Fund, producing no additional net resources for the Welsh Government.
- The Wales Act 2014 repealed the borrowing power under the Welsh Development Agency Act 1975 and extended Welsh Ministers' borrowing powers under section 121 of the Government of Wales Act 2006, with effect from January 2017. Although the revenue borrowing limit remains at £500 million,<sup>16</sup> from 1 April 2018 it can also be used for the purpose of smoothing fluctuations in tax receipts, i.e. if they are lower than forecast or come in more slowly than expected. The Wales Act 2014 also amended the Government of Wales Act 2006 to introduce section 122A, which provided Welsh Ministers with a new borrowing power for capital expenditure of up to £125 million per year for capital purposes, up to a total of £500 million. Before the Wales Act 2014 powers came into effect in 2017, the UK Government agreed to Welsh Ministers borrowing under the Welsh Development Agency Act 1975 for the specific purpose of funding improvements to the M4 in south east Wales.
- The Wales Act 2017 amended section 122A of the Government of Wales Act 2006 to raise Welsh Ministers' capital borrowing limit from £500 million to £1 billion. The annual borrowing limit is due to be increased from £125 million to £150 million per year alongside the introduction of Welsh Rates of Income Tax in April 2019.

<sup>16</sup> Revenue borrowing has an annual limit of £200 million. For further information see HM Government/Welsh Government, **The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework.**

Figure 10: evolution of devolved borrowing powers



\* Following the introduction of Welsh taxes, this can also be used for the purposes of managing fluctuations in tax revenue

Source: Auditor General for Wales, Fiscal Devolution in Wales: An update on preparations for its implementation, December 2017; National Assembly for Wales Finance Committee, Borrowing Powers and Innovative Approaches to Capital Funding, July 2012.

## Local government borrowing and reserves

- 1.25 Under the Local Government Act 2003, each local authority has statutory powers to borrow for any purpose relevant to its function or for the purposes of prudently managing its financial affairs. This means that local government bodies can borrow in order to fund capital investment, for example, in new and refurbished school buildings<sup>17</sup>. Local authorities may also borrow in order to facilitate their cash flow. Local authorities determine for themselves what constitutes prudent borrowing, although they follow professional codes of practice such as The Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Such borrowing is normally referred to as prudential or unsupported borrowing.<sup>18</sup> In 2016-17, Welsh local authorities funded £363 million capital expenditure through unsupported borrowing.
- 1.26 Local authorities also undertake some borrowing and credit arrangements which attract central government financial support. This type of borrowing is typically referred to as supported borrowing. In 2016-17, Welsh local authorities funded £104 million of capital spending through supported borrowing.
- 1.27 Alongside their borrowing powers, local government bodies also have powers to hold reserves. These can be related to specific projects, known as earmarked reserves, or as security against unforeseen expenditure, known as general reserves. The CIPFA Accounting Code also requires local authorities to establish other reserves, many of which are purely for accounting purposes and therefore not usable for other purposes. These are known as unusable reserves. Our December 2017 report on local government financial reporting<sup>19</sup> found that in 2016-17, Welsh local authorities held a total of £1.4 billion in useable reserves, including around £200 million in general reserves.

17 For example, Auditor General for Wales, **21st Century Schools and Education Programme**, May 2017.

18 Although local government bodies can borrow from commercial banks or issue corporate bonds, the most significant source of borrowing is the Public Works Loan Board. For more information, see National Assembly for Wales Finance Committee, **Borrowing Powers and Innovative Approaches to Capital Funding**, July 2012.

19 Auditor General for Wales, **Local Government Financial Reporting 2016-17**, December 2017.

## Income generation

1.28 Welsh public services are also able to generate income through their own activities, although methods vary greatly between different sectors and bodies. Local authorities have wide-ranging powers to charge for services, although these powers are frequently complex, with restrictions placed in certain areas. These restrictions include whether charges can generate a surplus to support general spending, whether they can only recover costs incurred or when authorities are prohibited from imposing charges. The different types of charges that local authorities can use in order to generate income are as follows:

- a discretionary charges, where there is no limit to what the authority can charge, but it must act reasonably and only set charges for the purposes authorised by the statute, for example, leisure service and parking charges;
- b charges where the income cannot exceed the cost of providing the service, such as taxi licensing and building control fees; and
- c nationally prescribed charges, where local authorities have little or no discretion for the level of charging, such as premises licence fees and social care charging.

1.29 Our 2016 report on income generation in local government found that there were varying approaches to income generation between local authorities in Wales. This was reflected in different levels of income generation (relative to their overall budgets). The report also found that local authorities in Wales were raising less income (relative to their budgets) than their counterparts in Scotland and England.

- 1.30 NHS bodies generate income from other Welsh public sector bodies, and from external sources, although in line with local authorities there are limits on NHS charging. Some income is generated from within the Welsh NHS, or from the NHS in England, as health bodies receive funding for treating patients resident in another health board area. There are also a number of other types of income an NHS body may generate:
- a education, training and research funding, particularly if the health board has connections to a university;
  - b patient income from private patients, overseas patients and the Injury Costs Recovery scheme<sup>20</sup>;
  - c fees and charges, for example fees for dental treatment;
  - d charitable income, including grant funding and donations of cash or assets;
  - e rental income generated from assets leased to others by the body; and
  - f other charges, including meals and accommodation for staff, staff contributions for car usage, provision of laundry and other services and mortuary fees.
- 1.31 In central government, the diversity of bodies means that they generate income through a variety of methods depending on the activities of the individual body. This includes income from commercial activities. For example, Natural Resources Wales receives income from renewable energy generation and the National Museum Wales generates income from gift shops and car parking. Other bodies, including the National Library of Wales, receive grant funding from governmental or non-governmental bodies. Additionally, some bodies may charge fees for their services. For example, Social Care Wales charges fees for registration on the Social Care Register<sup>21</sup>.

20 The NHS Injury Costs Recovery scheme exists to recover costs for injuries where personal injury compensation is paid, for example, to those involved in road traffic accidents. The costs are primarily recovered from third-party compensators/insurers, and include ambulance journey costs.

21 A register of people who have shown they are suitable to work in social care in Wales by: following the Code of Professional Practice for Social Care (the Code) and practice guidance for their role; having the right knowledge and skills (including qualifications); and being physically and mentally fit to practise, as well as having suitable competence and character.

## Other sources of funding

- 1.32 There are other sources of funding for public services in Wales. The largest has been the European Union. The two main sources of EU funding are Structural Funds, worth around £300 million a year and funding under the Common Agricultural Policy, also worth around £360 million a year. Wales also receives in the order of £25 million a year from the Horizon 2020 research and innovation programme. It is not yet clear exactly what will happen with EU funding or any replacement after the UK leaves the EU. The Auditor General intends to report on aspects of EU funding later in the year.
- 1.33 Public bodies in Wales are also preparing plans to use funding from City Deals and Growth Deals. City Deals and Growth Deals are local authority led partnerships that aim to secure economic development in the region. The Cardiff Capital Region City Deal was the first to be approved. It involves a total investment of £1.2 billion over 20 years, with £500 million coming from the UK Government and the remainder from Welsh Government, EU and local authority funding. The Swansea Bay Region City Deal is to be funded through £241 million of UK and Welsh Government funding, £396 million of other public sector money and £637 million from the private sector. There is also a North Wales Growth Deal under development, although the details are yet to be agreed.

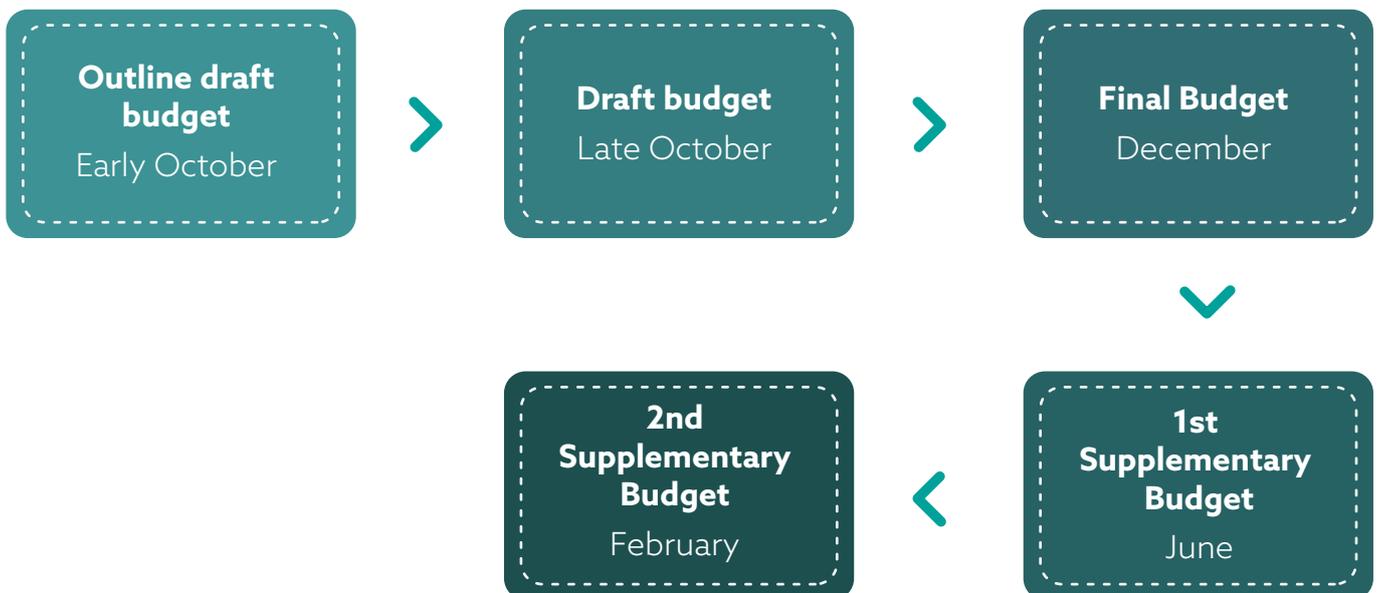
# How budgets are currently set in Wales

- 2.1 This part of the guide sets out how budgets are set in Wales. Firstly, it looks at the key budgeting processes. It covers:
  - a The Welsh Government’s budget process
  - b Local government budget processes
  - c NHS budget processes

## How the Welsh Government sets its budgets

2.2 The Welsh Government sets out its budget in stages. For the 2018-19 budget, the Welsh Government introduced a new approach to publishing the budget, following discussion with the scrutiny committees of the National Assembly for Wales. **Figure 11** sets out at a high level, the process of reporting and updating the budget through the year<sup>22</sup>. From 2018-19 onwards, the budget process is more complicated due to the new tax-raising powers. These introduce a degree of uncertainty, as the actual amounts raised could be more, or less, than estimated.

Figure 11: process and timetable for Welsh Government budget scrutiny and approval



<sup>22</sup> Due to the timing of UK spending decisions, this timetable can be subject to change in the year that the UK Government carries out a spending review.

- 2.3 The 2018-19 budget process was the first time the Welsh Government published an 'outline budget'. This early October outline budget gives a high-level overview of spending plans. Alongside the outline budget, the Welsh Government publishes its plans and forecasts for tax income. For the 2018-19 budget, the accompanying papers also included detailed reports by the Chief Economist and an independent review of the projections by academic economists. For the 2018-19 outline budget, the Finance Committee of the National Assembly for Wales invited comments and evidence from the public and organisations on the outline proposals.
- 2.4 In late October, the Welsh Government publishes the detailed draft budget. This sets out the budget proposals in more detail. It includes detailed spending plans on individual programmes and detailed budget lines. **Box 1** provides some tips on understanding the detailed budgets.
- 2.5 The Finance Committee and other subject committees of the National Assembly for Wales scrutinise the Welsh Government's budget plans. The Finance Committee takes a strategic overview of the budget and the process and must produce a report. Subject committees<sup>23</sup> carry out detailed scrutiny of the budget proposals for the areas covered by the committee. Each committee can produce its own report on the budget scrutiny. The reports are on the National Assembly for Wales' website.

23 By 'subject committees' we mean those that cover specific areas of Welsh Government policy: [Children, Young People and Education Committee](#); [Climate Change, Environment and Rural Affairs Committee](#); [Culture, Welsh Language and Communications Committee](#); [Economy, Infrastructure and Skills Committee](#); [Equality, Local Government and Communities Committee](#); and [Health, Social Care and Sport Committee](#).

## Box 1: reading the Welsh Government's budget document

### **What are the budget documents?**

Budget expenditure line tables. These set out the detailed budget plans of Welsh Ministers and show changes from year-to-year.

Budget narrative. This contains a range of information explaining budget decisions, the outcome of impact assessments and priorities.

Budget motion – This is the formal motion that the National Assembly votes on to approve the budget. On top of the Welsh Government budget, it includes funding for the Assembly Commission, the Wales Audit Office and the Public Services Ombudsman for Wales.

### **Types of funding**

Resource (also referred to as revenue and 'day-to-day spending') covers costs of running and purchasing goods and services; staff costs; current grants; rent; and maintenance costs. It also includes profit or loss on the sale of assets; depreciation; and some impairments.

Capital (also referred to as 'investment spending') covers the purchase, disposal and major improvement of assets; capital grants (i.e. grants to purchase or enhance assets) and loans. It also includes financial transactions, which are loans and equity investments in private sector schemes rather than investment in traditional infrastructure projects.

Annually Managed Expenditure covers spending which is more difficult to control and forecast. It includes provision for student loans. The Welsh Government agrees Annually Managed Expenditure each year with HM Treasury. The Welsh Government can draw down more Annually Managed Expenditure from HM Treasury if required, but only spend it on the specific programme it is assigned to. HM Treasury reclaims any unspent Annually Managed Expenditure. HM Treasury assumes the financial risk for Annually Managed Expenditure

### **Some things to look out for**

Increases or decreases from year to year: these could be in 'nominal' (or cash terms), or in 'real terms' which means that inflation is taken into account.

Changes to departmental responsibilities: which may make it look like a budget line has gone up or down but in fact reflects responsibility moving from one department or budget line to another. These are usually detailed in the explanatory document that accompanies the budget.

- 2.6 The Welsh Government usually publishes its Final Budget in the December before the financial year in question. The Final Budget includes any changes following scrutiny. The National Assembly for Wales votes on the Final Budget plus the budget for the Assembly Commission, Wales Audit Office and Public Service Ombudsman<sup>24</sup>.
- 2.7 During the financial year itself, the Welsh Government updates the budget through Supplementary Budgets. It updates figures for a variety of reasons. The largest changes tend to occur in the Second Supplementary budget in February. Some of the key changes involve formalising decisions that have already been announced, including:
- a reflecting any increased funding because of budget decisions in England;
  - b allocating to Departments, funding that had been held in the central reserve;
  - c allocating extra in-year funding because of cost pressures, for example in the NHS;
  - d redistributing underspends in one programme or department to another; and
  - e allocating funding from the Wales Reserve (unused funding from previous years).
- 2.8 Welsh Government Sponsored Bodies set their detailed annual budgets based on the core revenue and capital funding from the Welsh Government alongside any other income they expect to raise. The budgets are agreed by individual organisations' boards.

<sup>24</sup> These three institutions are independent of the Welsh Government and therefore the Welsh Ministers do not have a role in setting their budgets.

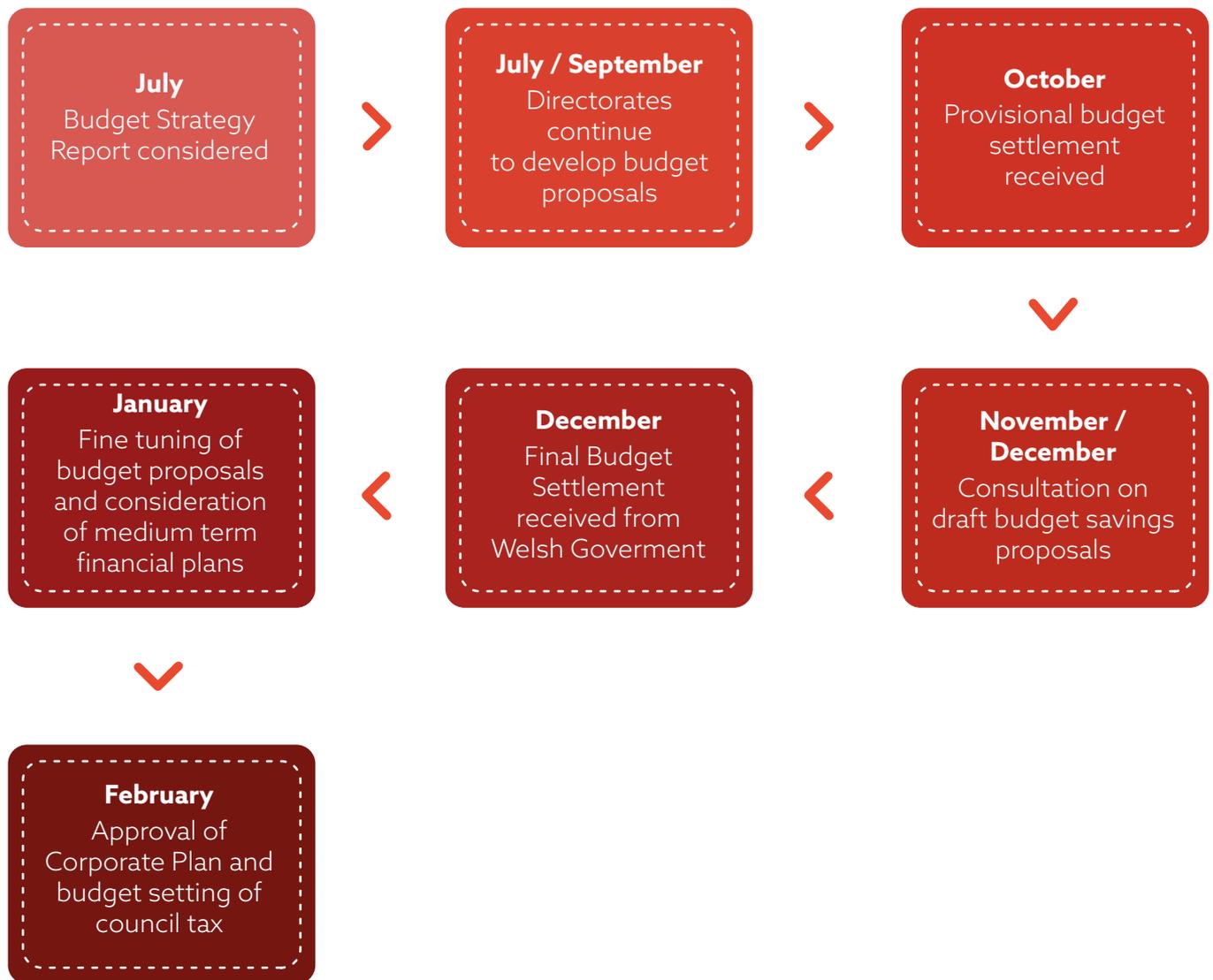
## Budget setting in local government

2.9 Local authorities are required by law to have a balanced budget but legislation does not define what 'balanced' means in practice<sup>25</sup>. The Chartered Institute of Public Finance and Accountancy advises that local government budgets should be based on sound financial plans that show how income will equal spend over the short and medium term<sup>26</sup>. All local authorities produce medium-term financial plans which typically cover a three to five year period. These medium-term financial plans are used to inform annual budgets, spending plans and council tax levels. Local authorities take slightly different approaches to setting annual budgets but the timelines in [Figure 12](#) are typical.

25 The law is contained in a number of acts including the Local Government Act 1972, the local Government (Wales) Act 1994 and the Local Government Finance Acts of 1988 and 1992.

26 Chartered Institute of Public Finance and Accountancy, **Balancing Local Authority Budgets**, April 2016.

Figure 12: typical process and timetable for budget plan approval in local authorities



Source: Welsh Local Government Association

- 2.10 In setting a balanced budget, local authorities set out their spending plans against known and likely levels of income. The main source of income is the Revenue Support Grant (**Box 2**) and other specific Welsh Government grants. Two other key sources of income are non-domestic rates (**paragraph 1.20**) and income from fees, charges and other sources (**paragraphs 1.28 to 1.33**). The final source of funds is the locally set council tax (**paragraph 1.19**). Council tax is the second largest source of revenue funding for councils in Wales. Each year, councils must calculate their 'budget requirement' for Council Tax based on:
- a planned expenditure on delivery of services;
  - b planned contributions to reserves to meet future spending;
  - c planned contributions from reserves to meet current spending; and
  - d expected income from fees and charges, grants, including Revenue Support Grant, and non-domestic rates.

## Box 2: Revenue Support Grant

The Welsh Government provides each local authority with its Revenue Support Grant. Local authorities have discretion as to where to spend this funding, according to local need and priorities.

Each year Welsh Ministers produce a Local Government Finance Report and lay it before the National Assembly for Wales<sup>27</sup>. The report sets out how much money each council will receive through the Revenue Support Grant and redistributed non-domestic rates<sup>28</sup>. The report and its supporting documents are referred to as the Local Government Settlement. The Welsh Government publishes its provisional Local Government Settlement in October, after the publication of the Welsh Government Draft Budget. The Welsh Government then publishes its final Settlement in December after consulting with councils.

The amount of money each local authority gets as part of the Revenue Support Grant is determined by a 'Standard Spending Assessment'. The Assessments are designed to reflect the differing costs of delivering services in each area due to their different demographic, physical, economic and social characteristics. They include notional amounts allocated to individual service areas, although there is no obligation or expectation that councils spend in line with these allocations.

Over recent years, the Welsh Government has incorporated various specific grants into the Revenue Support Grant. These changes each year mean that complex adjustments need to be made in order to compare the value of the Revenue Support Grant over time.

- 2.11 The whole council must set the annual budget and level of council tax, based on the advice and recommendation of the cabinet or executive board. Local authorities must set their overall budgets and council tax levels by 11 March.
- 2.12 In addition to the revenue budget described above, local authorities also prepare capital budgets covering planned expenditure on long-term assets such as land, buildings and infrastructure. The Welsh Government provides specific capital grants for councils as well as general capital funding as part of the Local Government Settlement. Councils provide further funding from borrowing, and contributions from their revenue budgets and reserves ([paragraphs 1.25 to 1.27](#)).

<sup>27</sup> Under the Local Government Finance Act 1988, amended by the Local Government Act 2003.

<sup>28</sup> [The Welsh Government publishes Local Government Finance Reports on its website.](#)

## Fire and Rescue Authorities

2.13 The majority of funding for fire and rescue authorities in Wales comes from a levy on local authorities. Fire and rescue authorities consult local authorities on the level of charges but can ultimately make a decision on charges without approval from another tier of government. The Welsh Government's National Fire and Rescue Framework<sup>29</sup> states that fire and rescue authorities should consider the impact of funding pressures on local authorities and explain their decisions to local authorities thoroughly.

## National Park Authorities

2.14 National park authorities in Wales are funded through the Welsh Government's National Park Grant and levies on local authorities. The Welsh Government issues an annual approved expenditure limit setting out the amount of funding national park authorities will receive through its National Park Grant each January. The National Park Grant makes up 75% of national park funding of approved expenditure and national park authorities issue a levy on local authorities for the remaining 25%. The Chief Executive of the national park authority is responsible for writing a detailed annual budget and a levy statement by 15 February. The national park authority must approve the annual budget and budget forecasts for the next two years.

## Budget setting in the NHS

2.15 The overall budget for the NHS is decided through the Welsh Government budget process ([paragraphs 2.2 to 2.8](#)). In recent years, the allocation for the NHS has increased ahead of inflation and faster than most other areas of public service. As a result, the NHS is taking up an ever-growing proportion of the Welsh Government's budget. In setting the budget for the NHS, the Welsh Government has made extensive references to the work of the Nuffield Trust in 2014<sup>30</sup> and the Health Foundation in 2016<sup>31</sup> setting out the cost pressures on the NHS.

<sup>29</sup> [Fire and Rescue National Framework 2016, November 2015](#)

<sup>30</sup> Nuffield Trust, [A Decade of Austerity in Wales? The funding pressures facing the NHS in Wales to 2025/26](#), June 2014.

<sup>31</sup> Health Foundation, [The Path to Sustainability: Funding projections for the NHS in Wales to 2019/20 and 2030/31](#), October 2016.

2.16 NHS bodies have a statutory duty to break even over a rolling three-year period under the NHS Finances (Wales) Act 2014. A key objective of the Act was to help NHS bodies focus on financial stability and longer-term planning. The Act requires NHS bodies to produce a three-year Integrated Medium Term Plan setting out their service, workforce and financial plans for meeting the needs of the population in their area. NHS bodies must update their plan each year, for approval by their boards and ultimately by the Cabinet Secretary. **Figure 13** sets out the timetable for producing the plan. The Auditor General's July 2017 report on the implementation of the Act<sup>32</sup> found that four of the seven health boards did not have an agreed three-year plan in place in 2016-17. Those four health boards instead had one-year plans that did not show a break-even position for the end of the year. This situation continued in 2017-18, when all four health boards again only produced one-year plans.

**Figure 13: process and timetable for Integrated Medium Term Plan approval in the NHS**



32 Auditor General for Wales, **Implementation of the NHS Finances (Wales) Act 2014**, July 2017.

2.17 The Welsh Government writes to health boards before the start of the financial year (usually in December) setting out their annual revenue allocation (Box 3). The Welsh Government can add to the revenue allocation during the course of the year. The Welsh Government's capital allocations to health boards and trusts are not issued in a formal letter. Capital allocations normally include a discretionary amount for minor work and equipment replacement. They also include any allocation from the All-Wales Capital Programme for approved major capital projects. There are separate arrangements for the three NHS Trusts. Public Health Wales NHS Trust receives its core funding directly from the Welsh Government. Velindre NHS Trust and the Welsh Ambulance Services NHS Trust get their main funding from the seven health boards.

### Box 3: NHS revenue allocation

The revenue allocation sets out in detail the general funding and specific levels of funding, for example, for primary care and other services. The allocation is calculated using a mix of formula. In part, the allocation follows historic funding patterns, which were set prior to the 2009 creation of integrated local health boards. Annual increases in funding are allocated to individual health boards using a formula, which is largely based on levels of deprivation.

Our 2017 report on the implementation of the NHS Finances noted that there is significant variation in the amounts allocated to each health board, per head of population. The Welsh Government is in the process of reviewing the approach to allocating NHS funding.

## Key issues for public bodies in setting budgets

- 2.18 In setting budgets, public bodies take a wide range of factors into consideration. In a democratic society, the political priorities of the governing party or parties, as set out in their manifestos, are a key factor in determining which areas of public spending to prioritise. There are also more technical factors in terms of meeting statutory duties in relation to some services and matching resources to demand and need. Also, the Well-being of Future Generations (Wales) Act 2015 requires that specified public bodies<sup>33</sup> apply the 'sustainable development principle' in everything they do, including planning their finances and setting budgets. The Act describes five ways of working to make the sustainable development principle a reality<sup>34</sup>:
- a Long term
  - b Prevention
  - c Integration
  - d Collaboration
  - e Involvement
- 2.19 Shifting to long-term budget planning is a major challenge for public bodies. While many are getting better at medium-term planning, over three years, there remains a focus across public services on the annual budget cycle. Many bodies depend on the Welsh Government's budget process to confirm their funding. Over recent years, the Welsh Government itself only published annual budgets, although for 2018-19 it produced indicative figures for revenue budgets in 2019-20 and to 2020-21 for capital.
- 2.20 Under the Well-being of Future Generations Act, the Welsh Government is required to produce a Future Trends report after each National Assembly for Wales election. The Welsh Government published the first **Future Trends Report 2017** in May 2017. Based on that report and our own analysis, **Box 4** sets out some of the key issues that public bodies need to take into account as they shift their planning horizons to the longer term. The Future Generations Commissioner for Wales has previously highlighted weaknesses in how wellbeing assessments have taken account of future trends.<sup>35</sup>

33 The Act applies to 44 named bodies, although the Welsh Government is encouraging other public bodies in Wales to embrace the principles of the Act.

34 More information is available in the Welsh Government publication, [Well-being of Future Generations Act \(2015\): The Essentials](#).

35 Future Generations Commissioner for Wales, **Well-being in Wales: Planning today for a better tomorrow**, 2017.

#### Box 4: some key long-term issues for Welsh public services

**Demographic changes:** over the next 30 years, the demographic make-up of the Welsh population is forecast to change significantly. Office for National Statistics data shows that between 2018 and 2048, the proportion of the population aged over 80 is set to increase from 6% in 2018 to 11% in 2048, and the proportion of the population aged 20-59 will fall from 51% in 2018 to 46% in 2048. The fact that people live longer is a very positive development. But it does mean that the nature of demand for some public services will change. Also, the decline in the working age population potentially affects the tax base in Wales.

**Austerity:** Public bodies are currently making difficult decisions in a period of unprecedented financial austerity. In A Picture of Public Services 2015, the Auditor General emphasised that in making decisions about spending cuts and priorities, public bodies need to have a clear understanding of the potential long-term impacts on individuals and communities of their decisions. In particular, they need to aim to make decisions that ‘do least harm’ to outcomes for individuals and communities in the longer term.

**Poverty:** The Institute for Fiscal Studies predicts that there will be approximately a 3% increase in the relative poverty rate in Wales from 2013-2015 to 2019-2021, and approximately a 10% increase in the relative child poverty rate from 2013-2015 to 2019-2021.

**Brexit:** The UK’s decision to leave the European Union will also have wide-reaching impacts but the extent of these impacts is largely unknown. At the time of drafting this Guide it remains highly uncertain as to whether the UK will leave in an orderly fashion, with a Withdrawal Agreement and agreed transition period, or a more unpredictable exit with no deal. The long-term consequences of either scenario are unclear and all public bodies will need to be alert and adapt swiftly to the risks and opportunities.

**Technological developments:** Technology offers new ways of interacting with the public, improving services and potentially reducing costs. However, public bodies need to balance the opportunities that technological changes provide with a need to ensure that they do not exclude those who are less comfortable and able to use digital technologies.

**Climate change:** There is a scientific consensus that global temperatures are rising and that human activity is a significant cause. Climate change poses significant future challenges in terms of prevention and adaptation to the impacts, for example, on key physical and digital infrastructure. The Environment (Wales) Act 2016 places a duty on the Welsh Ministers to ensure that in 2050 net emissions are at least 80% lower than the baseline set in legislation. This will be achieved through the setting of interim targets for 2020, 2030 and 2040 and five-yearly carbon budgets up until to 2050.

2.21 Public bodies also need to match their budgets and resources to their strategic objectives and plans for transforming the services that they provide. As the Auditor General set out in A Picture of Public Services 2015, there is a vision of more collaborative, seamless services that are preventative and based on the principles of 'co-production'<sup>36</sup>. **Box 5** sets out some of the key issues public bodies need to consider as they plan their budgets around new models of public services. We have framed these key issues in the context of the five ways of working set out in the Well-being of Future Generations Act.

<sup>36</sup> Co-production is based on the principle of greater involvement of service users and the public, often summarised as 'doing with not to'.

**Box 5: some key factors for consideration in planning budgets in light of the Welsh Government's vision for public services.**

**Long term:** Paragraphs 2-18 to 2.21 and Box 4 set out some of the key long-term challenges for public services in Wales.

**Prevention:** Many public sector bodies are already investing in preventative initiatives but there may be opportunities for organisations to review spending to identify opportunities to invest more upfront to prevent problems escalating to avoid increased longer-term costs. Public bodies need to create the financial headroom to invest additional money in preventative approaches, while also managing the immediate short-term pressures on frontline services.

**Collaboration:** There is a growing recognition that people's lives do not fit neatly into the boxes of organisational boundaries and service silos. People's health, social, economic and cultural needs and aspirations are wide-ranging and complex. To meet those needs public bodies need to work together across boundaries. In doing so, public bodies will need to ensure that budgets and funding arrangements support, rather than can sometimes be the case, hinder effective joint working. Public Services Boards will play a key role in enabling a genuinely joined-up approach to resourcing public services.

**Integration:** Public bodies face multiple requirements and pressures in planning their budgets. One key challenge is to build a coherent and integrated view of funding, services and the impacts they are having. Public bodies are required to carry out a range of needs assessments as part of planning. They must also carry out specific impact assessments, including equalities impact assessments, related to their decisions. To avoid fragmentation, public bodies need to integrate their financial planning within their broader plans to meet the needs of the population and maximise the beneficial impacts of decisions on individuals and communities.

**Involvement:** Alongside the service delivery implications of greater service user involvement, there are resourcing implications. Co-production involves a recognition of the positive assets that individuals and communities offer public services. These can dwarf the limited financial resources available to the public sector. There is a challenge for public services to understand and work with those resources alongside the financial resources that are typically included in budgets.

# Key frameworks for measuring and reporting the impacts from public funding in Wales

- 3.1 This part of the report looks at the various frameworks in place for measuring and reporting the impacts from public funding in Wales. In particular:
- a Frameworks for measuring and reporting impacts across public services
  - b Frameworks for measuring and reporting the performance of the Welsh Government and its sponsored bodies
  - c Frameworks for measuring and reporting the performance of local government
  - d Frameworks for measuring and reporting the performance of the NHS
- 3.2 This is a particularly interesting time for public service impact reporting. Public bodies in Wales are adapting their frameworks in response to the requirements of the Well-being of Future Generations (Wales) Act 2015 and to different ways of working and understanding public services. These changes include a shift from measuring and reporting what public services do and how much of it they do, to a focus on ‘outcomes’ – the impacts that public services are having. **Figure 14** sets out the high-level over-arching frameworks for measuring performance across devolved public services in Wales<sup>37</sup>.

<sup>37</sup> While this report covers primarily devolved public bodies, there are also performance frameworks that apply to wider public services, including further education and higher education and voluntary and private bodies that are in receipt of EU funding.

Figure 14: the key performance frameworks across devolved public services



3.3 In addition to the national and local performance frameworks and reporting arrangements, public bodies are also subject to external scrutiny from a range of organisations:

- there is political scrutiny through national and local government scrutiny committees and through the media.
- the Auditor General audits the accounts of public bodies and reviews the performance of public services to examine whether they are offering value for money. He also examines the extent to which public bodies have applied the sustainable development principle when setting wellbeing objectives and taking steps required to meet them.
- the inspectorates review the quality of services: Estyn inspects education services, Healthcare Inspectorate Wales looks at the delivery of healthcare services and Care Inspectorate Wales inspects social care services.
- the Commissioners – Older People’s Commissioner, Children’s Commissioner, Welsh Language Commissioner and Future Generations Commissioner – and the Public Services Ombudsman also have statutory powers to examine the quality of public service delivery

## Frameworks for measuring and reporting performance across public services

### Well-being of Future Generations (Wales) Act 2015

3.4 **Part 2** of this report described how the Well-being of Future Generations Act is intended to shape the decision-making of most public bodies in Wales, including decisions on funding. Those same public bodies are required to report their progress in achieving their objectives under the 2015 Act.

- 3.5 The Act requires Welsh Ministers to set national indicators to measure progress towards achieving the wellbeing goals. In 2016, the Welsh Government published 46 national indicators<sup>38</sup>. The Welsh Government publishes an Annual Well-being Report to describe progress against the wellbeing goals at the start of each financial year. The Welsh Government published its first annual Well-being Report in 2017<sup>39</sup>. The report focuses on the collective contribution towards of all public bodies in Wales and does not comment on the performance or contribution of individual organisations. Welsh Ministers also have a duty to set milestones to help measure progress towards the achievement of national wellbeing goals. The Welsh Government is currently developing its national milestones.
- 3.6 Each year individual public bodies must publish an annual report showing the progress they have made in meeting their objectives. The legislation does not specify the structure and content of the annual reports. In May 2018, the Future Generations Commissioner published her report **Well-being in Wales: the journey so far**. Alongside commentary on the progress made in the first year of the Act, the report sets out the Commissioner's expectations as to what should be included in each body's annual reports.
- 3.7 Statutory Public Services Boards were established under the Act. Local authorities, local health boards, fire and rescue authorities, and Natural Resources Wales are statutory members of Public Services Boards. The Boards can also invite other relevant public sector organisations to join them. Each Board must publish wellbeing objectives and the steps it will take to meet them in a Local Well-being Plan. Boards must publish an annual report on progress and send copies to Welsh Ministers, the Future Generations Commissioner, the Auditor General for Wales, and the relevant local authority's scrutiny committee. The report describes the actions the Board has taken during the year towards meeting its objectives and should include an assessment of progress in relation to the 46 national indicators.

<sup>38</sup> More information is available in [How to measure a nation's progress: National indicators for Wales](#) on the Welsh Government's website.

<sup>39</sup> Welsh Government, **Annual Well-being Report, 2017**.

## Public Health Outcomes Framework for Wales

3.8 The Welsh Government launched the Public Health Outcomes Framework<sup>40</sup> in 2016 to measure and monitor the health of the Welsh population. The Framework is designed to underpin the 46 national wellbeing indicators by providing a more detailed set of indicators on health and wellbeing. Data on the indicators is available on the Public Health Wales Observatory<sup>41</sup>. The Framework is not a performance management tool but data on its indicators will show Wales' progress towards public health outcomes. The Welsh Government intends that all public sector organisations use the Framework as a tool to aid policy making where their work can have an impact on health and wellbeing. The Welsh Government intends to review the Framework every five years and to report annually on Wales' progress as a nation against the Framework.

## Social Services National Outcomes Framework

3.9 The Social Services and Well-being (Wales) Act 2014 requires Welsh ministers to publish a Well-being Statement. The Statement set out the wellbeing outcomes that people who need care and support, and carers who need support should expect. Welsh ministers must also specify how progress towards achieving the Well-being Statement will be measured. The Welsh Government published the National Outcomes Framework in 2016<sup>42</sup> setting out national wellbeing outcomes and indicators to measure progress. The Welsh Government publishes data on the performance indicators on its website<sup>43</sup>. The Welsh Government reports on progress against the National Outcomes Framework in an annual report. The report describes the collective contribution of the public sector in Wales and does not comment on the performance of individual organisations. The Welsh Government has developed a separate performance measurement framework for local authorities under the Social Services and Well-being (Wales) Act 2014<sup>44</sup>.

40 Welsh Government, **Public Health Outcomes Framework**, March 2016.

41 [Public Health Wales Observatory, Public Health Outcomes Framework](#)

42 Welsh Government, **National Outcomes Framework**, 2016

43 Welsh Government website, [National outcomes framework for people who need care and support and carers who need support](#), January 2018

44 More information is available on the Welsh Government website page on [Performance Measurement framework for local authorities](#)

## Measuring and reporting the performance of the Welsh Government and its sponsored bodies

- 3.10 The Welsh Government occupies a dual role in terms of reporting on impacts. As the lead policy making body in Wales, it is responsible for the achievement of national objectives, even though it does not directly deliver the services. Also, the Welsh Government reports on its own impacts as an organisation, including in the way that it is managed and run.
- 3.11 The Welsh Government is still working out how it intends to report on the achievement of national objectives and priorities set out in Taking Wales Forward 2016-21<sup>45</sup> (the current 'programme for government') and the national strategy, Prosperity for All<sup>46</sup>.
- 3.12 In the previous Assembly (2011-16), the Welsh Government measured progress against its programme for government commitments through 336 outcome and tracking indicators. The outcome indicators measured Wales's progress as a country and the tracking indicators measured the Welsh Government's contribution to national progress. The Welsh Government published annual progress reports describing progress against individual indicators on its website<sup>47</sup>. However, as part of Prosperity for All, the Welsh Government wants to move away from reporting on lots of individual indicators and is currently developing its approach to monitoring and reporting on its own progress.
- 3.13 The Welsh Government publishes the Welsh Government Consolidated Accounts. The Accounts include some commentary from the Welsh Government on its corporate functions but do not describe wider Welsh Government performance.
- 3.14 Each Welsh Government sponsored body has its own set of performance measures and targets, which derive from their strategies, priorities and the priorities set out in their annual remit letter from the Welsh Government. Each sponsored body publishes an annual report, some combined with their accounts, which describes performance over the previous year. These reports are available on each body's website. The Welsh Government is currently implementing a range of measures intended to strengthen the effectiveness and consistency of its oversight of the sponsored bodies.

<sup>45</sup> [Welsh Government, Taking Wales Forward 2016-21, 2016](#)

<sup>46</sup> [Welsh Government, Prosperity for All, 2016](#)

<sup>47</sup> [Welsh Government, Programme for Government, \(National Archives website\).](#)

## Measuring and reporting on local government performance

3.15 The Local Government (Wales) Measure 2009 requires all local authorities, national park authorities and fire and rescue authorities to publish annual improvement objectives and report annually on their progress towards meeting their objectives. Some authorities have incorporated their wellbeing objectives into their improvement objectives while others have published wellbeing objectives separately. Authorities measure performance against different performance indicators, which are described in more detail in the sections below.

### Local authorities

3.16 In 2016, the Welsh Government revoked the Local Government (Performance Indicators) (Wales) Order 2012, removing the duty on local authorities to submit national strategic indicator data. Local authorities then worked with the Welsh Local Government Association to develop a new framework for local performance based on public accountability measures. The new performance measurement framework was ratified at the Welsh Local Government Association Council on 31 March 2017. The Welsh Local Government Association publishes guidance on the new measures including how they can contribute to the seven wellbeing goals<sup>48</sup>. Progress against the public accountability measures is available on the Data Cymru (formerly the Data Unit) website<sup>49</sup>.

3.17 The Welsh Government has published a code of practice for local authorities to measure social services performance under the Social Services and Well-being (Wales) Act 2014. The performance measures in the code of practice replaced all current performance measures for local authority social services. Data on local authority performance against the performance measures is available on the StatsWales website. Local authority Directors of Social Services also have a statutory duty to publish an annual report on social services performance as part of the social services Annual Council Reporting Framework. Since 2017, the annual report is based on a national template that reflects the requirements of the Social Services and Well-being (Wales) Act 2014.

48 For more information see, [Welsh Local Government Association/Data Cymru, Public Accountability Measures 2017-18, Guidance for local authorities.](#)

49 For more information, see the [mylocalcouncil website.](#)

## Local planning authorities

- 3.18 Local authorities and the three national park authorities have a role as planning authorities, which means they are responsible for determining most planning decisions in their area<sup>50</sup>. All planning authorities must produce a 15-year Local Development Plan under the Planning and Compulsory Purchase Act (2004). Local Development Plans set out local frameworks on which decisions about future development, including planning applications, are based. Planning authorities have a statutory duty to prepare an Annual Monitoring Report to monitor the effectiveness of their Plan.
- 3.19 Planning authorities' performance is also measured against indicators in the Welsh Government's Planning Performance Framework. The Framework was developed in consultation with stakeholders, the Welsh Local Government Association and the Planning Officer's Society for Wales and adopted in 2014. The Welsh Government publishes data on planning authority performance on its website every quarter<sup>51</sup>.

## National park authorities

- 3.20 The statutory duties on national parks are set out in the Environment Act 1995. The Act requires National park authorities in Wales to publish a National Park Management Plan<sup>52</sup> every five years. The Plan sets a long term vision and priorities for the whole park area. The authorities also publish annual reports and improvement plans with targets and performance indicators for the national park authority.

## Fire and rescue authorities

- 3.21 The Fire and Rescue Services Act 2004 requires Welsh ministers to prepare a Fire and Rescue National Framework and report every two years on how far the fire and rescue authorities have acted in accordance with the Framework. The Framework sets out the Welsh Government's vision and priorities for fire and rescue authorities in Wales including performance indicators on risk reduction and community safety, and effective response. The Welsh Government produces an annual report showing national performance against its performance indicators<sup>53</sup>.

50 Except major energy applications which are determined by Welsh ministers or the UK Government for energy generation projects of over 50 megawatts.

51 For more information see the [Welsh Government Performance Framework webpage](#)

52 A requirement of the Environment Act 1995

53 For more information see the [Welsh Government webpage on fire and rescue authority performance](#)

## Town and community councils

3.22 Town and community councils deliver a range of services depending of the size of the community they represent and their budget. Examples of services provided by town and community councils include maintenance of public seating and bus shelters, public spaces and community centres. Some parts of Wales do not have town or community councils. Community and town councils do not have to publish reports on their annual performance unless their budget is £200,000 or more. Town and community councils with budgets of £200,000 or more must publish an annual report to show progress towards meeting the objectives in their public services boards' local wellbeing plan. All town and community councils must publish an annual governance statement and annual accounts.

## Measuring and reporting on the performance of the NHS

- 3.23 The Welsh Government sets the policy direction for NHS Wales and the overall framework for measuring and reporting performance. In 2017, the Welsh Government changed the way that NHS Wales measures and reports performance. The NHS will now report overall performance against the 46 national wellbeing indicators and the goals of the Public Health Outcomes Framework.
- 3.24 There are specific NHS Wales performance measures. These are set out in the NHS Delivery Framework. The Welsh Government published its 2018-19 NHS Delivery Framework and Reporting Guidance in March 2018<sup>54</sup>. The 2018-19 Framework is the first to include some outcomes that do not relate exclusively to health but are shared by the Public Health Outcomes and Social Services National Outcomes Frameworks. The Framework sets out delivery measures under seven domains. The Welsh Government uses the measures in the NHS Delivery Framework to hold NHS bodies to account.

<sup>54</sup> Welsh Government, **NHS Delivery Framework and Reporting Guidance 2018-2019**, March 2018.

- 3.25 The Welsh Government does not publish a collated overview of performance against all of the measures from the Delivery Framework. Several of the measures are on the Welsh Government statistics site: [statswales.gov.uk](http://statswales.gov.uk). These include key performance against targets such as waiting times for elective treatment, for cancer treatment and for emergency care.
- 3.26 Individual NHS bodies report performance to their boards. These reports are published within board papers on NHS bodies' websites. Each NHS body produces an Annual Report, which sets out their performance against the NHS Delivery Framework alongside reporting their accounts. These reports are available on the NHS bodies' websites.



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