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Dear Peredur

Scrutiny of the Welsh Government's draft budget 2026-27

Thank you for the invitation to give evidence as part of the Committee's scrutiny of the Welsh Government's draft budget 2026-27. The timing sits well with the fact that I have recently begun giving thought to key themes that have emerged from the work of Audit Wales since 2018, and as I approach the end of my tenure as Auditor General. As I emphasised in our recent 'No time to lose' report about implementation of the Well-being of Future Generations Act, we cannot afford to design solutions that do not meet people's needs, burden future generations with avoidable higher costs, or miss opportunities to deliver more with the same or less.

We would not wish to comment on the relative merits of specific policy/spending objectives. However, our work provides broader insights into public bodies' arrangements for securing value for money through the implementation of key policies and programmes and, more generally, in how they are governed day to day. It also considers how they are applying the Well-being of Future Generation Act's sustainable development principle and the associated ways of working. We have been urging public bodies to see the sustainable development principle as a value for money issue rather than something separate.

I understand that areas of particular interest to the Committee include themes around productivity in the public and private sectors, as well as around the cost of living and the prevention agenda. We can also see that some consultation responses the Committee has received already reference recent Audit Wales work.

We can expand in our session but, for now and while not exhaustive, I have enclosed a summary of examples from our work that we think are of particular relevance to the financial pressures on public bodies and the areas of interest to the Committee. We

have focused on outputs from the past 18 months, although we have highlighted some earlier work too. We have also mentioned other work in progress.

The examples listed include work on some of the core building block areas for public service productivity around digital transformation, workforce, and asset management. On these and other cross-cutting topics, including decarbonisation and nature recovery, we see the need for longer-term planning and a clearer understanding of the resources required to deliver plans and priorities. Another common theme from our work concerns whether public bodies have reliable data with which to assess value for money and are clear about the outcomes they are looking to achieve. I also have concerns about the overall complexity of the public service delivery landscape in Wales and whether this supports productivity and wider value for money.

We look forward to discussing further with the Committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Adrian Crompton', with a long horizontal flourish extending to the right.

ADRIAN CROMPTON
Auditor General for Wales

Annex: Examples of relevant Audit Wales work

No time to lose: Lessons from our work under the Well-being of Future Generations Act – April 2025

This report drew together findings from a wide range of audit work over the previous five years. It was set in the context of escalating financial and demand pressures on public bodies since the introduction of the Act in 2015.

We see the Act having increased prominence in decision-making and working practices, but we also still see instances where public bodies have given little or no explicit consideration to it. From what we see, the Act is not driving the system-wide change that was intended. Notably, there is still much to do to apply the Act to functions such as workforce planning, asset management, and financial planning. These functions are essential in driving wider change and translating strategic intentions into operational reality.

We find variation in practice within organisations, and within and between sectors. In our view, the health system in particular has some way to go in applying future generations thinking across its planning and delivery. Other audit work, such as on cancer services (see below), has demonstrated this.

We emphasised that accelerating progress under the Act starts with prioritising prevention. Without a more systematic shift towards prevention, budgets will be exhausted, and outcomes will likely be worse.

We raised four strategic recommendations to the Welsh Government, designed with the wider conditions for progress in mind. They included a call on government to minimise funding uncertainty to help public bodies plan effectively and to encourage investment in prevention. On the latter, we recommended that the Welsh Government should work with public bodies to:

- strengthen the understanding of the levels of investment in prevention and its impact;
- build on work to embed prevention in the budget process, considering, for example, opportunities to bring funding together across different parts of the system to support prevention;
- incentivise and protect preventative spend at a local level; and

- learn from others beyond Wales, for example, taking account of work that CIPFA is undertaking on understanding preventative spend.

Since our report, we have convened or contributed to several other events that have explored preventative spending in more detail. At the time of writing this letter we were still awaiting the Welsh Government's formal response to our recommendations, although we understand it is imminent.

The Biodiversity and Resilience of Ecosystems Duty – March 2025

This work considered whether the Welsh Government and other public authorities are responding appropriately to the Environment (Wales) Act 2016 (the Act) that places an enhanced biodiversity and resilience of ecosystems duty on them.

Overall, we found that the nature emergency has not been a high enough priority, with many public authorities failing to comply with key biodiversity requirements, including the Welsh Government itself in one respect. More than eight years since the duty came into force, we found that nearly half of public authorities covered by our work had not complied with the requirement to both prepare and publish a biodiversity plan. And approaches to planning varied widely. Around a quarter of public authorities had never produced a biodiversity report.

Our report acknowledges examples of efforts to integrate biodiversity and nature ambitions with wider policies. And public authorities provided positive feedback on aspects of national strategic leadership. The Welsh Government has also provided various funding streams that support biodiversity action. Nevertheless, there has been far less national focus on biodiversity than on decarbonisation.

We have since taken forward further work on nature recovery examining Natural Resources Wales's approach to designating Sites of Special Scientific Interest (SSSIs). SSSIs are important for vulnerable species and NRW has said it will identify opportunities to enlarge and better connect them. However, there have also been concerns about gaps in data about protected sites and about NRW's capacity given wider financial pressures. We expect to publish our report in November.

Cancer services in Wales – January 2025

Performance varies across Wales, but we reported that no health board had met the current waiting time target since 2020, with rising demand for cancer diagnosis and treatment a significant challenge for NHS Wales.

We called for stronger and clearer national leadership to improve cancer services, along with a greater focus on prevention. While the Welsh Government wants the waiting list to return to pre-pandemic levels, we found that is unlikely without a significant increase in diagnosis and treatment. There are also challenges associated with gaps in staff capacity.

And with around four in ten cancers each year in Wales being preventable, we emphasised that there are considerable opportunities to save lives and reduce pressure on NHS resources by tackling lifestyle factors which increase the risks of some cancers occurring in the first place. Those opportunities go beyond the prevention of cancer because many of the lifestyle risk factors for cancer are also risk factors for other major conditions which affect people's well-being and consume significant amounts of NHS resource.

The Senedd Public Accounts and Public Administration Committee heard evidence on this topic from various stakeholders earlier this year. We will also shortly be taking forward further local audit work at individual NHS bodies.

NHS finances – September 2025

This article provided an update on the financial position of the NHS. We also published an update to our [NHS finances data tool](#).

Our audit of NHS bodies' 2024-25 accounts showed that all seven health boards again breached their statutory duty to break even over a three-year period, raising further questions about the financial sustainability of the current system. I qualified my regularity opinion for those bodies as failing this duty means that the bodies have exceeded their authority to spend.

Record levels of investment and ever-increasing levels of savings are failing to control the costs that are being driven by rising demand for services, inflationary pressures and overall growth in pay costs. Last year I highlighted the need for a more fundamental and transformative approach to returning the NHS to financial sustainability. That need still exists. While we have seen good progress in reducing spend on expensive agency staff, and less reliance on one-off savings, the growing cumulative deficit suggests that collectively the NHS in Wales is still a long way from being able to live within its means.

Sound strategic planning is key if the NHS is to deliver services which are clinically and financially sustainable. Generally, it is proving increasingly difficult for NHS bodies to produce financially balanced plans in the current climate of cost pressures and service demand. Within the current system, a failure of an NHS body to produce

a financially balanced three-year plan typically results in a reversion to a one-year plan. Although the need to demonstrate in-year financial balance is understandable, it risks perpetuating a focus on the short term at the expense of a longer-term plan. That longer-term view needs to include a greater focus on preventing illness which can have significant cost and outcome benefits.

Relevant to the wider financial challenges, we have been progressing local audit work on digital transformation in the NHS. This is examining the extent to which NHS bodies are using digital transformation to modernise service and improve their efficiency and effectiveness.

We will also shortly be progressing work looking at NHS estates management, set in the context of a significant proportion of the estate being rated below optimal standards for physical condition and a significant increase in backlog maintenance over recent years. Recent examples of significant estates issues highlight some of the challenges that the NHS has been facing. We are also currently completing a stand-alone review of issues relating to decision-making around the new Velindre Cancer Centre.

The risk adjusted backlog maintenance cost for NHS Wales has risen from £265 million in 2017-18 to £977 million in 2023-24. The high-risk backlog has increased from £62 million in 2017-18 to £284 million in 2023-24. This includes critical repairs needed to maintain safety and service continuity. We note that the NHS Confederation Wales has commented on some of the implications of the backlog maintenance position in its submission to the Committee.

NHS cost savings arrangements – June 2025

We published a short article summarising themes from earlier local audit work at individual NHS bodies. Our NHS finances data tool (see above) provides information about the profile of bodies reported savings (both one-off and recurring).

Overall, we highlighted that:

- NHS bodies have a good understanding of what drives their costs.
- Not all savings opportunities are being realised – and while NHS organisations are using some benchmarking data to identify potential savings, their use of this information is inconsistent. As a result, they need to apply all available data and insights more effectively and consistently to make the most of cost-saving opportunities.

- There is still an over-reliance on non-recurrent savings, despite some positive progress in 2023-24 and 2024-25 to reverse an increasing reliance on one-off savings in the previous three years. Reliance on short-term one-off savings does not support bodies long-term financial health or tackle underlying budget shortfalls.
- More engagement with clinicians and staff is needed in efforts to identify cost-saving opportunities and to ensure that changes are grounded in day-to-day service delivery.

Addressing workforce challenges in NHS Wales – February 2025

Again, this report summarised themes from earlier local audit work at NHS bodies. Despite improvements in some areas, we highlighted how the NHS is still experiencing challenges with recruitment and retention and a still heavy reliance on expensive agency staff to plug gaps in the workforce (notwithstanding the positive downward trend since 2022-23).

We noted that staff turnover was still higher than before the pandemic, and staffing gaps continue to present real challenges. We also questioned whether continued growth in staff costs at the rate seen over recent years is sustainable.

While NHS Wales needs to adapt to the changing demand that it is facing, it did not have a workforce plan linked to new and sustainable models of care. Among other things, our recommendations urged the Welsh Government to develop such a plan, working with other key partners. We also called for work to strengthen workforce data to inform workforce planning. Uncertainty around system leadership on workforce issues also needed addressing.

Urgent and emergency care – work ongoing

We are nearing the end of a significant body of local audit work about how urgent and emergency care demand is being managed. This work has also looked at the impact delayed discharges are having on patient flow within hospitals and on accident and emergency departments, ambulance handovers and response times.

All parts of the urgent and emergency care system are facing pressures from high levels of demand. For limited resources to be used as effectively as possible, patients need to be directed to services that best meet their urgent and emergency care needs. Significant amounts of NHS resources are also absorbed by caring for hospital patients who are medically fit for discharge. Patient flow problems related to

delayed discharges will have knock on effects on other parts of the system including access to urgent and emergency care with associated risks for the quality and safety of services.

We are preparing some national commentary but have already published various local and regional reports on [our website](#). The work on patient flow has highlighted some of the significant cost implications of delayed discharges. It has also highlighted the impact of workforce capacity issues in social care.

Findings informed our [written evidence](#) as part of the Senedd Local Government and Housing Committee's recent inquiry on the role of local authorities in supporting hospital discharges. Our work has also touched on issues relating to the Welsh Government's Regional Integration Fund. The Regional Integration Fund is intended to contribute to the Welsh Government's aims to embed a preventative approach to population health and wellbeing, and delivery of seamless health and care support, at or as close to home as possible when needed. We have [work in progress](#) looking in more detail at the arrangements for the Fund.

NHS planned care – work ongoing

Local audit work on NHS planned care follows on from our national [Tackling the Planned Care Backlog](#) commentary in 2022. Our work has examined progress with planned care recovery, including the extent to which health boards have implemented actions in the national planned care recovery plan and used the additional funding which has been made available to secure sustainable improvements to planned care services.

As with our work on urgent and emergency care, various local audit reports have already been published on [our website](#). While our work recognises progress with reducing the longest waits, it also raises ongoing concerns around how planned care demands are being tackled, and the level of attention being directed towards sustainable service change. There are also clear opportunities for improved productivity by tackling issues around missed outpatient appointments, late surgical cancellations and poor theatre use.

Financial sustainability of local government – December 2024

The Committee referenced this work in its report on the Welsh Government's draft budget for 2025-26. Building on local audit reports to each principal council, we set out information about significant risks to the sustainability of local government finances, which were likely to increase over the medium term without action to

alleviate them. We also published an updated version of our [local government finances data tool](#) which includes comparative data on councils' levels of financial reserves and borrowing.

We recognised that councils have taken difficult decisions to manage their finances through a long period of financial constraint. But as the cumulative impact of that restraint builds we cannot assume that local government will remain financially sustainable. Our work shows that, while councils know the scale of their funding gaps, they have not had longer term plans in place to address them. This leaves them vulnerable to short term decision making that may not represent value for money or be in the longer-term interests of local communities.

The report highlighted the scale of some of the growing demand pressure on council budgets in areas like children's, adult and older peoples' social care, and in additional learning needs provision and housing. These sit alongside other general cost-of-living budget pressures and the climate change agenda. We have since reported separately on temporary accommodation (see below) and we have work in progress on issues relating to [additional learning needs](#), [councils' capital planning arrangements](#), and [children's services](#). We have also completed local audit work recently looking at councils' arrangements for commissioning services. These reports are available on [our website](#) and we are preparing a national summary output.

Temporary accommodation, long-term crisis? – July 2025

This report highlighted a significant increase in demand for temporary accommodation in the last decade, significantly outpacing available accommodation. We found that councils are in 'firefighting' mode, focussed on managing demand rather than prevention and value for money. Often councils' provision of temporary accommodation is not meeting people's needs, can cause harm, or is not fit for purpose.

Resonating with messages from our earlier 'No time to lose report' (see above), we found that councils have made limited progress with improving homelessness prevention to achieve better outcomes and reduce costs. This is not the first time in the past decade that we have highlighted concerns around arrangements for tackling homelessness. We raised fresh recommendations for councils around their approach to considering options for temporary accommodation and the assessment of value for money, planning for prevention – including around demand management and workforce planning, and partnership working.

Some of the issues raised by this work are also relevant to the Senedd Local Government and Housing Committee's inquiry work on the Homelessness and Social Housing Allocation (Wales) Bill.

Digital by design? Lessons from our digital strategy review across councils in Wales – August 2024

This is another example of a summary report on issues arising from local audit work reported to individual councils. We found that councils were, to varying extents, thinking about how they could use digital to deliver better outcomes and achieve their strategic ambitions over the long term. However, we identified consistent weaknesses in resourcing and monitoring that pose value for money risks and, fundamentally, councils did not appear to have an explicit focus on value for money or the sustainable development principle in developing their digital strategies.

We set out five key lessons from our work:

- Councils could draw on a broader evidence base to inform a long term, citizen centred approach to digital.
- Councils could go further in working across internal boundaries and with external partners to deliver maximum value from their digital strategies.
- Councils could do more to identify the benefits that could be achieved and the resources required to help them turn ambition into reality.
- Councils need to make sure they can assess the impact of their digital strategies and individual projects.
- Councils could take a more systematic approach to learning, so they can adapt and improve their work on digital.

Springing Forward: Lessons from our work on workforce and assets in local government – September 2023

Again, this report summarised local audit findings. While now quite dated – the local audit work spanned 2021 to 2023 – the context remains relevant to some of the ongoing challenges councils are facing. At the time of this work, councils were coming out of a period of adaptation in how and where staff worked during the COVID-19 pandemic. We found that most councils were working through what their

'new normal' should look like as staff tended to still work partly remotely, at council offices or out in the community.

Key learning points from this work were:

- Councils did not appear to have fully appreciated that the sustainable development principle is relevant to the way the approach both workforce and asset management.
- Councils were not effectively drawing on the breadth of intelligence that could help them manage the present or plan for the future, with benchmarking – that could inform an assessment of value for money – also rare.
- Opportunities to link asset and workforce management with the delivery of wider corporate objectives, and to work together to address common challenges.
- Weaknesses or gaps in some core arrangements around strategic and service planning.

While it will not cover the wider topic of workforce planning, we are currently rolling out further local audit work across councils that will consider the arrangements councils have to:

- understand existing recruitment and retention challenges, particularly for 'hard-to-fill' posts;
- take action to address those challenges and mitigate risks for the future; and
- review the value for money of their approaches.

We have reported previously on workforce constraints in specific areas of local government service delivery. These include [regeneration](#), [active travel](#) (see below), [building safety](#), and [flood defence](#). Local government also formed a large part of the picture for the analysis in our 2022 report on [public sector readiness for net zero](#). One of the five key calls for action from that net zero work was for bodies to understand their skills gaps and increase their capacity.

Poverty in Wales – November 2022; Social Enterprises – December 2022; and Community Resilience and Self-reliance – January 2023

While this work dates back several years, it may still be of relevance to the Committee's consideration of cost-of-living issues. This package of material explored issues relating to how councils empower citizens to tackle and prevent issues developing into a crisis that requires statutory intervention.

In Poverty in Wales, we highlighted how the Welsh Government's child poverty strategy was out of date and that while councils and partners were prioritising work on poverty, the mix of approaches and a complicated partnership landscape meant that ambitions, focus, actions and prioritisation varied widely.

There was a lack of clarity around spending on tackling poverty and with councils finding it hard to deliver preventative work because of the scale of demand from people in crisis. We raised concerns around councils' approaches to impact assessment, in a similar vein to findings in our [September 2022 pan-public sector report on equality impact assessment](#). We made a range of recommendations to councils, including around impact assessment. We also made recommendations to the Welsh Government, including around its grant funding processes.

Our report on Social Enterprises emphasised the role they can play in assisting people who are in poverty through their focus on keeping wealth in local communities. We found that councils were not effectively working with them to maximise their impact, make better use of resources, and improve services.

Finally, our report on Community Resilience and Self-reliance focused on understanding how councils are creating the conditions to transform ways of working and empower communities to thrive as independently as possible. Much of the narrative on community resilience at the time was framed around the response to emergencies and civil contingency requirements. We highlighted a risk that services were returning to their pre-pandemic ways of working and that the opportunity to shift from being an 'influencer' and 'enabler' rather than a 'direct provider' was potentially being wasted.

The Wales Infrastructure Investment Strategy (WISS) – May 2025

This report highlighted how the Welsh Government plans to spend roughly £3.4 billion on infrastructure during 2025-26. However, inflationary pressures have squeezed capital budgets.

We found that the WISS is a step forwards and provides longer-term direction focused on 16 strategic outcomes rooted in the well-being of future generations. It had been supported by a three-year Infrastructure Finance Plan (IFP) for 2022-23 to 2024-25. However, the Welsh Government needs to do more to ensure that departments are maximising their contributions to these outcomes. This included better embedding the WISS outcomes into its wider framework for programme and project management. And while the Welsh Government's approach to evaluation uses good practice principles, it has not been applied consistently, and overall outcomes are unclear.

The report encouraged the Welsh Government to provide more certainty through longer-term financial planning for infrastructure investment. However, we recognised that the Welsh Government faces some challenges when setting longer-term financial plans, such as its funding being set through UK budget cycles and the constraints of the Senedd electoral cycle. The Welsh Government set a one-year IFP for 2025-26, pending the UK Government spending review in June 2025, and was considering its options for future IFPs.

The report made 11 recommendations for improvement in the areas set out above as well as strengthening public reporting of progress against the WISS. It was informed, in part, by previous audit work on topics including [flood risk management](#), [affordable housing](#) (see below), and [active travel](#) (see below). Also relevant is [ongoing audit work on the Sustainable Communities for Learning Programme](#).

Affordable Housing – September 2024

This report considered spending and performance against the Welsh Government's 20,000 social homes target and the underpinning governance and management arrangements. We reported in positive terms on aspects of the arrangements, but emphasised the need for stronger long-term planning, with the lack of a long-term approach hampering progress and contributing to an unstable pattern of spending and delivery. We also found that the Welsh Government had not done enough to ensure affordable housing investment contributes to wider policy objectives.

We noted that to get close to delivering its target, the Welsh Government would need to significantly increase spending. However, we explained that options to make available funding go further may not be desirable for other reasons (such options including increasing acquisitions and leasing, reducing quality standards, or changing the balance of tenure).

Since our work, there has been further reporting on issues relating to social housing supply by the [Senedd Local Government and Housing Committee](#) and the Welsh Government's [Affordable Housing Taskforce](#).

Active Travel – September 2024

This report found that while there has been increased spending through the Active Travel Fund, rates of active travel have not improved in recent years. We recognise that it might take time for the benefits of that increased spending to be felt. However, one of the main messages from the report concerned the need for better evidence to track progress and assess value for money. The report also raised questions about the balance of expenditure between the building of physical infrastructure and investment in awareness raising and behaviour change. We also identified concerns about the funding of ongoing maintenance of active travel infrastructure.

The Senedd Public Accounts and Public Administration Committee has heard a wide range of evidence on this topic since we reported. This topic has also been of interest to the Climate Change, Environment and Infrastructure Committee.

Challenges for the Culture Sector – Financial Sustainability

Finally, the Committee may be interested in work we have been completing recently on financial sustainability at Welsh Government arm's length bodies in the culture sector. We have already published reports on the [National Library of Wales](#), the [Arts Council of Wales](#), and [Sport Wales](#). Our work at Amgueddfa Cymru is close to completion.

Each of these bodies was facing significant financial pressures arising from a combination of factors, including rising costs and a reduction in Welsh Government grant in aid funding for 2024-25. Among other things, we found that the bodies did not all have medium-term financial plans in place. Even where they did, we recommended expanding them to cover broader considerations.

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