Public Accounts Committee

Meeting Venue:
Committee Room 3 - Senedd

Meeting date:
Tuesday, 2 December 2014

Meeting time:
09.00

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

For further information please contact:
Michael Kay
Committee Clerk
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Agenda

1 Introductions, apologies and substitutions (09:00)

2 Papers to note (09:00-09:05) (Pages 1 - 3)

Health Finances 2013-14: Letter from Dr Andrew Goodall, Welsh Government (24 November 2014) (Pages 4 - 8)

Scrutiny of Commissioners' Accounts 2013-14: Letter from the Minister for Finance and Government Business (24 November 2014) (Page 9)

Meeting the Financial Challenges Facing Local Government in Wales: Letter from Rhondda Cynon Taf County Borough Council to Minister for Public Services (13 November 2014) (Pages 10 - 11)

Meeting the Financial Challenges Facing Local Government in Wales: Letter from Vale of Glamorgan Council to the Minister for Public Services (13 November 2014) (Pages 12 - 21)

Meeting the Financial Challenges Facing Local Government in Wales: Letter from the Welsh Local Government Authority to the Minister for Public Services (10 November 2014) (Pages 22 - 27)

The Well-being of Future Generations (Wales) Bill: Letter from the Auditor General for Wales to the Chair of the Environment and Sustainability Committee (25 November 2014) (Pages 28 - 30)

3 Glastir (09:05-10:00) (Pages 31 - 56)

PAC(4)-31-14 paper 1
Research Brief

Gareth Jones - Director General, Sustainable Futures, Welsh Government
Andrew Slade - Director, Agriculture, Food & Marine, Welsh Government

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (10:00)

Items 5, 6 & 7

5 Glastir: Consideration of evidence received (10:00-10:25)

6 Forward work programme (10:25-10:50) (Pages 57 - 61)

PAC(4)-31-14 paper 2

7 Scrutiny of Commissioners' Accounts 2013-14: Consideration of evidence received (10:50-11:00)

Public Accounts Committee

Meeting Venue:	**Committee Room 3 – Senedd**
Meeting date:	**Tuesday, 25 November 2014**
Meeting time:	**09.00 – 11.02**

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

This meeting can be viewed on Senedd TV at:
http://senedd.tv/en/2466

Concise Minutes:

Assembly Members:	**Darren Millar AM (Chair)** **William Graham AM** **Mike Hedges AM** **Alun Ffred Jones AM** **Julie Morgan AM** **Jenny Rathbone AM** **Aled Roberts AM** **Sandy Mewies AM**
Witnesses:	**Sian Davies, Vale of Glamorgan Council** **Dyfed Wyn Edwards, Gwynedd Council** **Chris Lee, Rhondda Cynon Taf County Borough Council** **Neil Moore, Vale of Glamorgan Council** **Andrew Morgan, Rhondda Cynon Taf County Borough Council** **Alan Morris, Wales Audit Office** **Nick Selwyn, Wales Audit Office**
Committee Staff:	**Michael Kay (Clerk)** **Kath Thomas (Deputy Clerk)** **Joanest Varney-Jackson (Legal Adviser)**

TRANSCRIPT

View the meeting transcript.

1 Introductions, apologies and substitutions

1.1 The Chair welcomed the Members to Committee. There were no apologies.

2 Papers to note

2.1 The papers were noted.

2.1 Meeting the Financial Challenges Facing Local Government in Wales: Letter from the Minister for Public Services (6 November 2014)

2.2 NHS Wales Health Board's Governance: Letter from Dr Andrew Goodall (10 November 2014)

2.3 Welsh Government Consolidated Annual Accounts 2013-14: Letter from Sir Derek Jones (14 November 2014)

2.4 Governance Arrangements at Betsi Cadwaladr University Health Board: Letter from Dr Andrew Goodall (18 November 2014)

2.5 Wales Audit Office: Letter from Jocelyn Davies AM (18 November 2014)

3 Meeting the Financial Challenges Facing Local Government in Wales

3.1 The Committee scrutinised Councillor Dyfed Wyn Edwards, Leader Gwynedd Council, Councillor Andrew Morgan, Leader Rhondda Cynon Taf County Borough Council, Christopher Lee, Group Director, Corporate and Frontline Services Rhondda Cynon Taf County Borough Council, Councillor Neil Moore, Leader Vale of Glamorgan Council and Sian Davies, Managing Director Vale of Glamorgan Council, on meeting the financial challenges facing local government.

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

4.1 The motion was agreed.

5 Meeting the Financial Challenges Facing Local Government in Wales: Consideration of evidence received

5.1 The Committee discussed the evidence received and agreed that the Chair would write, drawing a number of issues raised during the meeting to the attention of the Welsh Government.

5.2 The Wales Audit Office will provide a note on the National Audit Office's recent report on the Financial Sustainability of [English] Local Authorities 2014.

Yr Adran Iechyd a Gwasanaethau Cymdeithasol
Cyfarwyddwr Cyffredinol a Prif Weithredwr, GIG Cymru

Department for Health and Social Services
Director General and Chief Executive, NHS Wales

Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair
Public Accounts Committee
Cardiff Bay
Cardiff
CF99 1NA

Our Ref: AG/KH

24 November 2014

Dear Darren

Health Finances 2013-14

Further to my evidence session at the Public Accounts Committee on 11th November regarding Health Finances 2013-14, please find below a response to the additional information requested during the session.

The Cochrane Centre for meta analysis (2012) conclusion that the treatment in the borderline range of blood pressure is more likely to harm patients than help them except in the case of diabetes and is one of the quality and outcome framework contracts for GPs

Hypertension is recognised as a risk factor for many disabling conditions including stroke, heart attack, heart failure, chronic kidney disease and cognitive decline. Raised blood pressure is one of the three main modifiable risk factors for cardiovascular disease, (along with high cholesterol and smoking) which remains a leading cause of morbidity and mortality in Wales, with a particular impact in areas of socio economic deprivation.

The 2012 Cochrane paper referenced at PAC considered the risks and benefits for patients with mildly elevated blood pressures and concluded that;

'Individuals with mildly elevated blood pressures, but no previous cardiovascular events, make up the majority of those considered for and receiving antihypertensive therapy. The decision to treat this population has important consequences for both the patients (e.g. adverse drug effects, lifetime of drug therapy, cost of treatment, etc.) and any third party payer (e.g. high cost of drugs, physician services, laboratory tests, etc.). In this review, existing evidence comparing the health outcomes between treated and untreated individuals are summarized. Available data from the limited number of available trials and

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participants showed no difference between treated and untreated individuals in heart attack, stroke, and death. About 9% of patients treated with drugs discontinued treatment due to adverse effects. Therefore, the benefits and harms of antihypertensive drug therapy in this population need to be investigated by further research'.

Comments on the review noted the small number of patients and relatively short timescale studied, supporting the proposal for further research to provide stronger evidence.

NICE clinical guidance for the management of hypertension emphasises that 'a person-centred approach is fundamental in delivering high-quality care to adults with the condition'. The aim is to ensure that hypertension of any degree is identified and assessed to ensure that patients are advised of the risks and are aware of the potential benefits of both behaviour change and medical management options.

Clinicians consider the level of individual risk- for example the absolute measurement (i.e. the level of raised blood pressure) and whether the hypertension is an isolated condition or is associated with other conditions or evidence of target organ damage.

For patients described in the Cochrane review, with mildly elevated blood pressure and no previous cardiovascular events, NICE guidance advises that medication is offered only when there is evidence of target organ damage, renal disease, diabetes or a 10-year cardiovascular risk equivalent to 20% or greater.

For people aged under 40 years with stage 1 hypertension and no evidence of target organ damage, cardiovascular disease, renal disease or diabetes, clinicians are further advised to: 'Consider seeking specialist evaluation of secondary causes of hypertension and a more detailed assessment of potential target organ damage. This is because 10-year cardiovascular risk assessments can underestimate the lifetime risk of cardiovascular events in these people'

Through shared decision making, doctor and patient agree a management plan that is appropriate for the individual, taking into account the estimated individual risk and informed by relevant evidence such as the Cochrane review.

Guidance also recommends that patients are provided with; -
'Appropriate guidance and materials about the benefits of drugs and the unwanted side effects sometimes experienced in order to help people make informed choices.'

The Quality and Outcomes Framework is a series of financial incentives to ensure that GP practices deliver high quality services for their patients, based on evidence based clinical guidance. The incentives apply at a population level and do not determine the management of individual patients.

Achievement thresholds for the population are set below 100% to acknowledge that there are degrees of risk influenced by the severity of each condition and combination with other health problems. (For hypertension the upper threshold for achievement is set at 80%). Practitioners are also able to exclude individual cases from measurement against QOF performance measures where they judge that the intervention would not be appropriate or where treatment has been discussed but declined by the patient.

We believe that current guidance does support a patient centred approach, offering treatment in the context of a shared understanding of risks and benefits. The prudent health care approach is further strengthening the emphasis on informed patient choice.

The QOF indicator relates to the management of hypertension at the population level and does not incentivise clinical management for all patients.

We continue to work closely with the National Institute for Health and Clinical Excellence to review QOF indicators as further clinical evidence emerges.

How rurality is being catered for in any future allocation of resources

As stated at the recent committee the intention is to issue any additional monies where appropriate based on the Direct Needs formula. The Direct Needs Allocation Formula is constructed as follows:

LHB allocation share = population share x health need index (as measured by a range of health needs indicators x cost of meeting those needs) x additional cost indices

The original work on the Direct Needs Allocation Formula in 2001 was supported by a Task Group that looked specifically at Rurality/Remoteness by reviewing the additional costs of delivering health care services to rural/remote locations. Their work and that of the research team was reflected in the Targeting Poor Health Report (2001), the Targeting Poor Health - Review of rural and urban factors Report (2004) and the recommended Direct Needs Allocation Formula outlined above.

The formula is complex and the relative rural heath needs are reflected in all factors e.g. Cancer data sets where these are based on prevalence.

However within the formula there are also some specific components that add to the relative health needs factors e.g. one factor applies to the proportion of community services expenditure likely to be affected by extra staff travelling costs. Additionally as rural population tend to be older than urban areas the age costs index is another factor that benefits rural areas.

While the formula construction has not changed the needs and cost datasets are being updated so that the direct needs formula reflects the latest available validated datasets. Accordingly the formula, which will inform the distribution of the additional 2015/16 funding announced in the draft budget, has been updated and continues to reflect the cost of providing services in rural areas.

In addition to the significant work that has been undertaken to date, further work has been agreed to completely review all aspects of the formula in line with PAC recommendations and the agreed December 2015 deadline.

How the Welsh Government holds health boards to account in delivery against the prudent healthcare objective

Prudent Healthcare provides the central organising principles for health in Wales. It is not a single objective, rather a strategic intent for how the NHS in Wales can organise services differently in the future. It reflects similar approaches being developed in many countries.

Over the past ten months a sustained discussion has taken place in Wales about prudent healthcare and the potential benefit for the Welsh NHS and its patients. That conversation has been enthusiastically embraced by people working within the health service and other public services in Wales and many examples of prudent healthcare in practice have come to the fore.

In July, the next steps to advance prudent healthcare and ensure Wales remains at the vanguard of this emerging global movement were set out. This included the development of an interactive online resource www.prudenthealthcare.org.uk to capture some of the perspectives of those working in or using health and social care services about what prudent healthcare means to them and its potential for Wales. The online resource also includes case studies which demonstrate how prudent healthcare is already happening in the work of the renal services team at Morriston Hospital, in Swansea, which put the co-production principle at the heart of their service redesign and has improved service quality and in the improvement of lymphoedema services across Wales, which embodies the principles of prudent healthcare and is leading the way in Europe.

But prudent healthcare has to be more than an idea and more than a set of principles. It has to change the way health services are used and provided. It has to make a real, practical difference to the millions of encounters which take place every year between the Welsh people and their health service. Alongside this online resource, Welsh Government, NHS Wales and key partners are taking forward action by organising their work around prudent healthcare principles. Key aspects include:

- Build on the recent strengthening of the NHS Wales planning system. The planning requirements and outcomes framework have been refreshed to embody the prudent healthcare principles to ensure they are embedded within health boards and NHS trusts;
- Draw on international best practice including the Choosing Wisely work, which has been developed in the US and Canada. The Choosing Wisely campaigns help clinicians and patients make smart and effective choices about tests, treatments and procedures;
- National guidelines for interventions not normally undertaken and National Institute for Health and Care Excellence “do not do” guidance are being refreshed, alongside the introduction of enhanced compliance at health board and NHS trust level. This is being led by the planned care work programme, which is developing prudent surgical and medical pathways;
- The re-vamped Bevan Commission will improve the evidence base for, and advice around, prudent healthcare as well as championing the agenda;
- Continuing to work with the Department of Economy, Science and Transport on initiatives which will drive healthcare improvement and economic development. This will develop a more systematic approach to product and process innovation, including for example applied research to address clinical needs and challenges, coordinated adoption of new technology into practice and more engagement with industry.

Prudent healthcare will not suddenly happen overnight. We are at the start of a journey which will ensure that public value is at the heart of our healthcare system; there is always a culture of putting people first and there is an expectation of constant measurable improvement in the delivery of health and better care for all. Prudent healthcare will also not happen by the Welsh Government acting alone. For the NHS to embrace prudent healthcare and for people across Wales to realise its benefits, leaders, managers, clinicians and the public need to think about what the principles mean for them and their interactions with health services and to act accordingly.

In the New Year NISCHR will be issuing a research call to underpin prudent healthcare, aiming to answer three key questions:-

1) How is it best to engage the public in owning their health and health service?

2) How is it best to engage clinicians in adopting prudent healthcare principles into routine practice?

3) What does operational modelling of prudent healthcare inform us of the impact of prudent healthcare in terms of quality, clinical and economic outcomes?

Working with workforce directors in Wales, outline their approach to disciplinary policies and how the process can be speeded up

The All Wales Disciplinary Policy has recently been reviewed in partnership with Trade Unions and was ratified by the Welsh Partnership Forum in July 2014. The policy confirms that it seeks to ensure that fair and effective arrangements exist for dealing with disciplinary issues and to ensure that expected standards of conduct and behaviour are observed. One of the principal aims of the policy is to provide a mechanism for dealing with disciplinary issues in a way that is fair, consistent and without discrimination as soon as possible.

The issue of disciplinary cases has been raised by the Welsh Government's DHSS' Director of Workforce and OD with Directors of Workforce & OD for Health Boards and NHS Trusts at their September meeting. It was emphasised that such cases need to be managed efficiently and concluded as expeditiously as possible mindful that due process has been observed. This issue will remain an item for discussion at this forum and NHS organisations will be expected to highlight any protracted cases as and when they arise and how they are being addressed as well as sharing best practice.'

Medicines management

I have requested that our prescribing analytical unit compile the data required to respond to the point raised at the meeting of the committee. I do not wish to delay my response to you on any of the other matters and so I will write to you again with this information at a later date.

I hope the information provided is of assistance.

Yours sincerely

Dr Andrew Goodall

Jane Hutt AC / AM
Y Gweinidog Cyllid a Busnes y Llywodraeth
Minister for Finance and Government Business

Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MB/JH/5028/14

Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

24 November 2014

Dear Darren,

Your letter of 23 October 2014 requested my views on the governance and funding arrangements for the independent Commissioners, following scrutiny by the Public Accounts Committee of the 2013-14 annual accounts for each Commissioner.

The posts of Older People's Commissioner, Children's Commissioner and Welsh Language Commissioner were established at different times and under different legislation, but I believe that in terms of governance and funding all three should operate in a uniform manner, unless there is a compelling reason not to do so. In June 2014 the (then) Minister for Communities and Tackling Poverty launched an independent review of the role and functions of the Children's Commissioner for Wales, led by Dr Mike Shooter. The review is expected to conclude in December and I expect it to have considered the governance and funding arrangements. It would therefore be inappropriate for me to comment on such arrangements for any of the Commissioners, or pre-empt the findings of the review, before that time.

Jane

Jane Hutt AC / AM
Y Gweinidog Cyllid a Busnes y Llywodraeth
Minister for Finance and Government Business

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Leighton Andrews AC / AM
Minister for Public Services

Dear Leighton

Date: 13 November 2014

Thank you for your letter dated 23rd October 2014 in respect of the appropriate reporting and use of Local Authority Reserves.

This Council's reserves are explained and reported fully within it's annual Statement of Accounts. As your letter indicates, your officials have reviewed the latest 'audited' figures for 2013/14 and this is clearly an important starting point. From the Council's perspective, the audit report that accompanied the Statement of Accounts for this Council included specific references to earmarked reserves and I draw attention to commentary included in that report including:

> *'we confirmed that the Council considered amounts in earmarked reserves when setting budgets and that it's material earmarked reserves are held for specific purposes which are appropriately explained'*

Before commenting as requested, on the specifics of reserves held, it is worth highlighting that reserves are a vital part of our financial management and service planning framework. They are based on a local determination in terms of our own specific requirements and the risks inherent in an organisation with an annual gross revenue budget of over £670M. The appropriateness and robustness of all reserves are determined ultimately by our Section 151 officer.

The total value of 'usable' reserves stated in our Statement of Accounts as at 31st March 2014 is £127M. 'Usable' in this context is an accounting term as required by the relevant code of practice that governs the preparation of our annual accounts, it does not mean "available" in terms of supporting any budgetary or other cash requirements that may arise. An extract from the Council's Statement of Accounts is shown below, summarising the £127M total:

31/03/13 £'000			31/03/14 £'000
(11,204)	Council Fund Balance	17.1	(10,282)
(22,548)	Capital, Treasury and Insurance Reserves	17.2	(34,038)
(75,822)	Other Revenue Related Reserves	17.2	(74,918)
(5,379)	Delegated Schools Reserve	17.3	(3,951)
(50)	Usable Capital Receipts Reserve	17.4	(104)
(2,290)	Capital Grant Unapplied Account	17.5	(2,524)
(474)	MGCC Insurance Reserve	17.6	(1,281)
(117,767)	**Total Usable Reserves**		**(127,098)**

An explanation of the totals referenced in the summary table is provided below:

- **Council Fund Balance (£10.282M)** – this represents the working balance of the Council, available to fund any unexpected events and / or emergencies. This total represents what the Section 151 Officer and, as subsequently validated by our auditors, feel is a minimum level and equates to just 1.5% of our gross revenue budget (you will note from the information provided to you and your officials by the WLGA that this Council is very much at the lower end (in percentage terms) of Welsh Councils).

- **Capital, Treasury and Insurance Reserves (£34.038M)** – Over £20M of this reserve is already allocated to fund our existing three year capital programme. £11M is our "self insurance" reserve to cover the cost of claims we are likely to receive based on an agreed model of claim and repudiation rates. The balance of just over £2M allows us to smooth the risk associated with volatility in markets affecting the cost of our borrowing.

- **Other Revenue Related Reserves (£74.918M)** – This includes earmarked reserves all set aside for agreed and specific purposes. Significant elements of this total include:

  - Private Finance Initiative (PFI) Equalisation Account (£8.284m) – this represents the differing timing profile of WG support and actual PFI costs the balance of which represents funding required to support the scheme requirements over the life of the scheme and as such will need to be to fully allocated to the scheme.

  - Revenue Budget Strategy 2014/15 (£5.216M) – accounting requirements are such that this has to be shown in the total of reserves at year end 2013/14, but it actually represents reserves applied to support the budget strategy in 2014/15 and as such is already fully allocated.

  - Joint Committee Reserve (£2.277M) – the Council's share of reserves / interests in joint committee arrangements. The use of these reserves is determined by the respective Joint Committee.

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- Revenue Grant Reserve (£6.321M) – an accounting requirement whereby revenue grants not yet applied to spend must be set aside as a reserve until used for the specific purpose of the grant.

- Financial Management and Human Resources Risk Management Reserve (£33.445M) – this represents the amounts set aside to cover key financial risks and ongoing liabilities to the council including equal pay / value, the costs of voluntary early redundancies linked to service changes, the costs locally associated with the impact of welfare reform and service risks such as Waste Management and Social Care.

- Prior Year Commitments (£9.696M) – these are committed sums required to fund projects carried over from the previous financial year and will be used as the project is subsequently completed.

- Medium Term Financial Planning and Service Transformation (£6.752M) – this is resource set aside as "transitional funding" to support the Council's medium term financial planning arrangements, essentially recognising that not all Service Changes can deliver full year savings immediately.

- **Delegated Schools Reserve (£3.951M)** – the total value of reserves held by our schools for their own purposes.

- **Useable Capital Receipts Reserve (£0.104M)** – Accounting requirements are such that this must shown separately and represents support allocated to fund our existing three year capital programme.

- **Capital Grant Unapplied Account (£2.524M)** - Again accounting requirements are such that we need to show capital grants received but not yet applied to fund capital expenditure which will be used as the Capital Schemes progress.

- **MGCC Insurance Reserve (£1.281M)** – This council's requirement to set aside funding for the cost of insurance claims not yet received for events that occurred prior to Local Government Reorganisation in 1996.

The only amount available from the above to directly support the implementation of future years budget strategy work is the Medium Term Financial Planning and Service Transformation (£6.752M). This reserve, as stated previously was set up as a transitional fund and indeed was a key component of agreeing our budget strategy for the current year (2014/15). Transitional funding totalling £5.216M was used in the current year and the level of this reserve annually is determined as part of our in year and year end budget monitoring processes, plus our regular risk assessment undertaken on all reserves. Given the budget gap faced by the Council in 2015/16, I do suspect that we will again have to use some of this reserve to support next year's budget strategy whilst the impact of our ongoing service change / cuts programme is implemented.

Clearly, use of any reserves to address base budget shortfalls is not a sustainable solution, given their one off nature in terms of funding. In this respect, use of £5.216M of transitional funding in 2014/15 has simply meant that the starting point budget gap in 2015/16 has been inflated to reflect the underlying resource shortfall (£5.216M) brought forward from the previous year. In other words, the greater the value of one off support required in year, the greater the base budget shortfall that needs to be addressed in the following or subsequent years.

Whilst recognising the shortcomings in simply using one off funding to address annual budget shortfalls, we believe the approach we are taking in terms of proactively setting aside transitional funding to support the implementation and base budget impact of service changes represents robust financial management. All of our other earmarked reserves are clearly set aside for specific purposes, which have been fully validated by our auditors. We will also continue to undertake regular and robust risks assessments on the level and classification of reserves held, which again will be scrutinised by the WAO.

In terms of engagement by Members on scrutinising the reserves held by this Council, Members are presented with details as part of the annual budget setting and closure processes at the Council. There are also opportunities to scrutinise and challenge information as part of our quarterly monitoring and reporting arrangements and again when setting the budget.

In conclusion, whilst the total value of reserves as stated in our Statement of Accounts could be considered significant, I hope I have explained that only a very small element of this is truly 'usable' to support the revenue budget in the short term. We have proactively identified this usable element as transitional funding to support the implementation of service changes / cuts going forward. This is an approach that I feel represents robust financial management and is a key determining factor in this Council's ongoing success in terms of financial performance and service delivery, which has seen the WAO year after year supporting the approach we take.

Yours sincerely

A Morgan

Councillor Andrew Morgan
Leader of Rhondda Cynon Taf, County Borough Council

Agenda Item 2.4

Date/Dyddiad: 13 November 2014
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VALE of GLAMORGAN
BRO MORGANNWG

Leighton Andrews AC/AM
Minister for Public Services
Welsh Government
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Dear Minister

Use of Reserves

Thank you for your letter dated 23rd October 2014.

To begin with, in light of the continued financial pressures we face, I would agree with your comments regarding the need for local authorities to look at all the options available to them, including the appropriate use of reserves. This has once again been brought into sharp focus following the publication of the Provisional Settlement for 2015/16 showing a reduction in funding for the Vale of 3.5%.

In this continuing scenario of austerity, reserves will form a vital part of the Council's financial planning framework as a means of providing a degree of security against future levels of expenditure and to manage the burden across financial years.

The Council has always taken a prudent approach with regard to specific reserves and uses them to mitigate known risks (financial and service) and contingent items, e.g. Insurance Fund. Other reserves have been established to fund Council priorities, e.g. Visible Services and in particular the Capital Programme, e.g. School Investment Strategy Reserve, Project Fund, Building Fund. This is important as the Council has limited capacity to realise sufficient sums from the sale of assets for capital investment. Sums have also been set aside to assist in budget management and the Council's reshaping services programme, e.g. Early Retirement Fund. The Housing Revenue Account Reserve is ring-fenced to Housing and the majority will be used to fund improvements to the Council's housing stock.

Correspondence is welcomed in Welsh or English. Croesawir Gohebiaeth yn y Gymraeg neu yn Saesneg

The Office of Leader and Deputy Leader/Swyddfa'r Arweinydd a'r Dirprwy Arweinydd

Following the expected use of £2.5m in 2014/15, the Council's General Fund Reserve is projected to stand at £11.46m as at 31st March 2015. As detailed in the Council's latest Medium Term Financial Plan and as approved by Council on 29th September 2014, the 2015/16 base budget includes the use of a further £2.5m from the General Fund Reserve and another £1.5m in 2016/17. The Council's Section 151 Officer currently believes that the minimum balance on the General Fund Reserve should be no less than £7m. This is considered sufficient to cover unforeseen expenditure whilst, in the short term, maintaining a working balance.

Unforeseen expenditure can be substantial and several instances can occur in a year. Whilst there is no set requirement for the minimum level for the General Reserve, some commentators use 5% of the net budget as a guide. For the Vale this is about £10.7m. However, in view of the prudent approach the Council takes with regard to specific reserves, £7m is considered a reasonable minimum.

The Council presently benefits from a reasonable level of reserves, however, they are not inexhaustible and have taken years of careful financial management to develop to their current level. As part of the normal Budget and Closure of Accounts processes, an examination of the level of reserves is undertaken to ascertain their adequacy and strategy for use. A view to their level (i.e. whether the amount held in the fund is sufficient to requirements) and purpose (i.e. whether the need to hold the fund is still relevant) is then taken by members.

The requirement for each specific reserve is also considered in light of the Council's priorities and it has been deemed necessary to move funding from lower priority areas to higher priority areas. As a result, it has recently been proposed as part of our initial revenue budget proposals for 2015/16 that £3.5m of specific reserves are un-earmarked and transferred to the Schools Investment Strategy Reserve to allow for the continued investment in school buildings and their development.

Attached is a table that sets out the Authority's actual reserves as at 31st March 2014 and shows the estimated reserves balance for each year up to 31st March 2018. The Council is forecasting the use of general and specific reserves totalling £37.7m from 2014/15 onwards, which represents 54% of the balance as at 31st March 2014. These levels of reserves are still deemed to be adequate as known risks are largely covered and the General Fund Reserve does not fall below £7m.

It should also be noted that it is the Authority's contention that over £6m of the 2013/14 reserves figure actually relate to provisions (i.e. liabilities that have already occurred) and will be a matter that we will be discussing further with our external regulators.

The Council is planning to use a considerable amount of its specific reserves over the coming years. However, as reserves are a non-recurring means of funding, they can only be used as part of a specific financial strategy. The consequence of not doing so will only be to increase the already exacting level of savings required in future years.

Finally, I would like to thank you for supporting the fundamental principal that it is the responsibility of authorities to make their own decisions in this matter.

I trust, therefore, that this response clarifies the Council's position in relation to the use of its reserves but should you require any further information, please do not hesitate to contact me.

Yours sincerely

Councillor Neil Moore
Leader of the Council

Correspondence is welcome in Welsh or English/Croesawir Gohebiaeth yn y Gymraeg neu yn Saesneg

The Office of Leader and Deputy Leader/Swyddfa'r Arweinydd a'r Dirprwy Arweinydd

ANALYSIS OF RESERVES

VALE OF GLAMORGAN

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
Youth Service	165	-128	37	To assist with the implementation of the Youth Engagement & Provision Framework in schools, Intervention and Youth Service building recovery costs.	0	0	0
Repairs and Renewals Catering	121	-90	31	The primary use is to fund enhancements to premises and the replacement of Catering equipment, ensuring Environmental Health Officer requirements and Health & Safety obligations within school Catering premises are met.	0	0	0
Catering Improvements	180	-80	100	This reserve is to be used to assist with repayment of the Cashless Catering system implementation.	0	0	0
Social Services							
Legislative Changes	205	0	205	To cover additional burdens on the authority due to changes in legislation eg Deprivation of Liberties Standards	0	0	0
Social Services Fund	220	-220	0	As part of the reserves review £220k has been transferred to the School Investment Strategy reserve.	0	0	0
Social Services Plan	4,193	-168	4,025	To support the approved Social Services Budget Reduction Programme.	1,950	980	330
Social Services Pressures	1,668	0	1,668	To cover short term childrens placements which have a high cost e.g. remand, that cannot be accommodated within the current operational budget.	1,418	1,168	918
Grant Exit Strategy	415	0	415	To pay potential redundancy costs if Welsh Government grants were discontinued	415	0	0
Youth Offending Service	70	-50	20	To assist with funding of building works, upgrade software and assist with potential funding reductions. As part of the reserves review £50k has been transferred to the School Investment Strategy reserve.	20	20	20
Visible & Housing							

VALE OF GLAMORGAN

ANALYSIS OF RESERVES

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
Housing Revenue Account	**6,406**	**-3,514**	**2,892**	The fund is ring fenced by statute for use by the Housing Revenue Account.	**2,573**	**641**	**654**
General Reserves							
Council Fund	**13,960**	**-2,500**	**11,460**	The working balance of the Authority can be used to support General Fund expenditure or to reduce the Council Tax.	**8,960**	**7,460**	**7,460**
Specific Reserves							
Learning and Schools							
Excluded Pupils	123	-10	113	This is to support schools whose finances have been detrimentally affected by excluded pupils.	93	73	53
School Invest to Save	180	145	325	The reserve is used to support the Voluntary Early Retirement and Redundancy scheme as part of the Schools saving programme.	245	200	200
Union Duties	39	-39	0	As part of the reserves review £39k has been transferred to the School Investment Strategy reserve.	0	0	0
Schools Rationalisation and Improvements	934	-215	719	This reserve will meet the costs of school restructuring and reorganisation and support schools in the improvement of their teaching and learning facilities. £300k per annum has been ringfenced within the reserve to assist schools in the capital loans scheme.	601	568	555
Sports Facilities	114	-114	0	As part of the reserves review £114k has been transferred to the School Investment Strategy reserve.	0	0	0
Library Fund	171	0	171	To facilitate the refurbishment of library buildings and other service enhancements. This fund enables projects to matchfund the CyMAL grant.	0	0	0
Learning and Schools (cont'd)							
Adult Community Learning	240	-63	177	To finance future funding deficits as a result of Welsh Government reductions.	0	0	0

ANALYSIS OF RESERVES

VALE OF GLAMORGAN

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
Heritage Coast	39	-8	31	Income received from visitors which is used to fund general projects and to match-fund expenditure incurred by the Friends of the Heritage Coast.	26	21	16
Council Workshop	29	0	29	To be used in respect of future works on Council workshops.	0	0	0
Coastal Works	900	0	900	To assist in the ongoing liabilities that will arise following the coastal developments in the Vale.	790	680	680
Employment Training	35	0	35	To assist with phasing of receipts for the Employment and Training Services contract (Work Programme)	0	0	0
Managing Director							
Human Resources	197	-197	0	As part of the reserves review £197k has been transferred to the School Investment Strategy reserve.	0	0	0
Asset Management Plan	150	-150	0	As part of the reserves review £150k has been transferred to the School Investment Strategy reserve.	0	0	0
IT Improvements	125	-125	0	As part of the reserves review £125k has been transferred to the School Investment Strategy reserve.	0	0	0
Property	131	-11	120	To fund the replacement of IT/equipment and consultancy costs.	95	95	95
Flexitime	23	-23	0	As part of the reserves review £23k has been transferred to the School Investment Strategy reserve.	0	0	0
Internal Audit	90	-90	0	As part of the reserves review £90k has been transferred to the School Investment Strategy reserve.	0	0	0
Exch/Revenue/H.Ben	283	0	283	To finance Department of Works and Pensions projects and equipment.	193	193	193
Managing Director cont'd							

ANALYSIS OF RESERVES

VALE OF GLAMORGAN

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
Visible Services	4,924	-786	4,138	To be used for initiatives to improve Visible Services, including Parks and Highway services and potential costs of collaborative waste disposal initiatives.	2,612	1,990	1,382
Jenner Park	795	-50	745	To provide funds for improvements at Jenner Park Stadium	0	0	0
Bad Weather Reserve	431	-50	381	To fund necessary works during periods of severe weather conditions.	331	281	231
Feasibility Study	5	-5	0	Reserve used.	0	0	0
Building Services Improvement	158	-63	95	Monies set aside for improvements to the Building Services department.	50	50	50
Rural Housing Needs	88	0	88	Funding required to fill gap identified by Welsh Government	0	0	0
Housing General Fund	8	0	8	Contribution for a prison leavers housing adviser.	0	0	0
Development							
Regulatory Improvements	871	-81	790	Monies set aside for Licensing, Gaming and Health, Safety issues and private housing issues and to be used for any future issues arising from the shared services collaboration.	690	590	490
Disabled Facilities	320	-100	220	To fund increased cost of Disabled Facility Grants due to additional Occupational Therapist post speeding up approvals	0	0	0
Temporary Empty Homes Officer	135	-45	90	To be used for 2 year appointment of Empty Homes Officer.	45	0	0
Urban Development Plan	206	-32	174	Set aside for potential additional costs relating to the production of the Local Development Plan.	0	0	0
Rural Development Plan	35	14	49	To be used in connection with the Plan and as matchfunding for grants.	25	25	25
Development	250	-220	30	Monies set aside to cover various commitments within the Directorate, including the Planning files scanning project	0	0	0
Building Control	87	0	87	Reserve set aside to fund any future deficits on Building Control Trading Account.	87	87	87
Regeneration Fund	1,457	0	1,457	To fund various regeneration schemes in the Vale, including committed capital schemes	807	357	357
Development cont'd							

ANALYSIS OF RESERVES

VALE OF GLAMORGAN

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
Corporate Governance	338	0	338	This reserve has been set aside in respect of local government governance and development issues e.g. collaboration, mergers and support for the reshaping agenda. The fund is also a useful contingency provision for improvements required urgently e.g. as a result of an inspection report.	263	188	113
Single Status	50	-50	0	As part of the reserves review £50k has been transferred to the School Investment Strategy reserve.	0	0	0
Early Retirement	1,761	-725	1,036	Used to finance the cost of early retirement as a result of the Reshaping Service Programme. As part of the reserves review £725k has been transferred to the School Investment Strategy reserve.	936	836	736
Events	593	-150	443	To provide funds to promote the Vale of Glamorgan particularly in respect of tourism and economic development.	293	143	0
Shops	116	-50	66	To be used to carry out Council owned shop improvements	0	0	0
Insurance Fund	669	0	669	To fund potential claims on the Authority.	669	669	669
Energy Management Fund	218	65	283	Energy saving schemes initially funded from this reserve and services make repayments to the fund once savings are achieved.	308	298	302
Capital							
Computer Renewal Fund	4,476	-93	4,383	Set aside to meet the costs of replacement and renewal of computer hardware and software, telecommunication systems and infrastructure.	3,820	3,657	3,357
Capital Scheme Commitments	2,098	-2,098	0	Reserve used.	0	0	0

VALE OF GLAMORGAN

ANALYSIS OF RESERVES

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
Welfare Reforms	963	-500	463	To fund pressures on the Authority resulting from changes to the Welfare Benefit System. As part of the reserves review £500k has been transferred to the School Investment Strategy reserve.	463	463	463
Legal	529	-119	410	To fund purchase of hardware, software and general equipment and to provide for external counsel fees. As part of the reserves review £100k has been transferred to the School Investment Strategy reserve.	350	350	350
Trainee Appointments	389	0	389	To fund the appointment of trainees and interns to support the Reshaping Service programme.	289	189	89
Freedom of Information	14	-14	0	To contribute to the Freedom of Information officer costs. As part of the reserves review £9k has been transferred to the School Investment Strategy reserve.	0	0	0
Legal Claims	1,870	0	1,870	To fund future legal cases and judicial reviews.	1,870	1,870	1,870
Print Room	41	-41	0	As part of the reserves review £41k has been transferred to the School Investment Strategy reserve.	0	0	0
Corporate and Customer Services	748	-125	623	To fund the purchase of hardware, software and equipment and to fund a public opinion survey.	573	523	473
Communications/ Exhibitions	67	-67	0	As part of the reserves review £67k has been transferred to the School Investment Strategy reserve.	0	0	0
Active Citizenship	7	-7	0	Reserve used	0	0	0
Corporate							
Election Expenses	180	0	180	Set aside for the Council Elections.	180	180	0

ANALYSIS OF RESERVES

VALE OF GLAMORGAN

Name	Bal 31/03/14 £,000	Est Mov'nt £,000	Est Bal 31/03/15 £,000	Comments	Est Bal 31/03/16 £,000	Est Bal 31/03/17 £,000	Est Bal 31/03/18 £,000
School Investment Strategy	5,612	2,168	7,780	To be used to fund schemes identified as part of the Schools Investment Programme. As part of the reserves review £3.5m has been transferred into this reserve from other specific reserves.	5,010	3,849	3,065
Capital Fund	288	0	288	To assist in funding future capital commitments	0	0	0
Project Fund	5,432	-1,188	4,244	This fund is to be used to finance capital and revenue projects, with repayment of such advances being credited back to the fund.	2,660	2,320	2,280
Council Building Fund	7,083	-2,072	5,011	The fund is available in respect of repairs and maintenance of Council Buildings. As part of the reserves review £1m has been transferred to the School Investment Strategy reserve.	4,090	3,660	3,535
Repairs and Renewals Vehicle	1,963	256	2,219	This fund is primarily for the replacement of plant and vehicles. Vehicles are purchased from the fund with an equivalent "rental" amount reimbursing the fund.	2,141	2,141	2,141
TOTAL SPECIFIC RESERVES (excl HRA)	**56,315**	**-7,864**	**48,451**		**34,408**	**28,714**	**25,125**
School Balances							
School Balances	3,241	-1,531	1,710	These are the end of year balances retained by individual schools. They can only be used by the particular school under the Statutory LMS framework. Movements are as and when required by each school.	710	710	710
Schools Long Term Sickness	696	-196	500	To fund potential long-term sickness costs.	300	300	300
TOTAL SCHOOLS RESERVES	**3,937**	**-1,727**	**2,210**		**1,010**	**1,010**	**1,010**

Our Ref / Eich Cyf: JR/AS
Your Ref / Eich Cyf: SF/LA/3421/14
Date / Dyddiad: 10 November 2014
Please ask for / Gofynnwch am: Jon Rae
Direct line / Llinell uniongyrchol: 029 2046 8620
Email / Ebost: jon.rae@wlga.gov.uk

WLGA • CLILC

Leighton Andrews AM
Minister for Public Services
Welsh Government
Cardiff Bay
Cardiff
CF99 1NA

Dear Minister,

Thank you for your correspondence of 23 October on local authority reserves. It coincided with our own data collection exercise that was undertaken with the support of SOLACE and the Society of Welsh Treasurers (SWT). The attached briefing summarises that information and highlights recent studies and guidance from regulators and CIPFA. I thought it would be helpful to share it with you.

I hope this national context complements the individual responses that you receive from local authorities, including my own. I note your officials have reviewed the latest accounts and have concluded that there has been no improvement in presentation due to ambiguity in definitions. This may be down to differences in accounting treatment and guidance needs to be tightened

Like you, I think it is not unreasonable for us all to understand better, and explain better, the position on reserves. To that end, I have requested that Treasurers put this on their agenda for their December or January meeting, once officials have digested the individual authority responses.

Yours sincerely,

Councillor Aaron Shotton
WLGA Spokesperson for Finance and Resources

Steve Thomas CBE
Chief Executive
Prif Weithredwr

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WLGA Briefing

Society of Welsh Treasurers
Chief Executives

Local Authority Reserves
10 November 2014

Jon Rae (jon.rae@wlga.gov.uk) 02920 468 620

Two recent Reports by the Wales Audit Office[1] and the Audit Commission[2] have emphasised the need for local authority reserves and why they may have risen in recent years. Appropriate levels of reserves are an important element prudent financial management and this is underpinned by legislation contained in various Acts. This is supplemented by guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) through its Local Authority Accounting Panel (LAAP)[3].

Like CIPFA[4], the WLGA would highlight 5 key points that are worth emphasising in the current economic context.

1. Reserves are an important component of councils' financial planning framework and are no panacea for financial problems created by austerity.

2. Judgements about reserves, and to what extent they should be used or set aside to meet either specific or unforeseen future liabilities, can only be made locally. Guidance on appropriate questions for members to ask is provided by the Audit Commission.

3. Local decisions should be taken by councillors having regard to clear and full information and advice provided by Chief Finance Officers (The WAO view is that there is room for improvement to make this more transparent and councils should ensure local protocols are in place).

4. Recent increases in aggregate levels of reserves reflect a general response to coping with austerity and building up funds for capital projects but councils are reporting increased appropriations from reserves over the next two years.

5. The future funding outlook is such that uncertainty and risk is increasing.

Latest Data Collection

With the support of SOLACE and SWT, the WLGA has recently collected data on reserves based on information in Statements of Accounts. Data from the Whole of Government Accounts (WGA) comes from Group Accounts which includes funds held by arms-length

[1] Wales Audit Office(2012), Local Authority Reserves and Unsupported Borrowing
[2] Audit Commission (2012), Striking a Balance
[3] CIPFA (2014), LAAP Bulletin 99 Local Authority Reserves and Balances
[4] CIPFA (2012), Press Release: CIPFA Sets out position on reserves

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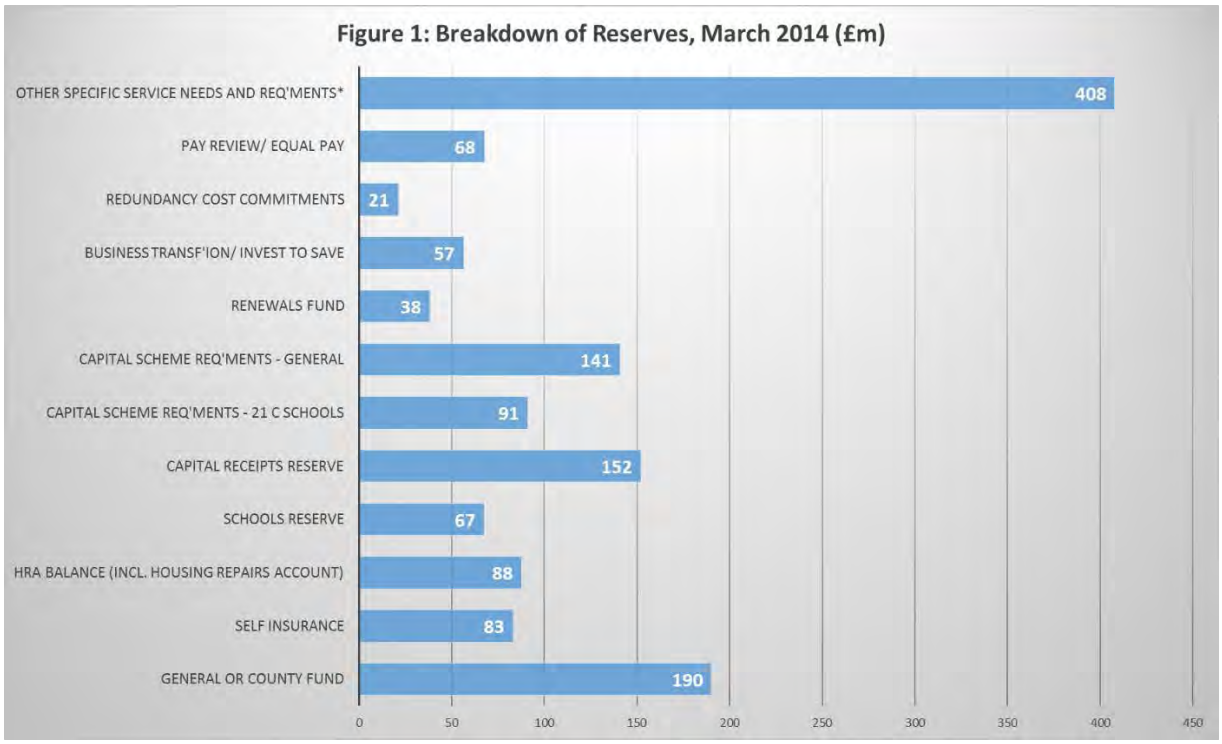
bodies. We tried as much as possible to reconcile the two sources and there is a small residual difference of around £2m.

While the WGA framework is useful, the terminology can be ambiguous or misleading. The term 'Usable' does not necessarily mean that cash-backed funds are available to the local authority to spend in a way that it can determine. Some funds support national initiatives such as Welsh Housing Quality Standards and Twenty First Century Schools which are integral to the Wales Infrastructure Investment Plan. Some categories of funds are rather technical but we have sought to break down as much as possible the 'other category'.

Despite the issue with terminology, 'Usable' reserves are held for contingent or planned purposes and they currently total £1.4bn. This figure is broken down into various elements set out figure 1 below.



General Balances

General Balances are a working balance to help cushion the impact of uneven cash flows. They are a contingency for unexpected events or emergencies. Around 14% of the total is held for these purposes and the remainder is for planned purposes and is earmarked. General Balances represent 2.7% of gross revenue spending (see figure 2 below). CIPFA and the Local Authority Accounting Panel prescribe no minimum or maximum level of reserves and advise that local authorities should establish reserves including the level of those reserves based on the advice of their chief finance officers.

Self-Insurance

Self–insurance is a used by a number of local authorities to meet potential and contingent liabilities. They are reported as earmarked reserves where these liabilities do not meet the definition of a 'provision' under the requirements of IAS[5] 37 *Provisions, Contingent Assets and Liabilities*. These funds account for around 6% of the overall total.

Capital programmes & asset management

[5] International Accounting Standard (IAS) 37 is incorporated into CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

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Earmarked reserves also includes funds set aside for capital investment and maintenance of assets. The Capital Receipts Reserve is money set aside from sale of property to build and maintain other property. Capital Scheme Requirements is money set aside to build roads, bridges, and schools including 21st Century Schools. Some authorities have a Renewals Fund to replace 'depreciating' vehicles and other assets. These account for 30% of the overall total of reserves.

Business transformation and workforce planning

Earmarked Reserves are also held for transformation initiatives especially in relation to workforce or service reform where there is an invest-to-save aspect to one-off expenditure. Many local authorities operate their own Invest to Save Funds similar to that operated by the Welsh Government. There may be other funds to facilitate efficiency savings including business transformation schemes. Many transformation initiatives are a response to continuing austerity and this will impact on the workforce. Consequently, many local authorities hold funds for redundancy costs. Workforce planning also includes claims under equal pay which must be financed. These account for around 10% of the total.

Schools & HRA

Some funds are less accessible than others and their use is heavily prescribed. Schools reserves are the unspent balances of delegated school budgets. The Housing Revenue Account is currently ring-fenced which means that it is separate from other local authority income and expenditure streams. Local authorities have no discretion over the funds. These funds account for 11% of overall useable reserves.

Other earmarked reserves

This category of reserves covers all other funds. It accounts for nearly 29% or £408m of the total. From the data returns it wasn't possible to breakdown this any further but we know from additional memorandum items in the returns that there are significant sub-categories. Most prominent among these are PFI equalisation reserves and grants unapplied. PFI funds are held to even out the funding and expenditure profiles of PFI schemes. 'Grants unapplied' (revenue and capital) is an accounting treatment for receipts held in advance of spend. From additional comments we have had back in the data collection we know that both of these funds account for about a third of the total (around £142m).

There are potentially many other funds within this category. Many reported back funds held for arm-length bodies or partnerships such as joint committees. These can be quite significant, in one authority it represented 7.5% of overall reserves. Some authorities reported back service-specific reserves that address temporary demand peaks in high-risk, high-cost services such as special education needs. Others report specific projects such as ICT and waste that are part of service continuation rather than service transformation.

These should be highlighted in individual authorities' detailed responses to the Minister's letter of 23 October.

Variation across authorities and movements over time

Figures 2 and 3 below show how general and overall reserves vary by authority relative to gross revenue expenditure. General reserves at March 2014 appear to reflect the range that the WAO reported for 2009, 2010 and 2011. Figure 3 shows that overall reserves

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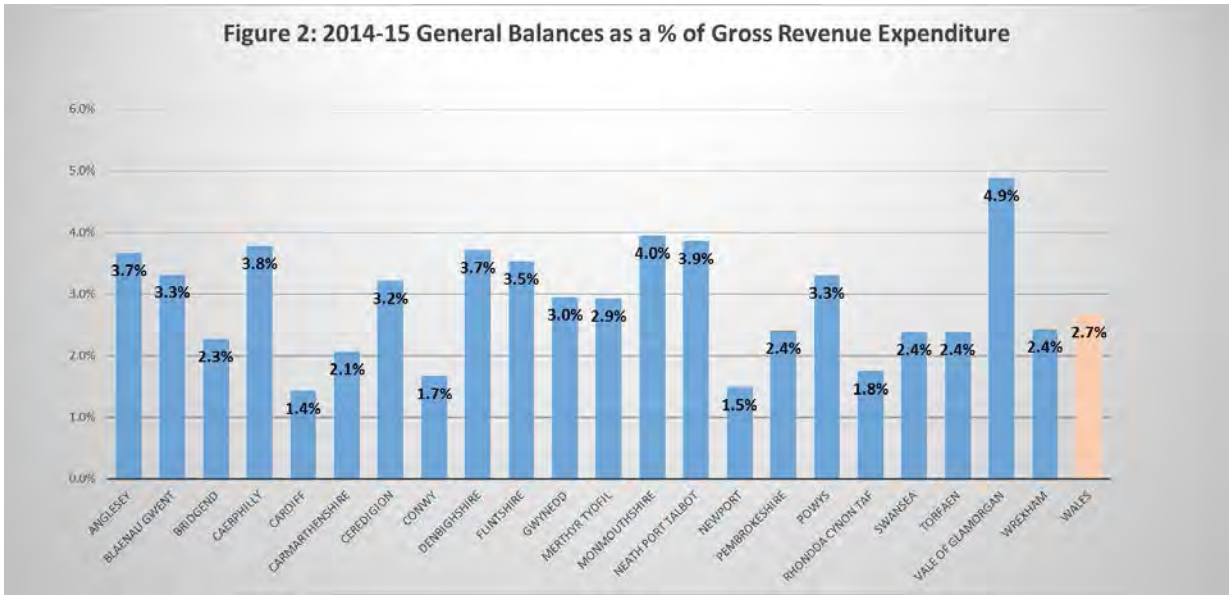
show considerable variation and is likely due to large capital projects and change projects in some authorities.



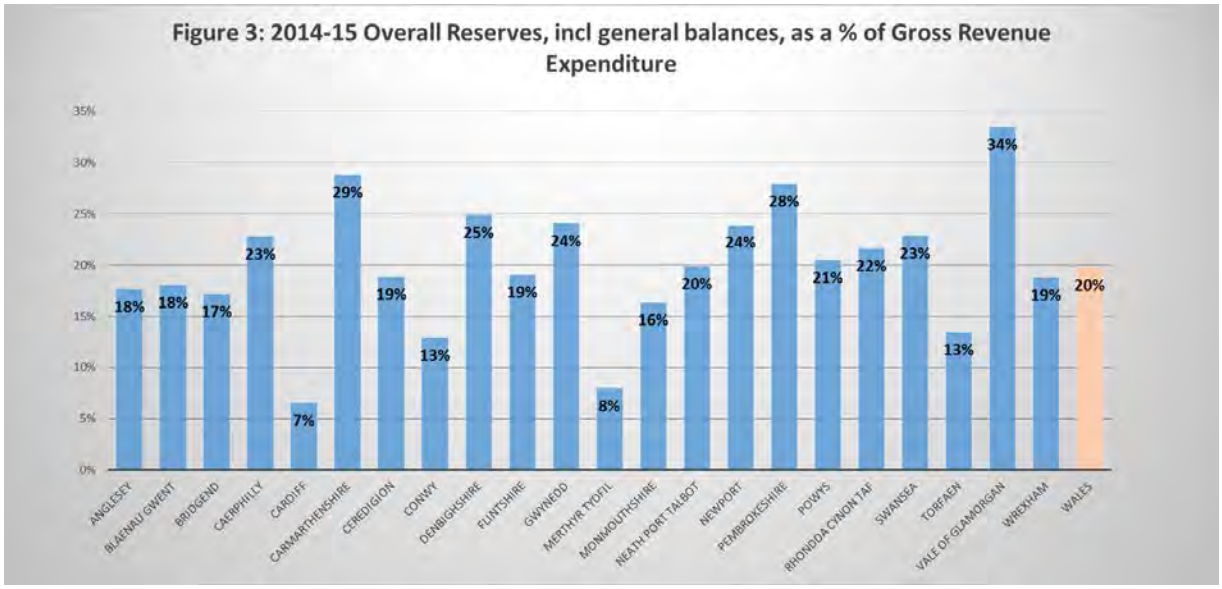


Figure 4 shows variations in overall reserves evening out by the end of 2015-16 and the level of usable reserves is set to fall by £342m. Overall reserves are estimated to fall from 20% of gross revenue expenditure to 15%. These estimates reverse the trend seen in recent years for reserves to increase.

CIPFA have commented upon this in an English context where it has stated that that good performance in realising in-year savings added to the recent reserve build-up. It is not clear how much this applies in Wales other than to note the view of Treasurers that the recent build up is partly a response to austerity and increased risk, and partly a response to supporting Welsh Government initiatives like 21C Schools.

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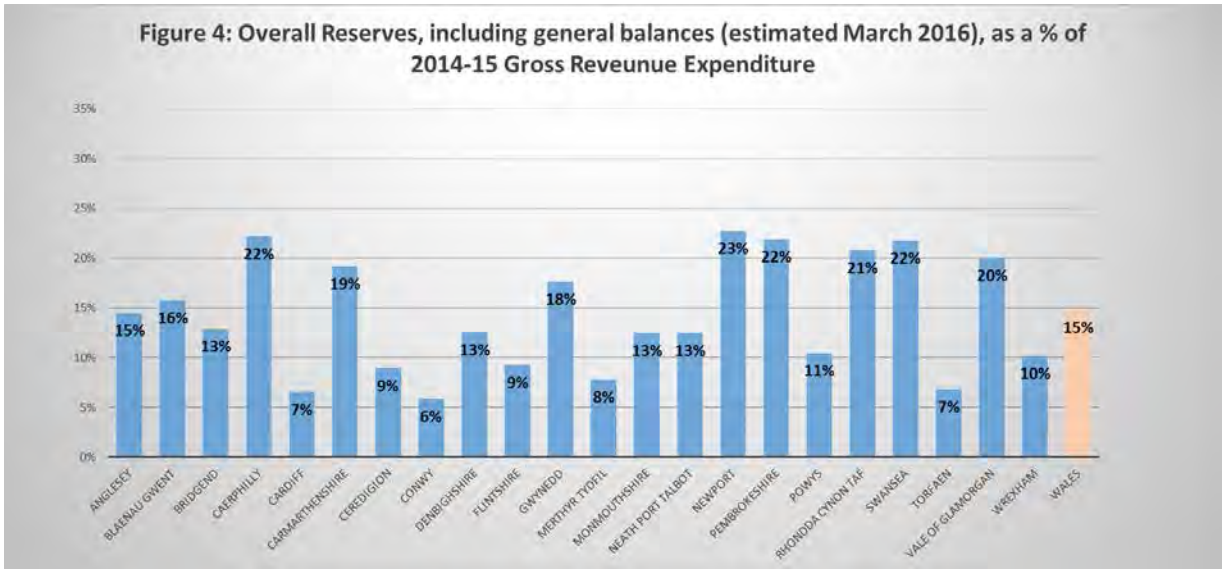

Conclusion

It is important to emphasise the risks which arise when councils decide to draw down reserves to help fund their budgets. The nature of most council services is that they require recurring funding to meet staff and other running costs year after year.

Reserves are a one-off, finite source of funding. They can cover a shortfall in recurring funding for a specific period but, after reserves are exhausted, the underlying shortfall will still be there. This sentiment is echoed in the words of the former Chief Executive of CIPFA, Steve Freer:

> *"We have to be extremely careful about using one-off reserves to fund shortfalls in recurring funding. Reserves are not a long term solution. At best they buy time to enable service changes to be planned and implemented in an orderly way. In these circumstances it is important that councils explain clearly to the public the actions and implications for services which are expected to follow in the medium and longer term."*

The risks to local authority budgets are increasing. Late notifications and in-year reductions to grant funding are increasingly common. Exposure to demand-led spend through, for example, the Council Tax Reduction Scheme also increases risk when the Council tax benefit ceased to operate as a subsidy.

Unlike other public sector bodies councils do not have recourse to central or devolved governments if they overspend. A sound reserves policy is an important response to the statutory obligation to set a balanced budget.

Ultimately, for local authorities, services will need to be reduced to a level which is affordable within the envelope of recurring funding available.

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Mr Alun Ffred Jones AM
Chair, Environment & Sustainability Committee
National Assembly for Wales
Cardiff Bay
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Date: 25 November 2014
Our ref: HVT/2238/fgb
Page: 1 of 3

Dear Alun

THE WELL-BEING OF FUTURE GENERATIONS (WALES) BILL: DISCUSSIONS BETWEEN THE MINISTER FOR NATURAL RESOURCES AND THE AUDITOR GENERAL

I am writing to provide the Committee with an update on the discussions between my lawyers and policy officials and those of the Welsh Government, following the Minister"s meeting with me on 4 November 2014.

The main issues that have been the subject of discussion have been our disagreement as to the requirements of existing audit duties in relation to the Bill, and our disagreement as to the National Assembly"s legislative competence to introduce new duties on the Auditor General in relation to the Bill:

- In terms of the disagreement as to existing audit duties, the Welsh Government had been of the view that the Auditor General"s existing duties in the audit of the accounts of local government and NHS bodies meant that the Auditor General was under a duty to consider the effectiveness and efficiency in the "setting of well-being objectives and taking all reasonable steps to achieve the objectives" (paragraph 390 of the Explanatory Memorandum).

- On the National Assembly"s legislative competence, the Welsh Government had been of the view that providing a new duty relating to economy, efficiency and effectiveness on the Auditor General was outside competence.

As the Committee is aware, the advice provided to me by Peter Oldham QC indicated that neither of these Welsh Government views of the law were correct.

The Minister and I met to discuss these matters on 4 November. That helpful meeting was followed by a meeting of our respective lawyers on 17 November, and a series of meetings between our officials held between 19 and 25 November. As a result of those discussions, the Minister has agreed a Policy Note with me, a copy of which is appended to this letter.

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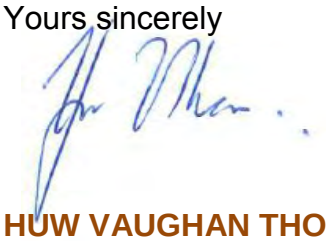
I welcome the Welsh Government"s proposal of a duty as it is implicit recognition that, in the absence of an existing duty to review the effectiveness of compliance with the Bill, there is indeed a need for a new duty on the Auditor General. It also serves to acknowledge that there is no existing duty on the Auditor General to audit the effectiveness of the setting of well-being objectives (and the Welsh Government has agreed to amend paragraph 390 of its Explanatory Memorandum accordingly). I also welcome the Welsh Government"s acceptance of my suggestion that, in the interests of timely and proportionate reporting, the provisions for reporting on the exercise of such a duty should not be tied to an annual cycle but should instead provide some alignment with the Future Generations Commissioner"s Future Generations report.

In my view, the enclosed Policy Note sets out a role for the Auditor General that will provide a reasonable degree of consistent audit examination of the setting and achieving of well-being objectives across the Welsh public sector. The Minister has indicated to me that the Policy Note will be translated into an appropriate Government amendment to the Bill, and I await sight of the precise wording of the proposed duty.

I should be happy to provide further explanation if the Committee would find that helpful.

Given the interests of the Public Accounts Committee and the Finance Committee, I am copying this response to Darren Millar AM and Jocelyn Davies AM. A copy also goes to Gareth Jones at the Welsh Government.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: *Annex: Policy note agreed between the Minister for Natural Resources and the Auditor General for Wales*

cc Mr Darren Millar AM
Ms Jocelyn Davies AM
Mr Gareth Jones OBE

ANNEX: POLICY NOTE AGREED BETWEEN THE MINISTER FOR NATURAL RESOURCES AND THE AUDITOR GENERAL FOR WALES

WELL-BEING OF FUTURE GENERATIONS BILL

As suggested by the Auditor General to the Committee, we agree that there should be a new duty on the Auditor General that requires him to examine and report on the application of the governance approaches in both the setting and also the achieving of objectives by public bodies. We are also in agreement that the Auditor General should lay before the Assembly a report on the finding of those examinations in a way that allows the reports to complement the Future Generations Commissioner"s FG report and to lay (and therefore publish) the reports.

Proposed Role of the Auditor General

The Welsh Government has proposed that the Auditor General would regularly examine how the bodies have applied the five identified governance approaches of sustainable development. This means looking at the arrangements they have in place to ensure that they take account of the long term, the need for an integrated approach, working with others, involving people, and taking preventative action in both setting and taking steps to meet their well-being objectives.

The Auditor General would therefore be able to consider issues such as whether the body can show that it has organised itself to have robust mechanisms and procedures in place and whether these are actually being used, that is, are the governance approaches being applied when the body is making key decisions about setting well-being objectives and also when taking steps to achieve them.

Such an examination would not be a simple tick box exercise to review whether or not the body actually has well-being objectives but would be an examination of how seriously the public sector is taking sustainable development. How the Auditor General carries out this examination should be at his discretion so that he has flexibility to do so in a proportionate way.

It is not envisaged that under this duty the Auditor General would look at whether the objectives are the „right" objectives, but whether the public body has gone the right way, i.e. embedded the governance approaches in setting the objectives, and then achieving them.

Cyfoeth Naturiol
Natural Resources

Cyfarwyddwr Cyffredinol • Director General

Llywodraeth Cymru
Welsh Government

Darren Miller AM
Chair
Public Accounts Committee
National Assembly for Wales
CARDIFF CF99 1NA

3 November 2014

Dear Mr Miller

Thank you for your letter of 23 September. The Permanent Secretary has asked me to respond as I am the Additional Accounting Officer for this area of work.

Welsh Government welcomes the report from the Welsh Audit Office which comes at a key point as we are currently shaping the future of support schemes, including Glastir, for the next Rural Development Programme 2014-20.

Welsh Government is pleased that the report recognises that there have been significant improvements in the design and implementation of Glastir when compared to previous agri-environment schemes such as Tir Gofal. We are particularly pleased that the report finds that Welsh Government have responded to the recommendations of the Tir Gofal audit in 2007 and have ensured that environmental actions are far better targeted under Glastir, and that there is now also a significantly reduced risk of public money being spent without a beneficial change in land use. Most importantly, we are satisfied the report, while offering suggestions for improvement, concludes that Glastir is more likely to deliver towards Welsh Government's environmental objectives than previous schemes.
From an administrative perspective we also are pleased that the report identifies significant improvements particularly in how Welsh Government managed the transition between Tir Gofal into Glastir and the cost savings that have been generated in operational time required for Contract Managers to sign Higher Level agreements.

Welsh Government accepts a number of the criticisms in the report, not least that in the early years the scheme was poorly communicated and subject to too much change, and that there was too much complexity. We are pleased, however, that the report also acknowledges Welsh Government has already taken steps to rectify some of these problems, including through the 2012 stocktake of the scheme which reduced the red tape surrounding the scheme and through the employment

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of a dedicated Glastir communications officer and a communications strategy published in 2013.

Welsh Government has carefully considered the six specific recommendations made in the Wales Audit Office report and our response to each is detailed in the annex attached.

Yours sincerely

GARETH JONES

R1 Drawing on any knowledge and experience of agri-environment schemes run by other jurisdictions, the Welsh Government should develop an approach for Glastir Advanced to ensure that, in return for grant funding, landholders commit to making significant changes to their land management practices that directly support the delivery of Glastir's objectives.

Welsh Government accepts this recommendation in part.

Welsh Government accepts it is fundamental that agri-environment schemes pay for the delivery of environmental goods and services and deliver real change. Welsh Government notes the WAO report highlighted that only 32% of Tir Gofal participants were required to make a change to their pre-existing farm practices to join that scheme and are pleased that the WAO report finds that Glastir has taken many steps which will ensure that real change occurs and genuine additionality offered. The WAO particularly highlights that the significant increase in capital expenditure payments compared to management payments, which is a feature of Glastir compared to earlier schemes, will reduce the risk of scheme deadweight. However Welsh Government also believes that management payments should continue to have a rightful place in agri-environment activity and that under some circumstances payments for the maintenance of status quo favourable environmental practices should continue, particularly where there is a risk these favourable practices would be discontinued without the incentive of support payments.

R2 The Welsh Government should explore the scope to develop a risk-based approach to identify and target appropriate interventions at farms where poor agricultural practices are responsible for causing wider water quality problems. The Welsh Government should consider a range of interventions, including the provision of advice, grant funding and regulatory action.

Welsh Government accepts this recommendation in part.

Welsh Government accepts the need to tackle wider water quality problems in line with our objectives for a safe and healthy environment for the people of Wales and to meet our European commitments e.g. under the Water Framework Directive. The Glastir scheme currently prioritises such catchments within the scoring process which selects farms for entry into Glastir Advanced and pays for positive works to improve water quality, such as streamside corridor tree-planting. However Welsh Government believes it would be wrong to target agri-environment support at farms where poor agricultural practices are causing problems. Welsh Government believes that far from representing value for money, such an approach potentially risks rewarding poor management or negligence and even activities where breaches of existing environmental regulations may be occurring. This approach would appear to set the wrong example to the industry and would represent poor value for the use of public money. Welsh Government's current,

and intended future approach, is to take a risk-based approach to regulatory inspections in these key catchments, in order to identify recurring offenders, and to use both advisory support and regulatory penalties where necessary to rectify these problems. Rural Inspectorate Wales and Natural Resources Wales have a key ongoing role in delivering improvements to land management in these areas.

R3 After the introduction of online-only applications for Glastir Organic, Glastir Advanced and Glastir Woodland, the Welsh Government should review applicants' experiences and seek to identify and address any remaining barriers to making online applications.

Welsh Government accepts this recommendation fully.

Welsh Government will be seeking feedback from our customers on their experience in submitting their online Glastir applications. This feedback will be taken into consideration when planning the delivery approach for the remainder of the Glastir Schemes.

R4 The Welsh Government should routinely identify the running costs for Glastir and benchmark these against the costs for other similar schemes to help assess the efficiency of the scheme's administration and to demonstrate value for money

Welsh Government accepts this recommendation in part.

The Welsh Government will continue to routinely monitor the overall cost of the administration of all Common Agricultural Policy (CAP) schemes.

We will continue to bench mark Glastir Contract managers' time against Tir Gofal Project Officer time. However we are unable to break down fully the administration costs for individual components of Glastir as we operate Multi Skilled Teams (MSTs) for the delivery of the schemes. Whilst the MST approach does not allow for a scheme by scheme breakdown of costs, utilising this approach has enabled Welsh Government to continually reduce the number of processing posts and make year on year overall CAP programme administrative cost savings between 2009 and 2014.

R5 The Welsh Government should review its targets for Glastir to ensure an adequate evidence base to support each target, and to ensure that the targets are challenging yet achievable, affordable and reflect the scale of change the Welsh Government is expecting the scheme to deliver. The Welsh Government should also ensure that its internal targets for Glastir are consistent with the targets it agrees with the European Commission.

Welsh Government accepts this recommendation in part.

Welsh Government accepts the report findings that the initial targets for the scheme were unrealistic when compared to what could be expected based upon analysis of historic participation in agri-environment schemes in Wales. Welsh Government will set revised targets for the uptake of all elements of the Glastir scheme for the RDP 2014-20 programme once the final RDP 2014-20 budget allocation to Glastir is finalised. This will include the policy rationale behind these targets. These will form the basis for the submission of our performance measures to the European Commission. Welsh Government would like to point out, however, that it is not always possible throughout the duration of the programme to ensure that the targets in documentation held by the European Commission are consistent with Welsh Governments own targets. This is because the EC does not expect those targets set for the RDP to be revised after their submission at the start of the programme except in exceptional circumstances. A change in domestic policy objectives due for example to a change in government which might justify/necessitate an amendment to Welsh Government targets would not generally be accepted alone as a reason for amending RDP targets.

R6 The Welsh Government should use the results of the March 2014 impact modelling exercise to help quantify the scale of the improvements it expects Glastir to deliver. Through setting appropriate targets for the scheme, the Welsh Government should also determine how and by when it expects Glastir to deliver its objectives and contribute to wider objectives such as those included in the *Environment Strategy for Wales*.

Welsh Government accepts this recommendation fully.

The scientific evidence base required for quantifying the level of environmental change from agri-environment activities is often somewhat poorly established. This means that while the direction of change can be predicted, it is often extremely difficult to predict the extent. Previous agri-environment schemes in Wales have therefore not set out quantitative targets for environmental change. However Welsh Government accepts that for Glastir's success to be evaluated effectively some attempt to quantify the changes which could be expected to occur is required. The pioneering Glastir Monitoring and Evaluation Programme (GMEP) uses advanced modelling techniques to predict environmental outcomes based on scheme uptake scenarios and expected land use changes. Welsh Government officials will work closely with the GMEP team and interested stakeholders to identify quantitative targets for the next programme. This commitment has previously been made by Welsh Government in its response to the *Proposals for Glastir consultation* issued in June 2

By virtue of paragraph(s) vi of Standing Order 17.42

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