

Agenda – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Monday, 6 February
2017

Meeting time: 13.30

For further information contact:

Fay Bowen

Committee Clerk

0300 200 6565

SeneddPAC@assembly.wales

(13.30 – 14.00 Pre-meeting)

1 Introductions, apologies, substitutions and declarations of interest

(14.00)

2 Paper(s) to note

(14.00 – 14.05)

(Pages 7 – 10)

Valedictory session: Letter from Sir Derek Jones, Permanent Secretary, Welsh Government (24 January 2017)

(Pages 11 – 12)

Financial Reporting Advisory Board Report 2015–16

(Pages 13 – 45)

PAC(5)–05–17 PTN2 – Letter from Sir Derek Jones, Permanent Secretary, Welsh Government

PAC(5)–05–17 PTN3 – Financial Reporting Advisory Board Report 2015–16

3 The strategic approach of councils to income generation and charging: Evidence session 1

(14.05 – 15.05)

(Pages 46 – 59)

Research Briefing

PAC(5)–05–17 Paper 1 – Paper from the Welsh Local Government Association



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Jon Rae – Director of Resources, Welsh Local Government Association
Graham Hinchey – Cabinet Member for Corporate Services & Performance, City of Cardiff Council

(Break 15.05 – 15.15)

4 The strategic approach of councils to income generation and charging: Evidence session 2

(15.15 – 16.15)

(Pages 60 – 62)

PAC(5)–05–17 Paper 2 – Paper from the Welsh Government

Reg Kilpatrick – Director, Local Government, Welsh Government
Debra Carter, Deputy Director, Local Government Finance Policy, Welsh Government

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

(16.15)

Items 6 & 7

6 The strategic approach of councils to income generation and charging: Consideration of evidence received

(16.15 – 16.30)

7 Hospital Catering and Patient Nutrition: Consideration of draft report

(16.30 – 17.00)

(Pages 63 – 85)

PAC(5)–05–17 Paper 3 – Draft Report

Document is Restricted

Concise Minutes – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Monday, 30 January 2017

Meeting time: 14.00 – 16.39

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3909>

Attendance

Category	Names
Assembly Members:	Nick Ramsay AM (Chair) Mohammad Asghar (Oscar) AM Neil Hamilton AM Mike Hedges AM Neil McEvoy AM Rhianon Passmore AM
Witnesses:	Clarissa Corbisiero–Peters, Community Housing Cymru Stuart Ropke, Community Housing Cymru Peter Hughes, Council of Mortgage Lenders John Marr, Council of Mortgage Lenders
Wales Audit Office	Ann Marie Harkin – Wales Audit Office Stephen Lisle – Wales Audit Office Nick Selwyn – Wales Audit Office Dave Thomas – Wales Audit Office
Committee Staff:	Fay Bowen (Clerk) Claire Griffiths (Deputy Clerk) Jonathan Baxter (Researcher)



Transcript

View the meeting [transcript](#) (PDF 644KB) View as [HTML](#) (247KB)

1 Introductions, apologies, substitutions and declarations of interest

- 1.1 The Chair welcomed Members of the Committee to the meeting.
- 1.2 Apologies were received from Lee Waters. There was no substitute.

2 Paper(s) to note

2.1 The papers were noted.

2.1 **Inquiry into Regulatory oversight of Housing Associations: Summary of discussions at Stakeholder Event (5 December 2016)**

3 Inquiry into Regulatory oversight of Housing Associations: Evidence Session 3

3.1 The Committee took evidence from Stuart Ropke, Chief Executive, and Clarissa Corbisiero-Peters, Deputy Chief Executive, Community Housing as part of its inquiry into the Regulatory oversight of Housing Associations.

4 Inquiry into Regulatory oversight of Housing Associations: Evidence Session 4

4.1 The Committee took evidence from John Marr, Senior Policy Adviser, Council of Mortgage Lenders and Peter Hughes, Principality Building Society/ Council of Mortgage Lenders as part of its inquiry into the Regulatory oversight of Housing Associations.

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

5.1 The motion was agreed.

**6 Inquiry into Regulatory oversight of Housing Associations:
Consideration of evidence received**

6.1 The Committee considered the evidence received.

**7 Community Safety in Wales: Consideration of Correspondence from
Police and Crime Commissioners**

7.1 The Committee considered the responses from the Police and Crime Commissioners to the Auditor General for Wales' report and noted that the Welsh Government will be undertaking a fundamental review of community safety in Wales rather than just address the recommendations contained within the Auditor General's report. The Committee agreed to clarify with Welsh Government its planned review and revisit the issue on publication of the Welsh Government's review.

8 Medicines Management: Auditor General for Wales' Report

8.1 The Committee received a briefing on the Auditor General for Wales' report on his recent report on medicines management.

8.2 The Committee agreed to hold an evidence session with the Welsh Government on this issue in spring 2017.

**9 Governance Review of the National Library for Wales: Auditor General
for Wales' Report**

9.1 The Committee received a briefing on the Auditor General for Wales' report on his recent report on Governance Review of the National Library for Wales.

9.2 The Committee agreed to scrutinise the National Library's annual report and accounts 2016-17 in the autumn 2017 term.

Sir Derek Jones KCB
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair, Public Accounts Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear Nick,

24th January 2017

Thank you for your letter, and cover email, from 15 December providing more detail from Lee Waters on bus concessions whistle-blowing and requesting figures for the 'true cost' of the Welsh Government's counter-fraud measures.

Bus concessions whistle-blowing

A search of our electronic document management system has not revealed a note of the meeting referred to by Lee Waters. I am seeking clarification from officials involved in the management of concession arrangements at the time to confirm their recollection of events. I, or my successor, will write to you again should further information come to light.

Counter-fraud measures

In my previous letter to the Committee, I sought to set the Welsh Government's dedicated Counter-Fraud Unit within the wider context of the support the Unit draws from audit, corporate governance, and finance colleagues to assist with its work. I also described some of the IT systems that are used.

With respect to establishing a 'true cost' of counter-fraud measures within the Welsh Government however, I am afraid that I am not able to provide this information. I have not established metrics for measuring and costing the totality of counter-fraud measures because, in reality, work that helps the Welsh Government to prevent fraud is integrated into the job roles, controls, processes and IT systems we have in place for the proper management of public funds more generally, and cannot be isolated and costed separately.

For example, colleagues managing grants undertake due diligence on grant recipients before agreeing to fund them in order to confirm their identity and assure themselves that the Welsh Government is not dealing with convicted criminals or a fake organisation created to defraud it. However, due diligence checks also help the Welsh Government to assess the financial robustness of the organisation to which public funds are being given, providing assurance that the organisation is viable and capable of delivering the outcomes expected of it. Due diligence work is routinely carried out by grants managers across the organisation and supported by the Grants Centre of Excellence.

There are several other examples which reach right across the organisation and its work - such as the Welsh Government's finance system, procurement and purchasing procedures, and separation of duties and conflicts of interest requirements - all of which are designed to support the proper management of public money and have counter-fraud elements woven into them.

I hope that the Committee will appreciate that this is a complex picture, and therefore understand that attempting to apply a true cost to this activity is not possible.

Yours,
Jenny



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Llywodraeth Cymru
Welsh Government

Sir Derek Jones KCB
Ysgrifennydd Parhaol
Permanent Secretary

Nick Ramsay AM
Chair of Public Accounts Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

20th January 2017

Dear Nick,

Financial Reporting Advisory Board, March 2015-April 2016

The Financial Reporting Advisory Board (FRAB) acts as an independent source of advice on the setting of government accounting standards in the UK. The Board seeks to ensure that any adaptations of, or departures from, generally accepted accounting practice in the public sector are justified and appropriate. Its main focus is on examining proposals for amending current or implementing new accounting policies for Central Government (published in the Financial Reporting Manual or FReM), although it also examines proposals for accounting guidance for local authorities and health bodies.

The FRAB comprises senior civil service representation from Whitehall Departments and Devolved Administrations plus a number of independent members including accounting academics and representatives from the UK accountancy bodies. In 2015/16 the Welsh Government was represented by Gawain Evans, Director of Finance.

In accordance with the terms of reference, the FRAB prepares an annual report of its activities which is circulated to the House of Commons, the Northern Ireland Assembly, Scottish Parliament and the PAC of the National Assembly of Wales.

Please find enclosed a copy of the Board's 19th annual report.

Yours,

Derek



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19th Report of the Financial Reporting Advisory Board

Report for the period
April 2015 to March 2016

HC 558

FINANCIAL REPORTING ADVISORY BOARD

**Report for the period
April 2015 to March 2016**

Presented to the House of Commons pursuant to Section 24(4) of the Government
Resources and Accounts Act 2000

Laid before the Northern Ireland Assembly under Section 20(3) of the Government
Resources and Accounts Act (Northern Ireland) 2001 by the
Department of Finance and Personnel

The report is laid before the Scottish Parliament and presented to the Audit and
Finance Committees of the Scottish Parliament by agreement with the
Scottish Ministers

The report is submitted to the Public Accounts Committee of the National
Assembly for Wales by the Welsh Government

Ordered by The House of Commons to be printed on 6 December 2016

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Board Membership

Chair: Kathryn Cearns

Members: David Aldous
Anthony Appleton
Andrew Baigent
Bob Branson
Andrew Buchanan
Gareth Caller
Ross Campbell (to June 2015)
Ian Carruthers (to Nov 2015)
Jason Dorsett
Ruth Elliot
Gawain Evans
Neil Hartley

David Hobbs
Ron Hodges
Kate Mathers
Joanne McBurney
Maggie McGhee (to Mar 2016)
Veronica Poole
Vicky Rock (from Nov 2016)
Alison Scott (from Mar 2016)
Mike Usher (to Mar 2016)
Aileen Wright
Derek Yule

Parliamentary

Observer: Sir Edward Leigh MP (to Nov 2015)
Craig MacKinley MP (from Mar 2016)

Chairman's Foreword

This is my last report as Chairman of FRAB, as I will by June 2016 have served for six years. The Executive Summary and detail of the report describe the work of the Board this year and indicate the challenges to come. As this is my last report as Chairman, I would like to reflect on one or two fundamental issues in UK public sector reporting.

The UK public sector is in the vanguard of high quality financial reporting in Europe, if not the world, and the considerable advances made in the clarity and quality of information reported by government have been made at substantial cost. The benefits achieved have, in my view, outweighed those costs, both in terms of the better and wider range of information provided to Parliament and the public, but also in the impetus accruals accounting and budgeting has given to better financial management and control. Whether at local authority, NHS, central government or at the Whole of Government Accounts level, financial reporting offers different and wider insights into how the government spends UK taxpayers' money and makes commitments for future expenditure.

Financial reporting on the basis of private sector accounting standards, adapted for the public sector where appropriate, is of course not sufficient for government financial management and budgeting purposes. There is an inherent tension, as in the private sector, between the historical stewardship and investment decision-making focus of financial reporting and the national accounts methodologies for fiscal measures and budgeting for future affordability. While both benefit from much of the same improved accruals information, they have different purposes. Those differences provide substantial insights when considering how government actions today commit the country to courses of expenditure and obligation. It is in my view dangerous to focus on one system over the other, particularly if that risks losing the coherent view offered by financial reporting based on International Financial Reporting Standards (IFRS). Nevertheless it is important to make these systems of reporting work together as well as possible.

The financial crisis and the sovereign debt crisis that followed have been pertinent reminders of the considerable barriers to sustainable public finance caused by the lack of reliable, coherent financial information on government finances in many countries. While the fiscal focus on debt is of great importance, it does not capture wider asset and liability figures and these have much to say about government activity and future commitments: on the asset side around the physical and intangible asset base, and on the liability side around some significant and long-term provisions, such as for medical negligence litigation, nuclear decommissioning, PFI and pension commitments.

These issues mean that it is important for the overall system of government reporting and financial management to be fit for purpose, for its different parts to interact effectively and for all aspects to be scrutinised and used by those who receive the information. In the end, it is only that scrutiny that will ensure financial reporting fulfils its vital stewardship function.

I would like to end by thanking all those who have served on the Board during my tenure as Chairman, as well as the secretariat staff at the relevant authorities who have carried out work for the Board. Their efforts have been considerable and they have all worked extremely hard, in the public interest, towards better government reporting and accountability. I have enjoyed working with all of them and wish the Board all success in the future in carrying out its important independent role.

Kathryn Cearns

6 December 2016

Executive Summary

This is the 19th report of the Financial Reporting Advisory Board (the Board). The Board's primary objective is to promote the highest standards of financial reporting by government through the provision of independent advice. The report is addressed to the Committee of Public Accounts and the Treasury Select Committee in the Westminster Parliament, to the Northern Ireland Assembly, to Scottish Ministers and to the Public Accounts Committee of the National Assembly for Wales. The report covers the year April 2015 to March 2016.

Board membership

The 2015-16 financial year saw the Board undergo a number of changes of membership. These included the departure of Ian Carruthers following his appointment as the next Chair of the International Public Sector Accounting Standards Board (IPSASB) with effect from 1 January 2016. The Board congratulates Ian and is grateful that he continues to be an observer on the FRAB. The Board's Parliamentary observer, Sir Edward Leigh MP, also stood down: the Board would like to express its thanks and gratitude to Sir Edward for his efforts in working with the Board. The Board welcomes Craig McKinley MP as Sir Edward's replacement as Parliamentary observer. The Board likewise thanks Ross Campbell, and Mike Usher and welcomes new members, Alison Scott and Vicky Rock.

Finally, after six years as Chairman of the FRAB, Kathryn Cearns will be stepping down in mid-2016 in compliance with the Board's governance arrangements. The coming year therefore promises to be one of transition under a new Chairman.

A major impact in the coming year: discount rates

The Board has had the issue of discount rates on its agenda for a considerable period of time. The use of discount rates is important in financial reporting, as in actuarial and other economic measurement systems, to reflect the time value of money. In other words, there is an economic difference between two liabilities of the same nominal amount, but where one is to be settled in cash in 10 years' time and the other in 20 years' time: the present value of the former will be higher than the latter. The time value of money reflects an economic reality that cannot be ignored (unless the impact is immaterial) without making accounts misleading. The higher the discount rate, the lower the liability present value will be when it is applied.

The aim of the accounts here is to give a fair picture of present value, to reflect what would rationally be paid to settle the liability at the year end, and without discounting this would not be possible. This is not the same as assuming a fulfilment approach, where the government entity will settle the liability as it becomes due out of future cash inflows or assets set aside for the purpose now to meet the liability when it becomes due in future, where the value of those assets may rise over time. A settlement approach allows a more neutral and comparable form of measurement. This means that the discount rate to be applied must be one that reflects only the time value of money and the risk inherent in the cash flows to settle the liability, where the cash flows themselves are not risk-adjusted. Accounting standards specifically

exclude the use of discount rates that reflect the source of the funding to meet the liabilities, whether from future funding or existing assets.

Nevertheless, the application of discount rates, and the impact when they change, can be difficult for users of accounts to appreciate. It is therefore important for government bodies to disclose the impact of changes clearly and with sufficient disaggregation and explanation of the impact.

The greatest effect in 2015-16 will be on the measurement of long-term provisions such as NHS medical negligence provisions and nuclear decommissioning liabilities. The Relevant Authorities requested, and the Board agreed, that the discount rates for such long-term provisions only had to change every Spending Review rather than annually as usually required by accounting standards. 2015-16 is such a year where that change is made, but the effect on this occasion is that the drop from an old, relatively high rate to a much lower current rate, which reflects present interest rates but which reduces the value of liabilities rather less, means that there will be a very substantial increase in the recorded value of these important long-term provisions.

Government reporting entities need to ensure that this change is properly described, but it is important not to suggest that such movements in value are meaningless just because they do not reflect cash changes. These valuations reflect real economic phenomena that, were such liabilities to be transferred to a third party (whether or not that is possible) rather than holding them to when they fall due, would be taken into account in the transaction price calculation between the parties. It is this type of objective measurement methodology that accounting standards are seeking to apply.

Changes to accounting guidance

Last year's report gave initial consideration to the forthcoming introduction of two new Standards: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. While neither are currently due to be effective until 1 January 2018, the lead time required to ensure that the full implications on the public sector are adequately considered has meant that the Board has worked closely with Relevant Authorities in 2015-16 to secure this objective. For much of the year the Board's focus has been identifying those issues or decisions that need to be considered early on in the process, for example on transition arrangements.

Following the Board's extensive work with Relevant Authorities over recent years on IFRS 13 Fair Value Measurement, the Standard was adopted into manuals for the first time in the 2015-16 financial year.

The Board also gave initial consideration to the forthcoming introduction of IFRS 16 Leases. This was issued by the IASB in January 2016 with an effective date for UK public sector reporting purposes of the 2019-20 financial year; this is discussed further below.

Improvements to financial reporting

2015-16 saw the introduction of restructured annual report and accounts (ARAs) in

REPORT FOR THE PERIOD APRIL 2015 TO MARCH 2016

line with the findings of the *Simplifying and Streamlining Accounts* project¹ (the 'Project'). The Board discussed the next stage of the Project with a particular focus on the appropriate reporting requirements for smaller bodies that are consolidated into a departmental group. The Board also advised the Department for Business, Innovation and Skills (BIS) on a proposed pilot project for the rationalisation of financial reporting among Research Council bodies.

The Board considered the changes to treatment of research and development costs in the national accounts framework, setting out the effects of the new European System of Accounts 2010 (ESA 2010) which came into effect for Member states in September 2014. The Board supported the Treasury's proposal not to change financial reporting requirements under the FReM in response to the change in statistical reporting.

A major change in reporting guidance came in the Group Manual for Accounts merger with the Foundation Trust Annual Reporting. The merged manual will provide one detailed direction over accounts for all Department of Health bodies including NHS foundation trusts, and will be produced for the 2016-17 financial year.

The Financial Reporting Manual (FReM) 2016-17 was given due consideration by the Board having been published in December 2015. No further changes to the FReM 2016-17 were proposed from the 2015-16 version, which provides some stability for reporting entities.

The CIPFA/LASAAC Code of Practice on Local Authority Accounting has undergone significant changes for 2016-17. The major issue, successfully implemented after much debate and challenge, is a change in accounting treatment for network road assets, bringing their current value on balance sheet, in line with other public sector assets, and in the process addressing one of the major audit qualifications for the Whole of Government Accounts (WGA). Improvements in the presentation of financial statements with new formats and reporting requirements have also been made.

The Board welcomed the publication of the Whole of Government Accounts (WGA) 2013-14 in March 2015; this was ten weeks earlier than the previous year and a significant improvement compared to the twenty months after year-end publication of the very first WGA. Consideration was given to the remaining audit qualifications but it was noted that important steps were being taken to clear them as much and as quickly as possible.

The Board took great interest throughout the year in emerging proposals for European Public Sector Accounting Standards (EPSAS) following Eurostat's first working group meeting in September 2015. Their key priorities included a programme of financial support to encourage member states to adopt accruals accounting over the next 4-5 years including the option to move to International Public Sector Accounting Standards (IPSAS) as a potential proxy for EPSAS. The UK remains one of the most advanced EU countries in terms of adoption of accruals

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330725/simplifying_annual_reports_print.pdf

accounting and stringent private sector standards. The Board also took a keen interest in the International Public Sector Standards Board's (IPSASB) work, including that on the Conceptual Framework project.

Priorities for 2016-17

A key priority for the Board will be to ensure that the recently published IFRS 16 Leases is fully considered. The new standard will remove the existing distinction between finance and operating leases. It is expected to produce a more consistent approach to the recognition and measurement of the rights and obligations that arise from lease agreements, and its potential impact on accounts of public sector bodies will be substantial, particularly on reported liabilities. The Board will deliberate on the implications of the new Standard for the public sector throughout 2016-17.

The Board will continue to ensure that the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are fully considered in the public sector context, so that they are adopted on a timely basis. As noted above, and at the Board's encouragement, work plans are in place to ensure this is so, and the Board has much work to do to oversee the readiness for their introduction.

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- 3 BOARD ACTIVITIES IN 2015-16**

Chapter 1

INTRODUCTION

Background to the Financial Reporting Advisory Board

- 1.1. The Financial Reporting Advisory Board (the Board) is an independent body fulfilling the statutory role as the ‘group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards’ for government, as required by the Government Resources and Accounts Act 2000².
- 1.2. The Board acts as an independent element in the process of setting accounting standards for government and exists to promote the highest possible standards in financial reporting by government. In doing so, the Board seeks to ensure that any adaptations of, or departures from, generally accepted accounting practice (GAAP) in the public sector context are justifiable and appropriate.
- 1.3. The Board’s main focus is on examining proposals for amending current, or implementing new, accounting policies in the accounting guidance for central government departments, executive agencies, non-departmental public bodies and trading funds, and for examining the proposals for accounting guidance for local authorities. The Board also advises the Treasury on the implementation of accounting policies specific to WGA.
- 1.4. Further information about the Board (including: membership; Terms of Reference; meeting minutes; and papers) is available on the gov.uk website³.

Background to the FRAB Report

- 1.5. In accordance with its Terms of Reference, the Board has a responsibility to prepare an annual report of its activities, including its views on the changes made during the report period to accounting guidance that is within the Board’s remit.
- 1.6. The Board is required to send a copy of its report direct to the Committee of Public Accounts, the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and the Department of Finance and Personnel (Northern Ireland).
- 1.7. The Treasury, the Scottish Ministers, and the Department of Finance and Personnel (Northern Ireland) formally lay the Board’s report before (respectively) the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Government submits the report to the Public Accounts Committee of the National Assembly for Wales.
- 1.8. This is the Board’s 19th report and the report structure is summarised below.

Report structure

Changes to accounting guidance

- 1.9. Chapter 2 of the report summarises changes to accounting guidance approved by the Board during 2015-16.

Board activities

- 1.10. Chapter 3 of the report details those issues in financial reporting, both new and continuing, which may lead to changes in accounting guidance in the future and provides an indication of how those issues will impact the Board's work in future years.

² <http://www.legislation.gov.uk/ukpga/2000/20/section/24>

³ <https://www.gov.uk/government/policy-advisory-groups/financial-reporting-advisory-board-frab>

Chapter 2

CHANGES TO ACCOUNTING GUIDANCE IN 2015-16

Introduction

2.1. This chapter details significant changes in accounting guidance within the Board's remit for 2015-16 and 2016-17.

The 2015-16 Financial Reporting Manual (FReM)

2.2. The Board agreed the Treasury's proposed schedule of amendments to the 2015-16 FReM. These amendments were to correct minor errors and reduce inconsistencies and possible ambiguity. In 2014-15, the Board had already agreed (and previously reported⁴) a number of issues relating to the 2015-16 FReM, the most significant of which are detailed in Table 1.

Table 1

Accounting standard or reporting issue	Summary	FReM impact
IFRS 13, <i>Fair Value Measurement</i>	IFRS 13 has been EU-adopted for annual periods beginning on or after 1 January 2013. It has been prepared to provide consistent guidance on 'fair value' measurement. The Standard defines 'fair value', provides guidance on fair value measurement techniques, and sets out the disclosure requirements.	IFRS 13 was specifically scoped out of the 2014-15 FReM and was adopted in the 2015-16 FReM. Further details on the implementation of IFRS 13 are included in Chapter 3.
<i>Simplifying and Streamlining Accounts</i> project	Changes in the form and content of the annual report and accounts, implementing proposals agreed through the project.	Introduction of a revised format in the 2015-16 FReM with three sections: the Performance Report, the Accountability Report and the Financial statements.

2.3 The revised FReM was issued by the Treasury in December 2015. A log of all 2015-16 amendments is available on the gov.uk website.⁵

⁴ 18th Report of the Financial Reporting Advisory Board, Report for the period April 2015 to March 2016

⁵ <https://www.gov.uk/government/publications/government-financial-reporting-manual-2015-to-2016>

Proposed 2016-17 Financial Reporting Manual (FReM)

- 2.4 The Board also reviewed the form and content of the proposed 2016-17 FReM presented by the Treasury. No further changes to the FReM 2016-17 were proposed from the 2015-16 version. However, the Treasury noted that the FReM 2016-17 will need to be updated once CIPFA/LASAAC have finalised proposals for local authorities on highways network assets and the budgetary treatment of research and development expenditure.
- 2.5 The Board also considered a paper outlining the narrow scope amendments issues by the IASB as part of their annual improvement process for 2012-2014. Each amendment was considered by the Treasury and a view formed on whether there were any public sector specific financial reporting impacts that may require further work to be performed and the effective dates of the amendments. It was noted that no immediate further action was required as a result of the amendments considered and no amendments to the FReM are proposed, and the Board agreed with this view.
- 2.6 The Board agreed with the form and content and the 2016-17 FReM was published to timetable, in December 2015⁶.

⁶<https://www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017>

The NHS Manual for Accounts 2015-16 and Foundation Trust Annual Reporting Manual 2015-16

- 2.8 The Board agreed the 2015-16 Foundation Trust Annual Reporting Manual and 2015-16 NHS Manuals for Accounts with no new divergences from the FReM. The 2015-16 Foundation Trust Annual Reporting Manual was issued by Monitor in July 2015 (subsequently updated in November 2015) and the 2015-16 NHS Manual for Accounts was issued by the Department of Health in August 2015.
- 2.9 The Board were updated on progress in respect of the 2016-17 Group Manual for Accounts merger with the Foundation Trust Annual Reporting Manual. The Board received the draft merged manual at its March 2016 meeting.
- 2.10 The Board looks forward to approving future versions of a merged manual continuing on a progressively improved timetable.

The 2016-17 Code of Practice on Local Authority Accounting

- 2.11. The Board agreed the 2016-17 Code of Practice on Local Authority Accounting. The Code will be issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) in 2016.
- 2.12. The changes to the 2016-17 Code related to:
- Introducing a new section specifying the revised measurement requirements at Depreciated Replacement Cost for the Highways Network Asset based on the methodologies in the CIPFA *Code of Practice on Transport Infrastructure Assets*;
 - Improvements in the presentation of financial statements with new formats and reporting requirements including a new Expenditure and Funding Analysis;
 - Small changes to existing IFRSs which were the product of the International Accounting Standards Board's annual improvements;
 - Amendments to the Accounting and Reporting by Pension Funds section of the Code;
 - Updating the Narrative Report section to reflect legislative amendments.

Chapter 3

BOARD ACTIVITIES IN 2015-16

Introduction

- 3.1. This chapter comprises the developments in financial reporting in the public sector, both new and continuing, which were addressed during 2015-16. An update on each of the developments considered by the Board is provided in Table 2 below. Table 3 provides details of when each topic was discussed and papers and minutes from those meetings are available on the gov.uk website⁷.
- 3.2. In addition to continuing work on known developments in financial reporting, the Board monitors international developments in accounting standards which may have implications for public sector financial reporting and in which the Board has a particular interest. These include consultation documents issued by the IASB, the IFRS Interpretations Committee and the International Public Sector Accounting Standards Board (IPSASB).
- 3.3. The Board's future work on accounting standards will include considering the public sector implications of new standards on leases, revenue recognition and financial instruments.

⁷ <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

Table 2

Accounting standard or reporting issue	Activities during 2015-16	Future work
<i>IFRS</i>		
<i>IFRS 9, Financial instruments</i>	<p>The Board considered a paper from the Treasury summarising the options and requirements for transition arrangements for the introduction of the Standard. The considerations when assessing the transition and relevant tranches of work were highlighted to the Board particularly around the three phased approach of classification and measurement of financial instruments, impairment methodology and hedge accounting. The Board reached an initial consensus on a consistent approach along the lines suggested but advised that more work was needed before a view was finalised, taking in the contribution of the technical working group.</p> <p>The Board considered a further paper updating them on progress of the technical working group and work of the Relevant Authorities. The Board agreed that volatility in value is not in itself a reason to adapt the Standard but there is potential concern over the interpretation of business models in the public sector context.</p>	<p>The Board will continue to review the implications of the introduction of IFRS 9 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p>

REPORT FOR THE PERIOD APRIL 2015 TO MARCH 2016

Accounting standard or reporting issue	Activities during 2015-16	Future work
	<p>The Treasury provided three separate papers to the final meeting of the year. The first paper discussed the business model assessment in IFRS 9 and its applicability in the public sector, given that entities often hold financial instruments for policy reasons. The Board agreed that care needed to be taken in transferring the business model approach to the policy approach and further guidance may be required, but that at this time there was no case for adaptation of the standard.</p> <p>The second paper provided a progress update including feedback from the technical working group. The Board discussed this and the issue of impairment allowances on intra-government balances.</p> <p>The final paper examined the links between IFRS 9 and IFRS 4 Insurance Contracts, given the IASB's proposed amendments to the existing standard. The Board agreed that the Exposure Draft for IFRS 9 should uncover issues on insurance contracts relevant to IFRS 4. They commented that changes in IFRS 4 were brought in as a result of mismatched effective dates with IFRS 9, and costs could be incurred under IFRS 9 and then again when the new insurance contracts standard is issued. The Board agreed that this point needed further exploration and suggested that the Relevant Authorities liaise with the bodies affected.</p>	

Accounting standard or reporting issue	Activities during 2015-16	Future work
<i>IFRS 15, Revenue recognition</i>	<p>The Board were updated on the implementation work for IFRS 15, including details of the confirmed delay of application by the IASB by one year to 1 January 2018. It was agreed by the Board that the delay in introducing the Standard would offer essential time to isolate issues and identify how public sector entities will be affected.</p> <p>The Board acknowledged some issues for entities, including the difficulties of linking front and back office staff, and agreed that technical working groups should continue to consider these issues and offer guidance and support to entities.</p> <p>The Treasury provided an update on progress including IASB clarifications, the technical working group's work and WGA implications. The Board stressed the importance of issuing guidance and information to entities as soon as possible.</p>	<p>The Board will continue to review the implications of the introduction of IFRS 15 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p>
<i>IFRS 16, Leases</i>	<p>The Board were presented with a paper from the Treasury which provided a high level overview of the new Standard. The Board established that all lease arrangements would have to be examined prior to the Standard's adoption, and subsequently that there would be significant cost and practical implications for the majority of public sector entities. They also discussed the complexities of both the materiality threshold and the disentangling of lease and service elements in contracts, and agreed that there would need to be further discussion and work undertaken before any decisions could be taken.</p>	<p>The Board will continue to review the implications of the introduction of IFRS 16 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p>

REPORT FOR THE PERIOD APRIL 2015 TO MARCH 2016

Accounting standard or reporting issue	Activities during 2015-16	Future work
<i>Other issues</i>		
<i>Research and development under ESA 10</i>	<p>The Board was presented with an overview of the changes to the treatment of research and development costs under ESA 10 which came into effect for Member States in September 2014. This confirmed the Treasury’s intention not to change the financial reporting requirements under the FReM. The Board agreed and discussed the conceptual principles behind classification of R&D costs and the economic benefits which may arise at social, national and entity levels for related costs.</p> <p>The Board gave initial consideration to the Treasury’s intention to apply an approach analogous to the existing misalignment between Estimates and financial reporting for capital grants, and noted the expected scale of the impact on the public sector and the complexity of the adjustment. They were also informed of the ARC support for the approach.</p>	<p>The Board will be kept informed of the outcome of the Treasury’s proposed letter to Parliament seeking its support for the intended budgetary changes, in line with the principles of the protocol agreed under Clear Line of Sight.</p>

Accounting standard or reporting issue	Activities during 2015-16	Future work
<p><i>Simplifying and streamlining statutory accounts</i></p>	<p>The first phase of the Simplification and Streamlining Accounts Project was implemented in 2015-16. The Treasury is considering options for the next phase with a particular focus on the appropriate reporting requirements for smaller bodies that are themselves consolidated into a departmental group i.e. potentially a so called ‘FReM lite’.</p> <p>Following this theme, The Department of Business, Innovation and Skills presented the Board with a proposition of a pilot project for the rationalisation of financial reporting among Research Council bodies.</p> <p>BIS proposed a two stage approach with the first phase involving the preparation of seven individual sets of mandated standardised financial statements for the year ended 31st March 2016. The second phase would be to prepare a single set of consolidated accounts for the Research Council Group for the year ended 31st March 2017.</p> <p>The Board supported stage one of the proposal but reiterated that it was the view of the Board that BIS should take legal advice and possibly delay stage two until the legal framework advocated a combined or consolidated set of financial statements for the group of Research Councils. The Board did not support a precedent of this type being set and strongly supported the principle of accounting and accountability following governance arrangements.</p>	<p>The Board will be kept informed of the results of implementation of the new annual report and accounts reporting framework, particularly from both preparers of accounts and key stakeholders.</p> <p>Plans are also on the horizon to consider the concept of a Financial Reporting Manual for some entities, a so called, “FReM lite”.</p>

REPORT FOR THE PERIOD APRIL 2015 TO MARCH 2016

Accounting standard or reporting issue	Activities during 2015-16	Future work
	<p>The Treasury updated the Board on 'FReM lite' following feedback received from the Government Finance and Audit Event. There had not been much appetite for the proposal as participants felt that there was sufficient freedom within the existing reporting regime. The Board discussed the challenge of identifying which entities the 'FReM lite' would apply to was challenging due to issues around Parliamentary accountability. However, they were keen that further exploratory work was carried out to assess issues arising from accountability, legal form and consolidation.</p>	
<p><i>Whole of Government Accounts (WGA)</i></p>	<p>The Board was presented with an overview of the 2013-14 WGA, published in March 2015, ten weeks earlier than the prior year and the first time that that WGA has been published within 12 months of the financial year end. The Board recognised that this was a significant step forward in the timeliness of the publication.</p> <p>Although the audit report on the accounts was qualified on the same basis as the prior year, the Board recognised the significant progress made on resolving the qualifications, and discussed the issue of encouraging the use of WGA by a wider cohort of stakeholders which would also raise the profile of the accounts.</p>	<p>The Board will continue to review the ongoing intention of the Treasury to remove qualifications on WGA and the continued progress to achieve earlier publication.</p> <p>The Board will also be updated on the notable matters arising from the preparation of WGA and those being discussed at the WGA Advisory Board.</p>

Accounting standard or reporting issue	Activities during 2015-16	Future work
	<p>The Board considered a number of substantive issues within WGA including those likely to cause the retention of the qualification in future years and potential additional qualifications in relation to the rising number of academy trusts and the reclassification of housing associations. However, the Board were supportive of the continued efforts by the Treasury to remove the qualifications where possible.</p>	
<i>Discount rates</i>	<p>The Treasury submitted a paper to the Board confirming that it had decided to maintain its existing policies on discount rates, including the policy agreed by the Board in 2011 for provisions. The Board supported the Treasury's decision to update the long term rate for provisions in 2015-16 using the methodology previously agreed.</p>	<p>The Board will continue to review any further adaptations proposed to the methodology employed by the Treasury and will be keen to ensure that any deviations from the Standards are justified by the public sector context.</p>
<i>European Public Sector Accounting Standards (EPSAS)</i>	<p>The Board received an update from the Treasury on to the progress of Eurostat's project on developing European Public Sector Accounting Standards, following attendance at Eurostats's first working group meeting in September 2015.</p>	<p>The Board will continue to be updated on this important project as further developments take place.</p>

REPORT FOR THE PERIOD APRIL 2015 TO MARCH 2016

Accounting standard or reporting issue	Activities during 2015-16	Future work
	<p>The Board were advised that Eurostat has identified an alternative approach to EPSAS which is being considered alongside its original proposition, The two potential approaches were outlined as well as the key priorities for 2015-16, which include a programme of financial support to encourage member states to adopt accruals accounting over the next 4-5 years including the option to move to IPSAS as a potential proxy for EPSAS. The emerging working model incorporates formal working groups with representation from all Member States, and CIPFA and the Treasury are engaged with this work.</p>	
<p><i>Conceptual Frameworks and future IPSASB developments</i></p>	<p>The Board received an update from the Treasury on the IASB's work on the Conceptual Framework following the issue of the Exposure Draft in May 2015. The Exposure Draft proposes a number of enhancements that were either not covered, or not covered in sufficient detail in the original Consultation Paper.</p> <p>The Board considered the high level components of these amendments as well as a summary of early feedback from the ICAEW and FRC's Accounting Council. The Board agreed with feedback to the Exposure Draft that the Conceptual Framework should be a living document, updated as needed and used when devising new standards.</p> <p>The Board also congratulated FRAB member Ian Carruthers on his appointment as Chair of IPSASB and received an update on the progress made by IPSASB on implementing its strategic objectives for 2015 and beyond. This included a future work programme running until 2019 which includes a multi-phase project considering public sector measurement, work to address differences between IPSASs and the</p>	<p>The Board will continue to scrutinise the results of a consultation exercise by the IASB and potential changes to the IASB's Conceptual Framework.</p> <p>The Board plan to undertake a further review of the IPSASB Conceptual Framework project as it progresses and will compare terms used with those of the IASB to identify substantive differences.</p> <p>The Board will continue to be updated on IPSASB projects as further developments take place.</p>

Accounting standard or reporting issue	Activities during 2015-16	Future work
	<p>Conceptual Framework and accounting requirements for infrastructure assets.</p> <p>Feedback was provided from the inaugural International Public Sector Standard Setters Forum. Issues that the IPSASB had been considering included social benefits, heritage assets and the overall approach in differentiating between exchange and non-exchange expenses.</p>	

REPORT FOR THE PERIOD APRIL 2015 TO MARCH 2016

Table 3

Accounting standard or reporting issue	Board meeting where the accounting standard or issue was discussed		
	18 June 2015	19 November 2015	17 March 2016
<i>IFRS</i>			
<i>IFRS 9, Financial instruments</i>	✓	✓	✓
<i>IFRS 15, Revenue from Contracts with Customers</i>	✓	✓	✓
<i>IFRS 16, Leases</i>			✓
<i>Other issues</i>			
<i>Research and development under ESA 10</i>	✓	✓	
<i>Simplifying and streamlining statutory accounts</i>		✓	✓
<i>Whole of Government Accounts (WGA)</i>	✓	✓	
<i>Discount rates</i>	✓		
<i>European Public Sector Accounting Standards (EPSAS)</i>		✓	✓
<i>Conceptual Frameworks and future IPSASB developments</i>		✓	✓



Agenda Item 3

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

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National Assembly for Wales Public Accounts Committee

Charging for services and
generating income



WLGA • CLILC

Summary

1. Councils have borne the brunt of austerity and the publication of the latest report from the Institute of Fiscal Studies (IFS)¹ on the Welsh Government Budget shows that local services are the most vulnerable to cuts. For some time, local government has recognised that income generation potentially makes a contribution to budget shortfalls.
2. The WLGA welcomes the report and the recommendations are consistent with the messages that the WLGA has repeated over the years since the onset of austerity which mainly advocate maximising income from fees and charges and having appropriate local discretion to set them.

The WAO Report

3. The full response rate to the survey work shows that this is a priority for Finance Directors. Prior to the WAO commencing the work around its latest report the Society of Welsh Treasurers had convened a sub group to look at fees and charges and are likely to carry out further work in light of the introduction of a general power of competence in the local government white paper.
4. It is important to point out that local government is not starting afresh on this, most if not all councils will have looked at fees and charges in developing their medium term plans.
5. Other professional networks taking a corporate approach to commercialisation include the Heads of Procurement where during meetings in 2016 a number of them indicated that they were developing approaches in these areas.
6. In our evidence to the Finance Committee's Inquiry on the Welsh Government's Budget Proposals for 2017-18² we demonstrated that many local government services had shrunk considerably but this was less so for relatively protected areas such as education, social services and environmental services. A 2015 report by the Public Policy Institute for Wales (PPIW)³ looked at how councils in England were coping with cuts. Strategies encouraging economic growth and commercialisation have been a main part of their response although, as the report points out, expanding trading and commercial activities is not a new approach.

¹ [Welsh Budgetary Trade-offs to 2019-20, Institute for Fiscal Studies 2016.](#)

² [WLGA Evidence: Welsh Government Budget 2017-18](#)

³ [Coping with the Cuts: Lessons from English Councils' Responses to Budget Reductions, PPIW 2015](#)

Fees and Charges in context

7. Going back to 2011, Deloitte were commissioned by WG Efficiency and Innovation Board and the Society of Welsh Treasurers to carry out an income review. The aim of the review was to enhance councils' understanding of the range of options available for generating income. The review activity was focussed around the following areas:
 - Detailed income benchmarking
 - Pricing comparative analysis
 - Income identification workshops
 - Implementation advice
8. This was the first time that authorities would have seen benchmarked information at a very detailed level. A number of authorities used a similar methodology in subsequent years for further, more detailed authority-specific work.

Commercialisation as part of public service reform and wider transformation

9. Being more commercial is not a matter of just introducing charges for discretionary services where there is limited market failure. A recent article by one of the London S151 Officers⁴ argues that councils should build on their history and be more commercial in their approach and activity. This means taking the broadest possible definition of commercial activity, looking to diversify income streams alongside collaboration with others to deliver local priority outcomes.
10. Local authorities have a long history of commercial approaches going back into Direct Labour Organisations (DLOs) trading functions. Historically this applied to functions such as Housing Maintenance, back in the early 1990's, when LA's and Housing associations were bidding competitively for each other's contracts to supplement income generation.
11. Following on from the Compulsory Competitive Tendering (CCT) regime many local authorities externalised various functions such as design engineering, initially as arms-length companies. DLO's have had a commercial 'trading' aspect under legislation going back to the 1980s.

⁴ <http://www.room151.co.uk/resources/alison-griffin-can-we-afford-not-to-be-more-commercial/>

12. As the author of the above article pointed out, councils need to consider a range of issues

- How to strengthen the balance sheet—and can this be done in a way that ensures residents and local businesses have a stake in the future growth of an area?
- What types of entities or vehicles are required to maximise the benefit for the council whilst reducing the risk?
- How are trading or development opportunities appraised and evaluated?
- What are the council's current strengths—is there a potential commercial value?
- Do you have the right skills mix and knowledge, or do you know where to get them?
- Are there discretionary services that could be charged for, or charged for differently?
- Are the arrangements for supplier management and market making strong enough?
- Are the governance arrangements robust enough to manage the different risks, but flexible enough to promote swift decision making when required?
- How effective are the income collection systems?

13. Trading and commercialisation has therefore been a part of the local government armoury for some time. It's the context and emphasis that has changed and awareness of its potential role has probably become prominent in broader local government services more recently.

14. It would be misleading to claim that commercialisation is an embedded trait within local government, and whilst it is further developing, the skills and capacity needed for it to be a so will take considerable nurturing and support. Local government has not previously been seen as obviously innovative, and or as risk takers, quite the opposite in many cases. A key element of future progression will be in changing the perception of the commercial markets to see local government as a credible and viable business organisation.

Shared Learning

15. The WLGA continue to work collaboratively to support innovation and service transformation through providing opportunities for practitioners to acquire

knowledge and skills and share experiences and connections. This collaborative approach has proved valuable in cross fertilisation of ideas across service areas and sectors and alignment with national priorities or legislation such as the Wellbeing of Future Generations Act and Social Services and Wellbeing Act.

16. National partners work together via the Good Practice Wales partnership to share information, identify practice and plan programmes of activity either through case study development via the Good Practice Wales website or shared learning events:

- Good Practice Wales: a single access online portal to Welsh Public Services good practice and knowledge. The site currently signposts to over 3000 case studies and key resources such as Co-production Catalogue for Wales, Alternative Models of Service Delivery etc. as well as hosting national programmes such as Together 4 Children and Young People, All Wales Continuous Improvement Network etc. The WLGA is the co-ordinating partner (<http://www.goodpractice.wales/>).
- Shared Learning events over a range of themes such as the Behaviour Change, Joint Commissioning for Integrated Health & Social Care, digital services, open data, etc. Many events are organised or coordinated via the Wales Audit Office's Good Practice Exchange (<https://www.wao.gov.uk/good-practice>) or are coordinated by the WLGA via Good Practice Wales.
- Professional networks and communities of practice actively share practice and learning. Communities of practice have been established for continuous improvement and the Welsh co-production network has recently received funding to expand its activities.

General Power of Competence

17. The WLGA Council debated the General Power of Competence in February 2016. There is support for such a power to give Welsh councils renewed confidence in their powers to continue this work to improve efficiency, for example through joint arrangements, in particular to provide back office and support services which may be defined as 'incidental' in law to their primary functions. Challenges such as climate change and energy security, changes in the make-up of the population, economic change, and technological developments, make it vital councils can take reasonable risks, and provide new services.

18. There is a welcome commitment by Welsh Government in the current White Paper to legislate to create a power of general competence for local government. It is anticipated that this would contribute to councils' confidence in their powers to tackle the challenges their communities face in new ways. It

is important therefore to gain a full understanding of the limitations but also the considerable possibilities inherent in this approach.

WAO recommendations

19. The report makes two recommendations for the WLGA and the Welsh Government.

R4 Consider how best to support and encourage local authorities to act more commercially in generating income.

20. This is probably more for the WLGA and we are working with the LGA, looking at skills for 21st Century Procurement/Commercial officers. A competency framework for procurement practitioners is being worked up. We are also discussing how we can help councils to join up on commissioning skills and training and whether it would be possible to deliver short training opportunities on a national level. This will have to be done with the Heads of Procurement network.

21. We will continue to work with the Welsh Government to promote income generation through existing arrangements. We are also working with other partners such as Local Partnership who offer specific seminars on Commercial Councils. These could be run as stand-alone events or hitched onto meetings of professional networks. We would expect to run one or two events on top of other shared learning events.

R6 Review nationally set fee regimes to ensure the levels set, better reflect the actual cost of providing services, or explain the reasons why they are different.

22. Work is already underway to catalogue fees across Wales and who sets them whether the Welsh or UK Government. The harder part will be estimating the full economic cost of the services and working with governments at different levels.

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Llywodraeth Cymru
Welsh Government

Mr Nick Ramsay AM
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Public Accounts Committee
National Assembly for Wales
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6 December, 2016

Dear Chair

Report from the Auditor General for Wales on *Charging for Services and Generating Income by Local Authorities*

The Public Accounts Committee asked for Welsh Government's comments on the report published by the Auditor General on 10 November which looks at how local authorities use charging for services and generating income as part of their financial management.

The Welsh Government welcomes the Auditor General's assessment as to how local authorities use their powers to apply charges for services. The policies and approaches to charging that authorities adopt are vital in ensuring they make best use of the resources available to them and the report highlights how the level of income raised varies between authorities. The Report also evidences that authorities in Wales do not raise as much income from charges as their counterparts in England and Scotland.

Whilst ultimately it is for each authority to make its own decisions on charging, it is clear from the report that authorities in Wales are not exploring all the available options for generating income. Local authorities should be developing their strategies and policies to take greater advantage of the opportunities to charge for services and generate income through other means. There is some evidence of strategies changing, but progress is slow and there is scope for authorities to do more in terms of sharing knowledge and experience.

However reviewing fees and charges is only part of the solution to the financial challenges faced by local authorities. It is important that each authority considers its approach to fees and charges as part of its wider financial strategy, recognising that authorities are responsible to their electorates for the decisions they make. They need to plan to sustain and improve vital services whilst managing the financial impact on their communities. Decisions to increase or introduce charges need to be balanced with the ability of communities, businesses and households to pay more for services and the risk that charges may reduce access to services for those who most rely upon them.



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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

The report highlights weaknesses in the accounting systems needed to support good decision making. We have highlighted the importance of reliable and robust financial information to the scrutiny role of local elected members when considering introducing or increasing charges in the communities they represent. The Welsh Government is concerned that the report suggests some council cabinet members were "reluctant to deal with potentially controversial issues and will not approve increasing or introducing charges, even where the evidence for the increase or introduction is compelling". It is important that these matters are addressed by authorities.

The report mentions the general power of competence which is available to authorities in England through the Localism Act 2011 but not yet available to authorities in Wales. The Welsh Government appreciates this may contribute to an instinctive caution on the part of authorities but strongly agrees with the report that it should not be a reason for authorities not to explore more innovative approaches to income generation and commercial activity through existing powers. Authorities in Wales already have wide-ranging powers to act in ways which improve or promote the wellbeing of their areas.

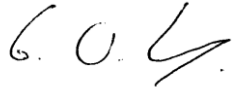
The report recommends that Welsh Government "consider how best to support and encourage local authorities to act more commercially in generating income".

As mentioned, it is ultimately for each authority to make its own decisions on charging and generating income. The Welsh Government has provided a range of practical and financial support to encourage innovative approaches. We will continue to work through our partnership arrangements with local government to explore pioneering approaches to generating income using existing powers and to encourage authorities to adopt a more 'managed risk' approach to charging and income generation. The draft Local Government (Wales) Bill, published in January 2016, included a proposal for a general power of competence to be available to local authorities. This Bill did not proceed but it remains the intention of the Welsh Government to make provision for such a power at the earliest legislative opportunity and this will be a key consideration in taking forward local government reform.

The report suggests that where charges are set by the Welsh Government or UK Government, these do not always cover the cost of the service provided. It recommends that the Welsh Government "review nationally set fee regimes to ensure the levels set, better reflect the actual cost of providing services, or explain the reasons why they are different". Where charges are subject to legislation and guidelines, the Welsh Government recognises the importance of keeping them under review to ensure that statutory charges remain appropriate for the environment in which councils operate. Underpinning this are common principles that charges should be reasonable, take account of the service user's ability to pay, and should not exceed the cost of providing the service. We also need to ensure the system remains fair for commercial providers operating in the same space.

These principles reflect the responsibility on local authorities to balance the need to sustain and improve vital services and support their wider communities with managing the financial implications for local taxpayers and service users.

Yours sincerely

A handwritten signature in black ink, appearing to read 'O. Evans', with a stylized flourish at the end.

Owen Evans

[Sent via email]

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