

Public Accounts Committee

Meeting Venue:
Committee Room 3 – Senedd

Meeting date:
Tuesday, 30 June 2015

Meeting time:
09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Agenda

1 Introductions, apologies and substitutions (09:00)

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

Governance Arrangements at Betsi Cadwaladr University Health Board: Letter from the Auditor General for Wales (17 June 2015) (Pages 4 – 6)

3 Welsh Government Investment in Next Generation Broadband Infrastructure: Evidence Session 1 (09:05–10:05) (Pages 7 – 21)

Wales Audit Office Briefing

Ann Beynon OBE – Director Wales (BT)

Ed Hunt – Programme Director, Superfast Cymru (BT)

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (10:05)

Items 5, 6, 7 & 8

5 Welsh Government Investment in Next Generation Broadband Infrastructure: Consideration of Evidence Received (10:05–10:15)

6 Orthopaedic Services: Briefing from the Auditor General for Wales (10:15 –10:30)

7 Meeting the Financial Challenges Facing Local Government in Wales: Correspondence from the Welsh Government (10:30–10:40) (Pages 22 – 36)

PAC(4)–19–15 Paper 1

PAC(4)–19–15 Paper 2

8 Intra–Wales – Cardiff to Anglesey – Air Service: Consideration of draft report (10:40–11:00)

PAC(4)–19–15 Paper 3

Public Accounts Committee

Meeting Venue: **Committee Room 3 – Senedd**

Meeting date: **Tuesday, 23 June 2015**

Meeting time: **09.00 – 10.50**

Cynulliad
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Wales



This meeting can be viewed on [Senedd TV](http://senedd.tv) at:

<http://senedd.tv/en/2925>

Concise Minutes:

Assembly Members:

Darren Millar AM (Chair)
Mohammad Asghar (Oscar) AM
Jocelyn Davies AM
Mike Hedges AM
Sandy Mewies AM
Julie Morgan AM
Jenny Rathbone AM
Aled Roberts AM

Witnesses:

Committee Staff:

Michael Kay (Clerk)
Claire Griffiths (Deputy Clerk)
Joanest Varney-Jackson (Legal Adviser)
Hannah Johnson (Researcher)
Sian Thomas (Researcher)
Sophie Knott (Wales Audit Office)
Alan Morris (Wales Audit Office)
Nick Selwyn (Wales Audit Office)
Huw Vaughan Thomas (Auditor General for Wales)

TRANSCRIPT

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

- 1.1 The Chair welcomed the Members to the meeting. There were no apologies.
- 1.2 The Chair welcomed the guests from the Public Accounts Committee at the States of Jersey.

2 Papers to note

- 2.1 The papers were noted.
- 2.2 The Committee agreed to seek an update from the Minister for Economy, Science and Transport on Fabian Way, Swansea in the autumn term.
 - 2.1 Covering Teachers' Absence: Letter from Ann Jones AM, Chair of Children, Young People and Education Committee (4 June 2015)
 - 2.2 Inquiry into value for money of Motorway and Trunk Road Investment: Letter from Minister for Economy, Science and Transport (15 June 2015)
 - 2.3 Welfare Reform: Additional Information from Community Housing Cymru
 - 2.4 Welfare Reform: Additional information from Welsh Local Government Association
 - 2.5 Welfare Reform: Letter from June Milligan (18 June 2015)

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

- 3.1 The motion was agreed.

4 Unscheduled Care

- 4.1 The Committee agreed to write to the Director General for Health and Social Services on a number of issues they wish to receive an update on. On receipt of the response, Members will discuss whether they wish to hold a further evidence session on Unscheduled Care with the Director General.

5 NHS Wales Health Board's Governance: Consideration of evidence received

5.1 Members considered and discussed the evidence they had received on health board governance at the meeting on 16 June.

5.2 The Chair agreed to write to the Director General for Health and Social Services requesting further information on a number of issues Members identified. On receipt of this, the Clerks will prepare a draft report on health board governance and cite the issues at Betsi Cadwaladr University Health Board as a case study.

6 Welfare Reform: Consideration of key issues

6.1 Members considered and discussed the key issues paper and suggested a number of issues they wished to see incorporated in the report.

6.2 Members agreed to request a copy of the agreed framework for the administration of DHP from the Welsh Government.

7 Regional Education Consortia: Briefing from the Auditor General for Wales

7.1 Members received a briefing from the Auditor General for Wales and noted that the Children, Young People and Education Committee had expressed an interest in undertaking an inquiry into this issue.

7.2 Members noted that the Welsh Government's response to the Auditor General's Report will be available in July.

Agenda Item 2.1

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

Date: 17 June 2015
Our ref: HVT/2349/caf
Page: 1 of 3

Dear Darren

REVIEW OF GP OUT OF HOURS SERVICES, BETSI CADWALADR UNIVERSITY HEALTH BOARD

Further to your letter of 14th May 2015 and subsequent discussions at the Public Accounts Committee, I thought it important that I write to you to respond to your concerns that we should have been more alert to the issues which have emerged about GP out of hours services at Betsi Cadwaladr University Health Board. I would be very concerned if the Committee thought we had been "asleep on our watch", and I have consequently sought internal assurance that this was not the case.

Some history is relevant here. You will recall that in September 2013 I published a report entitled *Unscheduled Care: An Update on Progress* that drew together messages from local audit work undertaken during 2012-13. Whilst we were aware of challenges within GP out of hours services in scoping that work, the stakeholders we spoke to were much more concerned about in-hours access to primary care and the knock on effect this was having on emergency departments. We were also aware that a sub-group of the national unscheduled care board, led by Dr Chris Jones, was undertaking a specific review of out of hours services across Wales, with plans to formally report their findings. Consequently, and to avoid duplicating the work of the national sub-group, we decided that our audit work would not focus substantially on out of hours services. However, my 2013 report did take the opportunity to raise a number of concerns about GP out of hours services in Wales, and referenced findings of the interim report from Dr Jones's sub-group.

In response to my 2013 report, your Committee held an inquiry on unscheduled care and took evidence from a number of witnesses, including Dr Jones. The Committee's subsequent report included a recommendation for Welsh Government to respond publically to the findings of the national subgroup's work on out of hours services. The Welsh Government accepted that recommendation, and has since provided the

Committee with a number of updates on progress. We had noted from the most recent update in October 2014 that a revised set of Quality and Monitoring Standards for out of hours services were launched in May 2014.

Monitoring the achievement of these type of standards does not form part of my routine remit, as this would stray into Healthcare Inspectorate Wales's clinical governance territory and the performance management work undertaken by the Welsh Government's Department of Health and Social Services. Instead, I would rely on any concerns about the implementation of these standards being raised at the routine trilateral escalation and intervention meetings. No such concerns on out of hours services have been raised at recent meetings.

I now turn to the question of whether my recent local audit work at Betsi Cadwaladr University Health Board could have picked up the concerns which have subsequently emerged on out of hours services. The key point to make here is that I need to rely on the performance management information that is routinely available to help inform my analysis of risks and issues facing a Health Board. My team would then use this alongside our observations of how it is discussed and scrutinised at the appropriate forums and Committees within the organisation to inform our wider views of the robustness of governance arrangements. In the local work on unscheduled care at the Health Board that underpinned my 2013 national report, we clearly highlighted the need for improvements in relation to performance management information relating to primary care. We have repeated these concerns in our subsequent annual structured assessment work and they have been echoed again in the recent report by Partners4Health, which confirmed significant gaps in the reporting and performance management of out of hours services.

I am therefore confident that, within the parameters of the information available to us, we have been suitably vigilant in our work on unscheduled care and wider governance arrangements as they relate to out of hours services at Betsi Cadwaladr University Health Board. I am, however, concerned that the recent report by Partners4Health has once again reinforced our concern about continuing gaps in performance management and information. I believe this is illustrative of the concerns we have all expressed about the Health Board's ability to grip and address important governance issues, and which has ultimately led to the imposition of special measures.

Going forward, I am particularly keen to ensure that future tripartite escalation and intervention meetings are accompanied by the fullest possible set of performance information (which in the main the Welsh Government has access to), and that where concerns are identified in services such as out of hours provision, that the information is shared with myself and Healthcare Inspectorate Wales in a timely manner so that we can agree appropriate responses. This is something that I shall be raising with both the

Welsh Government and Healthcare Inspectorate Wales as part of our planned tripartite review and reflections on the operation of the current escalation and intervention arrangements. In doing so I will be keen to ensure we adopt the most efficient and effective approaches to accessing this information, ensuring the efficient use of my staff's time and also avoiding any unnecessary burdens on NHS bodies.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Document is Restricted

Dr June Milligan
Director General, Local Government and Communities
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Financial Challenges Facing Local Government

21 May 2015

Dear June,

1. Following our correspondence in July 2014 and your appearance before the Committee on the financial challenges facing local government, the Public Accounts Committee has continued to consider this issue, taking into account recent related studies by the Auditor General, as well as evidence sessions held by the Committee. I am writing to set out some of the Committee's findings, and in particular where we believe the Welsh Government could provide more support to local authorities in overcoming the financial challenges they face.
2. The particular Auditor General reports the Committee has considered since our last correspondence have included *Delivering with Less – the Impact on Environmental Health Services and Citizens* (October 2014), *Managing Early Departures Across Public Bodies in Wales* (February 2015) and *The Financial Resilience of Councils in Wales* (April 2015). The Committee has held evidence sessions with representatives of Rhondda Cynon Taf, Gwynedd, the Vale of Glamorgan and Powys county councils.
3. This has been considered separately to the Auditor General's report *Managing the Impact of Welfare Reform Changes on Social Housing Tenants in Wales*, which the Committee will discuss with you on 2 June.



Financial Challenges

4. The Committee heard clearly that the financial challenges faced by local government had moved beyond finding efficiencies in the delivery of public services, to changing the way services are delivered or discontinuing them altogether. In your 14 May 2015 response to the Auditor General's report on Financial Resilience of Councils in Wales, you noted that you did not recognise a figure the report presented as the scale of funding reductions faced by local government. It would be helpful to understand what the Welsh Government's assessment of that figure would be and how the Welsh Government and local government engage to ensure a shared understanding of the challenges faced by local government.
5. Your letter also set out that the Welsh Government provides additional support to local authorities where evidence suggests there is a need. It would be helpful to understand more about this additional support, including which local authorities had received additional support and the nature of this support.
6. A key issue that the Committee heard was local authorities' limited freedom of movement to absorb reductions in their budget. The Committee heard that a high proportion of funding has to be spent on statutory functions and remain within service guidance. Spending reductions must therefore fall on the discretionary part of the budget, that is either spending above the statutory minimum or which is totally discretionary. The Committee heard this is around 25 per cent of local authorities' budgets. Often, these will be areas which can contribute to the longer-term health and well-being of the public, for example environmental health and leisure centres. The Committee heard that cutting these preventative services being cut to greater longer-term costs, and the Auditor General's report on environmental health set out in some detail how statutory obligations were being met currently but with a risk that performance may soon be threatened.
7. It would be helpful to hear whether you agree with local authorities' sense that a high proportion of their funding is 'ring-fenced', and set out your



assessment of the proportions of local authorities' budgets that are committed to statutory responsibilities or Welsh Government policy priorities and that which is not 'ring-fenced'. Given the high proportion of budgets that is non-discretionary, it would be helpful to understand whether the Welsh Government makes any assessment of where reductions are likely to fall, and of the longer-term consequences?

8. As a related issue, the Committee heard that there would be advantages to reducing the administrative cost associated with local authorities receiving a number of small grants, which could be dealt with more efficiently via the Revenue Support Grant. This is consistent with the Committee's discussions with the Permanent Secretary on the Welsh Government's management of grants more generally, where the Committee has welcomed action to rationalise grants. It would be helpful to understand how you are responding to these concerns with a view to reducing the cost of administration.
9. Environmental health was also discussed by the Committee as an example of where the level of required technical expertise is at odds with moves toward generalist officers. In addition, there was some concern by one local authority leader whether councillors could currently securitise the exercise of environmental health responsibilities. In his more recent report, the Auditor General sets out that the level of financial scrutiny and challenge as varying across councils, and your letter of 14 May 2015 agrees the importance of councillors' ability to challenge and scrutinise efficiency and savings plans. We would be grateful if you could set out how you are monitoring councils' uptake of the support for scrutiny you set out in your 1 July 2014 letter and seeking to ensure that weaker scrutiny is tackled.

Reserves

10. The Committee was struck by the inconsistent use of cash reserves by local authorities. We heard that local authorities had been able to add to their reserves in recent years, in addition to making efficiency savings, which could now be drawn down in response to declining budgets. Of course, using reserves to mitigate against the effects of reducing budgets is only



sustainable where used to support investment to achieve longer-term savings.

11. The local authorities we spoke to on 25 November believed there was a misperception that they have a great deal more reserves than was available to them. It was asserted that there was limited flexibility for use of reserves held, given that much of their useable reserves were earmarked for specific purposes, for example the 21st Century Schools programme. The Committee heard that they had been asked to provide an outline of their level of reserves to the Welsh Government in October, and we would be grateful to understand what use had been made of this information and how it can be used to ensure the discussion around financial challenges facing local government will be well-informed.
12. The local authorities appeared to have a misunderstanding of the role of the Auditor General in relation to their reserves, believing he would raise concerns at inappropriately high levels of reserve rather than just when they are overly low. It was clarified in our evidence session that the primary focus of the Auditor General is on the accounting treatment of reserves, although he might comment if there was a risk of reserves being too low to meet future liabilities. The evidence session did highlight that some local authorities were under the impression that a clean bill of health on their accounts implied an independent endorsement of their levels of reserves.
13. Noting that the WLGA had produced a briefing on local authority reserves in November, the local authorities that appeared before the Committee welcomed the notion of further guidance on the use of reserves from the Welsh Government. Given the emphasis placed on a comprehensive strategy on reserves in your 14 May letter, we would be grateful if you could set out where you believe guidance would be helpful in terms of supporting the transparency, scrutiny and member understanding of the need for reserves and how they feature in Medium Term Financial Plans, and whether you intend to produce such guidance.



Public engagement

14. The Committee discussed with local authorities how they engage with local communities on how budget reductions would be accommodated, including greater visibility for local authorities' cabinet members, use of focus groups and roadshows.
15. We heard that, while consultation had a limited impact on how councils' planned to respond to reductions, it could allow the authority to understand better the likely implications of any change, and allow it to be introduced more sensitively or adapt how services were delivered to realise savings. Consultation also helped set out to the public why a change was necessary, despite their reluctance to accept any reduction of service.
16. We heard examples of good practice, and believe there is opportunity for examples of good practice to be collated and shared between local authorities. We would be grateful for your views on how the Welsh Government is supporting the identification and sharing of best practice as you indicated you would be in your 22 July 2014 letter.

Uncontrollable budget pressures

17. The Committee heard that local government does look to plan for coming years on the basis of rejected settlements, and the likely demand on their expenditure. Increasing pressure on expenditure would include rising costs of providing existing services, and costs associated with additional obligations placed on local government. The Committee heard that the local government sector works towards a shared understanding of future pressures, particularly through the Welsh Local Government Association, in addition to their own forecasts of local pressures – for example, from an aging population locally.
18. We would be grateful if you could set out how the Welsh Government assists local government in developing an sound understanding of the likely pressures in coming years, including inflation, wage inflation, and any additional statutory responsibilities.



Funding formula

19. We noted in your letter of 1 July 2014 that the Welsh Government saw the process of reaching a Local Government settlement as being “one of the most extensive collaborative processes within government”, including though the Partnership Council, and the Finance and Distribution Sub Groups. When leaders of local authorities appeared before the Committee in November, they set out that the funding formula for local government was not well understood. In addition, we heard from Gwynedd the cost implications of delivering services in deep rural areas. Given that officials discuss the formula in detail in the Distribution Sub Group, is it likely that specific cost-incurring characteristics, such as deep rurality, that only affect some authorities would be given appropriate weight in a subgroup comprised of many authorities?
20. It would be helpful to understand whether you are satisfied that local government appreciate the collaborative process you set out as well as the Welsh Government does, and how you are confident that the collaboration allows the best decisions on allocations to be made, rather than the decisions that most readily find consensus.

Early Departure Schemes

21. On 21 April, the Committee took evidence from Rhondda Cynon Taf and Powys county councils in response to the Auditor General’s report *Managing Early Departures Across Public Bodies in Wales*. The Committee has discussed this issue with other public bodies, and will do so again in the autumn, during its scrutiny of accounts.
22. The Committee heard that the local authorities had run early departure schemes as part of a more broad effort to reduce the cost of staffing, which was a high proportion of councils’ budgets. The Committee asked the authorities whether they had made decisions on staff departures on the basis of the requirements of a new structure, or if their restructuring followed a



departure scheme that could have included staff with skills and experience now required – meaning some departed staff needed to be replaced. The authorities we heard from were confident that they had made sound decisions on who could be released, though noted that budget reductions had to be absorbed often more quickly and at a quicker pace than was comfortable. The Committee had some reservations on whether authorities were actively redesigning their workforce and then determining who would be required to support it and whether the urgency of decision-making reduced its quality.

23. The Committee heard that councils had not received guidance from the Welsh Local Government Association on good practice for their voluntary exit schemes, including length of time before possible re-appointment, limits on severance packages, and public disclosure of settlement agreements. It would be particularly helpful if local government did not create further future challenges by making decisions on the pension arrangements for departing staff that would create pressure on local government pension funds. Given the Welsh Government's acceptance of the Auditor General's recommendation that you work with local government to seek agreement on common principles to underpin any future departure arrangements arising from local government mergers, it would be helpful if you could set out what action the Welsh Government has taken in this regard.
24. The Welsh Government's response to the Auditor General's report also mentioned the Public Service Staff Commission taking a role in coordinating early departure schemes between authorities in advance of local government reorganisation. The local authorities the Committee heard from were supportive of this suggestion, though this should allow for local variations where required. It would be helpful if you could set out what the Welsh Government's expectations are in respect of the balance between local flexibility and national consistency.
25. An issue that was discussed in this was the relatively high number of mutually-agreed departures from Rhondda Cynon Taf by staff on long-term sickness absence that were classed as early departures. Given the Committee heard that Rhondda Cynon Taf and the Wales Audit Office discussed whether



to record this information as part of the Auditor General's study of early departures, other local authorities may not have presented equivalent information as part of this exercise. It is therefore difficult to understand whether the financial challenges faced by local government has exposed deficiencies in the management of sickness absence, which these mutually agreed departures of staff with long-term sickness absences could reflect. It would be helpful if you could set out how the Welsh Government is monitoring and showing leadership in relation to sickness management, particularly through the Public Services Leadership Group.

Local Government Reorganisation

26. Decisions on the future structure of local government in Wales loom large on the horizon. While the Committee did not consider the policies of the Government in respect of local government reorganisation, the current uncertainty around reorganisation and how reorganisation would be funded has had a clear impact on local authorities' ability to plan for the future. As you state in your 14 May letter, strategic financial planning and a robust medium-term financial plan are key for councils' resilience in the future.
27. The Committee discussed regional delivery of specific services, such as libraries, with local authorities and heard that, while it was possible, there was insufficient motivation to do so at the moment. This response was possibly in the context of more fundamental changes on the horizon.
28. The Auditor General's recent work on financial resilience of councils in Wales has drawn on the recent work of Grant Thornton on English councils. That showed English local authorities had been better able to respond to the challenges posed by budgetary reductions, and plan for the future in a more robust way than their counterparts in Wales. His follow-up work in the current year will allow more direct comparisons to be drawn, and the Committee will be keen to understand the extent to which uncertainty over authorities' futures has inhibited their longer-term planning. We would be grateful for any observations you have in this regard.



29. As an additional point, the Committee heard how the savings made by councils were on a recurring basis, and that the changes to how they delivered services were not temporary responses to the current challenges. This would have an implication for how medium-term costs of local government restructuring and longer-term savings would be forecast – given that the current position is not static. It would be helpful to understand how you are taking account of local authorities’ response to the current financial challenges as you progress the Government’s agenda of local government reorganisation.

Yours sincerely,



Darren Millar AM

Chair





Llywodraeth Leol a Chymunedau
Local Government and Communities

Cyfarwyddwr Cyffredinol • Director General

Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair - Public Accounts Committee
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Our ref: MB/LA/2151/15

24 June 2015

Dear Chair

Financial Challenges Facing Local Government

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

Reserves

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

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

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

Public engagement

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

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

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

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

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

Financial pressures

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

Funding formula

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

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

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

Early Departure Schemes

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

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

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

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

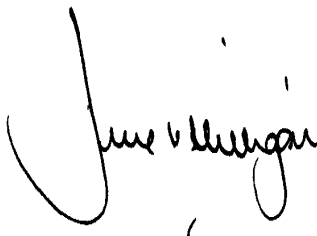
Local Government Reform

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

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

I hope this information is of assistance to the Committee.

Yours sincerely

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

June Milligan
Cyfarwyddwr Cyffredinol / Director General